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MICROFINANCE INNOVATION CENTER FOR RESOURCES AND ALTERNATIVES

FINAL

Promoting Female Migrant Workers'Access to Finance through the National Community Empowerment Program or Program Nasional Pemberdayaan Masyarakat (PNPM)

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ABOUT MICRA

The Microfinance Innovation Center for Resources and Alternatives (MICRA) is an Indonesian foundation focused solely on the development of the microfinance industry. MICRA was founded in early 2006 by Mercy Corps, in order to institutionalize and expand its work over the past six years in microfinance throughout Indonesia. Its mission is to build the institutional strength and outreach of the Indonesian microfinance sector by providing a full range of high-quality, best-practice technical inputs and support to all industry stakeholders, in a sustainable and demand-driven manner. As an independent support center, MICRA is committed to promoting innovations, transparency and increased outreach to the poor and ever-improving performance in the microfinance industry.

The study team consisted of Meynar Sihombing (Team Leader); Nagwa Kamal (Desk Review Coordinator); Eric Wattimena (Field Study Coordinator); Erlyn Shukmadewi, Caroline Mangowal, Fannie Yulandari and Ani Winarti (Researchers).

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LIST OF ABBREVIATIONS AND ACRONYMS

AK	*Armindo Kencana*	(name of a cooperative)
BA	*Batu Arturejo*	(name of a cooperative)
BCA	*Bank Central Asia*	(name of a commercial bank)
BI	*Bank Indonesia*	Bank of Indonesia
BKK	*Badan Kredit Kecamatan*	(name of a cooperative)
BNI	*Bank Negara Indonesia*	(name of a commercial bank)
BNP2TKI	*Badan Nasional Penempatan dan Perlindungan Tenaga Kerja Indonesia*	National Agency for Placement and Protection of Indonesian Overseas Workers
BOT		Board of Trustees
BP2TKI	*Badan Pengawas dan Pelaksana Tenaga Kerja Indonesia*	Supervisory & Executive Body on Indonesian Workers
BP3TKI	*Balai Pelayanan Penempatan dan Perlindungan Tenaga Kerja Indonesia*	Indonesian Employment & Workers' Protection Bureau
BPR	*Badan Perkreditan Rakyat*	Rural bank
BPS	*Biro Pusat Statistik*	State Statistics Agency
BRI	*Bank Rakyat Indonesia*	(name of a commercial bank)
BNI	*Bank Negara Indonesia*	(name of a commercial bank)
Depnakertrans	*Departemen Tenaga Kerja Transmigrasi*	Ministry of Manpower and Transmigration
Disnakertrans	*Dinas Tenaga Kerja Transmigrasi*	Manpower and Transmigration office in district/province level
FGD	*Diskusi kelompok terarah*	Focus Group Discussion
FMW	*Buruh Migran Perempuan*	Female Migrant Worker
IDR	*Rupiah Indonesia*	Indonesian Rupiah
JSDF	*Dana Pembangunan Sosial Jepang*	Japan Social Development Fund
KA	*Koperasi Annisa*	(name of a cooperative)
KCK	*Koperasi Citra Kartini*	(name of a cooperative)
KP	*Koperasi Kulon Progo*	(name of a cooperative)
KYC	*Kenali Klien Anda*	Know Your Client
MICRA		Microfinance Innovation Center for Resources and Alternatives
MFI	*Lembaga Keuangan Mikro*	Microfinance Institution
MTC	*Perusahaan Pengiriman Uang*	Money Transfer Company
MYR	*Ringgit Malaysia*	Malaysian Ringgit
NTB	*Nusa Tenggara Barat*	West Nusa Tenggara
NGO	*Lembaga Swadaya Masyarakat*	Non-Governmental Organization
PAP	*Pembekalan Akhir pemberangkatan*	Pre-departure orientation for migrant workers

PNM	*Permodalan Nasional Madani*	National Civil Capitalization
PNPM	*Program Nasional Pemberdayaan Masyarakat*	National Program for Community Empowerment
PPTKIS	*Pelaksana Penempatan Tenaga Kerja Indonesia Swasta*	Recruiting agency
SBMI	*Serikat Buruh Migran Indonesia*	Indonesian Migrant Workers Trade Union
USD		United States Dollar

EXECUTIVE SUMMARY

1. In 2007, the Ministry of Manpower and Transmigration reported 696,746 registered Indonesia migrant workers left the country for work overseas, with official remittances recorded at USD 5.9 billion. Experts agreed that official statistics had significantly underestimated both migration and remittances. This was linked to reporting weaknesses and significant flows of undocumented migration, particularly to Malaysia, as well as the persistent use of informal channels for transfer earnings abroad. It is clear, however, that with stronger support from the Indonesian government for migrant workers and ongoing high unemployment and underemployment rates, the numbers are increasing annually and will continue to do so.

2. In Indonesia, almost 80% are female migrant workers (FMW), typically with low education levels, coming from poorer families from a range of locations throughout the country. The vast majority work as domestic workers, often with very low pay scales, in destination countries mainly in the Middle East and Asia. Most FMWs leave their families and country for economic reasons, often to escape poverty and provide an extra boost in cash to pay for children's education, housing and other needs. Most studies on this topic indicate that the majority of FMW remittances go to cover family basic needs and do not result in significant asset accumulation or better economic status upon return.

3. For a wide variety of reasons, FMWs are vulnerable during the migration process, both in economic and social terms. The hiring process for FMW often lacks transparency, which can lead to very high unrecognized costs and financial arrangements that are not to their advantage. During placement abroad, some FMWs essentially lose their legal status and freedom of movement. The remittance process itself can be risky, with a complex chain of agents and processes moving the funds from the country of destination to families, often in rural communities. While there are a wide range of institutions providing services to FMW with high interest in the remittance market, the effectiveness and impact of these financial services are questionable.

4. In conjunction with the forthcoming PNPM micro-credit strategy formulation, the proposed activity was aimed at assessing past and current financial instruments available to FMWs and their families at pre-departure, placement and post-placement stages. The output of the activity will feed into the preparation and the subsequent implementation of the JSDF pilot FMW empowerment program.

5. The study was conducted by the MICRA foundation from January to March, 2008. The methodology included the following components:

- Desk review of literature on FMWs and related financial services
- Targeting two geographic areas: East Java (Malang district) and NTB (Lombok Tengah district)
- Conducting interviews with 55 FMWs and their families
- Conducting three FGDs

- Conducting interviews with key agencies related to FMWs
- Conducting interviews with financial institutions targeting services at this group

6. The following is a summary of key findings on the profile of respondents from the study:

i. The majority of FMWs are under the age of 40, and are married with children

ii. The majority have educational levels below high school (over 70%)

iii. The reasons for choosing to become FMW are complex and varied by region, but 54% choose the job as migrant worker due to difficulty in finding any opportunity within the country (higher in NTB)

iv. However, in Malang, East Java, 40% of respondents mentioned that they choose to become migrant workers in order to elevate social status

v. Other reasons for their choice include covering education costs, escaping domestic violence, dealing with debt

vi. In this limited study, the majority of FMWs had completed one trip only, which contradicts the findings from other studies indicating that migrant work is a "serial" occupation, linking large numbers of two year assignments

vii. It was found that while many FMWs have no choice in determining their countries of destination (which is determined by the recruiting agency and the FMW's own education levels), others made their choice by following the highest wage offered, while many others listed cultural factors, including commonality of religion and language

viii. The majority of FMWs from East Java worked in Hong Kong with relatively higher wage structures, while the majority of FMWs from NTB worked in Saudi Arabia with lower wages

ix. The vast majority of FMWs work in informal sectors due to lack of education and skills

7. The study included interviews with a wide range of institutions providing financial services to FMWs: commercial banks; money transfer companies (MTC); microfinance institutions, including rural banks (BPR) and cooperatives (see Table 15 in the Appendix for list of institutions involved in the study). The study found that "one-stop shop" for FMWs is virtually non-existent. While banks can provide savings accounts and handle transfers, they do not typically lend to FMWs or their families. Likewise, MFIs can provide savings and loans, but are not popular for money transfers.

8. Table 1 illustrates the range of financial services offered to FMWs and their families, as well as the relevant products by stage of placement:

The following is a list of key findings associated with financial products and services for FMWs and their families:

- There are few tailored products for FMWs available in the market
- Banks mainly operate at district level, which can be far from FMWs and their families. While banks have a high interest in this market, their products for this group are limited mainly to remittances and savings;

Table 1 Financial Product and Providers for FMW

Timing & Product		Financial Provider
Pre-Departure		
	placement fee	PPTKIS, BPR, Coop, Moneylenders
	subsistence loans	Coop
	insurance	Bank
Placement (FMW & Families)		
	remittances	Banks, MTC, BPR, Coop, Informal Sources
	savings	Banks, BPR, Coop, Informal Sources
	loans	BPR, Coop, Moneylenders
	credit cards	Banks
Post-Placement		
	savings	Banks, BPR, Coop, Informal Sources
	loans	BPR, Coop, Moneylenders
	credit cards	Banks
	insurance	Banks, BPR

- Banks typically offer savings accounts to FMWs with lower opening balances
- It was found that while Banks do not lend to FMW and their families, they do lend to PPTKIS under differing schemes. Sometimes these funds are lent-on to FMWs. Some BPRs are also involved in these types of schemes
- For money transfer, there is a growing trend to form partnerships between banks and MTC to leverage MFI outreach to this population
- PPTKIS and a few MFIs are the main sources of loans for this group.
- In particular, MFI placement fee loans appear to be more successful than PPTKIS loans, due to higher transparency and better terms, mainly in relation to loan tenors and grace periods
- Among MFIs interviewed, BPRs are very conservative lenders that put collateral as a mandatory requirement for loan products, while the few cooperatives involved in the survey appear to provide more flexible and responsive accesses.

9. The survey found that there is a number of obstacles to improved financial services to FMWs. First, there is a high perceived level of risk around FMWs and their families. In some cases, strong PPTKIS can serve as a guarantor for FMWs, enabling them to access better financing. However, the quality of PPTKIS (of which there are over 400 in Indonesia) is highly varied. Often there is a serious lack of transparency and related high cost structure for PPTKIS placement fees and processes. This reduces FMW's bankability and increases the associated risks for other financial institutions.

10. There is an additional problem of the lack of retail financial capacity for low-income people in general in Indonesia, which strongly touches poorer families, such as FMWs. Often there is a long processing and/ or travel time for remittance collection, which can take up to five days, even with recognized commercial banks. While MFIs are more accessible, capital and regulatory constraints at the MFI level prevent them from directly providing some of the key relevant services to FMWs, most importantly, remittances.

11. Often, there is a perceived risk related to the international chain of loan repayment and collection from FMWs abroad, linked to the lack of financial infrastructure in destination countries, as well as perceived risks around PPTKIS. It is clear that the formal financial sector does not effectively reach FMWs and their families, although there is strong interest in the remittance market. The lack of an efficient "one-stop shop" for FMW financial services, combined with the low financial literacy of FMWs and their families, builds up their overall lack of bankability. And, this means that financial services do not help them build a sustainable asset base to protect their families. In many cases, the situation is quite the reverse.

RECOMMENDATIONS

12. One of the objectives of this study was to feed into the preparation and the subsequent implementation of the JSDF pilot FMW empowerment program. Based on the survey findings, the following is a list of the five key recommendations of programming to be included in this empowerment program:

i. Financial literacy training for FMWs and families before departure and after placement to include financial goal setting and planning

Standardized training programs should be developed and implemented throughout all PPTKIS to include basic financial literacy and also financial planning. Each FMW has a different earning goal, which could be related to improving the families' housing, children's educational attainment, dealing with existing debt or building a microenterprise. In all of these cases, basic financial goal setting and planning that includes a clear institutional strategy for remitting and saving money, as well as leveraging loans, would be a critical input.

ii. Building effective monitoring/grading mechanism for PPTKIS to ensure quality and transparency.

The lack of transparency in pricing, contracting and overall financial transactions among PPTKIS is a strong factor which reduces the FMWs' bankability and their ability to effectively convert their earnings into a better life. While there are regulations to this effect, they are not clearly supervised or enforced. Improved consumer protection for FMW is needed.

iii. Building partnerships between MFIs and Banks to create a "one-stop-shop" for FMW, with strong public information component

There is a trend to build financial partnerships between banks and MTCs with the legal ability to engage in remittance services, and MFIs with their retail outreach to the relevant populations for this market. The program could work to foster the development of meaningful partnerships, highlighting successes and promoting its expansion so that meaningful outreach of products is available to FMWs and their families.

iv. Product development around FMW – to include placement fees, remittances, savings, loans, insurance and mobile banking

The partnership trend, listed above, is in its early stages and as yet strong products with good mechanisms and the important ability to build savings and leverage with loans is missing. The program could work on creating a suite of inter-related products that would help FMWs and their families take stronger advantage of the complex array of savings, loans, remittances and possibly insurance products available to them. In the case of loans, a broad range of loans could be applicable, from placement fees lending, to enterprise lending, to housing finance. Mobile phone banking is an emerging product that has been proven to have a strong relevance for low-income FMWs in neighboring Philippines.

v. Financial and technical support for MFIs engaged in pioneering product delivery for FMW

Many MFIs lack the technical capacity, systems, human resources and capital, to rollout new products. The empowerment program could select a small number of MFIs and work with them to develop and deliver a suite of meaningful products for FMWs and their families. These MFIs could serve as models for replication throughout Indonesia if a strong socialization component is included in the programming.

13. To implement this type of program, a number of program partners would be essential:

i. BNP2TKI: Can engage in monitoring, training enrichment and implementation

ii. PNPM: Can help support outreach strategy to retail financial institutions and FMWs

iii. Recruitment agencies and associations: Can engage in training development and delivery

iv. Trade union of migrant workers: Can engage in monitoring and training enrichment and implementation

v. MFI support agencies: Can create products and build banking partnerships, develop/deliver financial literacy training and support MFI product expansion

vi. Selected commercial banks and MTCs: Can develop products and banking partnerships with MFIs and other retail providers.

