Report
Regional Microfinance Development Project NTB
The Household Survey

By

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1. Introduction

The household survey has two specific purpuses (TOR PROFI Program:PN 2004.2578.9-001.00). The first is to learn the key characteristics of the households (and microenterprises) demand for financial services in the province of Nusa Tenggara Barat (NTB). The characteristics include products and volume of services, in order to identify demand-supply gaps. The second is to investigate perceptions of the microfinance supply by the demand side.

Along with the MFI survey, the survey analyzed relevant secondary and primary data concerning the current market (supply and demand) of microfinance services in the province. Secondary data were provided by Bappeda and related institutions while the primary data collected through a sample survey. The sample includes households of selected nine (9) sub-districts (*Kecamatan*), each represents one of the 9 districts (*Kabupaten*) in Nusa Tenggara Barat (NTB).[1] The sub-district sample were sub-districts with diverse MFIs and, ar least, with a ‘good’ performing one. The selection of sub-districts were based on available secondary data and with consultation from Bappeda. One MFI of each type existing in the selected sub-districts was chosen as sample. Additionally, ‘good’ performing MFIs of types not present in the sub-district sample were also included in the sample. The household sample includes 90 households; 10 households randomly selected from each of the 9 selected sub-districts.

The report presents the major results of the household survey. A detailed primary data compiled through this survey accompany this report, in Annex # 1 (a soft excell file).. The results the MFI survey are given in a seperate report.

The report is organized into five sections. Section 1 introduces the objectives and the methodology of the survey. Section 2 discusses the characteristics of the household sample. Section 3 discusses the demand of the households for financial services. Section 4 discusses the households’ perception concerning the existing supply of financial services. Lastly, Section 5 summarises the key findings and concludes the report.

2. The Households

This section discusses the key socio-economic characteristics of the household sample. The heads of the households were 43 year old of age with 8 year of formal educations, in average. The majority of them received major income from Trade sector (including small-micro industries) and Agriculture sector, 33% and 27%, consecutively. Other occupations such as laborer, and formal employee accounted for less than 10%, each. The average distances of thier houses from nearest offices of MFIs were about 6 km.[2]

The households’ average yearly incomes were IDR 15 million with a wide gap between the poorest (IDR 700 thousand) and the richest (IDR 190 million). Using the recent exchange rate (about IDR 10,000 per USD), the average yearly income of the households is lower than the poverty line incomes of a household with four members

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[1] The administration of NTB province is consisted of 9 districts, 94 sub-districts, and 769 villages.
[2] An exception is for the five household respondents from sub-village (Kampung) Lanci II, village Sukadamai, sub-district Manggela, district Dompu whose home distances are between 139 km to 150 km from the sub-district town.

which is IDR 29.2 million (USD 2920 per 4 persons per year, or USD 2 per capita per day).

The majority of them owned physical assets such as lands (including houses), and motorcycle with estimated values ranging from IDR 3.5 million to IDR 120 million. Among the obstacles of their economies considered important were: lack of capital, increasing input prices, decreasing output prices, sicknesses of the households' members, and bad infrastructure.

There were some variations in the socio economic characteristics of the households among regions. For instance, there were more agricultural households in the districts of Sumbawa island than in the districts of Lombok. Similarly, there were more households lived in homes distant from offices of MFIs and sub-district towns in Sumbawa than in Lombok. There were more households with ownerships of physical assets (such as Land) in Sumbawa than in Lombok. The households' demand for financial services are discussed in Section, below.

3. The Households' Demand for Financial Services

3.1. Savings

A relatively substantial proportion of the 90 households reported that they saved their excess incomes, 34% in cash, 6% in kinds, and 2% in a combination of cash and kinds. Thus, more than 40% of the households were accustomed to savings. This may suggest that there is a potential for saving mobilization, when their economies are improved. Among the purposes of their savings included: child education, capital accumulation, and going hajj. Savings for child education was mentioned most often.

