



**PT. Mitra Bisnis Keluarga Ventura**  
***“Family Business Partners”***  
**Indonesia**

***Five-year Strategic Business Plan***  
***2010-2014***

**1 February 2010**

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# 1 About MBK

## 1.1 Introduction

*PT. Mitra Bisnis Keluarga Ventura* (MBK) – which stands for “Family Business Partners” – is a non-bank financial company (NBFC) regulated by the Ministry of Finance. Its mission is to provide working capital to low-income households in Indonesia in order to raise their family income and living standards. Many of the clients are landless labourers, and are involved in petty trade, preparing and selling food, livestock rearing and vegetable growing. Due to regulatory changes, MBK was created to replace “Ganesha Microfinance Foundation” at the end of 2006. This foundation operated from 2003 to 2006 and reached 27,978 clients by end of December 2006. In October 2009, the average outstanding working capital was \$70 per client. Now serving some 140,000 clients through 100 branches, MBK has become the largest Grameen-style microfinance institution in Indonesia.

MBK is a gender and poverty-focussed programme, targeting poor and near-poor women of households in the bottom 25 percent of the population by income. For comparison, the proportion of the population living below the official poverty line was 15 percent in 2008 in Indonesia, although poverty incidence is believed to be higher than this official figure. The World Bank estimated that half of the total Indonesian population of 240 million fell below the \$2 dollar (purchasing power parity) poverty line in 2006. Even by conservative official estimates, there are 10 million poor households in Indonesia. There are a further 10 million vulnerable self-employed households whose income hovers just around the poverty line.

The *Grameen Bank* approach is particularly well suited to Indonesian conditions. With a total population of 230 million, the labour force consists of 98 million earners. Of these, only 26 million (27 percent) have regular jobs. The remaining 69 million (73 percent) are either self-employed, and casual or seasonal workers in construction and agriculture. Employers accounted for the remaining 3 million. Poverty in Indonesia is therefore not primarily a problem of low wages for regular employees, but of lower income for the majority of earners who are self-employed. One of their major constraints is the lack of working capital to combine with their labour to produce higher incomes. The availability of working capital can also attract women who are housewives at present (and therefore outside the labour force), and who can productively employ a few hours every day to earn additional income for their families.

Along with other microfinance programmes around the world, MBK believes that the availability of working capital is one of the most effective and direct weapons to overcome poverty. The central assumption, formulated by Nobel Prize winner Professor Mohamed Yunus, is that the poor have developed survival skills and are prepared to work hard. However, they have more skills and time than they can use. Also, poor people do not receive the full value of their work, because moneylenders, who often charge 10-20 per cent interest per month, take away a significant portion of their income. Instances of monthly interest rates of 20%-30%, with principal to be repaid every day, are quite common in rural Java.

MBK extends working capital to low-income households exclusively. The first working capital size is US\$100, and grows by a maximum of 20 percent per year to reach a maximum of \$350 after some six years in the programme. Working capital is provided to individual women through groups. Clients repay their working capital in weekly centre meetings conducted by MBK field officers. Collective responsibility for repayment of working capital

is encouraged at the centre level. An original feature of MBK in Indonesia is that all its field officers, branch managers, and field supervisors, and half of its head office staff, including its CEO, are women.

As a non-bank finance company, MBK is not allowed to collect savings. However, to safeguard against non-repayment of working capital, MBK has instituted a client security scheme called *Client Responsibility Fund*. This fund collects ten percent of each disbursement of working capital at the time of disbursement. This money is returned to the client once her working capital fund has been repaid in full.

In 2008, MBK won the following three awards:

1. Unitus Inc. award for reaching 100,000 clients in August 2008
2. Grameen Foundation USA Excellence Award in October 2008
3. MIXMarket (World Bank Consultative Group for Alleviation of Poverty CGAP) ranking number 1 out of 1,300 MFIs in the world in December 2008.

## 1.2 Vision, Mission and Goals

MBK's *mission* is to raise the income and living standards of the poorest households in Indonesia regardless of ethnic, religious, and political background.

MBK's *vision* is to provide access to working capital in an honest, timely and efficient manner to large numbers of low-income households in Indonesia, particularly in rural areas and small towns.

MBK's *medium-term goal* is to double its client based every year, to reach *one million* clients by 2012.

An important MBK *objective* is to learn best practices from leading MFIs around Asia, adapt them to Indonesia, and actively disseminate these best practices to Indonesian-based MFIs through site visits and sharing of operational manuals and procedures.

## 1.3 MBK Shareholders

Name	Shares @ Rp 1 million each	Amount (Rp million)	% Share
Mr. Nahrudin Alie	150	150	1.7%
PT. Bina Usaha Keluarga *	<u>8,964</u>	<u>8,964</u>	<u>98.3%</u>
<b>Total</b>	<b>9,114</b>	<b>9,114</b>	<b>100.0%</b>

\* Management company owned by S. Dhanani and E. Sweeting (50 percent each).

## 1.4 Legal Status

PT Mitra Bisnis Keluarga Ventura (MBK) is a non-bank financial company (NBFC), with a venture capital operating license issued by the Ministry of Finance in November 2006. As a venture capital company, it operates on a profit-sharing basis, taking risks in providing working capital to micro and small businesses without collateral, and sharing in their profits using a pre-agreed profit sharing formula with its clients. MBK possesses the following legal documents:

1. Articles of Association (‘ <i>Akte Pendirian Perusahaan</i> ’)	Number 3 dated 19 September 2006, Public Notary Wati Christiana Indro, S.H. and M.M., Tangerang. Registered and certified (‘ <i>Pengesahan</i> ’) by Ministerial Decree of Ministry of Justice and Human Rights No. W29-00290 HT.01.01-TH.2006, dated 30 October 2006, Provincial Head of Banten.
2. Amendment to Articles of Association to conform with New Company Act No. 40/2007	No. 2, 6 August 2008, Public Notary Wati Christiana Indro S.H. and M.M., Kabupaten Tangerang.
3. Operating License (‘ <i>Izin Usaha Modal Ventura</i> ’)	Ministry of Finance Ministerial Decree Number KEP-138/KM.12/2006, 28 November 2006, Jakarta.
4. Tax Registration (‘ <i>NPWP</i> ’)	No. 02.607.798-411.000, Classification 65930 (Venture Capital).

### **1.5 International Best Practice and Transparency**

From the outset, MBK has committed itself to meeting international best practice in operational management, financial management and reporting. With a focused approach, tailor-made staff development, detailed operations manuals, intensive field monitoring and supervision, internal and external audits, and computerized portfolio management and accounting systems, MBK wants to ensure that operations grow smoothly, rapidly, transparently, efficiently, and under full control.

#### *MBK is Ruby Sponsor of MF Transparency International*

MF Transparency is a global initiative for fair and transparent pricing in the microfinance industry. It is the venue for the microfinance industry to publicly demonstrate its commitment to pricing transparency, integrity and poverty alleviation. Its vision is a microfinance industry operating with healthy free market conditions where consumers and other stakeholders can make informed decisions.

#### *MBK Endorses Smart Campaign, Centre for Financial Inclusion, ACCION International*

Financial services have the power to help people improve their lives, sometimes dramatically so. However, if offered carelessly or used improperly, these financial services – especially credit – can also cause harm. The Smart Campaign seeks to unite microfinance providers worldwide to develop and implement standards for the appropriate treatment of low-income clients based on six principles.

The overall objective of the Campaign is for these principles to become embedded within the fabric of the microfinance community and for microfinance to be recognized as a strongly pro-consumer industry. Over the last year, a consensus has emerged around six principles that would comprise the industry’s commitment to client protection:

1. Avoidance of over-indebtedness
2. Transparent pricing
3. Appropriate collection practices
4. Ethical staff behaviour

5. Mechanisms for redress of grievances
6. Privacy of client data

Social Performance Standards Reporting, MIXMarket (CGAP/World Bank)

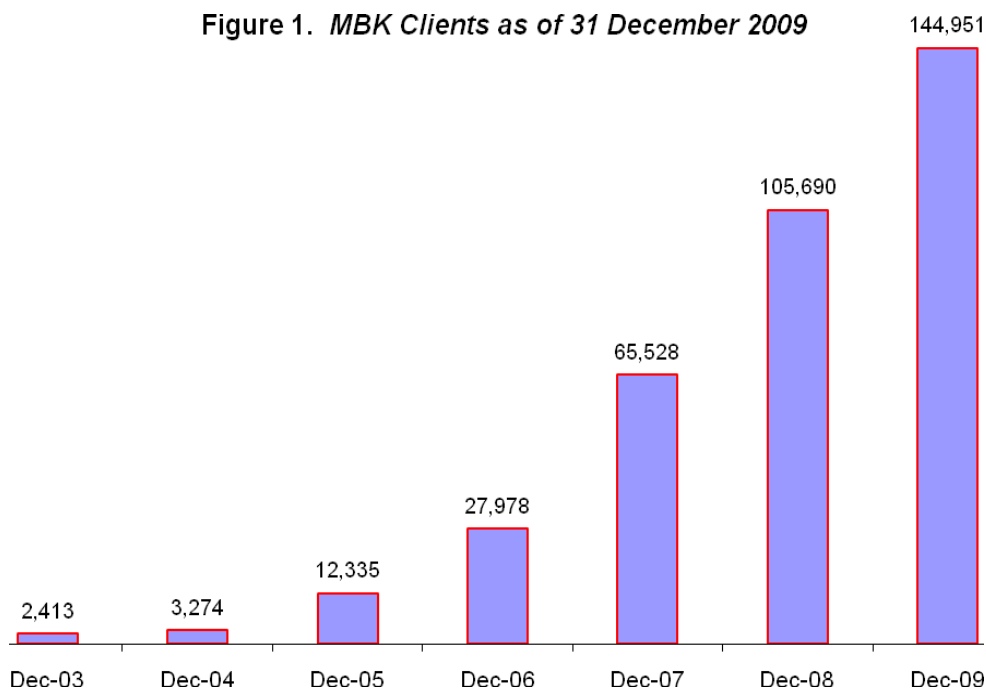
MBK reports regularly to the MIXMarket using the Social Performance Standards Reporting format.

MBK’s highly transparent procedures and reporting received recognition as follows:

1. *MIXMarket*, the global information exchange for the microfinance industry – operated by the Consultative Group to Assist the Poor (CGAP) of the World Bank– granted five diamonds to this institution in September 2005
2. MBK was featured as five-diamond *MFI of the month* in *MIXMarket* in October 2006.
3. M-CRIL, the leading credit rating agency for the microfinance industry, awarded an alpha (α) investment grade to this institution in August 2006 and again in February 2008 for its performance to date.

### 1.6 MBK’s Operational and Financial Performance

**Outreach.** Since its establishment, this institution has managed to approximately double its outreach and number of branches almost every year (figure 1 and table 1). MBK started operations in one branch just outside of Jakarta in 2003 and 2004, reaching just over 3,000 clients. In 2005, MBK began its expansion in the rural districts of Tangerang and Bogor around Jakarta, opening four more branches and serving some 12,000 clients. In the following years, new branches were added, mostly in West Java but also some in Central Java, to reach 113 at the end of 2009. MBK’s outreach expanded correspondingly to reach about 145,000 clients by the end of 2009.