BACKGROUND

14. Every year thousands of “Pahlawan Devisa” or foreign remittance heroes leave Indonesia to pursue any job opportunity abroad. In 2007, Depnakertrans reported 696,746 registered workers leaving the country to work overseas. BNP2TKI documented a total of 4.9 million migrant workers since 1994. The majority of Indonesian migrant workers worked in Asia Pacific and the Middle East, with smaller numbers working in America and Europe.

15. About 80% of Indonesian migrant workers are female, typically with low education levels working in informal sectors especially as domestic helpers that often get low pay scales. Some recruiting agencies only provide their services to job seekers in informal sectors because of the availability of jobs offered in the destination countries, and because of the lower placement cost.

16. Most FMWs leave for economic reasons, to escape poverty and protect their families. They often leave in order to be able to pay a debt, to pay for children’s education, to build a house and to start a business. Their inability to get a job and the low salary levels available for the same type of work within the country are factors that push them to find work abroad.

17. The main destinations for FMWs are the Middle East and other Asian countries. In 2007, 50% of the total Indonesian migrant workers went to Asia and 49% of them went to the Middle East. Only about 1% of them went to other regions such as the USA and Europe.

18. The trend of remittance has continually increased since 2003. In 2007, the official remittance amount had been recorded at USD 5.9 billion – this probably represented less than half of the total remittance to Indonesia. Total remittance in the period of 2003 up to the first quarter of 2008 was USD 16.2 billion.

19. FMWs are vulnerable during the migration process, both in economic and social terms. FMWs have relatively weak protection and often are victims of abuse. In every stage of the migration process, from recruitment, training, departure, deployment up to their return, FMWs are exposed to financial or social problems. There is limited information regarding the placement process. Information is only available from the recruiting agencies. Every year there are cases of FMWs returning with problems. In 2007 there were 1,756 cases recorded by BNP2TKI. Cases involved were physical or sexual abuses, unpaid wages, unfair treatment and contract divergence.

20. Currently, the gender proportion of Indonesian migrant workers is two female workers for every male worker. These women leave their homes and families mostly for economic reason, hoping that they can help their families move out of poverty. Their average wage as FMWs is relatively higher than what they would earn if they worked as domestic helpers in the big cities in Indonesia.

21. FMWs need financial services that can support them before departure as well as during placement and post-placement. Most FMWs come from poor families and lack access to formal financial services, such as loans to finance the costs of migrating, and remittance services. Currently some commercial banks, national and local, offer loans provision for placement fees that are limited in terms of the types of instruments provided and their accessibility.

22. To analyze issues related to access to finance for FMWs, MICRA conducted a study on access to finance for FMWs. The study included a survey on current providers of financial services to FMWs, such as commercial banks, rural banks, cooperatives and PPTKIS, in order to identify their types of services as well as the problems they have to deal with in providing loans to FMWs. The study also looked into the availability of credit and the role of national and local governments, as well as analyzed problems and lessons learned from previous, related programs.

DESCRIPTION OF RESEARCH

Objectives

23. The main objective of this study is to assess past and current financial instruments available to FMWs and their families at pre-departure, placement and post-placement stages. The goal of this study is to provide operational recommendations for enhancing the availability of relevant services which promote FMWs' access to finance in the community.

24. The study attempts to answer the following key questions in formulating the recommendations:

i. Who/which institutions are currently providing, or have in the past provided, financial instruments to FMWs and/or their families? Where do they operate (coverage area)?

ii. What types of financial instruments do these institutions provide to the FMWs and/or their families? Are they offered to the public or tailored to the specific needs of the FMWs? Do they accommodate the different financial needs throughout the migration stages (before, during, after)? Are there specific instruments provided only to the FMWs? To those working in the informal sectors?

iii. How do they work? What are their key features? What kinds of credit mechanism (guidelines, criteria, procedures) do they use? Have they been successful?

iv. What are the main obstacles associated with the FMW-targeted financial instruments/services that have not been very successful? Which key features work/do not work? What key features should be present to ensure their sustainability?

v. What can be learned from the past/existing financial instruments with male/female MW beneficiaries, implemented by banking and non-banking institutions? (success/failure criteria, key features, sustainability factors and impacts)

Methodology

25. Research method for this study includes: a desk review on the secondary data; primary data collection using quantitative survey, FGD and in-depth interview for qualitative survey. The following are phases of the implementation:

26. Work planning and preparation. The team started the process in December 2007 by preparing a detailed work plan and timetable in consultation with the World Bank and key stakeholders. Research tools (guidelines for FGD and structured questionnaires) were also developed during this period.

27. Desk review. The desk review of documents of international and Indonesian best practices as well as experiences in relation to FMWs and their access to finance was conducted. The desk review was to facilitate the development of field research tools and final recommendations.

28. Field survey. Malang district in East Java and Lombok Tengah district in West Nusa Tenggara (NTB) were selected as study locations for their density of FMW population. In-depth interviews and FGDs were conducted involving government officials, recruiting agency staff, financial institution officers, NGOs and migrant worker activists, community leaders, as well as FMWs and their family members.

29. Report development. Finally, all data and information gathered were synthesized during a series of internal review sessions to produce the first draft report. Key concepts and recommendations were discussed with the World Bank and draft reports were circulated. The final report was constructed after formal presentation of the study findings, taking into account stakeholders' feedback..

30. The following data collection techniques were performed to support the methodology:

31. *In-depth interview*. In-depth interviews were conducted to collect primary data related to migrant workers' organizations, financial and credit institutions and relevant stakeholders at the local and national levels. In-depth interviews were conducted in the following institutions:

i. Banking sector: Commercial banks and MFIs

ii. Government: *Dinas Tenaga Kerja dan Transmigrasi* (Disnakertrans) and BNP2TKI

iii. Recruiting agencies (PPTKIS)

iv. Indonesian Migrant Workers Trade Union (SBMI)

32. *Survey.* A survey using structured questionnaire was conducted in Malang (East Java) and Central Lombok (West Nusa Tenggara) targeting FMWs and/or FMWs' family members as the unit of study. The research team developed the questionnaire instruments which consisted of 72 items under five sections: a) Screening page, b) Respondent's information, c) FMW's information, d) Recruitment process and e) Financial access.

33. The total number of samples in the survey was 55 FMWs/or family members of FMWs from Senggreng village in Malang district and several villages in Praya District, Lombok Tengah. The selection of households included in the survey was obtained through recommendations from Disnakertrans and SBMI. The survey was conducted by five locally hired enumerators. One day survey trainings were conducted in each location prior to the survey implementation.

34. Malang district consisted of 33 sub-districts and 390 villages/regencies. Sumber Pucung sub-district that was chosen as the study area had 7 villages and the study was conducted in one of the villages named Senggreng village. Central Lombok district consisted of 12 sub-districts and 119 villages/regencies. Praya sub-district that was chosen as study location consisted of 5 villages and 9 regencies. The selection of respondents was done through convenient random sampling.

35. The majority of the respondents were returned FMWs (84%). The rest were active FMWs, potential FMWs and family members of FMWs. Active workers were those that were still in employment contract during the study but they were in-country for vacation. Potential FMWs were those that had joined FMW training and were waiting for the pre-departure orientation (PAP) and placement. In this study, potential FMWs were those that were waiting for their second departure. Returning FMWs were those that had worked as FMWs and had returned for not more than two years. Family members of FMW were respondents that during the survey had a family member working as a migrant worker. (See Table 2 for respondents general profile),

Table 2 Respondents General Profile

RESPONDENTS GENERAL PROFILE	Total	Lombok Tengah	Malang
	55	30	25
Gender			
Female	100%	100%	100%
Status			
Active Migrant Worker	7%	10%	4%
Potential Migrant Worker	2%	3%	-
Returning Migrant Worker	84%	87%	80%
Family of Migrant Worker	7%	-	16%
Total	100%	100%	100%

36. *Focus Group Discussion (FGD).* FGD method was used in this study to obtain qualitative information in relation to the FMWs' financial access. A total of three (3) FGDs were conducted in two surveyed districts (kecamatan). The FGD participants were ex-FMWs who had returned to Indonesia less than two years ago. A selection of FGD participants were made by the researcher based on the recommendation of the local community leader. Active FMWs or ex-FMWs were priority participants and members of the FMW family were the second preference for FGD participants.

37. In Malang, two *FGDs* were facilitated to get better pictures on the differences among FMWs with no access to finance and FMWs with access to finance. The FGD sessions were attended by ten (10) participants in *Kecamatan* Donomulyo and six (6) participants in *Kecamatan* Sumber Pucung. In NTB, one FGD session was attended by nine (9) participants who came from several villages in *Kecamatan* Praya in Lombok Tengah.

RESPONDENTS PROFILE

38. In this study 55 female respondents were interviewed. Among the respondents, 37% were between 26 and 30 years old. The majority of them were married (80%), with five people in the family (76%). A higher percentage of respondents had a low education level with almost half of the respondents (42%) having elementary education and 5% of them never having formal education. The majority of the FMW family had only one family member working as FMW (see Table 3 for respondent's education profile).

Table 3 Respondents Education Profile

RESPONDENTS EDUCATION	Total	Lombok Tengah	Malang
	55	30	25
Education			
No schooling	5%	10%	-
Elementary	42%	37%	48%
Junior High School	31%	30%	32%
Senior High School	18%	20%	16%
D3	2%	3%	-
S1	2%	-	4%
Total	100%	100%	100%

39. Difficulties in finding a job in Indonesia was the main reason for the respondents to work as FMW (55%). Twenty five percent said that they became an FMW in order to improve their social status, and the rest mentioned that wages offered by job opportunities overseas were more attractive and this could help them improve their standard of living (see Table 4 for reasons for being FMW).

Table 4 Reasons for Being FMW

Reason for Being Migrant Workers	Total	Lombok Tengah	Malang
	55	30	25
Difficult to find a job in Indonesia	55%	70%	36%
Improve social status	25%	13%	40%
To have education cost	11%	10%	12%
Domestic violence	4%	-	8%
Debt problem	2%	3%	-
Working experience	2%	3%	-
Improve family's economy	2%	-	4%
Total	100.0%	100.0%	100.0%

40. More than half of the FMWs in the study had only experienced working in one country under a one-time contract (see Table 5 for the working experience of respondents). Recruiting agencies have become the main source of information for the majority of respondents (69%). In the early 1980s, the most preferred countries of destination for FMWs were the Middle East countries, especially Saudi Arabia since it was the destination for Hajj pilgrimage. In early 1990s, South East Asian and Asia Pacific countries increasingly became the destinations of choice for the FMWs. In this study, a higher percentage of FMWs from Lombok worked in Saudi Arabia, while a higher percentage of FMWs from Malang worked in Hong Kong.

Table 5 Working Experience

WORKING EXPERIENCE	Total	Lombok Tengah	Malang
	55	30	25
Frequency being Migrant Worker			
Once	53%	50%	56%
Two times	31%	30%	32%
Three times	9%	7%	12%
Four times	5%	10%	-
Five times	2%	3%	-
Total	100.0%	100.0%	100.0%

41. In selecting a destination country, higher wages was the most important factor, followed by language preference, religious factor and simplicity of migration process. In the FGDs, it was found that FMWs often did not have any destination option other than the ones that PPTKIS offered. Table 6 shows the FMWs' reasons for selecting their country of destination. The majority of respondents (91%) interviewed understood that they were supported by legal documentations.

Table 6 Reason in Selecting Destination Country

REASON IN SELECTING DESTINATION COUNTRIES	Total	Lombok Tengah	Malang
	55	30	25
Higher wages	27%	28%	26%
Language	19%	11%	28%
Religious intention	18%	28%	7%
Simple procedure	11%	12%	10%
Close to Indonesia	6%	9%	4%
Similar culture	6%	4%	8%
Cheapest settlement fee	6%	6%	7%
Lower requirement	6%	2%	10%
Total	100%	100%	100%

42. ***Migrant worker recruitment process and cost***. The recruitment process of a migrant worker starts when an agent ("broker") hired formally or informally by

PPTKIS identifies potential FMWs. Interested candidates then pay the agent a very flexible rate of fee (ranging between IDR 200,000 to 600,000) depending on the complexity of services used. Basic services offered at this stage include documents preparation, such as identity card, passport, family permit and also registration at the recruitment agencies as well as Disnakertrans.

43. The length of process duration between registration and the departure date varies. As many as 60% of respondents had to wait for 3 to 6 months and only 28% needed less than 3 months. During this time the FMWs usually stayed and received work-related training provided by the recruiting agencies. Trainings included foreign language course, use of household equipments and working techniques. Prior to departure, FMW candidates from Lombok were usually housed and trained in the main offices of the recruiting agencies in Surabaya, Jakarta or Batam. Training-related costs were included in the placement fee charged by the recruiting agencies. Respondents in Lombok said they had to pay in advance all the required expenses which ranged between IDR 3 – 5 million.

44. For placement cost that includes costs for the procurement of a passport, visa, training and accommodation, respondents should pay between IDR 200,000 up to 14 million. They usually paid the down payment from their own or family savings (32%) or loan from family members (28%). The recruiting agencies would pay for the difference and deduct the rest from the FMWs' wages during their working contract. Most respondents did not know the total cost charged for their placement fees and trusted the recruitment agencies for all the financial arrangement related to their migration process.

45. To oversee the overall process of sending FMW, the Government of Indonesia (GoI) has appointed BNP2TKI which was established through the Presidential Regulation No. 81 year 2006. BNP2TKI is supported by 15 BP3TKI offices all over Indonesia. In the absence of a BP3TKI office in a province, its role is taken over by the local Manpower and Transmigration bureau (see the Appendix for the flow chart of FMW recruitment process issued by BNP2TKI).

FINANCIAL PRODUCTS AND PROVIDERS.

46. FMWs face a unique situation prior, during and after their placement as FMW. During these three stages of migration, FMWs have distinctive needs for financial products.

47. Prior to departure, FMWs have a great need for financial support to pay for their placement fees. The placement fee is high and beyond the financial capacity of most FMWs. There is also a great need for a subsistence loan because many of the FMWs are the bread winners of their families. Before they are able to send money from their place of work in the destination countries, the income of the family suffers.