Of those saving in cash, 54% with banks (such as BRI Units, BNI, BPD and Rural Banks), 41% with non bank financial institutions (such as UPKDs, KSPs, USP-KUDs, and USP-KSUs), and 5% with others (i.e., child's' schools) (Table 1).

Table 1
The Distribution of Household Savers by Financial Institution Types, and the Saving Balances

Institution Type	Frequency (person)	Percentage (%)	Balance*) (IDR)
BRI (Units)	13	35%	3230769 (500000-8300000)
BPD	5	13%	2440000 (100000-7500000)
BNI	1	3%	35000000
BPR	1	3%	85000
KSP & USP	5	14%	719802 (50000-1809405)
UPKD	9	24%	130000 (100000-200000)
Others	3	8%	116667 (50000-700000)
Total	37	100%	2536789 (50000-35000000)

Source: the household survey, 2005
Notes: *) the minimum and maximum balances are in bracket

BRI Units accounted for the largest shares of the households' bank savings while UPKDs accounted for the largest share of the households' non bank savings. Rural banks and other non bank financial institutions accounted for a marginal shares of the households' savings. Looking at the balance amounts, larger savers tended to save with commercial banks (such as BRI, BPD and BNI) while smaller savers saved with the rural banks, cooperatives, and UPKDs.

The households' saving behaviors may relate to several factors such as fund safety, office networks, and service convenient. As Units of a national (state owned) commercial banks with a nation wide office network (up to sub-district level) and a good performance, BRI attracted more larger savers from rural households, this survey concerned with. The households generally concerned with the safety of their funds, and the convenient of deposits and withdrawals. Although, the withdrawal and deposit policies among commercial banks were not significantly different one and another, BRI's wide office network offered a greater access convenient to rural households. The office networks of other commercial banks were generally up to district level. The provincial government bank (BPD) did have several rural branches, but none were in the sub-districts surveyed. In spite of giving more convenient access (with their mobile services), the private rural banks and the private cooperatives were generally regarded as less safe institutions to save with, relative to the commercial banks. This was because the offices of the rural banks and the cooperatives were far a way from the households' home or work places. In other words, saving withdrawals and deposits were dependent upon visits of the field officers, rather then on the wants of the savers.

The UPKDs were different cases. If managed rightly, the institutional design of UPKDs allowed them to win trust of the village communities to place their excess funds with UPKDs. They were village level MFIs established for the provision of financial services of the rural households in less populated and underdeveloped (dry land) areas.

Some associations between the socio-economic characteristics of the households and their institutional saving balances were found. Age, amounts of non agriculture income, and assets were positively correlated to the households' saving balance amounts while education, agriculture income, and home distance from sub-district towns were negatively correlated with the households' saving balance amounts. However, only the non agriculture income was significantly correlated to the households' institutional saving balance amounts. This suggests that households with larger non agriculture incomes have larger saving balances than those with lower non agriculture incomes have, with existing financial institutions. This is because the earners of non agricultural incomes (such as traders and micro and small industries) tend to have more frequent cash incomes besides (perhaps) being more bank minded, relative to farmers.

3.2. Borrowing

More than a half of the households borrowed loans, on a regular basis. They borrowed loans for reasons, as follows: working capital, medical costs, education expenses, and housing expenses. The first was the most often mentioned reason (92%). The occasions during which they generally borrowed were: planting season, and new school year. A few of them also borrowed when the households' members were sick, to pay for the medical expenses.

Additionally, some (32%) of the households borrowed loans from informal sources for reasons, such as: loan repayment (45%), foods (28%), business capital (14%), and others such as: married and migrant workers (14%). These were generally emergency cases which were under serviced by existing financial institutions. They borrowed informal loans as their loans with other sources (financial institutions) were due while they did not have cash to for the due amounts. They borrowed informal loans as they lacked of cash for the day's foods. They borrowed informal loans for working capitals because the households could get access to institutional loans (e.g. due to previous loan non repayments, or simply not bankable). In a few instances, the households might borrow informal loans as they were cheap (charging no interest), and more convenient (from the neighbor).