*Note:* Includes new clients whose working capital is being processed and existing clients waiting for follow-up working capital.

**Table 1. MBK's Performance, 2005—2009 (December)**

	2005	2006	2007	2008	2009
<u>Operational Information</u>					
Clients	12,335	27,978	64,528	105,690	144,951
Branches	5	15	31	55	113
Personnel	57	122	258	420	779
Portfolio at risk (>30 days)	0.00%	0.00%	0.001%	0.003%	0.005%
Write-off ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Operating expense/assets, average	19.9%	27.6%	24.6%	19.3%	18.9%
Clients/account officer (confirmed)	333	354	431	376	328
Average WC <sup>1</sup> outstanding/client (Rp 000)	335	333	390	553	708
Average WC <sup>1</sup> outstanding/client (US\$)	36	36	42	51	75
Share of female clients	100%	100%	100%	100%	100%
Clients below the poverty line <sup>2</sup>	75%	75%	75%	75%	75%
<u>Financial Information</u>					
Total assets (Rp billion)	6	12	37	83	138
Total assets (\$US million)	0.7	1.3	3.9	7.6	14.7
Portfolio outstanding (Rp billion)	4	9	25	57	100
Portfolio outstanding (US\$ million)	0.4	1.0	2.7	5.2	10.7
Return on assets (ROA)	2.8%	5.8%	0.3%	2.3%	10.2%
Return on equity (ROE)	35.8%	75.7%	1.2%	14.0%	69.5%
Operational self-sufficiency	114%	124%	93%	109%	140%
Debt-equity ratio (incl. quasi-equity)	-	0.8%	2.1	5.2	2.8

Note:

<sup>1</sup> Working capital

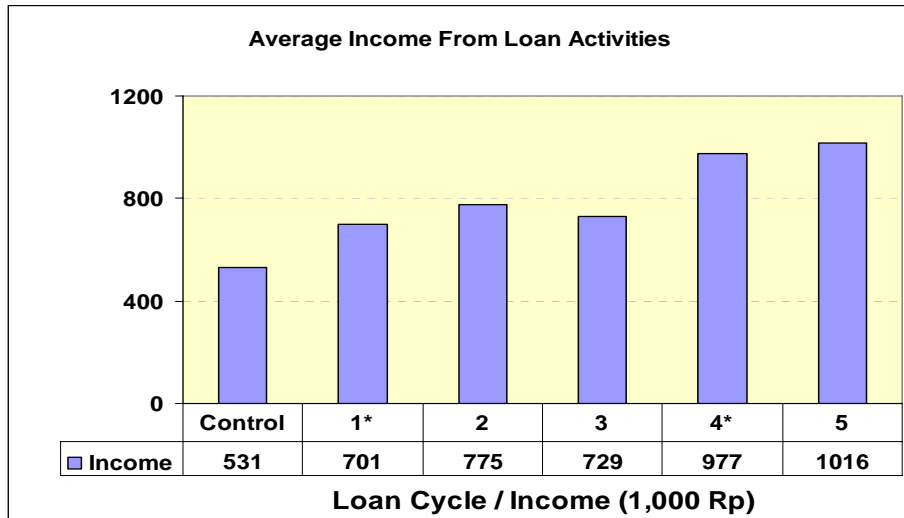
<sup>2</sup> Based on modified Cashpor housing index

**Targeting.** As noted earlier, all the MBK clients are women. The experience of Indonesia and other countries suggest that women are more likely to utilize their additional income for improving the nutritional and basic needs of the household members, and are in fact entrusted with managing household finance. Some 75 percent of MBK clients came from low-income families below the official poverty line, as estimated by the modified CASHPOR housing index. The average outstanding loan size of MBK clients increased in line with inflation and client needs, but remained around Rp 700,000 (\$75) in 2009. This amounted to just 3 percent of Indonesia's per capita Gross National Income of \$2,200 in that year.

**Impact on poverty.** To monitor and evaluate MBK's impact on income, poverty and living standards, MBK commissioned two client surveys from the Business School of the State University of California, Northridge, the first one in 2005 and the second one in 2008. The results of the more recent study are briefly summarized below, involving 287 clients selected randomly and 201 control respondents. The average income of clients increased by 22 percent between working capital cycle one and two, and again by 23 percent between cycle three and four (figure 2).

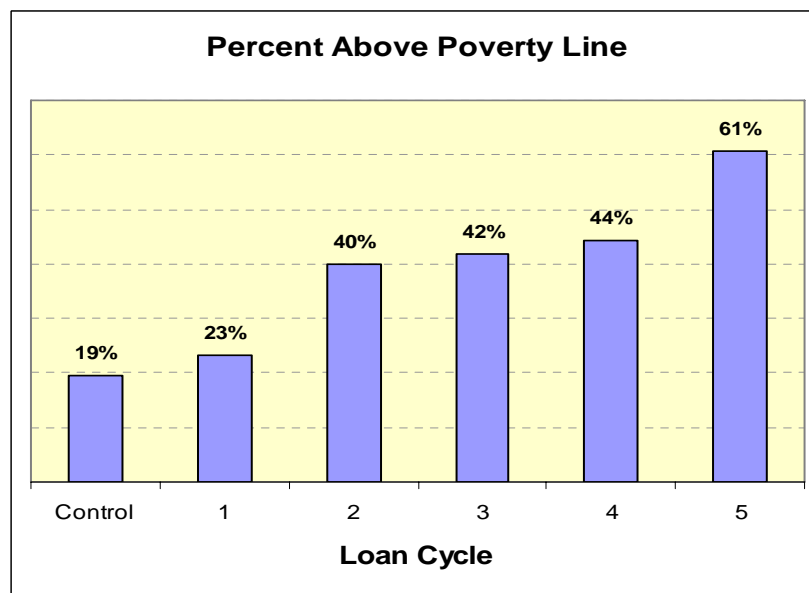
Poverty incidence also improved substantially in this period. The number of persons above the poverty line increased from around 20 percent to 61 percent between the first and fifth cycle in the programme (figure 3). Finally, the housing status of the clients showed marked improvement between cycle 1 and cycle five as shown in the graph below (figure 4).

**Figure 2. Average Income from Working Capital Activities**



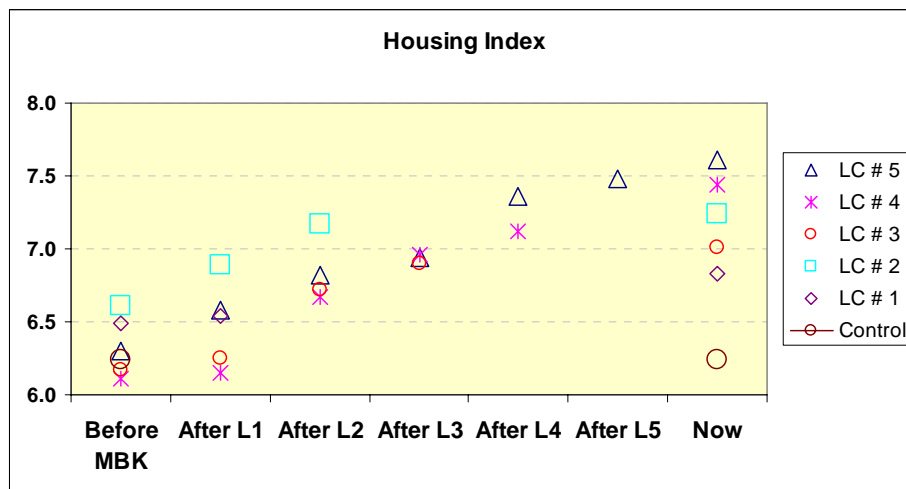
Source: “MBK Client Impact Survey 2008”, Business School of the State University of California, Northridge, 2009.

**Figure 3. Average Income from Working Capital Activities**



Source: Same as figure 2

**Figure 4. Trends in Modified CASHPOR Housing Index**



Source: Same as figure 2

Some limitations in the above client survey must be kept in mind. Only existing clients were interviewed, and not drop-outs, so the study suffers from some self-selection bias. However, the number of clients dropping out of the programme was small (5 percent per year after the first year). Also, it is a difficult task to design an adequate control group. The control respondents in this survey were selected based on their proximity to clients and from a similar socio-economic background as gleaned by their housing status, and not using more sophisticated screening tools. Nevertheless, the survey was able to document concrete and significant benefits in terms of improved incomes, reduction in absolute poverty, and improvements in the housing conditions of a randomly selected, relatively large sample of MBK clients, chosen to represent the programme through five one-year cycles. Moreover, the results were quite consistent with those of the previous survey undertaken in 2005.

**Sustainability.** MBK has been profitable since its second year of operation in 2004. Operational self-sufficiency remained above 100 percent since 2005, with the exception of 2007, the first year of conversion from a foundation to a finance institution. It reached 140 percent in December 2009. Returns on average assets ranged between 2.4 and 5.8 percent in all year but 2007, and reached 10.2 percent in 2009. Return on equity reached 70 percent in 2009.

Ignoring foreign exchange fluctuations, MBK's profit after tax increased from Rp 1.4 to 11.2 billion between 2008 and 2009 (from US\$ 126,000 to 1,200,000). MBK implements a policy of zero dividends to maximize expansion, therefore total equity correspondingly increased from \$1.0 to \$2.3 million in that period. As a result, MBK's debt-equity ratio, including quasi-equity in the form of subordinated debt, improved markedly from 5.2 to 2.8 between 2008 and 2009, putting MBK in a good position to raise more debt for its ambitious expansion plans.

## 2 Client and Market Analysis

### 2.1 Client Analysis

(a) MBK targets women from the 25 percent lowest income strata in rural and semi-urban villages. In the areas where it is currently operating, the borrowers' main characteristics are as follows (*Ganesha Impact Survey, 2005*):

- 42 per cent are illiterate, 20 percent have not completed primary school, and only 32 percent have completed primary school.
- Many are landless labourers, working in rice fields during peak seasons and, for the rest of time, carrying out petty trading, preparing food and snacks at home to sell around the houses, in schools and markets, and rearing chicken, ducks and goats.
- Their families are relatively large, with 3 to 4 children.
- Half live in fragile dwellings with woven bamboo or thin wooden walls and earthen or cement floors, on the periphery of irrigated rice land, and the other half live in modest brick houses.
- Their husbands usually work as agricultural labourers, casual construction workers, petty traders or tricycle drivers.

#### *Implications*

- ⇒ The Grameen Bank Replication programme is ideal for reaching MBK's target clients. It is designed for the very poor, who are mostly illiterate and landless. However, they already have survival skills, which can be capitalized with credit.
- ⇒ Use the condition of the house as the primary criterion for selecting poor households, and target mainly those with earthen floors and woven bamboo walls (*rumah bilik*).
- ⇒ To expand rapidly and efficiently, MBK can continue to learn from other successful programmes in Asia, such as in Bangladesh (ASA and BRAC) India (Share, Bandhan, SKS, Cashpor and BSS), and the Philippines (CARD MRI & Lifebank Foundation).