48. During placement (deployment), FMWs have a great need for remittance services. FMWs need to send money to their families who so much depend on their income. Money transfer services become an indispensable need for FMWs during their deployment.

49. When receiving their regular incomes, the FMWs have a need for savings product for their income. The propensity to save money among FMWs in the informal sector is high. This is because their employers provide basic needs (food and lodging). For various reasons, traditional savings models are still common among FMWs. In this case, they would often keep their earnings under their pillows or carry the money around with them.

50. During deployment, the FMWs increasingly need business loans and investment products. About 25% of FMWs and families in the study used their remittance to finance businesses. Their own earnings, however, are usually not enough to finance businesses. They need support from financial institutions in the form of loans. The need for loans and savings becomes continually important for FMWs post deployment.

51. The need of financial services by FMWs is high but available services are limited. Available services are often dispersed and inefficient for FMWs. One-stop financial service for FMW is virtually unavailable.

52. Considering the demand for financial services among FMWs, the government has encouraged institutions to provide such services. Financial and non-financial institutions have responded to the demand, but only few products are tailored specifically for FMWs (see Table 7 for summary of financial products and providers during the different stages of migration). Some financial providers are more commonly known and more established than others in their services for FMWs.

Table 7 Financial Products and Providers for FMW

Timing & Product		Financial Provider
Pre-Departure		
	placement fee	PPTKIS, BPR, Coop, Moneylenders
	subsistence loans	Coop
	insurance	Bank
Placement (FMW & Families)		
	remittances	Banks, MTC, BPR, Coop, Informal Sources
	savings	Banks, BPR, Coop, Informal Sources
	loans	BPR, Coop, Moneylenders
	credit cards	Banks
Post-Placement		
	savings	Banks, BPR, Coop, Informal Sources
	loans	BPR, Coop, Moneylenders
	credit cards	Banks
	insurance	Banks, BPR

Loans

a) Placement Cost

53. Prior to FMW's departure, there is a high demand of loans because the pre-departure cost is high and beyond their financial capacity. The availability of loans for such purpose usually determines their deployment as FMW.

54. The need of FMWs for pre-departure loans is varied depending on the placement cost charged to them. Placement cost for Malaysia and Singapore as countries of destination are among the lowest, while placement cost to Taiwan and South Korea are among the highest. Placement cost for FMWs leaving for Saudi Arabia is often covered by their employers (see Table 8 for sample of placement fees country comparison charged by recruitment agencies).

55. Placement cost covers numerous items in relation to the pre-departure needs of the FMWs, such as documentation, transport, training, orientation, medical check-up, insurance, accommodation, and recruitment fees. The cost structure of the placement fee is regulated by Depnakertrans (see Table 9 for cost structure of placement fee), but the exact amount charged for each item is varied. Overcharging and unclarity of charges often occur, followed by the FMW sustaining a financial loss.

Table 8 Placement Fees Country Comparison

Fee of Migrant worker

Countries	Sector	
	Informal	Formal
Singapore	Rp 7,000,000	
Malaysia	Rp 7,000,000	
Hongkong	Rp 10,000,000	
Taiwan		Rp 30,000,000
South Korea		Rp 30,000,000

Source: PPTKIS, March 2007

Table 9 Placement Fee Cost Structure

No.	Fee Item	Institution Involved
	Fixed item	
1	Passport	PNBP (Penerimaan Negara Bukan Pajak)
2	Medical check	Hospital appointed by Depnaker & Depkes
3	Working visa	TETO
4	Insurance	Insurance company
5	Training (PP 92/2000) (US $ 15)	Depnaker
	Unfixed item	
6	Local transport	Transportation company
7	Air Ticket (US $ 230)	Airlines
8	Airport & Handling	Perum Angkasa Pura
9	Training	BLKLN
10	Competency test/PAP	Test implementer
11	Recruitment fee	PPTKIS
12	PPTKIS fee	PPTKIS
13	Training accomodation and expenditure	PPTKIS
14	Work orientation	BLKLN

Source: *BNP2TKI, 2005*

56. Many FMWs do not get financial support for pre-departure cost. Among the study respondents, only 44% obtained a loan for their pre-departure cost. A significantly higher percentage of respondents from Lombok Tengah did not get a loan (73%) as compared to respondents from Malang (36%). See Table 10 for pre-departure loan.

Table 10 Pre-departure Loan

PRE-DEPARTURE LOAN	Total	Lombok Tengah	Malang
	55	30	25
Yes	44%	27%	64%
No	56%	73%	36%

Informal Sources

57. FMW sending areas are usually remote areas. This also means that those areas are out of the reach of financial institutions, which commonly operate at the district level. Geographical barriers often leave FMWs without access to formal loan forms. As a result, many of them depend on informal loans to pay for their placement costs.

58. Sources of informal loans are families, moneylenders, ex-FMWs and sometimes middlemen. Middlemen who mediate the recruiting process sometimes do not allow FMWs to borrow from other sources for their placement fees.

59. Informal loans are characterized by their simple process, quick availability and non- requirement of collateral. The credit scheme of an informal loan is simple and direct. An informal loan, however, often brings financial loss to the FMWs because of the high interest charge (10-20% interest rate per-month). An informal loan usually has a short tenure and a high installment obligation.

60. Among the surveyed respondents from Lombok Tengah, 75% of them used informal sources for their loans. No loans from financial institutions were available to them, while only few of the recruiting agencies provided loans for placement fees.

Recruiting Agencies

61. Recruiting agencies have become an important source of financial support for the placement of FMWs. About 82% of respondents chose recruiting agencies as their source of loan (see Table 11 for source of pre-departure loan). In this regard, the loan from the recruiting agency is not received in cash, but is received in the form of the pre-financing of all fees prior to their departure.

62. Recruiting agencies are often seen as convenient sources of loan because FMWs do not need to deal with any third party. This type of financial support facilitates the process of placement and also relieves FMWs from any immediate financial burden which results from their placement.

63. No collateral is usually required for loans from recruiting agencies and the process is fast. Their knowledge on the identity of each FMW, their employers, and the capacity of FMWs to repay the money allows the recruiting agencies to apply the Know Your Client (KYC) principle on the loan.

Table 11 Source of Pre-departure Loan

PRE-DEPARTURE LOAN	Total	Lombok Tengah	Malang
	24	8	16
Source of loan			
PPTKIS	82%	75%	88%
Sponsor	13%	25%	
MFI	7%		13%

64. The process of paying installments is relatively easy because the recruiting agencies are often able to arrange a direct deduction scheme from the FMWs' salaries. .In cases where direct deduction is not allowed, collection process will be done by the recruiting agency's partner in the destination country.

65. Loan from recruitment agencies has a downside. The interest rate charged on the loan is often very high (10-20% per-month), the loan tenure is short and the installment obligation is high. For the first few months, FMWs are often not able to use their salaries for any other purpose than to repay their debts. Depending on the country of destination and the amount of placement fee loan, FMWs need 4 to 13 months to repay their debts, which makes them unable to remit any money to their families.

66. FMWs often do not understand either the placement cost structure or the interest rate charged on the loan. They only know the amounts they receive after their salaries have been deducted to pay for their placement costs. Financial illiteracy is often the cause of this ignorance.

67. Some recruiting agencies are more established and able to pre-finance the placements of FMWs from their own loan portfolios. Some other recruiting agencies, however, need financial support from commercial banks or BPRs. Among the recruiting agencies surveyed, loans obtained from commercial banks are in the range of IDR 100 to 500 million, while loans from BPRs are in the range of IDR 100 to 300 million. The loans from financial institutions require high value collateral which often becomes the main barrier for even the recruiting agencies to obtaining them. The result of the recruiting agencies' evaluation performed by BNP2TKI is a useful tool for the financial institutions to gauge their credit-worthiness before providing the loans to recruiting agencies.

68. Bank BNI is one of the banks that actively provides loans to recruiting agencies for the financing of FMWs' costs. At the time of survey, BNI was providing loans to 22 recruiting agencies.

69. Recruiting agencies are important sources of loan for many FMWs. Unfortunately, many recruiting agencies in the remote areas do not have the capacity to provide such loans to FMWs. They have less financial capital and less access to loan from the financial institutions.

Commercial Banks

70. In response to the high demand in the market, commercial banks are involved in providing financial services for FMWs. However, no direct loan product for FMWs is available from the commercial banks. The commercial banks' support for placement fee loans to FMW is in the form of loans to recruiting agencies. All commercial banks in this study (BCA, Bank Niaga, Bank Mandiri, Bank BNI 46 and BRI) are currently active in providing loans to recruiting agencies.

71. FMWs are often seen as potential borrowers because of their capacities to repay the loans from their regular incomes. However, a loan from commercial banks requires assets as collateral which is often not owned by FMWs prior to departure. Their physical absence from the country and difficult access for collection are seen as high risks by the commercial banks. Among respondents, 60% of FMWs said that they do not borrow money for pre-departure cost because they do not have any asset to be offered as the collateral, while 8% of them said they were seen as high risk clients by the financial institutions (see Table 12 for barriers to loan).

Table 12 Barriers to Loan

BARRIERS TO LOAN	Total	Lombok Tengah	Malang
	48	26	22
Do not have collateral	60%	58%	64%
Do not know how to apply for access to finance	21%	38%	-
Do not need it	8%	4%	14%
Loan to migrant workers are seen high risk by FI	8%	-	18%
Want quick and easy process	2%	-	5%

72. Commercial banks are selective in providing loans to recruiting agencies. Agencies who send workers to formal sectors are seen as more attractive. In this case, the recruiting agencies are expected to have less complication in the collection of installments from the workers. In reality, the majority of FMWs work in the informal sectors, which means they have less loan access available for them.

73. Commercial banks apply competitive interest rates on their loans to the recruiting agencies. On the other hand, the recruiting agencies often charge high interest rates on their loans to the FMWs. Nevertheless, in some cases, repayments from the recruiting agencies are delayed eventhough the FMWs have paid their installments on time. Therefore, the commercial banks are closely following Depnakertrans' evaluation reports (released through BNP2TKI) on the recruiting agencies' which contain information on their eligibility for financing.

74. Bank Niaga is another commercial bank that is actively providing loans to the recruiting agencies. At the time of survey, the main branch of Bank Niaga in Jakarta was providing loans to 5 recruiting agencies in Jakarta, Bekasi and Tangerang totaling up to IDR 20 billion rupiahs. In financing the recruiting agencies they were also collaborating with the PNM. The performances of these loans were average.

75. There is an increased interest among commercial banks to fulfill the demand for loans among FMWs at the district level. BCA in Malang, for example, was providing loans to five recruiting agencies. The interest rate for loans below IDR 500 million was 13.5% per annum, and a 13% interest rate was applied for loans of more than IDR 500 million. The loans were considered high rated performance. BCA in Malang was also active in providing financial education to ex-FMWs, candidate FMWs and their families (see Figure 1 for credit scheme from bank to PPTKIS).

76. The loans from commercial banks are not necessarily used by the recruiting agencies to pay for FMW placement costs. BRI in Mataram, for example, was providing loans to recruiting agencies totaling IDR 2 billion, which some of those recruitment agencies used for investing in facilities. Similarly, with the 22 recruiting agencies borrowing money from Bank BNI, the loans were not specifically for placement fees.

Microfinance Institutions

77. Microfinance institutions increase FMWs' accesses to financial services. Most commercial banks operate at the district level, but the BPRs operate up to the sub-district level. Cooperatives are even closer to FMWs and families as many of them operate up to the village level.

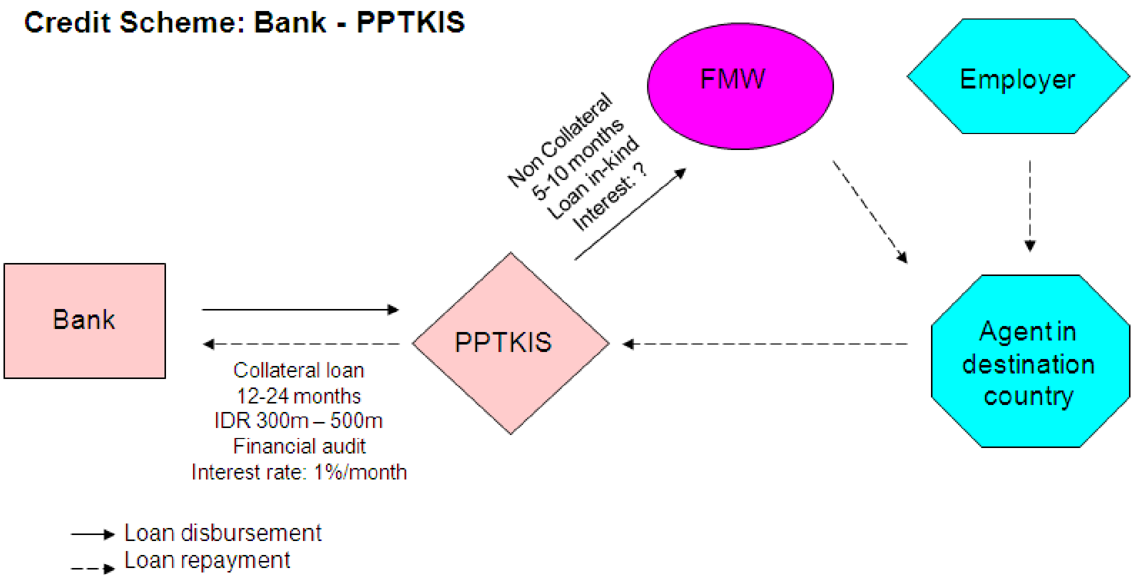

Figure 1 Credit Scheme: Bank-PPTKIS

Bank Perkreditan Rakyat (Rural Bank)

78. Placement fee loans for FMWs by BPRs are given directly to FMWs as well as indirectly through recruiting agencies. Indirect financing for placement by BPRs to FMWs through the recruiting agencies is similar to the scheme provided by commercial banks. Direct financing by BPRs to FMW are often not tailored for FMWs, although some BPRs do provide tailored products to a limited number of FMWs.