In support to the informal borrowing behaviors, the majority of the households reported that they would borrow from friends and relatives (56%) when they were in urgent needs of cash. Only a few of them would borrow from financial institutions (2%), or would withdraw saving deposits (2%) when immediate needs of cash were necessary. Thus, the households relayed greatly on friends and relatives for immediate cash needs.

Of those borrowing institutional loans, most of them borrowed from non bank institutions, particularly UPKDs and cooperatives (including KSP, USP, Bumdes and Koptan), which accounted for 48% and 34% of the borrowers, consecutively. Only 16% borrowed from banks (Table 2). This was contradictive to the financial institutions with which the households saved their excess incomes. As noted above, the households tended to save with (commercial) banks, rather than with non bank financial institutions.

Table 2
The Distribution of Household Borrowers by Financial Institution Types, and the Loan Sizes

Insitution Type	Frequency (person)	Percentage (%)	Loan Size*) (IDR)
BRI (Units)	4	8%	7.74 (3.95-10.00)
BPD	0	0%	-
BNI	2	4%	25.00 (10.00 – 35.00)
BPR	2	4%	1.46 (0.10-2.84)
KSP & USP	17	34%	1.55 (0.35-5.00)
UPKD	24	48%	0.74 (0.30-2.00)
Others	1	2%	5.00
Total	50	100%	2.66 (0.10-35)

Source: the household survey, 2005
Notes: *) the minimum and maximum balances are in bracket

The dominant role of non bank financial institutions in the households' borrowed loans related to the characteristics of the loan services available (in one hand) and the characteristics of the households (on the other hand). The rural households were generally less educated, earned low and seasonal income, had limited assets acceptable as collateral for bank loans, and lived in sparsely populated areas with underdeveloped infrastructure. With these characters, the households generally demanded for quick and convenient access to small loan services. This kind of loan services was generally greater available from specialized non bank rural financial institutions, rather than banks.

UPKDs, for instance, offered seasonal loan services specifically designed for the farmer members. Other than memberships, sound loan uses, and simple paper works, there were practically no requirements necessary for the households getting the loans. Such a loan was generally not available from banks. Besides requiring tougher requirements and procedures, banks generally offered larger loans. This was also the case for loans offered by other institutions (i.e., agribusiness firms) to selected Tobacco farmers in Lombok. See Table 2 for the sources and sizes of loans borrowed by the households.

In support to this point, service inconvenient, no collateral, long loan processing, high interest rate, and unfair loan contract were the major factors preventing the households from borrowing institutional loans.

Some associations between the socio-economic characteristics of the households and the amounts of institutional loans they borrowed were observed. Age, education, amounts of agriculture income, and asset values were positively correlated to the households' institutional loan amounts while home distance from sub-district town was negatively correlated to the households' institutional loan amounts. Of the socio economic characteristics of the households, agriculture income and asset value were statically significant (at 5 % level or lower). This means that the larger the households' agriculture incomes and asset values the larger are the amounts of institutional loans they borrow. Households with larger agriculture incomes generally have larger (land) asset values. As so they are eligible for larger loans as they have the necessary collaterals.

4. The Households' Perceptions Concerning the Existing Supply of Microfinance Services

This section discusses the perceptions of the households concerning the supply of microfinance services exiting in their (sub-district) areas. The discussions focus on several issues, including the interest rate, impacts of recent vast development in the supply of microfinance services on service access, who should borrow institutional loans, obstacles of sustainable provision of microfinance services, and ways to sustain the provision of microfinance services

4.1. Interest Rate on Microfinance Services

The households appeared to support that interest rates should be applied to microfinance services. When asked whether interest rates should be applied to microfinance services, the majority of them (94%) replayed with 'yes' answer.

This indicates that the view shared by many policy makers in Indonesia that microfinance should not charge interest rate is not right. Moreover, the acceptance of interest rate base financial services suggests that interest rate base 'financial system' approach to microfinance development remain relevant in rural NTB.