(b) Average per capita income in targeted households is below or in the neighbourhood of the 2009 poverty line of Rp 200,262 per capita per month in Indonesia (Central Bureau of Statistics). This is equivalent to Rp 6,675 per capita per day or US 71 cents at the market exchange rate of Rp. 9,400 per dollar in December 2009.

#### *Implication*

- ⇒ Use the official poverty line, adjusted for inflation, as the second criterion to identify poor households.

(c) Poor households live side-by-side or not too far from non-poor households with relatively higher purchasing power. Non-poor households constitute a ready market for the products and services supplied by MBK's target clients. So far, the limited capital base of the poorest women of just US\$30-50 on average does not allow them to fully exploit this market. By increasing the capital base of the poor, MBK can give them an opportunity to fulfil the market needs of non-poor households. In the process, they can earn more profit, enough to increase their living standards and to repay their working capital with interest. Credit can thus play a crucial role in poverty reduction.

*Implication*

⇒ Provide first small working capital of Rp 1.0 million (\$100), to be increased gradually to Rp 3 million (\$300) over five years. This level of capital will be sufficient to lift them out of absolute poverty, provided they continue to have access to working capital.

(d) The Grameen replication model requires the creation of strong credit discipline and peer pressure in lieu of collateral. Key factors in the successful creation of credit discipline are by now well known and should be applied:

- Compulsory attendance at weekly centre meetings and recording of attendance
- Standard seating and business-like meeting
- Unanimous approval of working capital proposals
- Peer pressure and encouragement for working capital repayment
- Delayed or reduced subsequent working capital increase in case of arrears
- Delayed subsequent working capital for poor attendance

*Implication*

⇒ The above key factors in creating strong credit discipline among poor women in rural villages will continue to be rigorously applied.

## **2.2 Market Analysis**

### **1. National-level analysis**

*(a) Household consumption levels*

The 2007 Socio-economic Survey (*Susenas*) provides the following break-down:

- 18 percent consume less than around Rp. 160,000/capita/month (below official poverty line of Rp. 203,000 adjusted for inflation, poor)
- 14 percent consume Rp 160-200,000/capita/month (neighbourhood of poverty line, moderately poor)
- 26 percent consume Rp 200-300,000/capita/month (vulnerable)
- 42 percent consume more than Rp 300,000/ capita/month (not vulnerable)

*Implication*

⇒ The potential market for microfinance in Indonesia is 32 percent of the total 56 million households in Indonesia, or 18 million households (10 million very poor households and 8 million moderately poor).

*(b) Employment*

The total population of Indonesia was 232 million in 2007, of which 100 million were aged above age 15, and 10 million were unemployed. The 2007 Labour Force survey (*Sakernas*) provides the following breakdown of employment by status:

- 28 million were regular employees (28%)
- 44 million were self-employed (44%)
- 6 million were casual workers in agriculture (6%)
- 5 million were casual workers in other sectors, mainly construction and trade (5%)
- 17 million were unpaid family workers (17%).

### *Implication*

⇒ The large majority of the Indonesian earners, 72 percent, do not have regular jobs. Poverty in Indonesia is therefore not primarily a problem of low wages for regular employees, but of lower income for the majority of earners who are self-employed.

### *(c) Women*

Of the 72 million non-regular employees above:

- 13 million were unpaid women family workers (10 million in agriculture), of which 11 million were in rural areas (9 million in agriculture)
- 10 million were self-employed (6 million in rural areas)
- The potential Indonesian market for microcredit is 23 million women (17 million in rural areas).

### *Implications*

⇒ MBK should continue to focus on women which form a large market. Their employment status (unpaid family workers and self-employed), and the potential for their income to benefit their household members are also major considerations.

⇒ There are also women who are outside the labour force as housewives (29 million, of which 15 million are in rural areas), and some of whom may choose to become earners if they had access to working capital.

### *Conclusions*

- In view of the large un-served market of low-income households without access to formal financial services (32% of total households), MBK's medium-term goal of reaching 1 million low-income clients by 2012 is quite feasible. Working capital size of Rp 1-3million, without collateral, should be adequate, payable on a weekly basis.
- In the future, MBK should also consider providing working capital to the next income bracket of 26 percent of vulnerable households, of size ranging from Rp 3-10 million without collateral, but using a suitable model adapted from Grameen and Bandhan.
- MBK should continue to target self-employed women and casually employed women. MBK should also continue recruiting clients from the ranks of women who are outside the labour force at present but who, given the opportunity of working capital, may start a small business and earn an income.

## **2. Examples of district-level analysis**

- Rural Tangerang district, the most populated in Banten province, has a population of 3.2 million. The National Family Planning Board BKKBN counted 620,000 households in total, where 167,400 households were moderately poor and 100,516 households were very poor (respectively 27 and 16 percent)<sup>1</sup>.
- Rural Bogor district, the second largest in West Java province after Bandung, has 913,206 households, of which CBS considers 26.5 percent or 242,000 households, as poor.

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<sup>1</sup> The National Family Planning Board (BKKBN) classifies all Indonesian households into five categories according to what they eat, wear and the type of house they live in. Briefly, households in the poorest category (*pra-sejahtera*), eat less than three times a day, rarely eat meat or fish, do not have more than two sets of clothes, and live in houses made of bamboo or wooden walls and earthen or simple cement floors. Those in second lowest category (*sejahtera I*) can eat three times a day, but consume meat or fish once a week only.

- MBK can expand first to other neighbouring districts with high population density in West Java, then open branches in Central and East Java.

### 3. Examples of sub-district and village-level analysis

#### 1. *Teluk Naga, Rural District of Tangerang*

- This sub-district has 24,000 households, of which approximately 6,600 households, or 27 per cent of the total, were classified as poor in 2001 by BKKBN.
- The percentage of poor households in one village in this sub-district, Kebon Cau, was as high as 53 per cent.

#### 2. *Bogor Rural District:*

Sub-districts Leuwisadeng, Leuwiliang, and Pamijahan contained 54, 50 and 42 percent of poor households according to Central Bureau of Statistics district-level data.

#### *Implications*

- ⇒ Maintain strict targeting and operational efficiency by selecting poorest sub-districts first, then selecting poorest villages in these sub-districts
- ⇒ Within poorest villages, prioritize poor communities (*kampung*).

### 2.3 Market Penetration

Unmet demand for financial services is large among the poor. MBK is currently expanding its outreach by over 6,000 clients per month in West Java.

Non-poor households have access to formal bank credit, either from the state-owned BRI or from community banks (BPRs). However low-income women have no such access due to lack of collateral, rural and remote location, and because most bank branches are located in urban areas. Many such clients are illiterate and cannot fill written application forms.

#### *Implications*

- ⇒ MBK must continue to target poor women in rural and semi-rural areas.
- ⇒ Given that this segment counts 32 million households, even by reaching 3 million such clients in the next few years, MBK's market penetration will be of the order of 10 percent on a national basis.
- ⇒ For operational efficiency, MBK can exploit the available market in selected districts (*kabupaten*) and provide services to all sub-districts (*kecamatan*) in the selected districts. In this intensive, focused approach, MBK's market penetration may reach 10 percent in the selected districts (20,000 households out of 200,000 poor households in Tangerang and Bogor, for example).

## 3 Competition and Business Environment

### 3.1 Competition

#### (a) Commercial Banks

The largest state-owned Indonesian rural bank, *Bank Rakyat Indonesia* (BRI), has a network of some 4,000 branches located in most sub-district towns (*kecamatan*). Each serves some 10,000 savers, and the larger ones serve 900 borrowers on average. The latter are mainly traders (average working capital size Rp. 20 million, maximum Rp. 100 million). However, most of their clients are small town traders, and belong to the small and medium sector rather than the micro sector. Moreover, BRI requires the customers to go to the bank and provide collateral above a certain loan size, which automatically excludes poor rural households.

Since the early 2000s, but especially after 2005, a number of other commercial banks have established operations in sub-district towns, including Bank Danamon (Danamon Simpan Pinjam or DSP), Bank BTPN (Mitra Usaha Rakyat or MUR), Bank Mandiri, Bukopin (Simpan Pinjam Mikro), Bank Mega, Bank Mayapada, and PNM. Apart from the first two (DSP and MUR) which have respectively 650 and 350 branches, coverage is still limited. On smaller loans, they charge interest rates of around 3 percent per month, equivalent to 65 percent per year on a declining basis.

As in the case of BRI, MBK does not compete with these commercial banks. These operate primarily in urban settings, and in the conventional way: clients go to the bank to make a formal written working capital application, then clients visit the bank to make monthly repayments; these banks also require collateral above a certain level. Their working capital sizes are still above Rp 20 million generally, going up to Rp 500 million. Therefore, although they supposedly serve the micro sector, in fact they target small and medium businesses, a very different market segment from that of MBK. The confusion arises from Bank Indonesia classifying loans up to Rp 50 million (\$5,000) as belonging to micro-clients, while for MBK and other Grameen-style MFIs, the first loan size of MBK amounts to just Rp 1 million (\$100).

*Bank Purba Danarta*. This bank based in Semarang established a microfinance division in 2007-8 to operate in parallel with its traditional SME-oriented savings and loans business. With technical support from CARD MRI of the Philippines, the microfinance division established some 20 branches serving some 20,000 customers in 2009 in rural districts around the Central Java capital of Semarang, and in Yogyakarta, with loan sizes similar to MBK. This bank plans to open some 60 new branches in 2010, with a new focus on West Java. If this plan materializes, there is likelihood over overlap of operational areas with MBK. It should also be noted that the microfinance division is the successor of Yayasan Dharma Bakti Sahabat (YDBP), a foundation and Grameen Bank Replicator which commenced operations in the aftermath of the Asian crisis in 1998 in West and Central Java, wound up in 2007 after reaching a peak of some 120,000 clients and employing some 800 personnel in 2003.

#### (b) Community Banks (BPR)

Some sub-district towns which are commercial hubs have one or two peoples' banks or BPR, serving mainly traders who can provide collateral and buyers of motorcycles also with

guarantee. They are often wrongly called rural banks since most of them are located in medium-sized district capitals (kota kabupaten) or small sub-district towns (kota kecamatan) and do not serve the rural population located in villages. They charge interest rates of 3.5-4.0 percent per month, and working capital sizes are usually above Rp. 10 million, though some are now experimenting with lower working capital sizes of around Rp 3-5 million. Again their market segment is different. Because their traditional market segment, the traders located in market places, is being taken over by the commercial banks moving down to their market especially since 2008, some BPRs have begun to offer Grameen-style services in some areas of Bekasi and Bandung in West Java, and some in Central Java.