79. ***Indirect financing scheme***. In an indirect loan scheme, BPR provides loans to recruiting agencies which then use the loan to prepay for the placement fee costs of the FMWs. The indirect loan scheme seems to be more interesting for BPRs because of the lower risk involved. Recruiting agencies obtain the loan with collaterals and bear the risk of financing FMWs. Usually BPRs have limited loan portfolio, and most of the loans for recruiting agencies are used for financing the placement of FMWs, not for other purposes such as investment in facilities.

80. BPR Armindo Kencana (AK) in Malang was among the BPRs that provided loans to recruiting agencies for the purpose of FMWs' placement fees.. Two recruiting agencies have recently received loans, and one recruiting agency with a loan of IDR 50 million had fully repaid its loan. Because of the risk involved, BPR AK required 200% worth of collateral for the loans. The management of BPR AK considers the loan for placement fees as attractive and plans to continue the product.

81. Indirect financing scheme is increasingly seen as attractive by BPRs. For example, BPR Batu Arturejo (BPR BA) in Malang was among the BPRs in the study that did not provide financial products for FMWs. But, this rural bank has put a plan to start

providing such financial products in the near future (see Figure 2 for indirect credit scheme from BPR to FMW through PPTKIS).

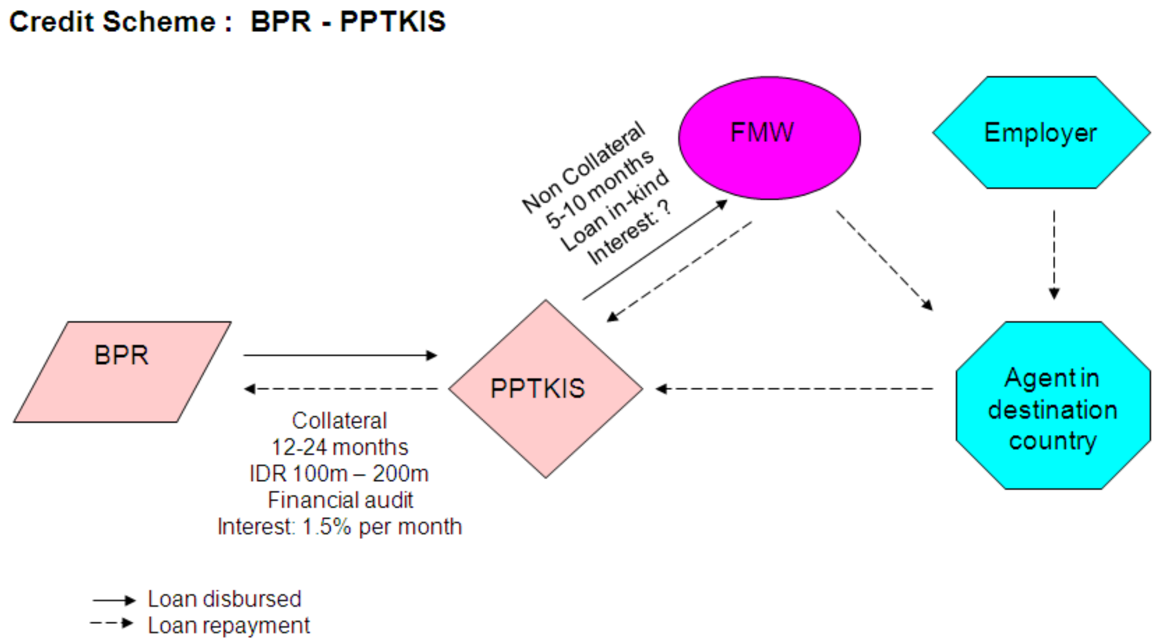

Figure 2 Indirect Credit Scheme: BPR-PPTKIS-FMW

82. ***Direct financing scheme***. Direct financing scheme for placement fees by BPRs seem to be a less preferred scheme. FMWs are usually unable to provide collaterals for loans and they are absent during the period of repayment. Recruiting agencies are usually involved in the direct financing scheme as personal guarantors of the migrant workers when they apply for loans. In this study, two BPRs were chosen for their success and challenges with their direct financing product.

83. BPR BKK (*Badan Kredit Kecamatan*) in Cilacap Tengah was among the few BPRs providing direct financing to FMWs. BPR BKK was jointly owned by the district government of Cilacap and the provincial government of Central Java. BPR BKK currently has 15 branch offices in the sub-district of Cilacap serving around 12,000 clients who are mostly farmers and small traders with a total asset of IDR 149 billion. BPR BKK has been providing direct financing services to migrant workers for their placement fees since December 2006 which currently contributes 25% to its total outstanding loan portfolio (see Figure 3 for direct credit scheme from BPR to FMW).

84. The financing scheme of BPR BKK to FMWs was tailored to the need of FMWs. The interest rate on loan was charged at a competitive rate (18% per annum) with a tenure of 3-18 months. The loans started at IDR 2 million and did not require any collateral, but recruiting agencies had to become guarantors for the loans. Up to the period of survey, BPR BKK had collaborated with 28 recruiting agencies in Cilacap in

providing placement fee loans to about 894 migrant workers leaving for Malaysia, Singapore, Hong Kong, Saudi Arabia, Qatar, Korea and Taiwan. Collaterals were required for bigger loans, which were usually needed by FMWs leaving for Taiwan and Korea. The maximum loan allowed was usually 75% of the value of the collateral, and the credit assessment included the 5Cs (Character, Capacity, Capital, Condition and Collateral). Loan repayments were made through direct payment by FMWs or through the recruiting agencies. Table 13 below shows the financing sizes provided by BPR BKK to FMWs.

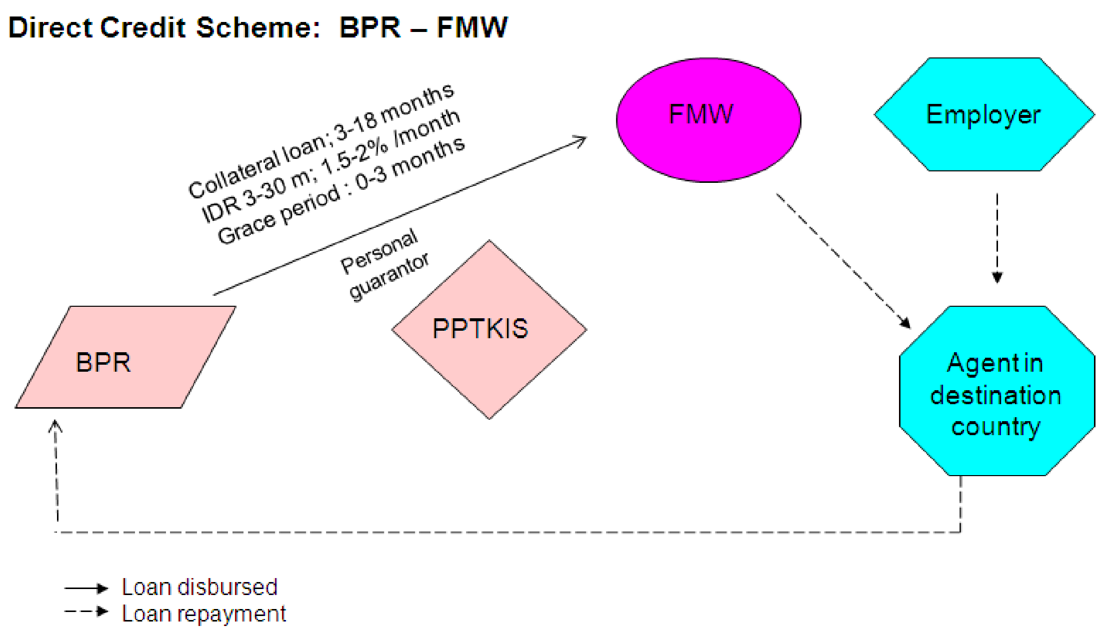

Figure 3 Direct Credit Scheme: BPR-FMW

85. The management of BPR BKK Cilacap considered those financial products as profitable and expanded the services. The main challenge in the financing scheme was in the selection of the recruiting agencies to be involved as guarantors. BPR BKK relied on the recruiting agencies' reviews conducted by the BNP2TKI.

Table 13 Placement Fee Loan (BPR BKK Cilacap)

Country	Placement Fee	Salary (per month)	Loan Ceiling
1. Taiwan (formal)	IDR 35m	IDR 7.5m	IDR 30m
2. Malaysia (Informal)	IDR 5m	IDR 1.7–2.1m	IDR 3m
3. Singapore	IDR 5m	IDR 2m	IDR 3m
4. Hongkong	IDR 10m	IDR 4m	IDR 8m

Source: BPR BKK Cilacap, 2008

86. BPR Kulon Progo (BPR KP) in Jogjakarta is another example of BPR that provided a financing scheme to FMWs for their placement cost. The management of BPR KP considered a loan product to FMW as profitable because of the high demand and increasing support from the government. The financing scheme started in 2004 and continued profitably until 2007 with zero default.

87. The majority of FMWs who received loans from BPR KP chose Malaysia as their destination country. The first loan scheme provided to FMW was at the amount of IDR 4.5 to 5 million per FMW. Then, this increased to IDR 8 million because of the additional charge applied for levy (that was supposed to be paid by the recruiting agencies). Loan tenure was 18 months (for FMW's 2-year contract) with the first 3 months as grace period. Interest rate charged on loan was 1.5% per month (or 18% per annum). The loan to FMW was covered with insurance that included absence, death and accident related disabilities.

88. The management of BPR KP considered the risk in installment collection as the main challenge in the direct loan scheme for FMWs. The informal collection plan in the destination country was highly risky of fraud. This became the main reason for the temporary termination of the product at BPR KP starting from the beginning of 2008. The collector in the destination country had failed to report the FMWs' installment of IDR 3.9 billion which was one fourth of the loan portfolio of BPR KP.

89. ***Suggested three-party loan scheme***. Due to the fraud committed by the informal collector in the destination country, the management of BPR KP suggested a credit scheme that would involve a third party, which could be in the form of a Board of Trustees (BOT). In this regard, the BOT will take the role of an agency that will function as a formal guarantor of collection in the destination country.

90. The three-party arrangement (BPR-FMW-BOT) is thought to have significantly increased the attractiveness of a direct credit scheme for FMWs. The role of the suggested BOT could also involve social empowerment as well as financial education for the FMWs. At present, the management of BPR KP is searching for any interested agency to be involved as the BOT in the direct credit scheme for FMWs. They are hoping that any agency with a great concern in FMWs would be interested to hold such function. (see Figure 4 for suggested direct credit scheme from BPR to FMW with BOT as guarantor).

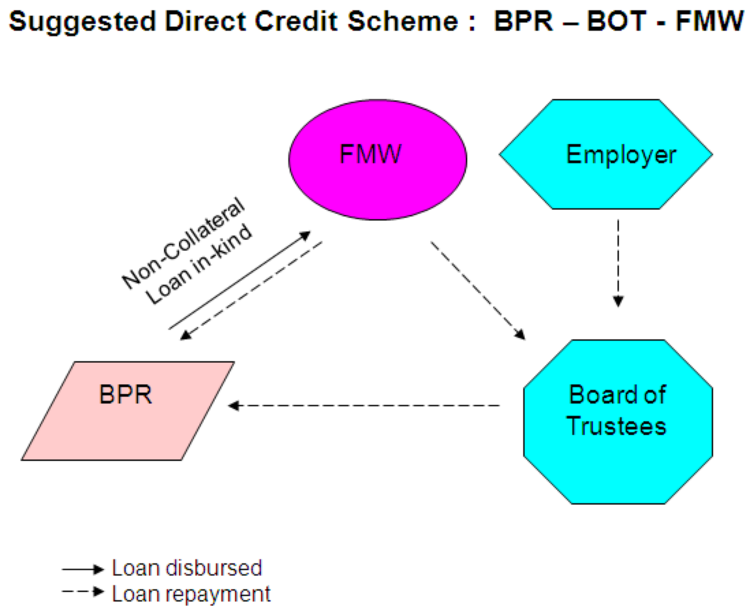

Figure 4 Suggested Direct Credit Scheme: BPR-BOT-FMW

a) Cooperatives

91. Cooperatives mainly operate at the sub-district and village levels, bringing financial services closer to FMWs and families. Cooperatives operate with much smaller portfolios compared to the portfolios of BPRs. In its limited capacity, however, several cooperatives in the study were found to be providing placement costs for FMWs. Loan performances were good because of the membership system applied by the cooperatives that applied the KYC principles on the loans. Koperasi Citra Kartini (KCK) in Malang and Koperasi Annisa (KA) in Lombok were two cooperatives involved in the study that became examples of how increased financial access for FMWs could be made possible by microfinance institutions.

92. KA was founded in 1989 and had started providing placement loans to FMWs directly and indirectly (through recruiting agencies) since 1995. KA applies group lending and currently has 2,300 members in 200 solidarity groups. About 35 of its members are former FMWs and families of active FMWs. Since the number of FMWs and families who are members of KA is small, KA does not need to have a separate record on the loan portfolio report.

93. In the early years of KA, indirect loans for the placement fees of FMWs were provided through the recruiting agencies without collaterals. Currently, direct loans are provided for FMWs as one of its five formal loan products (the other four formal products are business loan, loan for delivery, pregnancy loan and housing certification loan). Loans to FMWs requires a guarantee from the family member, a placement arrangement with the recruiting agency, and a willingness to join the training.

94. Financial education has been found to be effective in increasing the performance of loans in KA. KA collaborates with a PPTKIS (Binawan) in the training of FMWs which includes understanding of the employment contract, employee rights and other work related topics. The training is not only provided to the FMWs but also to their families with topics relating to remittances, opening of bank accounts, and household financial management.

95. Financial support in the form of soft loans is aimed at increasing the loan portfolio and profit for KA. KA has recently established a plan to collaborate with Bank Mandiri Syariah in offering financing products to FMWs. The plan includes funding from Bank Mandiri with a cost of 6% flat per annum. KA will then use the funds to provide loans to its members with an interest rate of 2% flat per month (24% per annum). The grace period is planned to be 9 months. Other details of the loan product are yet to be developed. Savings from members are required at 3% of total loans. The interest rate on loans is 2% flat per month or 24% per annum.