4.2. Access to Microfinance Services After Recent Vast Microfinance Development

The supply of financial services to rural households were vastly development since the liberalization of the financial sector in 1980s. Many new rural banks and rural credit cooperatives have been established. In addition, many development programs also included the establishment of microfinance institutions such as UPKDs, P4K groups and associations, UED-SP, and Koptan, among others.

When asked if this vast development of the supply of microfinance services have eased access to saving and loan services, the majority (more than 70%) of the households replied that access to saving services and (productive) loan services became easier. Only one third of them informed that access to consumptive loans became easier. This, however, doest not imply that the households' demand for financial services has been fully serviced As noted above, there are evidences which indicate gaps between the services supplied by the MFIs and the services demanded by the households such as loan terms, and loan sizes.

4.3. The MFI best Servicing their Demand

When asked to name the MFI best servicing their demand for financial services, however, most of them were unable to give accurate answers. Of those responding, they generally gave mixed responses. Each referred to the MFIs from which they obtained financial services but unable to explain the advantages of the referred MFIs over the other MFIs. This suggest that the households were generally not well informed about available financial services at local (sub-district) market.

4.4. Who Should Borrow Loans

When asked about who should borrow institutional loans, their responses were: entrepreneurs (56%), the income earners (6%), honest people (10%), anybody in need (19%), and other (including not responding). This suggests that the majority of the households understood that borrowers (entrepreneurs, income earners and honest people) should be capable and have to repay their loans.

4.5. Ways to Sustain the Provision of Microfinance Services

The households perceived that non repayment, economic failure of the clients, unhealthy market competition, lack of loanable capitals, and mismanagement were among the major obstacles preventing MFIs to sustain their operations. As so, the households suggested several ways to sustain the provision of microfinance services, as follows. First, MFIs should have good and honest management and achieved high rate of loan repayment. Second, MFIs should offer demand driven and convenient services. Third, MFIs should make their services widely known by the target clients.

5. Summary and Conclusions

The survey has two objectives, namely: to learn the key characteristics of the households' demand for financial services and to investigate the households' perceptions of the microfinance supply in the province of Nusa Tenggara Barat. To achieve the objectives, 90 households from villages in the 9 districts in the provice were surveyed during June and July 2005.

The survey found that a substantial proportion of the households normally saved their excess incomes: 34% in cash (mostly with financial institutions), 6% in kinds, and 2% in a combination of cash and kinds. Large savings generally placed with commercial banks (particularly BRI Units) while small savings generally placed with nearby non bank financial institutions (particularly UPKDs). More than a half of the households regularly borrowed loans from financial institutions, particularly, UPKDs and credit cooperatives. Most of loans borrowed from these non bank financial institutions were small with sizes less than IDR 2 million. Larger loans were borrowed from the commercial banks, particularly, BRI Units. A few of the households also borrowed loans from informal sources, particularly, friends and relatives. While the purpose of savings was mainly for child education, the purpose of the loans were mainly for working capita l.

The households generally perceived that financial services should apply interest to the clients, borrowers should be capable and repay their loans, and the recent vast microfinance development improved the households' access to financial services. The households viewed that the provision of microfinance services could be sustained through good and honest management, demand driven and convenient services, and socialization of available services.

The survey concluded that the households' demand for financial services were characterized with large potential for saving mobilization and effective financial intermediation. The households were generally accustomed to savings and the application of interest rates on financial services. Awareness of the responsibility of loan borrowers and the obstacles and ways to promote a sustainable provision of microfinance services prevailed among the households. These provide the basis for the use of the financial system approach for further development of the rural-microfinance sector in the province.

A limited role of the village microfinance institutions such as UPKD (relative to the commercial banks, such as: BRI Units) in the mobilization of the households' savings may serve as an evidence of gaps existing in the rural financial market. Another evidence is that there are several mismatches between the characteristics of the services demanded by the households and the services offered by the financial institutions. For instance, loans for purposes other than working capital are generally not supplied to the households.