#### *Implications*

- ⇒ Formal banking institutions, especially BRI, as well as commercial banks and BPRs, provide valuable services to the population located in small towns, and their expansion should be encouraged and supported. However, they do not generally cater to the needs of poor households in rural areas, whose working capital size requirements are much smaller, of the order of Rp 0.5 to 2 million. Thus they serve different market segments, and do not present an immediate challenge to MBK.
- ⇒ MBK will coordinate its field operations with Bank Purba Danarta in West Java and Central Java so as not to overlap and end up offering double working capital to the same low-income clients.
- ⇒ BPRs serve a different clientele of small and medium-scale traders. MBK does not face direct competition from BPRs, except for the few ones which are entering the micro-scale segment in West and Central Java. MBK will continue to choose its locations so as not to overlap with such BPRs whenever possible.
- ⇒ MBK should remain focussed on its original market segment, which is providing working capital in the Rp 1-3 million range with no collateral.
- ⇒ An additional segment market segment open to MBK, when it secures sufficient funds for on-lending, and sufficient management capacity and human resources, is the Rp 3-10 million market which is under-served at present.
- ⇒ MBK does not need to consider serving the Rp10-50 million market segment because this segment will soon face much competition from both state and private commercial banks (existing and new ones) going down market.

#### *(c) Savings and Loans Cooperatives (Koperasi Simpan-Pinjam)*

Savings and Loans cooperatives operate in most parts of the country, but their members are often employees of firms, or civil servants. Their working capital size is high, around Rp 10 million, and they charge interest rates of 3-4 percent. With a few exceptions such as fishermen's cooperatives, they do not serve many low-income households, and do not extend beyond their close surrounds.

#### *Implication*

- ⇒ Cooperatives serve a different market segment, and do not pose a challenge to MBK.

#### *(c) Foundations*

Though foundations are not allowed to offer economic services including microfinance after 2007, several foundations continue to do so, by establishing parallel savings and loans cooperatives. Even so, these are relatively small and localized. There are two foundations serving less around 25,000 members, and five foundations serving 7,000-11,000 clients as

follows:

1. Dian Mandiri, operating in urban Tangerang and Bekasi (26,541 clients) with support from Opportunity International
2. YAMIDA in West Java, Aceh, Yogya and South Sulawesi, with support from the Grameen Foundation USA (26,764 clients)
3. TMD in NTT with support from Opportunity International (25,000 clients)
4. MKEJ in Malang (11,062 clients)
5. DINARI in Bali with support from Opportunity International (9,723 clients)
6. POKMAS in North Sumatra (POKMAS) with support from the Dutch NGO Hivos (9,391 clients).
7. YMU in West Java and Yogyakarta (7,603 clients).

Others foundations/cooperatives serve less than 7,000 members each, including *Karya Usaha Mandiri* (KUM), operating in Rural Bogor (one the oldest Grameen replicators, which started operating in the early 1980s).

ASA International, Grameen Bank and BRAC, three of the largest MFIs in Bangladesh, have recently expressed interest in starting green-field operations in Indonesia in partnership with Indonesian partners. They have not commenced operations yet.

#### *Implications*

- ⇒ The existing foundations do not pose a challenge to MBK's expansion in the foreseeable future.
- ⇒ The total number of clients served by foundations is far smaller than the demand for microcredit. Most of these have not grown much in recent years.
- ⇒ International MFIs will not crowd out MBK operations in the near future, however they can attract trained MBK staff by offering above-market salaries. MBK should continue to ensure the competitiveness of its own personnel incentive package.

#### *(d) Informal credit sources*

Moneylenders serve most rural villages, and commonly charge interest rates of 20-30 per cent per month. As a result, most low-income households do not use their services, except for emergency small working capitals, e.g., to purchase seeds and fertilizer in the planting season, for consumption purposes or to pay hospital bills.

Though moneylenders will not be threatened by MBK's entry in their area, because MBK targets a different market, some may resent MBK's highly efficient operations, and see them as a commercial threat. So MBK will continue to maintain a dialogue and good relations with moneylenders in the areas it operates.

#### *(a) Conclusion*

The market segment targeted by MBK, women from low-income rural households, is only served by a limited number of small MFIs. This provides MBK a unique opportunity to fulfil their credit needs, and to raise their living standards. MBK's target of reaching 3 million clients in five years will not be constrained for lack of market, provided it can:

- Secure enough funds for expansion
- Maintain strict targeting and credit discipline
- Promote and retain competent branch managers, district supervisors and regional

managers

- Increase the capacity of its senior management to scale up and manage growth, and keep up with rapid expansion while preserving programme quality and discipline.

### **3.2 Business Environment**

#### *(a) Legal and Regulatory Environment*

MBK is a non-bank financial company (*NBFC*) with a venture capital license. The Presidential Regulation 9/2009 issued on 18 March 2009 has defined the role of venture capital companies as follows:

- Participation in the form of shares
- Participation in the form of convertible obligations
- And/or financing on the basis of profit-sharing

Based on the above, MBK is authorized to provide working capital to micro, small and medium businesses on a profit-sharing basis. Furthermore, MBK's main product (micro working capital) has been approved by the Ministry of Finance. There are at least three other venture capital companies providing working capital to micro-entrepreneurs, two in Bali, one in South Sulawesi.

Nevertheless, MBK faces one limitation regarding its legal status. Venture capital companies cannot collect savings from the public like banks and cooperatives can. So funding must be predominantly generated from a combination of equity, reinvested profits and loans.

#### *Implications*

- ⇒ MBK must rely entirely on commercial funding for its financing needs. MBK must therefore establish a strong and strategic relationship with a number of Indonesian commercial banks.
- ⇒ MBK will continue to diligently submit six-monthly reports to BAPEPAM-LK, the regulatory body set up by the Ministry of Finance to supervise capital markets and financing institutions.
- ⇒ MBK will also continue to solicit clearance from the regulators as and when required.

#### *(b) Interest rates*

The Central Bank reference SBI rate declined from 8 to 6.5 percent per year between 2008 and 2009, because inflation also declined in the aftermath of the global financial crisis. It is expected to remain at this level for a while. Businesses now borrow at 12-14 percent depending on availability of collateral or guarantee. The rural bank leader BRI charges about 2 percent per month on a declining basis (24 percent p.a.). In line with falling market interest rates, MBK reduced its profit-sharing rate from 30 to 25 percent per year (flat basis) in October 2006.

#### *Implication*

- ⇒ MBK will continue to monitor market developments, but expects to maintain its current rate of 25 percent per year in 2010 (flat basis).
- ⇒ Starting in 2011, when the financial self-sufficiency ratio will significantly surpass 120%, MBK may consider gradually reducing its profit-sharing rate from 25 to 22 percent per year until 2013, and then to 20 percent per year starting in 2014 (flat basis).

*(c) Natural disasters*

Indonesia regularly experiences natural disasters including floods and earthquakes. In 2009, one MBK branch office (Pangalengan, Bandung) was damaged by earthquake, while 500 of its 2,500 clients were made homeless.

*Implication*

- ⇒ MBK will continue to remain alert to natural disasters in its operational areas and prepare contingency plans. MBK will send senior staff to Bangladesh and Philippines to learn about disaster preparedness plans tailor-made to handle large numbers of clients unable to pay on time or defaulting altogether.
- ⇒ MBK is already insured against non-repayment of the balance of working capital due to the death of clients, including those caused by natural disasters. In case of death, the unpaid portion of the working capital is written off, while MBK claims the same amount from the insurance company (Allianz Indonesia).
- ⇒ MBK will commission feasibility studies on appropriate insurance schemes to allow its low-income clients to mitigate some of the consequences of natural disasters.

## 4 Institutional Assessment

### 4.1 Credit Programme

#### (a) Basic Working Capital (WC)

This is MBK's only product at present, offering a maximum of Rp. 1.2 million (\$120) for first-time clients and of one-year duration, and bearing a profit-sharing rate of 25 percent per year (flat basis). Subsequent maximum working capital size increases, subject to satisfactory repayment performance. There is no collateral. However, centre members are encouraged to provide support and assistance to others when in need.

The table below provides details of working capital size and repayments. Subsequently the working capital ceiling of a client will grow with her performance. If her repayment record is perfect, she is entitled to repeat working capital, which is a maximum of 20 percent higher. On the other hand, for every weekly meeting that she misses without a valid reason, or if could not make her repayments on a regular basis, her ceiling will be reduced by a certain amount. MBK is insured against death of clients. In case of death, the unpaid portion of the working capital is written off, while MBK can claim the same amount from the insurance company (Allianz Indonesia). MBK pays the premium for this insurance, not the clients.

Working Capital Cycle	Maximum size (Rupiah)	Weekly repayments (Rupiah)			Number of weeks	Total repayment (Rupiah)
		Principal	Profit-Sharing	Weekly Total		
1	1,200,000	24,000	6,000	30,000	50	1,500,000
2	1,500,000	30,000	7,500	37,500	50	1,875,000
3	1,800,000	36,000	9,000	45,000	50	2,250,000
4	2,200,000	44,000	11,000	55,000	50	2,750,000
5	2,600,000	52,000	13,000	65,000	50	3,250,000
6	3,100,000	62,000	15,500	77,500	50	3,875,000

#### (b) Small Business Working Capital (SBC)

In 2010-11, MBK may introduce a Small Business Working Capital product, with a size varying from Rp 5-10 million (\$500-1,000 per individual client), payable in weekly instalments, to accommodate the following two types of clients who are at present not adequately served by formal banks, and who therefore rely on informal sources such as moneylenders, friends and family:

- Regular MBK clients who have taken a small working capital for several years, and who are now ready to make use of higher working capital on an individual basis without the need to attend centre meetings. Based on their history with MBK, they will not require collateral.
- Micro-enterprises and small family businesses, which are at present not served by the commercial banks. Commercial and state banks now offer loans starting mostly at Rp 20 million (\$2,000), with an average loan size easily reaching Rp 50 million (\$5,000). Some

Community Banks (BPR) do offer loans of this size, but with collateral and at a higher interest rate, ranging from 3-4 percent per month. These prospective clients may also not be required to present collateral.

MBK believes that the implementation of a successful microcredit programme requires the following four factors (see figure 2):

1. High degree of credit discipline
2. Human resource development
3. Accounting and efficiency
4. Strong supervision and control all the way to where the lending activities takes place

#### **4.2 Human Resource Development**

In order to achieve its ambitious goals, the two major challenges MBK will face are

- (a) Raising adequate funds for on-lending
- (b) Large-scale effort in human resource development and management, including recruiting, training, motivating, retaining and supervising large numbers of staff at all levels.