96. ***"One-stop shop" financial service.*** Financial services (pre-departure loans, savings and money transfer) for FMWs are often separated services provided by separate institutions. In a small scale, however, a financial service one-stop shop specifically tailored for FMW is provided by Koperasi Citra Kartini (KCK).

97. KCK is a women's cooperative established in 1992 in Serenggeng village, Sumberpucung sub-district in Malang. KCK is open to the general public. But, since it is located in the sending area of FMWs, many of its members are ex-FMWs, active FMWs or families of FMWs. Current members of KCK are 1,457 with about 40% of them members of solidarity groups and about 60% individual members. From among its members, about 250 are either ex-FMWs or active FMWs.

98. KCK solidarity group members who plan to migrate are usually advised to change their membership status to individual status because the solidarity group requires regular attendance to the group meetings. Subject to group agreements, however, a member is allowed to maintain its group membership during her deployment as long as her savings and loan installments are maintained at regular basis. About 50 of their currently active FMW members are clients of individual loans.

99. KCK applies a strict loan analysis during a loan process. Loans to FMWs require verification of documents in relation to migration and placement processes such as passport, visa and the letter of placement. The cooperative also evaluates carefully the personal character of the borrowers. The loan process requires a member to propose the loan through her group and an endorsement of at least seven other solidarity group members.

100. Collateral is not required for loans obtained from groups but joint liability is applied. Interest rates on loan are 2% flat per month (24% per annum). From the total

loan, 1% is to be deducted for administration and 1% for special savings which will be available for withdrawal after the completion of installments. The loan tenure is between 6 to 10 months. The loan size available in groups is 5 times the amount of savings. For a loan of placement fee to Malaysia which amounted to IDR 3 million, for example, an FMW is required to have a minimum balance of savings at IDR 600,000. The minimum savings does not include the initial savings (IDR 150,000). Non-collateral individual loans are available at the amount of IDR 6 million or less. Collateral requirement for a loan at the amount of IDR 6 million or more is often in the form of a vehicle certificate (see Figure 5 for direct credit scheme from cooperative/KCK to FMW).

101. The family has an important role in the loan scheme for FMWs in KCK. Family members must become the guarantor of FMW placement fee loans and they are included as signatories in loan agreements.

102. KYC principles are strongly applied on loans in KCK. The cooperative knows the residences of their clients, their employment status and addresses at the destination countries. They also know the personal characters and financial capacities of their clients based on their track records as members of solidarity groups. Joint liability, the important role of a family member as loan guarantor, and the KYC principles in KCK seem to be effective measures for successful loan performances which to this date have been with zero default.

103. Repayment of loan in KCK is usually made through bank transfer addressed to the KCK account in commercial banks. To minimize the cost of transfer for different purposes, KCK allows FMWs to send the money for loan installments together with the amount for savings as well as remittances for families. FMWs only need to send SMS messages to inform the cooperative staff of the exact amount of loan repayments, savings and remittances for the families. In its current form, the FMWs financial products offered by KCK is evidently a ‘one-stop shop’ product that efficiently facilitates the financial service to the FMWs.

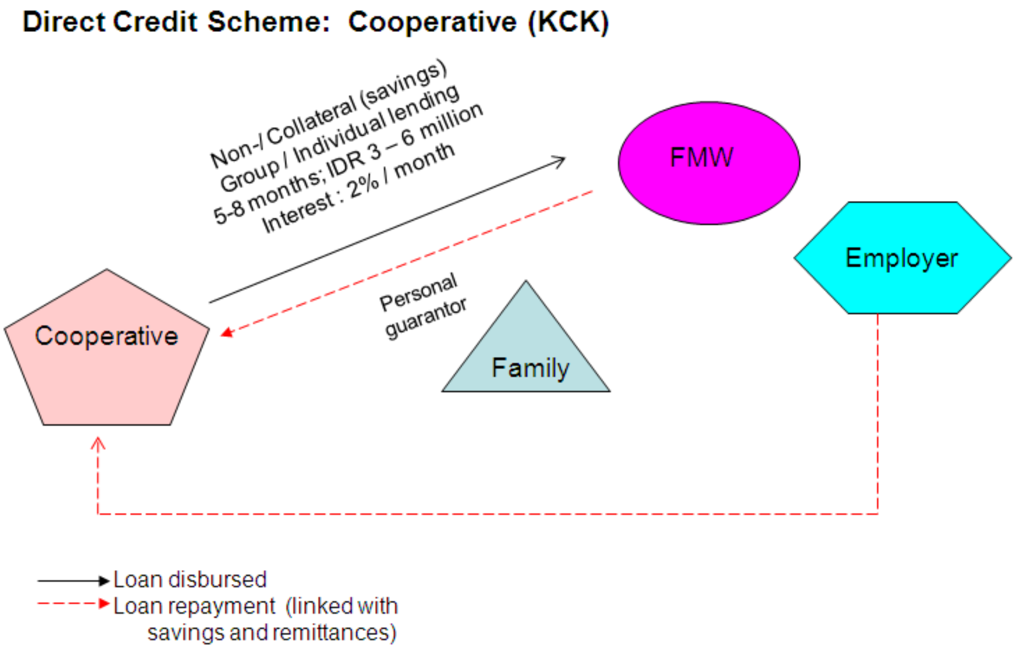

Figure 5 Direct Credit Scheme: Cooperative-FMW

104. Successful as they are now, the FMW financing products of KCK have not been widely promoted. The financial limitation of KCK is the main barrier to the further expansion of the products. Several financial institutions have offered financing support to KCK, but the collateral requirements have limited KCK's ability to obtain the loans. Their current loan portfolio is heavily dependent on internal funds, with savings as their main source of funds.

b) Subsistence Loan

105. Prior to departure, FMWs are often among the main earners in the family. When they leave for deployment, the families often suffer significant decrease of income, especially during the first few months when the FMWs have to use their incomes mainly to repay their debt for placement fees. Prior to deployment, FMWs and their families often have great demand for loans of subsistence. Currently, informal loans are the main sources for subsistence loans.

106. A subsistence loan product is virtually non-existent in financial institutions. It is often unrecognized or seen as unattractive because of its main consumptive purpose. No BPR is found catering to the need of subsistence loans for the FMWs and their families in the study area. KCK is the only institution that recognizes and caters to the FMWs' need for subsistence loans.

107. The BPRs that provide loans for pre-departure cost of FMWs often provide loans which are lower in amount than the actual placement cost needed. KCK, on the

other hand, allows loans for departing FMWs in the amount higher than the placement fees needed. The extra amount is to be used for the subsistence of the family before the FMW is ready to send regular remittances. For a migrant worker leaving for Malaysia, for example, an loan amount of IDR 6 million (non-collateral) to IDR 12 million (with collateral) is allowed even though the placement cost is only around IDR 3 to 4 million. The remaining amount is to be used by the family members for their subsistence.

c) Business Loan

108. The use of remittances for business purposes is often encouraged among FMWs. It is, however, seldom acknowledged that FMWs' remittances are not sufficient for a start-up capital or for a business expansion. But, FMWs and their families have a significant demand for business loans.

109. Business loans in commercial banks are usually out of the reach of FMWs and their families because of the requirement of business financial track record and collateral. BNI is among the few commercial banks that provides business loans to FMWs. BNI has a special unit for the FMW project. Under this project, business loans are given to FMWs who have worked for 6 years. The business loan product is the same product offered to the general public.

110. In the study area, the BPRs and cooperatives that provide placement fee loans to FMWs are also found to provide an amount of business loans to the families. The terms of business loans are usually the same with the placement fee loans. With the microfinance institutions' limited capacity,, business loans are available only to a limited number of FMWs and their families. Informal sources remain the main source of business loans for the FMWs and families who own businesses. BPR Swadana Prima is an example of a BPR providing business loans to former FMWs. With the support of the Ministry of Cooperatives and SMEs, the BPR has provided business loans to former FMWs with a IDR 15 million ceiling, a 24 month-tenure (a 2 month-grace period), and a flat interest rate of 3.2% per month.

111. **Money Transfer Service**. As the FMWs start to earn regularly, they need to send remittances to their families who have high dependencies on remittances for their daily needs. For the purpose of remittances, money transfer services have become an important financial service for FMWs during their deployment.

112. In the use of money transfer services, simplicity of process, transfer time, cost of transfer are among the factors considered important by FMWs and their families. Financial illiteracy and unavailability of services in the vicinity of FMW's families are among the barriers cited to money transfer services.

113. **Informal Remittances**. Similar to services for loans, FMWs and families often use informal services for their remittances. They often ask for the help of friends or take the money with them when they return home.

114. FMWs bear the risk of financial loss when they remit informally. Money could be lost during the transfer process, or the fee charged could be high. For many, however, the informal remittance channel is often the only option. Some FMWs are illiterate and they avoid the documentation process in the financial institutions. Some of them have difficulty to take time-off from work for remitting. Some also avoid transfer-related costs which they consider significant. Many of them have their families in remote areas where there is no available service provided by any financial institution.

115. The actual amount of remittance in-flow is estimated to be much higher than the formal remittances reported. This is partly due to the informal remittance services that the FMWs often use. A financial training that includes the topic of a remittance transfer process is important to be given prior to departure. FMWs need to be informed on the risks of using informal remittance channels and of the available options, that cover the process and procedures of formal money transfer services.

116. **Banks**. Commercial banks offer money transfer service using two approaches: direct and partnership.. The money transfer service offered by commercial banks is attractive to clients because of the worldwide network as well as their in-country links through their branches and corresponding banks.

117. ***Direct transfer service***. The direct money transfer service of commercial banks involves an inter-branch transfer mechanism. Major banks in Indonesia open branches in the FMWs' main destination countries. They target money transfers for FMWs' remittances in those countries. BCA, for example, has representative offices in Hong Kong, Singapore, Saudi Arabia, and United Arab Emirates. Bank BNI has representative offices in Singapore, Tokyo and Hong Kong.

118. To accommodate the remittance transfer needs of the FMWs in destination countries, the commercial banks are now improving their services. BCA in Hong Kong, for example, offers services on Sunday as an effort to accommodate workers who only have time to remit their money on Sundays.

119. ***Partnership.*** In countries where banks do not have branches, a partnership with a corresponding bank is developed. Partnerships with corresponding banks allow the commercial banks to increase their share in the remittance market world-wide. The transfer involves inter-bank transfer mechanism. For money transfer service, commercial banks are partnering with corresponding banks in the main destination countries, targeting money transfers of FMWs. BCA for example, has corresponding banks in 10 countries with the highest transfer flows from Hong Kong,

Taiwan and Malaysia. Bank BNI has highest transfers flows from Hong Kong, Singapore and Saudi Arabia as well as Korea and Japan.

120. Partnership with MTC for money transfer service is also common among commercial banks. Partnership with a well-established MTC allows a presence in the market with less management attention. Bank Mandiri, BRI and Bank Niaga, are among the commercial banks that have such a partnership with the Western Union.

121. To increase their shares on remittance services in the country, the commercial banks are also increasingly developing partnerships with the BPRs. Commercial banks mainly operate up to the district level. By partnering with BPRs, these commercial banks are able to increase their outreach up to the sub-district level. Bank Mandiri, for example, partners with the BPRs in in Sumatera and Java to increase their shares in the money transfer market.

122. **Microfinance Institutions**. Money transfer services through microfinance institutions are not popular among the FMWs. Microfinance institutions are usually not equipped with the infrastructure that allows an easy transfer process. Among respondents, only 27% are using the service of microfinance institutions for their remittances. The majority of them (75%), however, are interested to use the services of microfinance institutions as a remittance transfer channel and they think that the MFI will shorten the distance of services to their homes (see Table 14 for MFI for remittance).

Table 14 Microfinance Institution for Remittance

MICROFINANCE INSTITUTION AND REMITTANCE	Total	Lombok Tengah	Malang
	55	30	25
Current use of MFI for remittance			
Cooperative	27%	-	60%
None	73%	100%	40%
Perceived advantage of MFI for remittance			
Shorten the distance	49%	33%	68%
Reducing remittance fee	4%	-	8%
Do not know	47%	67%	24%
Interest to Use MFI for Remittance			
Yes	75%	67%	84%
No	11%	7%	16%
Do not know	15%	27%	-

123. Only a few MFIs that provide money transfer services have direct transfer services or through partnership services. With their existence as the closest point for remittance service to FMW families in villages, the MFIs need to have further improvement and strengthen their capacities.

124. ***Direct transfer service*****.** MFIs usually do not have many branches in-country and none in the destination countries. MFIs also do not have corresponding banks that can support their money transfer services. A few MFIs provide direct transfer service through their accounts in their commercial banks. KCK for example, provides money transfer services through their accounts in BRI and BCA.

125. ***Partnership***. BPRs are now increasingly providing money transfer services through their partnership with the commercial banks and money transfer companies. In this partnership, the MFIs operate as sub-agents of the MTC, while the commercial banks work as the primary agents. This type of partnership allows BPRs to diversify their services and increase their fee-based income. Partnership between well-established financial institutions and MTCs creates a strong presence and allows access to the money transfer market. It is the commercial banks and MTCs who supply the tools and trainings that allow BPRs to provide the service.

126. Currently, there are 54 BPRs in Java and Sumatera that partner with Bank Mandiri. In these partnerships, Bank Mandiri operates as the agent of Western Union and the BPRs operate as sub-agents.

127. BPR BKK is among the BPRs that has provided money transfer services through their partnership with Bank Mandiri and Western Union since October 2007. The trend shows that the number and value of transactions have been increasing. Up to January 2008, it has booked around 124 remittance transactions in which 75% of them came from migrant workers working in Malaysia and Saudi Arabia. Currently BPR BKK are intensifying the promotion of the service. Under the partnership of money transfer service, 15% of transfer fees are paid to BPR BKK and the remaining 85% are paid to Western Union. The wide network of BPR BKK and the strategic locations of its branch offices have attracted Bank Mandiri to partner with them, which has enabled the bank to compete more effectively with the other commercial banks offering remittance services in Cilacap. On the other hand, the partnership with Western Union enables BPR BKK to provide much easier and faster remittance services to FMWs and attract new clients. As many as 5% of those using BPR BKK's remittance services have become its regular clients. A good and reliable communication system is one of the key success factors in providing remittance services. In the future, BPR BKK and Bank Mandiri plan to strengthen their partnership by jointly providing ATM services to their clients.

128. **Savings**. FMWs have a significant potential to save. Most of the expenses of the FMWs in the destination countries are covered by their employers. Aside from the consumptive purposes of their families and the buying of properties (land or houses), a significant portion of the earnings of FMWs is used for savings.

129. There is a great demand among FMWs for savings services. Savings is directly performed by FMWs in the destination countries or by their family members in Indonesia taken from the money remitted by the FMWs.

Sunarti was a domestic worker in Malaysia. She earned MYR 800 per month and paid MYR 200 per month for instalment of placement fees. From the MYR 600 ringgit she had left, she sent home about MYR 300 and used about MYR 100 for communication and other necessities in the destination country. She had about MYR 200 to save each month on average. She kept her money with her and took the money home and used it to pay land installments.

130. A significant number of FMWs do not have savings account prior to deployment. They are able to start savings after they have started receiving their monthly salaries. And the savings will significantly increase after the loan for placement fee is paid up.

131. They usually save their money informally. They keep their money with them until they go back home and use the money for their family needs, to buy land, or for business purposes. Those who use financial institutions for savings, are using the commercial banks or microfinance institutions in Indonesia. Savings of FMWs are usually irregular. They do not remit their salaries every month because of the high transfer fee.

132. **Commercial Banks**. Prior to deployment, FMW usually do not have much money to save. The savings product of commercial banks applies a much lower opening balance for FMWs. BCA for example, allows a IDR 10,000 opening balance, while for regular customers at least IDR 500,000 is required.

133. The savings product of commercial banks is attractive to FMWs because of the remittance linked service. Bank Niaga in Malang is a preferred bank for savings account because of its service for remittance. Many of its FMW clients use their savings account to remit their money to their family members. Bank Mandiri in Malang has about 5,000 migrant worker savings clients who use their savings accounts as the channel to remit money to their families.

134. In promoting the savings product for FMWs, the commercial banks collaborate with the recruiting agencies to facilitate the opening of a savings bank account.

135. **Microfinance Institutions**. MFIs do not have tailored savings products for FMWs. The FMWs' interest to save in MFIs seems to correlate with their interest to get loans. The presence of MFIs in the community (up to the sub-district or village levels) as well as its relatively higher interest rate on savings make MFI a relatively more attractive institution for savings. Interest rate on savings is 8-10% per year which is much higher than the savings interest rate which is 4-6%.

136. Regular savings is required among cooperative members. Members' savings are an important source of funds for cooperatives. Savings often becomes 'collateral' for loans. The savings of FMWs are often sent through family members or directly by the FMWs as part of their remittances.

137. ***Cooperative (KCK).*** KCK members are required to save 2% of the loans they obtained. One percent is for the voluntary savings and the other 1% is for special savings. The loan size allowed is not more than five times of their savings. FMWs leaving for Malaysia, for example, need to have at least a IDR 600,000 savings (aside from their IDR 150,000 initial savings) before they can borrow IDR 3 million for their placement fees. This savings could only be withdrawn after the completion of loan repayment.

138. A number of their clients are successful FMWs. They save up to IDR 7 million every 3 months, depending on the salaries they earned. Among the highest savers are workers from Hong Kong or Taiwan. At one point, one of KCK client saves up to IDR 850 million. The total amount of the savings of FMW members are IDR 5 billion.

Other Products and Services

139. ***Consumer loan.*** There is a demand for consumer loans among FMWs. A significant number of FMWs have a goal to build or buy a house for their families. A few financial institutions provide consumer loans for FMWs.

140. Under its 'FMW project', Bank BNI provides consumer loans to FMWs who had worked for 2 to 3 years. The consumer loans included loans for housing, vehicles and electronic devices. The consumer loan product in BNI is similar to the loan product offered to the general public. The credit analysis includes the employment contract of the FMW, her salary structure, the legality status of her migration, and references from the FMW association.

141. MFIs also offer consumer loans for FMWs. The product is not tailored specifically for FMWs. While a vehicle document is a common collateral for consumer loans in BPRs, a savings account is a common collateral for consumer loans in cooperatives.

142. ***Credit cards.*** Among FMWs there is also a need for credit cards to be used when buying consumer items be it for themselves or for their families. BCA provides this service for the FMWs who have a minimal of IDR 3 million in their savings account in the bank.

143. ***Mobile Banking.*** Mobile banking allows clients to perform balance checks, account transactions and payment via mobile devices. Mobile banking allows convenience and reduces the transaction-related costs,such as transportation cost. Commercial banks offer this service to the general public including FMWs and their families. Unawareness among FMWs, however, causes the limited use of this service by the FMWs.

Lesson Learnt from the Neighboring Country: Mobile Banking in the Philippines

144. In the rural areas of the Philippines, micro business owners use SMS to transfer payments and make deposits with the help of Globe Telcom, a mobile phone company. Globe developes a unique mobile payment platform called “G-Cash”, which transforms a mobile phone into a virtual wallet for secure, fast and convenient money transfers. From 2004 to 2007, there were 500,000 active users of G-Cash sending and receiving more than USD 100 million per month.

145. Seeing the potential of G-Cash, the USAID-supported program--Microenterprise Access to Banking Services--implemented it with the cooperation of the Rural Bankers Association of the Philippines. Since then, the services have been expanded to support remittances, salary payments, remote deposits, mobile commerce for micro entrepreneurs and remote withdrawal services. Rural banks are able to maximize staff time, expand the numbers of clients and reduce the risks associated with collecting and transferring money. Customers are able to process transactions with less effort and less costs.

146. G-Cash international remittance services are fast and reliable. Currently, there are more than 1,800 outlets in countries and authorized overseas outlets in 14 countries. G-Cash offers services to subscribers of Globe Telcom as well as non-subscribers. The Philippino FMWs use these services and register themselves for the services only through a menu called G-Cash Over-the-Air in the virtual registration process on their mobile phones.

SUMMARY

Key Financial Products and Providers for FMW

147. The key financial products needed by FMWs prior to departure are loans for placement fees and family subsistence. The loan for placement fee is the most important migration-related loan for FMWs that would often determine their departure for working abroad. The loan for family subsistence is needed before FMWs could earn regularly and start remitting the money to their families.

148. During deployment, FMWs need money transfer services for remittance as well as loans for family businesses and savings. Post deployment, the FMWs continue to need loans for family businesses and savings.

149. At present, informal sources are still important for the FMWs to get loans, remittances and savings. The FMWs are relying on money lenders for their loans and on friends for remittances. They also keep their earnings with them for savings. The high interest on loans and the risk of loss on remittance and savings are the main issues on FMWs dependency on the informal sources for those financial products.

150. Recruiting agencies have become an important source of placement fee loans for the FMWs. Transparency and high interest rates are the main issues in obtaining loans from the recruiting agencies. Commercial banks do not provide placement fee loans directly to FMWs, but are an important indirect loan source as they provide loans to the recruiting agencies, who then loan to FMWs. Microfinance institutions are an important loan source for FMWs but they have limited capacity to finance FMWs for placement fees. BPRs provide loans to FMWs both directly and indirectly (through loans to recruiting agencies). BPRs that finance FMWs for placement cost require recruiting agencies as guarantors of loans, while cooperatives require families or co-member (in group lending) as guarantors of loans. Collaterals for bigger loan size in BPRs come in the form of vehicle documents, and in the form of compulsory savings in cooperatives.

151. Family subsistence loans are almost non-existent. A cooperative that provides this type of loan for FMWs requires collaterals in the form of vehicle documents or savings. Business loans are mainly available in cooperatives and BPRs with the same product terms as those offered to the general public.

152. The money transfer service of commercial banks and MTCs are popular among FMWs. However, the high cost of transfer and unavailability of service in the locality of FMW's residence are the main barriers to this service. The money transfer service of MFIs is considered a relatively cheaper service because of the lower transport cost which the FMWs would have to bear (considering MFI's area of operation is in the sub-district and village levels), but it is less popular because of the frequent unavailability of the service. Increasingly, commercial banks and MTCs are partnering

with MFIs to offer money transfer services in the sub-district levels. This partnership has increased the availability of service for FMWs and families.

153. Commercial banks and MFIs are important providers of savings product for FMWs. The savings product of commercial banks are important for FMWs because of the remittance-link service. The savings product of MFIs is important for FMWs because of its link with the loan product.

154. In general, commercial banks and MFIs are not competing with each other as financial providers for FMWs because of their operational locations. The commercial banks are operating up to the district level while the MFIs are operating up to the sub-district and village levels. A collaboration between the commercial banks (which have stronger financial capacity) and the MFIs (which have stronger outreach capacity) could significantly improve services to FMWs and families.

Key Product Features and Success Factors

155. FMWs face a unique situation prior to departure and during deployment as FMW. The financial products and services offered by financial institutions need to be tailored according to the needs of FMWs and families.

156. Most FMWs have low education, and are often unbanked and illiterate. Therefore, the financial institutions that develop products for FMWs need to keep the financial processes and documentation requirement simple for them to serve the need of FMWs.

157. Many FMWs and their families reside in remote rural areas. Financial institutions need to develop an outreach to these areas of FMW concentration or sending areas and make financial services available at the closest distance to the FMWs and families.

158. During deployment, FMWs usually need to pay for their loan for placement fees, remit to their families and save the money at the same time. A loan product that is linked with money transfer service and savings services would serve the need of FMWs for a one-stop-shop service during deployment.

159. ***Loans***. FMWs usually have an immediate need for a loan prior to departure but they do not have assets that could serve as collateral. Also, FMWs often do not have a financial track record that could make them eligible for a business loan. The loan product for FMW needs to feature a flexible guarantee requirement (no-/cheap collateral or social guarantor) and a flexible financial track record requirement. The role of the recruiting agency as guarantor is a significant support to a FMW's application for a placement fee loan.

160. Considering that FMWs are in the destination countries during the loan period, financial institutions need to be flexible in their requirement of the FMW's physical presence in-country during the loan period. The financial institutions need to collaborate with agencies abroad to guarantee a collection process that can also be arranged through direct wage deduction for loan repayment. An innovative approach to solving this installment collection issue that considers the needs of FMWs working in informal sectors need to also be designed. .

161. There is usually a gap of time between the FMW recruitment to their actual deployment and the time they start to receive their regular salaries that would enable the FMWs to pay their loans. Loans to FMWs need to feature a grace period of at least 3 months for it to serve the needs of FMWs.

162. ***Money transfer service***. For money transfer service, the transfer cost is particularly important for FMWs. Money transfer service at minimal cost would significantly encourage FMWs to use its remittance services. Easy access in both the destination country as well as in the family's residential areas is also a determining factor in the use of money transfer service. This could significantly reduce the transport costs related to the sending and withdrawing of money. Other than time of transfer and dependability of service, linkage to the savings product is also an important money transfer service feature for FMWs.

163. ***Savings.*** On savings products, a low opening balance requirement and also involvement of the recruiting agencies in the opening of accounts prior to deployment will encourage the FMWs to open a savings account prior to their departure. A savings service that is linked with money transfer service and covers the feature of easy access for withdrawal by the family is also important. In addition, a savings service that is linked to mobile banking services could also increase its efficiency and cost-effectiveness, as this allows access to account information and enables transaction for money transfer.

Obstacles to Effective Financial Services

164. The majority of FMWs are weak consumers. They are financially illiterate, without assets for collateral, and without financial track records. They usually reside in remote areas where access is difficult. The financial products and services developed for FMWs and their families need to consider these limitations. The products and services that are offered to the general public may not necessarily match the demands of FMWs. To fulfill the FMW demand for financial products and services, customized products are usually needed.

165. The products and services offered by commercial banks to FMWs and their families are usually limited because of the perceived high risks around FMWs and their families. Commercial banks usually apply conservative requirements for their products and services, which often limits FMWs' access to the services. Services to

FMWs are sometimes even more limited because of the fact that many financial institutions perceive workers in the informal sector as posing even higher risk as clients.

166. In offering their products and services to the FMWs, commercial banks are often limited by their lack of retail capacity, as their services are usually up to the district level only and do not reach the FMW-sending areas at the village level.

167. MFIs have become the financial institution that provides closest services to the FMWs and families. They often have the retail capacity and understanding of clients that enable them to customize products and services to meet the needs of FMWs and their families. MFIs, however, often have limited financial capacity and can only offer loans to a limited number of FMWs. Thus, only a small number of FMWs are served by MFIs.

168. Some commercial banks and most MFIs lack infrastructure in the destination countries, which is actually an important factor needed in providing services to FMWs. Partnership is in such cases inevitable to improve products and services to the FMWs.

169. In financing the placements of FMWs, commercial banks and BPRs often depend on the performance of the recruiting agencies.

170. Recruiting agencies which currently are still significant sources for financing the placement costs of FMWs often lack transparency. The structure of placement cost and interest rates charged on the loans are often unclear to the FMWs. There is a risk of overcharging of interest rates that the FMWs may be unaware of. The financial institutions that are interested in financing FMW placements often have difficulty in selecting good recruiting agencies to partner with.

FUTURE PROGRAMMING RECOMMENDATIONS

171. One of the objectives of this study was to feed into the preparation and the subsequent implementation of the JSDF pilot for the FMW empowerment program. Based on the survey findings, the following are key recommendations of programming to be included in this empowerment program:

172. **Financial literacy training.** Increasing financial literacy among FMWs and families need to be one of the main objectives of the financial empowerment program for FMWs. FMWs need to understand their financial contracts (salary and benefits, placement fee charged and interest rate, monthly deduction of salary) when they sign their employment contracts.