According to its *Microfin* projections (see section 5), by 2014 MBK will need to employ a total of 10,616 personnel, according to the following categories:

- 7,915 account officers (now 583), including 1,400 trainee branch managers
- 1,400 Branch Managers (now 113)
- 2,400 Area MIS Officers (now 56)
- 233 Area Supervisors/Trainers (now 20)
- 39 Assistant Regional Managers (now 1)
- 7 Regional Managers (now 3)

##### *(a) Effective Human Resource Development Guidelines*

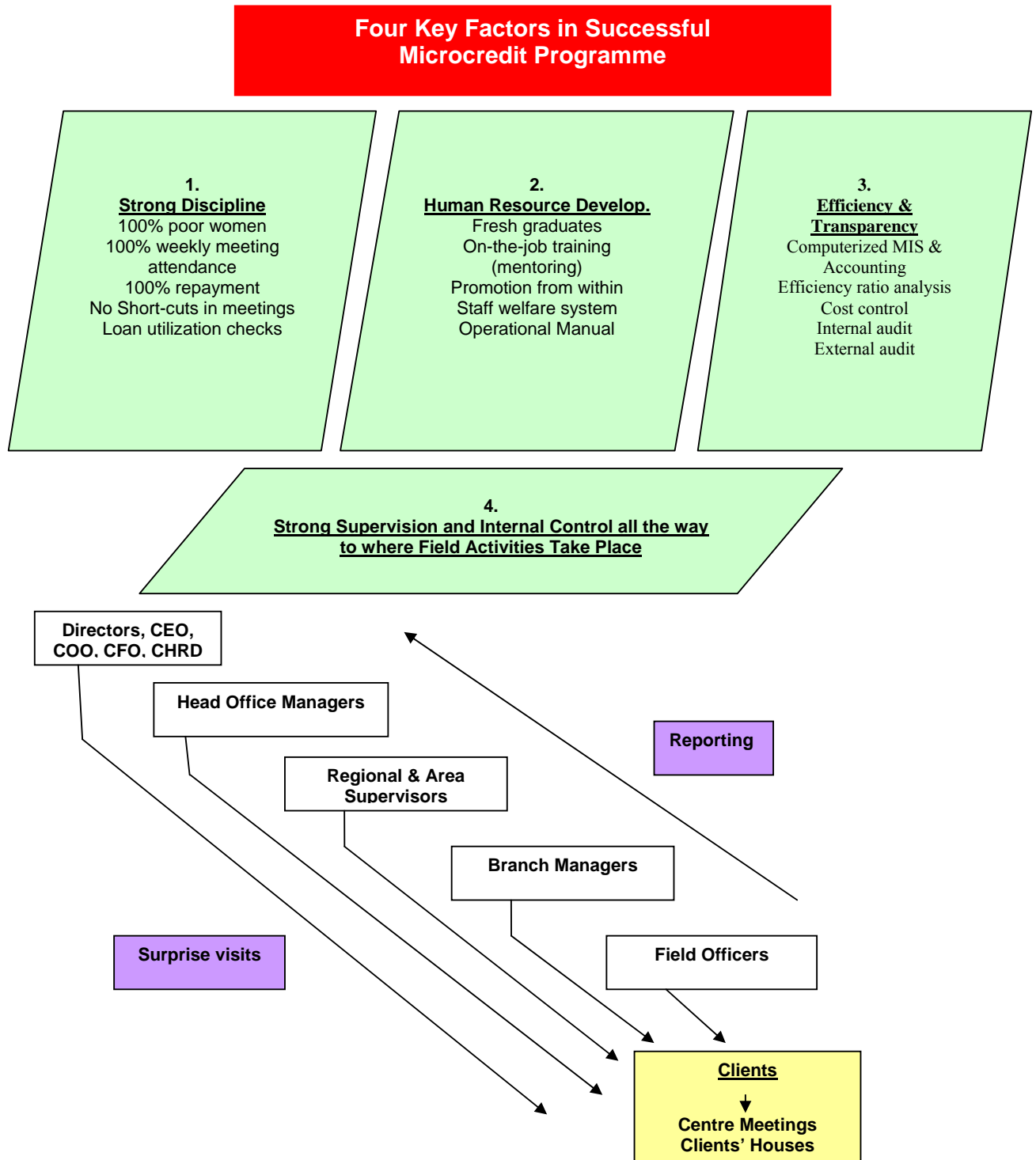
Based on CASHPOR's field experience, MBK implements the following system:

- Recruit staff directly from schools and colleges, so they do not have bad habits
- Implement cost-effective on-the-job training over three months
- Provide fast track to contract status for deputy branch managers
- Implement clear career development path based on internal promotion at all levels
- Implement clear and strict disciplinary procedures.

##### *Implications*

- ⇒ Continue to implement CASHPOR HRD principles with only minor adaptations
- ⇒ Continue present system (one-week observation, and three-month on the job training including group formation)
- ⇒ Supplement on-the-job training with short, intensive formal classroom training once or twice a year as needed
- ⇒ Fast-track promotion as incentive to excel, accompanied by increased salary in new positions
- ⇒ Promotion from within wherever possible
- ⇒ Study feasibility of implementing end-of-year profit-sharing scheme and implement towards 2011-12.

Figure 2



*(b) Recruitment Strategy*

The recruitment strategy is decentralized as follows:

1. *Field Officers* are identified by Branch Managers in their respective areas, and are tested and interviewed by the Area Supervisors/Trainers. All Field Officers then spend one week in observation, where they get a chance to see how MBK works, and MBK gets a chance to assess the candidates. Following successful completion of the one-week observation, Area Supervisors/Trainers recommend the employment of new candidates, which are officially confirmed by the Personnel Manager at head office.
2. *Deputy Branch Managers*: These come from two different streams:
  - a. *Senior Field Officers*, who have approximately two years' experience, including working as cashiers
  - b. *Trainee Branch Managers*, who are recruited directly with a first degree (S1) or a three-year diploma (D3) qualification through recruitment drives conducted by the Personnel Department directly in universities, or through applications received directly by head office.
3. *Branch Managers*: Branch Managers are promoted from the ranks of Deputy Branch Managers. There is no external recruitment of branch managers.
4. *Area Supervisors and Assistant Regional Managers*: These are promoted respectively from the ranks of MBK Branch Managers and MBK Supervisors/Trainers. There is no external recruitment.

*(c) Training Strategy*

The training strategy adopted for all the above field staff is also decentralized to a large extent as follows: mentoring, on-the-job training, off-the-job refresher and upgrading classroom training, and rotation. A written test on the comprehensive operational manual is also given before the deputy branch manager signs her first contract.

The training strategy is described below:

1. Mentoring: all new recruits are paired with an experienced worker for two months before they are allowed to undertake field activities on their own.
2. On-the-job Training: new recruits are primarily trained on the job, and learn by doing under the close watch of more experienced workers.
3. Off-the-job Refresher and Upgrading Classroom Training:
  - a. *Field officers*: every three months, field officers are provided with a one-day refresher training conducted by the Area Supervisors/Trainers in their respective areas.
  - b. *Deputy Branch Managers*: every three months, Supervisors also conduct a separate one-day training for Deputy branch managers. In addition, before Deputy Branch Managers are promoted to Branch Managers, they attend a three-day training workshop in head office (day 1 operations, day 2 accounting and finance, and day 3 personnel and administration).
  - c. *Branch Managers*: Area Supervisors conduct a one-day training for their Branch Managers once a month, every second Friday of the month. Starting in 2010, once

every three months, regional managers and assistant regional managers will conduct a one-day training workshop for Branch Managers, attended by Area Supervisors.

- d. *Area Supervisors and Assistant Regional Managers*: Head office staff, including the President Director, the CEO and other managers, conduct a one-day training for Area Supervisors and Assistant Regional Managers the first Friday of every month in head office.

#### 4. Rotation:

- a. *Field Officers*: Within a branch, field officers are in charge of different centres every six months. Since MBK does not employ full-time cashiers, field officers assume the position of cashier in turn for six months each. Field Officers are also rotated between branches in their area once a year.
- b. *Deputy Branch Managers* spend their first three months in one branch, and their second three-months in a second branch, so that learn how to manage a branch from at least two branch managers. After this period, and because MBK is expanding rapidly, they are often put in charge of their own branch in their second year.
- c. *Branch Managers* also rotate between branches every two years
- d. *Supervisors/Trainers and Assistant Regional Managers* are rotated between areas and regions as the need arises.

#### 5. Field Operational Manual

Version 4 of the Field Operational Manual in Indonesian language has now been completed and distributed to all branches. This version includes personnel policies and internal audit procedures and check-list. Deputy Branch Managers are given a written test on the manual.

#### *Implication*

- ⇒ Intensify recruitment of account officers (secondary school leavers) and deputy branch managers (university graduates and promoted senior field staff)
- ⇒ Recruit and train large numbers of staff: (a) on-the-job training, (b) annual classroom training (c) rotation between branches, (c) promotion from within.
- ⇒ Field Manual must be kept comprehensive, must be updated at least once every two years.
- ⇒ Monitor and continuously evaluate the above recruitment and training strategy, and modify and improve as required.
- ⇒ Ensure that branch managers, deputy branch managers and account officers know and understand the content of the operational manual.
- ⇒ Branch Managers must review and discuss sections of the operational manual with their account officers every Friday (half collection day).

#### *(d) Head Office Staff Recruitment and Management*

Head office personnel consist of the following (see organization chart, appendix 2):

- a. Chief-level officers
- b. Department managers
- c. Supporting staff for the above managers.

MBK applies a policy of promotion from within to fill head office positions whenever possible. In cases where specialists or persons with substantial experience are required, as in

the case of regional managers, chief-level officers, MIS/IT and finance, MBK has recruited experienced staff from outside. Senior officers recruited externally are given the specific responsibility to train, develop and motivate their more junior staff who have spent many years in MBK, and who know MBK's internal operations intimately.

*Implications*

⇒ The senior chief-level officers will be tasked with training and developing the knowledge, skills and attitudes of the current young MBK managers.

### **4.3 Governance**

In the Indonesian's revised Company Act 2007, private limited companies are governed and managed at four different levels as follows:

- a. Annual Shareholders' Meeting (and extraordinary meetings)
- b. Board of Commissioners
- c. Board of Directors
- d. Management

(a) *Annual Shareholders' Meeting* (and extraordinary meetings)

The highest authority is enshrined in the annual shareholders' meeting. The annual meeting is supplemented by extraordinary shareholders' meetings called as necessary. The company shareholders have the authority to appoint and dismiss commissioners and directors. The shareholders also have the responsibility to approve the annual financial statements of the company, as well as the company's work plan and annual budget for the following year.

(b) *Board of Commissioners*

The Commissioners are appointed by the shareholders, and are responsible for reporting the company's situation to the shareholders. The main function of this board is to supervise and inspect the company on behalf of the shareholders. The commissioners also have to verify the annual financial statements of the company and review the company's work plan and annual budget for the following year on behalf of the shareholders.

The shareholders can appoint commissioners who are shareholders or their representatives, or independent commissioners without shares in the company. MBK's shareholders have appointed the following members of the Board of Commissioners (see Appendix B):

1. Mr. Nahrudin M. Alie, Chief Commissioner and shareholder
2. Mr. Benny Stefanus Kosinda, independent commissioner, and chair, audit committee

(c) *Board of Directors*

The directors are also appointed by the shareholders, and not by the commissioners. Their main responsibility is to formulate policy and strategy, as well as lead and supervise the management team. The President Director chairs the annual shareholders' meeting and the extraordinary shareholders' meetings.