173. FMWs need to learn financial goal setting which will guide them to sound financial planning and management as well as investment planning. Financial planning of FMWs could be related to improving the families' housing, children's educational attainment, dealing with existing debts or building a microenterprise. In all of these cases, basic financial goal setting and planning that include a clear institutional strategy for remitting and saving money, as well as leveraging loans, would be a critical input.

174. It is important for FMWs and families to be educated on access to financial products and services. Information on financial products and services (remittance, savings and loans) need to include information on available options that would enable the FMWs and families to match their needs at different stages of migration with services that they can access.

175. Financial literacy training needs to be provided for FMWs and families prior to departure. Current financial training by recruiting agencies needs to be improved and included as the main training in the pre-departure orientation and not only as an optional material (see Table 23 in Appendix for current pre-departure training curriculum). The involvement of stakeholders in the financial literacy training needs to be encouraged. This would include training in the community provided by local government, NGOs, migrant workers' associations, and financial institutions.

176. **Building effective monitoring.** Recruitment agencies still play a major role in the migration of FMWs in Indonesia. The FMWs have high a dependency on the recruiting agencies for their employment contracts and migration processes which would involve financial dealings in each of their stages. The current lack of transparency in pricing, contracting and overall financial transaction among recruiting agencies has reduced the bankability and the ability of some FMWs to effectively convert their earnings into a better life. While there are regulations to this effect, they are not clearly supervised or enforced. Improved consumer protection for the FMW is needed.

177. Building greater standardization and transparency around monitoring and grading mechanisms are needed to ensure quality of service (training, accommodation,

safety, financing, etc), fair treatment and financial transparency. The current monitoring mechanism established by the government through Depnakertrans and BNP2TKI may need to involve stakeholders such as NGOs and financial institutions. Effective dissemination of monitoring reports to the FMWs and stakeholders (including the financial institutions) would encourage them to prudently use the services of the recruiting agencies and their partners.

178. **Partnership.** Commercial banks, MFIs, MTCs and recruitment agencies are currently serving the financial needs of FMWs and families in different capacities. The level of service and financial capacity of each institution is unique. A partnership among these institutions would build complementary services that could improve the FMW's access to finance. For example, the current trend to establish financial partnerships between commercial banks and MTCs with infrastructure ability to engage in remittances, and MFIs with the retail outreach to the relevant populations for this market. Similarly, partnership between banks, MFIs and recruiting agencies in providing loans to FMWs. In this regards, FMWs empowerment program could work to foster the development of these meaningful partnerships, as well as highlighting successes and promoting its expansion. In the end, hopefully the meaningful outreach of products is available to FMWs and their families

179. Partnership between agencies needs to be improved to make available a financial service 'one-stop shop' for FMWs. This service needs to be provided closest to the FMWs and families that are at the sub-district and village level, and needs to include a strong public information component that is needed most by FMWs and families. The involvement of more supporters to finance FMWs departure loan also needs to be encouraged. An example of this is the involvement of a board of trustees as a guarantor to loan by BPRs.

180. **Product development.** Product development needs to be tailored around FMWs – to include placement fees, remittances, savings, loans, insurance and mobile banking.

181. The partnership trends, listed above, are in its early stages and as yet strong products with good mechanisms and the important ability to build savings and leverage with loans is still missing. The FMW empowerment program could work on building a suite of inter-related products that would help the FMWs and their families take stronger advantage of the complex array of savings, loans, remittance, and possibly insurance products, available to them. In the case of loans, a broad range of loans could be applicable, from placement fee lending, to enterprise lending, to housing finance.

182. An innovative edge in the banking industry is the high intensity usage of mobile banking in many developing countries. This also true in many countries with many FMWs such as Mexico and Philippines. Mobile banking product is known to be a

mean of fund transfer that reduces transaction cost per customer, more efficient and convenient, better speed and more secure.

Financial & technical support for MFIs

183. MFIs are financial institutions with points of service closest to FMWs and families. Their services could be tailored to the need of FMWs and families because they have the retail capacity and an understanding of the demand. However, many MFIs lack the technical capacity, including systems, human resources and capital, to rollout new products. These are the supports that need to be given to MFIs. The FMW empowerment program could select a small number of MFIs and work with them to develop and deliver a suite of meaningful products for FMWs and their families. These MFIs could serve as models for replication throughout Indonesia, if a strong socialization component is included in the programming.

184. In implementing an empowerment program for FMWs, the following partners would be essential due to their specific roles:

- As the coordinating body for migrant workers at the national level, BNP2TKI could engage in the monitoring of programs and in the training enrichment and implementation
- PNPM could help support the outreach strategy to retail financial institutions and FMWs
- PPTKIS could engage in training development and delivery
- The trade union of migrant workers could engage in monitoring and training enrichment and implementation
- MFI support agencies could create products and establish banking partnerships, develop/deliver financial literacy trainings and support MFI's product expansion
- Selected commercial banks and MTC could create products and establish banking partnerships with MFIs and other retail providers

Recommended financial service model: One-stop shop in MFIs

185. The study found that there is a very limited number of one-stop shops for FMWs to meet their financial needs. Banks provide savings accounts and handle transfers while MFIs provide savings and loans. In addition, the government through BNP2TKI and Disnakertrans, supported by a few NGOs and community groups, provide non-financial services such as financial education, and technical assistance.

186. The study resulted in a recommended model for a one-stop shop service for FMWs which involves MFI as the service provider. This recommendation is based on the following reasons:

- Presence: MFI is the closest financial service provider to FMWs who has concerns on physical accessibility to services due to their usually remote residences

- Familiarity: MFI knows their clients and this reduces the risk of loan services
- Local knowledge: MFI knows the specific needs and demands of their clients at their localities.
- Retail capacity: MFI has the capacity to meet the demands of their clients at the scope needed and be sustainable.

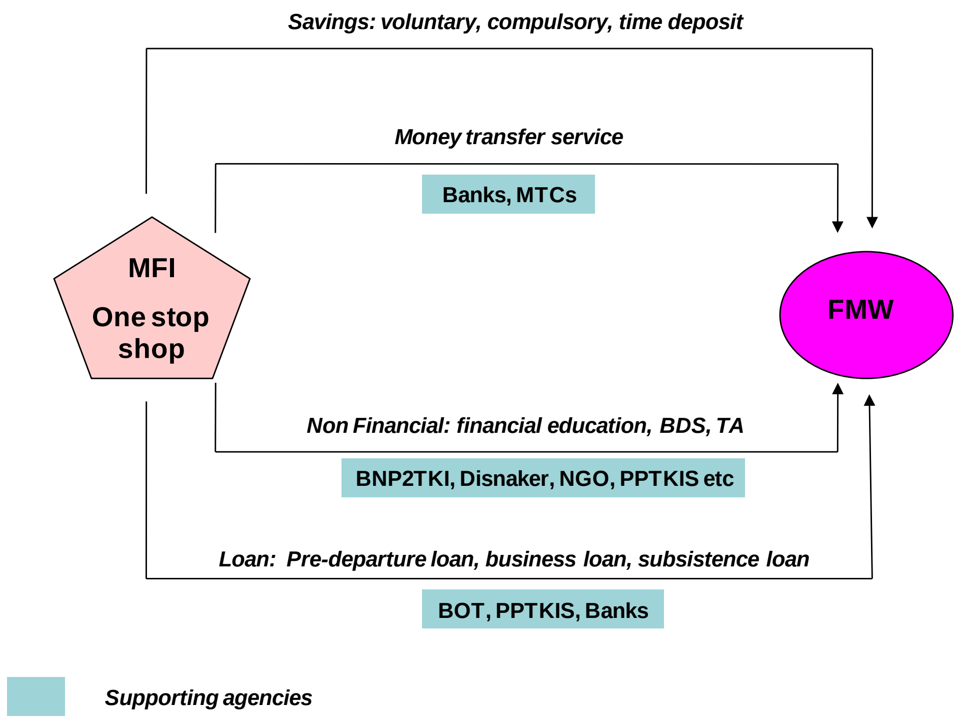

Figure 6 MFI: One-stop shop service

187. The one-stop shop service for FMWs features the following services:

- Loans: The loan services for FMWs include a loan for pre-departure fees, a loan for subsistence for their families, and a loan for their businesses
- Savings: The savings products for FMWs include voluntary and involuntary savings that usually start prior to departure, and possibly also a time deposit product
- Transfer: The money transfer service of MFI through commercial banks needs to be expanded with services through MTCs.
- Non-financial services: Financial literacy training for FMWs and also business development services and technical assistance to support their businesses.

188. To be able to operate as a one-stop shop service provider, MFI has several limitations that include: limited financial capacity, risky loan collection, technical capacity, and staff capacity for both financial and non-financial services. Considering these limitations, it is important that MFIs are supported by the following agencies:

- Commercial banks: for financial support to increase loan capital and for money transfer services
- MTCs: for money transfer services and support the leveraging of MFI money transfer service infrastructure that includes instruments and staff capacity building
- BOT: to guarantee FMWs' loan installments that could come from formal interested agencies such as NGOs, advisory groups or financial agencies
- PPTKIS: to support with referral for financial services and for financial education
- BNP2TKI and Disnakertrans: to support non-financial services with training facilitators and facilities

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APPENDIX

Table 15 List of Institutions Participated in the Study

Location	Type				
	Government	MW Recruitment Agency	Bank	MFI	NGO
Jakarta, National Level	BNP2TKI		BNI BCA Bank Niaga		
Malang, East Java	BP2TKI MMT Bureau	PPTKIS: - Bina Mandiri - Tritama Bina Karya	BCA Malang Mandiri Malang BRI Malang Niaga Malang	BPR: - Armindo Kencana - Batu Artorejo - Bumi Rinjani - BKK Cilacap Cooperative: - Citra Kartini - Puskowanjati	SBMI Malang
Lombok Tengah, West Nusa Tenggara	BP2TKI MMT Bureau	PPTKIS: - Sapta Rezeki - Sinar Harapan Anda	BNI Mataram BRI Mataram BRI Praya	Cooperative: - Annisa	- SBMI Lombok Tengah - Yayasan Pancakarsa - Advokasi Buruh Migrant - Asosiasi Bumi Gora

Table 16 Placement of Indonesia Migrant Workers by Countries (1994-2006)

PENEMPATAN TENAGA KERJA INDONESIA
BERDASARKAN JENIS KELAMIN
TAHUN 1994-2006

NO	JENIS KELAMIN	TAHUN 1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	JUMLAH
1	LAKI-LAKI	42.833	39.102	228.337	39.309	90.452	124.828	137.949	55.206	116.786	80.041	84.075	149.265	138.292	1.326.475
2	PEREMPUAN	132.354	81.784	288.832	195.944	321.157	302.791	297.273	239.942	363.607	213.824	296.615	325.045	541.708	- 3.600.876
	JUMLAH	**175.187**	**120.886**	**517.169**	**235.253**	**411.609**	**427.619**	**435.222**	**295.148**	**480.393**	**293.865**	**380.690**	**474.310**	**680.000**	**4.927.351**

PENEMPATAN TENAGA KERJA INDONESIA
MENURUT NEGARA TUJUAN TEMPAT BEKERJA
TAHUN 1994-2006

NO	NEGARA TUJUAN	TAHUN 1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	JUMLAH
I	**ASIA PACIFIC**	**70.733**	**67.877**	**380.369**	**101.621**	**227.911**	**267.768**	**304.186**	**178.147**	**238.324**	**109.722**	**160.970**	**297.291**	**326.811**	**2.731.730**
1	MALAYSIA	41.712	23.909	321.756	36.248	132.950	169.177	191.700	74.390	152.680	89.439	127.175	201.887	270.099	1.833.122
2	SINGAPORE	15.678	22.982	31.235	35.487	41.045	34.829	25.707	33.924	16.071	6.103	9.131	25.087	9.075	306.354
3	BRUNEI. D	1.846	997	2.292	2.659	6.246	6.477	4.370	5.736	8.502	1.146	6.503	4.978	2.780	54.532
4	HONGKONG	3.306	3.878	3.143	5.282	19.531	12.762	21.709	22.622	20.431	3.509	14.183	12.143	13.613	156.112
5	TAIWAN	3.423	4.807	9.535	9.597	17.479	29.372	50.508	35.986	35.922	1.930	969	48.576	28.090	276.194
6	KOREA SELATAN	3.294	9.141	9.609	8.385	6.837	11.078	6.689	4.092	4.273	7.495	2.924	4.506	3.100	81.423
7	JEPANG	-	-	-	-	-	-	-	1.388	444	100	85	102	21	2.140
8	LAIN-LAIN	1.474	2.163	2.799	3.963	3.823	4.073	3.503	9	1	-	-	12	33	21.853
II	**TIMUR TENGAH & AFRIKA**	**98.710**	**48.355**	**135.336**	**131.734**	**179.521**	**154.636**	**129.168**	**116.597**	**241.961**	**183.770**	**219.699**	**177.019**	**353.189**	**2.169.695**
9	ARAB SAUDI	96.533	43.521	127.137	121.965	161.062	131.157	114.067	99.224	213.603	171.038	203.446	150.235	307.427	1.940.415
10	UNI EMIRAT ARAB	1.948	4.640	7.857	9.362	16.961	17.584	9.558	10.672	7.779	1.475	133	5.622	15.494	109.085
11	K U W A I T	76	1	29	-	116	4.222	3.771	3.189	16.418	10.268	15.989	16.842	14.725	85.646
12	BAHRAIN	1	4	-	4	12	113	169	1.542	666	88	-	21	485	3.105
13	Q A T A R	19	34	81	2	329	561	949	1.012	916	180	62	1.002	5.044	10.191
14	O M A N/TUNISIA	-	-	-	-	-	-	-	519	1.311	495	-	1.216	3.527	7.068
15	YORDANIA	-	-	-	-	-	-	6	363	1.233	226	68	2.081	6.468	10.445
16	CYPRUS	-	-	-	-	-	-	-	-	23	-	-	-	-	23
17	M E S I R	-	-	-	-	-	-	-	-	-	-	1	-	-	1
18	LAIN-LAIN	133	155	232	401	1.041	999	648	76	12	-	-	-	19	3.716
III	**AMERIKA**	**4.036**	**3.600**	**980**	**1.189**	**2.928**	**3.519**	**1.509**	**349**	**40**	**171**	**17**	**-**	**-**	**18.338**
19	UNI STATE AMERIKA	3.950	3.445	901	1.074	2.563	3.300	1.302	273	40	171	17	-	-	17.036
20	LAIN-LAIN	86	155	79	115	365	219	207	76	-	-	-	-	-	1.302
III	**EROPAH**	**1.708**	**1.054**	**484**	**709**	**1.249**	**1.696**	**359**	**55**	**68**	**202**	**4**	**-**	**-**	**7.588**
21	BELANDA	951	666	187	43	150	290	77	38	55	83	3	-	-	2.543
22	I T A L Y	-	-	-	666	-	-	-	3	10	107	-	-	-	786
23	INGGRIS	-	-	-	-	-	-	-	1	2	5	-	-	-	8

Source: BNP2TKI website, www.tki.or.id retrieved in March 2008

Table 17 Indonesian Migrant Workers Deployment by Gender

Indonesian Migrant Workers Deployment by Gender						
No	Year	Women		Men		Total
		(number)	(%)	(number)	(%)	
1	1994	132,354	76	42,833	24	175,187
2	1995	81,784	68	39,102	32	120,886
3	1996	288,832	56	228,337	44	517,169
4	1997	195,944	83	39,309	17	235,253
5	1998	321,157	78	90,452	22	411,609
6	1999	302,791	71	124,828	29	427,619
7	2000	297,273	68	137,949	32	435,222
8	2001	239,942	81	55,206	19	295,148
9	2002	363,607	76	116,786	24	480,393
10	2003	213,824	73	80,041	27	293,865
11	2004	296,615	78	84,075	22	380,690
12	2005	325,045	69	149,265	31	474,310
13	2006	541,708	80	138,292	20	680,000
Grand Total		**3,600,876**	**73**	**1,326,475**	**27**	**4,927,351**

Source: BNP2TKI, 2007.

Table 18 Indonesian Migrant Domestic Worker Monthly Wages by Countries

Migrant Domestic Worker Monthly Wages by Countries (2006)				
No	**Destination Country**	**Monthly Wages**	**Wages in Rupiah (exchange rate 2006)**	**Wages in USD**
1	Malaysia	RM 400 - 450	1,010,000 - 1,136,250	109-122
2	Saudi Arabia	SR 600	1,458,000	157
3	Hong Kong	HK$ 3,270 - 3,300	3,924,000 - 3,960,000	422-426
4	Taiwan	NT 15,000	4,350,000	468
5	Kuwait	KD 40	1,240,000	133
6	Singapore	S$ 240 - 280	1,387,200 - 1,618,400	149-174

Source: BNP2TKI, 2006. *Migrant Domestic Worker Monthly Wages by Countries.*

Table 19 Indonesian Migrant Workers Remittances by Country of Destination

Indonesian Migrant Workers Remittances by Country of Destination (IDR)						
No.	**Country**	**2004**	**2005**	**2006**	**Average**	**%**
I	**Asia**					
1	Malaysia	448,889,278	2,659,256,731	2,732,012,381	1,946,719,463	46.5
2	Singapore	32,312,188	124,448,858	134,962,374	97,241,140	2.3
3	Brunei Darussalam	33,061,091	42,738,137	42,981,499	39,593,576	0.9
4	Hong Kong	140,936,590	327,275,053	359,632,782	275,948,142	6.6
5	Taiwan	116,009,662	210,086,147	281,163,379	202,419,729	4.8
6	South Korea	48,143,723	71,336,471	75,978,337	65,152,844	1.6
7	Japan	2,156,094	117,017,623	117,000,515	78,724,744	1.9
8	Macao	-	32,186,140	32,186,140	21,457,427	0.5
9	Others	55,848	300,720	304,220	220,263	0.0
	Total	**821,564,474**	**3,584,645,880**	**3,776,221,627**	**2,727,477,327**	**65.2**
II	**Middle East and Africa**					
1	Saudi Arabia	766,520,553	1,350,717,640	1,397,693,555	1,171,643,916	28.0
2	UEA	10,180,721	154,169,284	167,834,524	110,728,176	2.6
3	Kuwait	57,020,296	65,062,020	71,089,950	64,390,755	1.5
4	Bahrain	810,129	570,000	1,310,725	896,951	0.0
5	Qatar	1,214,554	4,302,159	11,414,164	5,643,626	0.1
6	Oman	2,022,374	3,309,854	6,339,524	3,890,584	0.1
7	Jordan/Syria	12,225,096	67,605,455	67,853,825	49,228,125	1.2
8	Egypt/Yemen	7,992	-	5,100	4,364	0.0
9	Cyprus	26,233,412	164,160	164,160	8,853,911	0.2
10	Others	-	-	0	0	0.0
	Total	**876,235,126**	**1,645,900,571**	**1,723,705,526**	**1,415,280,408**	**33.8**
III	**America**					
1	USA	1,474,991	53,362,239	54,251,310	36,362,847	0.9

	Total	**1,474,991**	**53,362,239**	**54,251,310**	**36,362,847**	**0.9**
IV	**Europe and Australia**					
1	Dutch	453,946	1,382,122	1,382,603	1,072,890	0.0
2	Italy	-	577,570	577,570	385,047	0.0
3	Germany	-	4,246,411	1,895,509	2,047,307	0.0
4	England	10,282	2,444,950	1,128,554	1,194,595	0.0
5	France	-	424,555	189,509	204,688	0.0
6	Australia	-	3,265,262	898,242	1,387,835	0.0
7	Others	35,343	-	0	11,781	0.0
	Total	**499,571**	**12,340,870**	**6,071,988**	**6,304,143**	**0.2**
	Grand Total	**1,699,774,162**	**5,296,249,560**	**5,560,250,452**	**4,185,424,725**	**100.0**

Source: Directorate of Statistics of Bank Indonesia, 2007. Indonesian Migrant Workers Remittances by Country of Origin

Figure 6 Flow Chart of Migrant Worker Process

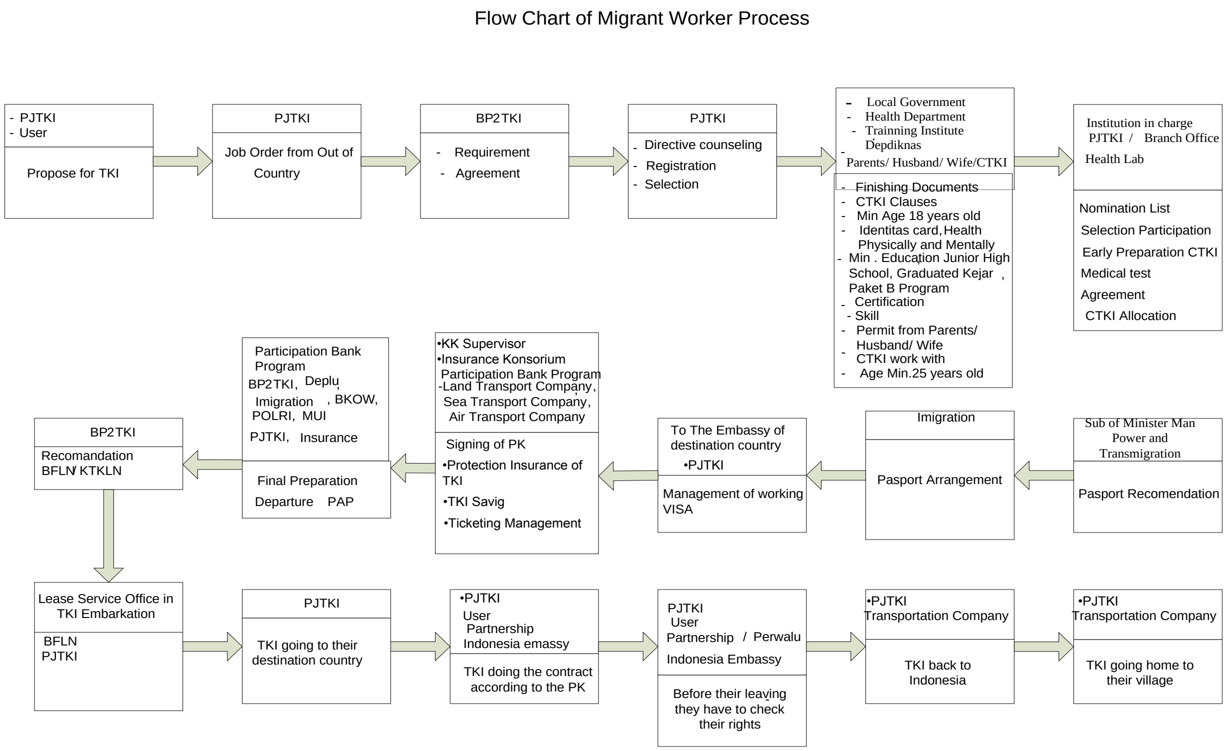

Table 20 Summary of Services of Commercial Bank for Migrant Workers*

Bank Institutions	Product				
	Savings	Loan	Remittances	Credit Card	Others
Bank Central Asia (BCA)	Tahapan BCA TKI (Savings Account for MW	- Financing MWs through PPTKIS	Wire BCA.	Card is valid to purchase merchandise from a given catalogue. MWs can purchase the product and send it home.	NS
	Opening Balance IDR 10,000	BCA Malang provided funding to at least 5 PPTKI	Majority of the MW remittances in BCA comes from Hongkong. BCA open representatives office and open seven days a week.		
Bank Niaga	Opening Balance for TKI is IDR 10,000	At least 5 PPTKIS in Jakarta, Bekasi and Tangerang.	In collaboration with Arabic Bank in Saudi Arabia.	NS	NS
		Analysis including PPTKIS financial performance; experiences; credibility; sector industry; destination country; and collateral.	Barriers in informing the family on the incoming remittance. It may takes up to seven days.		
		Niaga prefer to fund MW in formal sectors considering the income			
		Interest rate 12% per annum.			
Bank Negara Indonesia (BNI)	Opening balance of IDR 10,000. Other BNI savings account required minimum opening balance of IDR 500,000	NS	NS	NS	NS
Bank Mandiri	- Opening balance of IDR 10,000. Other Mandiri savings account required minimum opening balance of IDR 50,000 - Administration fee IDR 2,000 per month	NS	In collaboration with Western Union	NS	NS
Bank Rakyat Indonesia (BRI)	NS	Financing MWs through PPTKIS Used of the fund is depend on the PPTKIS (could be for MWs placement fee or others)	NS	NS	NS

***** Services are limited to those offered by commercial banks included in the study
NA = Not available; NS = Not specific for migrant workers

Table 21 Summary of the Services of BPR for Migrant Workers*

Bank Institutions	Product				
	Savings	Loan	Remittances	Credit Card	Others
BPR Bumi Rinjani	NS	NS	NS	NA	Clientele: 672 borrowers; at least 600 savings account; and 500 time deposit account Target clientele: Farmer, trading, retail business Offices: 1 Head Quarter, 4 branches
BPR Batu Arturejo	NS	NS	NS	NA	Clientele: 906 borrowers; 1,288 savings account; and 52 time deposit account Target clientele: Farmer, trading, industry Offices: 1 Head Quarter
BPR Armindo Kencana	NS	Financing through PPTKIS: Loan size up to IDR 50 million Collateral equivalent to 200% of the loan size (in the form of land, building, or security papers)	NS	NA	Clientele: 652 borrowers; 500 savings and time deposit account Target clientele: Farmer, trading, industry Offices: 1 Head Quarter
BPR BKK Cilacap	NS	Financing to MWs - 894 MWs (Malaysia, Singapore, Hongkong, Saudi Arabia, Qatar, Korea, Taiwan) - Loan size IDR 2 – 30 million. Personal Collateral of 75%; depend on the types of works (formal, informal), loan size.	In collaboration with Bank Mandiri – Western Union	NA	Target clientele: Farmer, trader Offices: 1 Head Quarter, 15 branches all over Cilacap Area

* Services are limited to those offered by BPRs included in the study
NA = Not available; NS = Not specific for migrant workers

Table 22 Summary of Services of Cooperatives for Migrant Workers*

Bank Institutions	Product				
	Savings	Loan	Remittances	Credit Card	Others
Cooperative Citra Kartini	NS	Loan size IDR 5 million (IDR 3million for placement fee; and IDR 2 million fo family living costs)	NS	NA	Clientele: 1,800 individual; 1200 (group)
		Interest rate 2% per month			95% are migrant workers (5% male MW)
		Administration fee 1%			Asset IDR 6 billion
		Loan term 6-10 months			
		No collateral			
		Payment made through commercial bank (BCA and BNI)			
		Financing to Ex MDW			
		To run small business to ex MW			
		Loan size IDR 1– 6 million			
		Loan term 10 months			
Cooperative Annisa	NS	NS	NS	NA	2,300 members (include 200 groups)
					1.5% ex MW
					Loan to MWs provided but not being separated record
					At the initial stage to develop collaboration with Bank Mandiri Syariah for financing MWs

* Services are limited to those offered by cooperatives included in the study
NA = Not available; NS = Not specific for migrant workers

Table 23 Pre-Departure Training (*Pembekalan Akhir Pemberangkatan*-PAP)

Pre-departure Training Curriculum					
BP2TKI and PPTKIS/BLK-LN					
No	**Topic**	**BP2TKI**	**hours**	**PPTKIS**	**hours**
1	Spiritual and mental education				2
2	Phsycial health education				2
3	Personality education		2		
4	Women and children trafficking		2		2
	Drugs and reproductive health				
	HIV/AIDS				
5	Socio-culture of destination country		2		
6	Regulation of the destination country				1
7	Procedure of departure and arrival in destination airport				1
8	Procedure of return to Indonesia				1
9	The role of embassy in empowerment and protection				2
10	Remittance, savings and insurance				1
11	Placement agreement and work contract		2		
	Total		8		12

Source: BNP2TKI, 2007. *Pembekalan Akhir Pemberangkatan*. Provided by BNP2TKI staff during interview - December 2007.