MBK's two Directors are the original MBK Founders and Promoters:

1. Shafiq Dhanani, President Director
2. Elizabeth M. Sweeting, Director and Chief Executive Officer

As the organization grows, MBK will continue to strengthen the above two Boards so that they serve their governance and oversight, and policy-making functions effectively.

(d) *Advisory Board*

The MBK Advisory Board is appointed by the shareholders to advise on best practices in microfinance operations, accounting and finance, and human resource development. This is not a requirement of the company act.

At present, the Advisory Board consists of three practitioners:

1. Professor David Gibbons, Chair, Cashpor India
2. Ms. Helen Todd, Chair, Moris Rasik Foundation, Timor Leste
3. Ms. Hasti Tarekat, Founding Member, POKMAS Foundation, Medan, North Sumatra

MBK will strengthen the advisory board as per emerging needs, including enlisting the services of senior specialists in the field of HRD company law and Information Technology.

(e) *Management*

The Board of Directors is authorized to appoint and dismiss members of the management team. As already noted, the management of MBK consists of a first-tier level of chiefs of departments, and a second-tier of line managers of sections as follows: (see organization chart and management team, appendices A and B):

1. Chief-level Officers:
  - a. Chief Executive Officer (CEO)
  - b. Chief Finance Officer (CFO)
  - c. Chief Operational Officer (COO)
  - d. Chief HRD/Administration Officer (CHRD)
2. Managers:
  - a. Accounting
  - b. Finance
  - c. MIS/IT
  - d. Regional managers
  - e. Personnel
  - f. Internal Audit

#### **4.4 Accounting for MFIs and Computerized MIS Systems**

(a) *Implementation of Best Practices*

MBK is implementing best practices in accounting and MIS as follows:

- Appropriate chart of accounts
- Double-entry book-keeping
- Voucher-recorded transactions with original supporting documents

- Financial statements according to international disclosure guidelines
- Operational and financial internal audit
- Computerized branch-level and head office front-office and back-office accounts
- Professional external auditing
- General ledgers for accounting and reporting are kept separately at branch level and administrative level (head office).
- Trial balance and balance sheets are produced on a monthly basis.

MBK will continue to have its financial statements audited externally on an annual basis.

Computerization is needed for:

- Timely and accurate management of information
- Tighter financial control
- Producing quarterly monitoring reports, including ratio and variance analysis, and for necessary adjustments to business plan.

MBK's computerized portfolio management and accounting systems are described below.

*(b) Separate Portfolio and Accounting Systems*

The portfolio and accounting systems are kept separate to allow rapid detection of discrepancies and errors by forcing reconciliation between the two systems, as recommended by an influential MIS paper produced by CGAP/World Bank.

***Portfolio management***

MBK uses *Kredits*, a banking and microfinance software developed by Technical Development Solutions (TDS) of Salt Lake City, USA. This software, using the Microsoft SQL 2005 platform, produces payment schedules and outstanding balances of principal and profit-sharing by client, centre, and field officer, as well as for the whole branch, district or programme. It also produces portfolio at risk by centre, field officer and branch. It contains an extensive client database or "Know Your Customer" (KYC) information system, including name, age, address, identity card number, and socio-economic information such per capita income, family size, and housing index per working capital cycle for all clients.

***Accounting system***

MBK uses *Micro-Accounting*, an accounting application for microfinance institutions using the Microsoft Access platform developed by Grameen Communications of Bangladesh. The journal voucher information produced manually by the branches is entered in this application at the MIS district office to produce general ledgers, and monthly trial balances at the branch level.

*(c) Decentralized Management Information System*

***Area-based MIS System***

MBK has selected an area-based MIS system (made up of 6 branches on average) rather than the more common branch level, due to the scarcity of MIS personnel in rural areas, unstable power supply, absence of telephone land line and connectivity at the branch level, and cost-efficiency. It is also the model adopted and successfully implemented by Grameen Bank in Bangladesh. The functions of the District office and head office are outlined below.

Each area office has an MIS section headed by Team Leader and two MIS staff. This is located in one branch easily accessible by the other five or six branches. In addition to be responsible for the accounting data, the Team Leader supervises two staff on average for the portfolio data. The branches send their daily transaction sheets, called *collection and disbursement sheets (CDS)*, and their daily accounting vouchers, together with the original receipts, to the district office twice a week. The branch keeps a photocopy of the daily vouchers in its files.

The district MIS section produces the following reports:

- a. Weekly cash reconciliation
- b. Monthly cash reconciliation
- c. Monthly portfolio, interest and client responsibility reconciliation

The monthly reconciliation reports are sent once a month to head office. Twice a month, a CD of daily incremental branch-level portfolio data files are sent to Head Office. Once a month, branch-level accounting data files are sent to Head Office.

#### ***Data consolidation at head office***

On the portfolio side, head office imports and consolidate the district databases twice a month, including customer information and transaction data. This data is then used to provide management with consolidated data on portfolio performance including growth and quality. Portfolio at risk information is produced at the level of individual clients to allow head office staff to monitor the progress in recovering arrears.

On the accounting side, *Micro-Accounting* has a similar import and export facility. This is used by the district office to export files to head office, and by head office to import branch files sent by the district office. Head office then produces branch-level as well as programme-level consolidated trial balance, balance sheet and income statement on a monthly basis, using the World Bank “Consultative Group to Assist the Poor” (CGAP) format and guidelines.

#### **(d) *Human Resource Management System***

By the end of 2009, MBK employed nearly 800 employees. In December 2009, MBK commissioned the installation of a specialized human resource management application in head office called *Intelligent Expert* to efficiently and accurately deal with the records of such a large and expanding workforce, doubling every year.

The specialized HRD software allows MBK to accomplish the following:

- a. Maintain a comprehensive personal database, including name, age, address, qualifications, and identification card number
- b. Produce monthly pay slips, and calculations of income tax and national insurance contributions by both employees and employer
- c. Maintain detailed record of training days and types of training received
- d. Detailed records of leave and absence
- e. Performance evaluation date and grades
- f. Other historical employee records.

#### 4.5 Cost-effective Supervision and Internal Control System

The present system has the following features:

- *Field Operations manual* with job descriptions produced in Indonesian and English.
- *Branch Managers*: Branch Managers undertake surprise visits to two centres daily, and fill in a check-list form. Each centre is visited once every three months. In order to accomplish this, the size of the branch is maintained at 2,000-2,500 clients. Branches that exceed this number have been split into two.
- *Area Supervisors and Assistant Regional Managers*: these spend one or two days in each branch in their area on a rotating basis, ensuring that each branch has been visited twice a month. They fill the Branch Monitoring Book using a detailed check-list.
- *Head office managers and staff*: head office staff spend approximately ten working days per month visiting branches and centres, in addition to undertaking coordination meetings. They also attend the monthly branch manager meetings conducted by the area supervisors.
- The *President Director* spends at least one week per month visiting branches and centres to impress upon all the staff the importance of maintaining daily contacts with clients and field officers.
- *Internal Audit*: Each branch is fully audited by a team consisting of one head office accounting staff and one area supervisor using a detailed audit check-list, consisting of two parts: operational audit and financial audit. The audit function is carried out twice a year for each branch and supervisor.

##### *Implications*

- ⇒ Ensure that branch managers and area supervisors understand and apply existing internal control systems
- ⇒ Thorough supervision from head office is required to ensure that internal control systems are implemented in the field. Management must also ensure that recommendations are implemented.

#### 4.6 Effective Funding Strategy

Timely funding is necessary for rapid expansion. MBK implements the following strategy:

- Estimating funding requirements from the *Microfin* financial projection model (produced since 2004 and revised periodically).
- Begin sourcing funds at least one year in advance
- Diversify sources of funding
- Maintain a perfect repayment record

##### *Implications*

- ⇒ Continue updating the *Microfin* financial forecasting model on an annual basis
- ⇒ Train finance manager to use and update Microfin and five-year strategic plan
- ⇒ Initiate and intensify contacts with new funding sources

#### **4.7 On-going Monitoring and Impact Assessment**

It is important to have an on-going monitoring and impact assessment system in place, which includes:

- Verification of targeting to minimize leakages to non-poor
- Client workshop for product design
- Implement exit surveys to maximize client retention, and to find out why good clients are leaving
- Periodic sample impact survey. MBK has already undertaken two impact surveys in 2005 and 2008.
- Evaluate progress out of poverty on a continuous basis.

##### **Implication**

- ⇒ Use the findings of the 2008 Impact Survey (400 MBK clients and 200 control group) to refine and develop the MBK programme in line with clients' needs and aspirations.
- ⇒ Prepare and commission follow-up impact survey in 2011.
- ⇒ Collaborate with Grameen Foundation USA to introduce regular reporting on socio-economic conditions of all clients using the Progress-out-Poverty Index (PPI) in 2010.

## 5 Five-Year Strategic Business Plan 2010-2014

### 5.1 Growth Strategy

MBK's vision, mission, overall goal and specific goals for the five-year period 2008-2012 have been stated in section 1. Client and market analysis appear in section 2, while competition and business environment analysis appear in section 3. The institutional assessment appears in section 4. Operational planning is assisted with financial modelling with *Microfin*, which is now described below. But before doing this, it is important to stress the following features of the MBK operational strategy to meet its vision, mission and goals:

*Exclusivity.* All clients will continue to be women from low-income poor households. They are identified using the modified CASHPOR housing index, combined with the simple MBK casual income test. Women from the poorest households are encouraged to join the programme.

*Credit discipline.* Members must attend weekly centre meetings, during which they make their repayments. The subsequent working capital is postponed for absences. Meetings are business-like, with standard seating and recording of attendance. Proposals are approved unanimously. Members are encouraged (but not obliged) to accept collective responsibility for working capital repayment. Even so, this is not a substitute for credit discipline and can only work for a few weeks. In case of non-repayment during a weekly meeting, following the ASA model, the branch manager, accompanied by as many field officers as available, visits the house of the defaulter on the same day to assess her repayment problems, discuss alternatives and find a solution. Subsequent working capital is reduced in size if a member experiences arrears. In the final analysis, the account staff need to motivate the defaulter to repay, by stressing the lack of alternatives and the consequences of shutting the door to further MBK working capital.

*Effective HRD.* Account officers, all women, are recruited directly from school or are recent school leavers, to avoid inheriting bad habits of previous employers. They are mostly senior secondary school leavers, while candidates for branch manager and head office positions are degree or diploma graduates. All new recruits must pass a short arithmetic test before undertaking one week of observation, during which they accompany experienced field officers in the field. After successfully completing the probationary period of three months, they are issued a one-year work contract.

The starting salary for account officers is above the minimum wage for the province, and motorcycles for field work, accommodation and basic necessities are provided to the field staff. All field-level and most head office promotions are made from within, i.e., all branch managers are recruited from the ranks of deputy branch managers and senior accounts officers. As many head office positions as possible are filled from within too, from the ranks of branch managers and senior field supervisors. Finally, disciplinary procedures are clearly laid out in the operational manual. The best financial incentive that MBK offers its staff is accelerated promotion and higher salary which go with the new position.

*Accounting from MFI.* A chart of accounts has been prepared, appropriate for MFIs, and financial statements are prepared using the CGAP format. Standard accounting practices include double entry book-keeping, voucher-recorded transactions with original supporting documents, and financial statements in accordance with international disclosure guidelines.

Internal audits are centre-focused and examine operational as well as financial and administrative procedures. Finally, a reputable accounting firm undertakes external auditing of MBK's annual financial statements.

## **5.2 Five-year Financial Forecast (using *Microfin*)**

MBK has harnessed the *Microfin* software tool produced by the World Bank-CGAP to develop five-year financial projections since 2004. The detailed assumptions and financial projections for the latest period 2008-2012 are available to investors. Here, the key assumptions are noted first below, before presenting a summary table of main results.

### ***Key Assumptions***

Table 2a and 2b, respectively in Rp billion and US dollars, contain an overview of assumptions used in the forecasting model, including outreach, number of branches, working capital size and staffing levels. Key assumptions are as follows:

1. Branches and client numbers can double every year
2. The first working capital size is around \$100 per year, repayable over 50 weeks. Subsequent working capital will increase by a maximum of 20 percent per year.
3. The profit-sharing rate is 25 per cent per year (flat basis) in 2009 and 2010. This will be lowered to 22 percent at the beginning of 2011, and again to 20 percent at the beginning of 2014.
4. The compulsory Client Responsibility Fund (CRF) will continue to collect 10 percent of the working capital at the time of disbursement, returnable after the full repayment of working capital.
5. The client/account officer ratio will gradually improve from 246 to 388 in the projection period.
6. The Indonesian and US inflation rates are assumed to be respectively 7 and 3 percent per year throughout the projection period.
7. The Indonesian Rupiah will depreciate against the US dollar at the rate of 4 percent per year.
8. Commercial banks and social investors are assumed to charge 12-14 percent interest rate per year on their loans to MBK throughout the forecasting period.

### ***Main Results***

1. *Outreach.* MBK's client base will double approximately every year, from around 143,000 at the end of 2009 to 1 million at the end of 2012, 2 million in 2012 and 3 million by the end of 2014, focusing on the rural areas of Java Island, one of the highest populated islands in the world. MBK will speed up its expansion on Central Java in 2010, and will commence operations in East Java in 2011. Most MBK clients will continue to come from the bottom 25 percent of the population by income.
2. *Outstanding working capital portfolio.* With average outstanding working capital size rising from Rp. 701,000 to 1,178,000 (\$75 to \$103) between 2009 and in 2014, the gross portfolio outstanding will increase from Rp 0.1 to 1.1 trillion between 2009 and 2012, and again to 3.6 trillion by the end of the projection period 2014 (\$11 to 315 million).
3. *Branches.* The number of branches will approximately double every year. Starting from 113 branches at the end of 2009, MBK will operate 220, 350, 700 and 1,400 branches in respectively 2010, 2011, 2012 and 2013, with an average 2,200 clients each by 2014.
4. *Personnel.* Each branch will be staffed by 5-6 account officers, in addition to trainees. By the end of the projection period, the programme will employ some 10,585 people in

total, of which 31 persons will be located in head office, while the rest will be located in branch, district and regional offices.

5. *Efficiency*. The programme will raise efficiency in two ways:
  - (a) Increasing the client load from 250 to 388 clients per account officer; and
  - (b) Reducing the operating expense/portfolio ratio from 26 to 15 percent between 2009 and 2014, due to economies of scale.
6. *Branch break-even point*. MBK's experience is that a branch reaches its monthly break-even after 10-12 months, and its cumulative break-even point after some 15 months.
7. *Sustainability*. Financial self-sustainability ratio after-tax will remain stable at around 120 percent during most of the projection period, by lowering the profit-sharing rate from 25 to 22 percent in early 2011, and again to 20 percent in 2014.

### 5.3 External funding requirements

MBK implements the social business policy articulated by Professor Yunus of "no losses, no dividend", meaning that all profits are re-invested to accelerate growth and maximize expansion during the projection period. After taking into account surplus reinvested, and the availability of the client responsibility fund which will provide some 18 percent of funding requirements, MBK will need commercial loans amounting to the following:

2010	Rp	155 billion	(US\$	16 million)
2011	Rp	383 billion	(US\$	38 million)
2012	Rp	872 billion	(US\$	82 million)
2013	Rp	1,893 billion	(US\$	172 million)
2014	Rp	2,717 billion	(US\$	238 million)

### 5.4 Past and Current Funding Sources

MBK has raised funds for on-lending from social investors and commercial banks as follows:

#### 1. *Social Investors*

- Hivos, Netherlands
- Cordaid, Netherlands
- Micro-Credit Enterprises (MCE), USA
- Dignity Fund, USA
- Oikocredit, USA
- Grameen Foundation, USA
- Blue Orchard, Switzerland
- Triple Jump, Netherlands
- Incofin, Belgium

#### (b) *Commercial Banks*

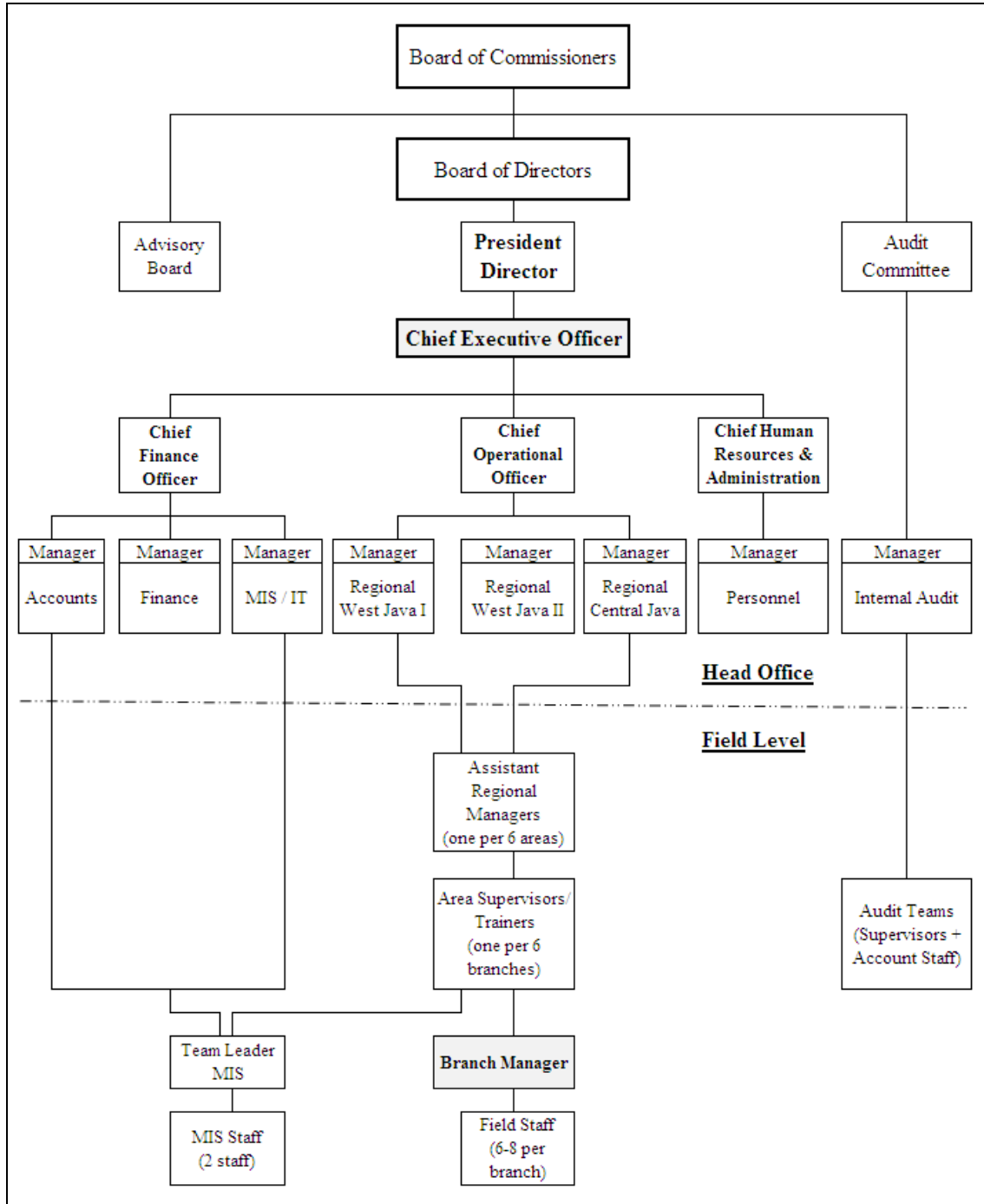
- Bank Finconesia, Indonesia
- Bank Danamon, Indonesia
- Bank BNP-Paribas, Indonesia
- Bank Standard and Chartered, Indonesia

<b>Table 2a. MBK Indonesia - Summary of Financial Projections 2010-2014</b>						
<b>1-Feb-10</b>	<b>Rp billion</b>					
	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>
<b>I. Overall Targets</b>						
Total clients	143,183	300,233	600,217	1,090,472	2,131,447	3,061,302
<b>Total branches</b>	<b>113</b>	<b>220</b>	<b>350</b>	<b>700</b>	<b>1,400</b>	<b>1,400</b>
Total employees	779	1,342	2,350	4,492	8,884	10,616
Head office employees	17	23	26	28	29	31
Field employees	762	1,319	2,324	4,464	8,855	10,585
Account officers (incl. trainees)	583	888	1,651	3,124	6,185	7,915
Field managers, MIS and others	179	431	673	1,340	2,670	2,670
Clients per account officer	246	338	364	349	345	387
Clients per staff member	186	224	255	243	240	288
Avgd outstd. capital/Client (Rp 000)	701	875	919	1,018	1,095	1,178
<b>II. Key Assumptions</b>						
Profit-sharing rate (% flat per year)	25%-35%	25%	22%	22%	22%	20%
Interest, commercial loans (effect.)	14%	14%	14%	14%	14%	14%
<b>Availability of new loans Rp billion</b>	<b>38</b>	<b>155</b>	<b>383</b>	<b>872</b>	<b>1,893</b>	<b>2,717</b>
<b>III. Income Statement (Rp billion)</b>						
Financial income	40	84	175	333	683	1,154
Financial costs	8	21	51	102	213	378
Gross financial margin	32	63	124	231	471	776
Provision for loan losses	0.5	-0	1	3	8	13
Net financial margin	32	63	123	227	463	764
Programme operating expenses	17	38	71	139	293	441
Administrative operating expenses	3	3	4	4	4	4
Net income before tax	12	22	49	84	165	318
Amount of taxes paid	0.2	6	12	21	41	80
Net income after tax	11	16	36	63	124	239
<b>IV. Balance Sheet (Rp billion)</b>						
Total assets	138	287	597	1,204	2,538	3,822
Gross outstanding portfolio	100	263	552	1,110	2,335	3,605
Other assets	39	25	46	94	203	217
Total liabilities	116	249	522	1,066	2,275	3,321
Client responsibility Fund	17	43	91	179	372	602
Commercial loans (incl. sub-debt)	96	202	429	885	1,901	2,717
Other liabilities	3	4	2	2	2	2
Commercial loans/portfolio	96%	77%	78%	80%	81%	75%
CRF/portfolio	17%	16%	16%	16%	16%	17%
Equity (including quasi-equity)	31	47	84	147	271	510
Shareholder equity	23	39	75	138	262	501
Quasi-equity (sub-debt)	9	9	9	9	9	9
Total liabilities and equity	138	287	597	1,204	2,538	3,822
<b>V. Ratio Analysis</b>						
<b>Efficiency</b>						
Yield on portfolio (annualized)	50.3%	45.7%	41.8%	40.5%	40.4%	38.1%
Overhead to total costs	15%	7%	5%	3%	1%	1%
Operating expense/portfolio	26%	22%	18%	17%	18%	15%
Write-off (annualized)	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%
Loan loss reserve ratio	1.0%	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Returns on average assets</b>						
Gross returns	37.2%	41.1%	39.6%	38.2%	38.2%	36.1%
- financial costs	7.2%	10.1%	11.5%	11.7%	11.9%	11.8%
= Gross financial margin	29.9%	31.0%	28.1%	26.5%	26.3%	24.3%
- Loan loss provision	0.4%	0.0%	0.3%	0.4%	0.4%	0.4%
= Net financial margin	29.5%	31.0%	27.8%	26.1%	25.9%	23.9%
- Operating costs	18.9%	20.2%	16.8%	16.4%	16.6%	13.9%
- Taxes paid	0.2%	3.0%	2.7%	2.4%	2.3%	2.5%
= Operating margin after tax (ROA)	10.4%	7.8%	8.2%	7.3%	6.9%	7.5%
Operational sustainability after tax	139%	124%	126%	124%	122%	126%
Financial sustainability after tax	122%	119%	123%	121%	121%	124%
After-tax return on total equity (AROE)	68%	46%	60%	57%	61%	60%
<b>VI. Debt-Equity Ratio</b>						
<b>Including quasi-equity</b>	<b>2.8</b>	<b>4.1</b>	<b>5.0</b>	<b>6.0</b>	<b>7.0</b>	<b>5.3</b>
Excluding quasi-equity	4.2	5.2	5.7	6.4	7.2	5.4

<b>Table 2b. MBK Indonesia - Summary of Financial Projections 2010-2014</b>						
<b>1-Feb-10</b>	<b>Million US Dollars</b>					
	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>
<b>I. Overall Targets</b>						
Total clients	143,183	300,233	600,217	1,090,472	2,131,447	3,061,302
<b>Total branches</b>	<b>113</b>	<b>220</b>	<b>350</b>	<b>700</b>	<b>1,400</b>	<b>1,400</b>
Total employees	779	1,342	2,350	4,492	8,884	10,616
Head office employees	17	23	26	28	29	31
Field employees	762	1,319	2,324	4,464	8,855	10,585
Account officers (incl. trainees)	583	888	1,651	3,124	6,185	7,915
Field managers, MIS and others	179	431	673	1,340	2,670	2,670
Clients per account officer	246	338	364	349	345	387
Clients per staff member						
Avg outstd. capital/Client (US\$)	75	89	90	96	100	103
<b>II. Key Assumptions</b>						
Profit-sharing rate (% flat per year)	25%-35%	25%	22%	22%	22%	20%
Interest, commercial loans (effect.)	14%	14%	14%	14%	14%	14%
<b>Availability of new loans (\$ million)</b>	<b>4.1</b>	<b>15.8</b>	<b>37.7</b>	<b>82.5</b>	<b>172.1</b>	<b>237.6</b>
<b>III. Income Statement US\$ million)</b>						
Financial income	4.3	8.6	17.2	31.5	62.1	100.9
Financial costs	0.8	2.1	5.0	9.6	19.3	33.1
Gross financial margin	3.5	6.5	12.2	21.8	42.8	67.9
Provision for loan losses	0.0	-0.0	0.1	0.3	0.7	1.1
Net financial margin	3.5	6.5	12.1	21.5	42.1	66.8
Programme operating expenses	1.9	3.9	7.0	13.2	26.7	38.6
Administrative operating expenses	0.3	0.3	0.3	0.4	0.4	0.4
Net income before tax	1.3	2.3	4.8	8.0	15.0	27.8
Amount of taxes paid	0.0	0.6	1.2	2.0	3.8	7.0
Net income after tax	1.2	1.6	3.6	6.0	11.3	20.9
<b>IV. Balance Sheet (US\$ million)</b>						
Total assets	14.7	29.4	58.7	113.9	230.8	334.2
Gross outstanding portfolio	10.7	26.9	54.2	105.0	212.3	315.2
Other assets	4.1	2.5	4.5	8.9	18.4	19.0
Total liabilities	12.3	25.4	51.3	100.8	206.9	290.4
Client responsibility Fund	1.9	4.4	8.9	16.9	33.8	52.6
Commercial loans (incl. sub-debt)	10.2	20.6	42.2	83.7	172.9	237.6
Other liabilities	0.3	0.4	0.2	0.2	0.2	0.2
Commercial loans/portfolio	96%	0.1	0.1	0.1	0.1	0.1
CRF/portfolio	17%	0.0	0.0	0.0	0.0	0.0
Equity (including quasi-equity)	3.3	4.8	8.2	13.9	24.7	44.6
Shareholder equity	2.4	3.9	7.4	13.1	23.9	43.8
Quasi-equity (sub-debt)	0.9	0.9	0.9	0.8	0.8	0.8
Total liabilities and equity	14.7	29.4	58.7	113.9	230.8	334.2
<b>V. Ratio Analysis</b>						
<b>Efficiency</b>						
Yield on portfolio (annualized)	50.3%	45.7%	41.8%	40.5%	40.4%	38.1%
Overhead to total costs	15.2%	7.5%	4.8%	2.7%	1.4%	1.0%
Operating expense/portfolio	26.1%	22.4%	17.7%	17.4%	17.6%	14.7%
Write-off (annualized)	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%
Loan loss reserve ratio	1.0%	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Returns on average assets</b>						
Gross returns	37.2%	41.1%	39.6%	38.2%	38.2%	36.1%
- financial costs	7.2%	10.1%	11.5%	11.7%	11.9%	11.8%
= Gross financial margin	29.9%	31.0%	28.1%	26.5%	26.3%	24.3%
- Loan loss provision	0.4%	0.0%	0.3%	0.4%	0.4%	0.4%
= Net financial margin	29.5%	31.0%	27.8%	26.1%	25.9%	23.9%
- Operating costs	18.9%	20.2%	16.8%	16.4%	16.6%	13.9%
- Taxes paid	0.2%	3.0%	2.7%	2.4%	2.3%	2.5%
= Operating margin after tax (ROA)	10.4%	7.8%	8.2%	7.3%	6.9%	7.5%
Operational sustainability after tax	139%	124%	126%	124%	122%	126%
Financial sustainability after tax	122%	119%	123%	121%	121%	124%
After-tax return on total equity (AROE)	68%	46%	60%	57%	61%	60%
<b>VI. Debt-Equity Ratio</b>						
<b>Including quasi-equity</b>	<b>2.8</b>	<b>4.1</b>	<b>5.0</b>	<b>6.0</b>	<b>7.0</b>	<b>5.3</b>
Excluding quasi-equity	4.2	5.2	5.7	6.4	7.2	5.4
Note: Rupiah depreciates by 4% p.a. US\$1 =	9.400	9.776	10.167	10.574	10.997	11.437



# APPENDICES

## A. ORGANIZATIONAL STRUCTURE



## B. BOARD OF COMMISSIONERS, DIRECTORS & ADVISORY COMMITTEE





### 1. Commissioners

	<p><b>Mr. Nahrudin Alie, Master of Science</b> <b>Chief Commissioner</b></p> <p>Masters in 'Human Settlements Development Planning', Asian Institute of Technology (AIT), Bangkok, Thailand. Previous positions: National Officer, UNIDO Jakarta, and Staff, Department of Industry, Jakarta.</p>
	<p><b>Mr. Benny Stefanus Kosinda, Master of Science</b> <b>Independent Commissioner (Chair, Audit Committee)</b></p> <p>Masters in Agricultural Economics, University of New England, Australia. Retired as Senior Officer, Asian Development Bank, Manila. Previous experience in World Bank, GTZ and IFC in Indonesia, and as Internal Auditor Price Waterhouse, Jakarta.</p>

### 2. Directors



	<p><b>DR. Shafiq Dhanani</b> <b>President Director and Founder</b></p> <p>D.Phil. Development Economics, Oxford University, UK. Founder, Ganesha Microfinance Foundation. Previously senior consultant for several international organizations including UNIDO, FAO, WFP, ILO, World Bank and ADB) in Africa and Asia. 15 years of experience in Indonesia, working with Departments of Manpower, Agriculture, Industry, Education and National Development Planning.</p>
	<p><b>DR. Elizabeth Sweeting &amp; Chief Executive Officer (CEO)</b> <b>Director and Founder</b></p> <p>Ph.D. in Education, Sussex University, UK. Founder, Ganesha Microfinance Foundation. Previously senior consultant for several international organizations including British Council, World Bank and ADB in Africa and Asia. 15 years of experience in Indonesia, working with Department of Education.</p>

### 3. Advisory Committee

	<p><b>Chair, Advisory Committee</b>  <b>Professor David Gibbons</b></p> <p>Founder and Chair, Cashpor Group of Companies, India.          Author of the <i>Grameen Reader</i>, Dhaka: Grameen Bank, 1994.</p>
	<p><b>Member</b>  <b>Ms. Hasti Tarekat</b></p> <p>Founding Member, POKMAS Foundation, Medan, North Sumatra.</p>
	<p><b>Member</b>  <b>Ms. Helen Todd</b>  <b>Founding Chair, Moris Rasik Foundation, Timor Leste</b></p> <p>Researcher in microfinance and author of <i>Women at the Centre: Grameen Bank Borrowers After one Decade</i>, Boulder, Colorado, Westview Press, 1996, and editor of <i>Cloning Grameen Bank: Replicating a Poverty Reduction Model in India, Nepal and Vietnam</i>, IT Publications, London, 1996.</p>
	<p><b>Member &amp; Senior Finance Adviser (SFA)</b>  <b>Mr. Sanjay Gandhi, Microfinance Consultant</b></p> <p>Mr. Sanjay Gandhi joined MBK in March 2009. He is a qualified Chartered Accountant, with five years' experience as Director of Rating, Micro-Credit Ratings International (M-CRIL). Ten years of experience in banking (retail head and corporate head), and two years as Audit Manager in KPMG's Indian Partner.</p>

## C. MANAGEMENT TEAM

	<p><b>Chief Executive Officer (CEO)</b>  <b>Dr. Elizabeth Sweeting (Liz)</b>            Ph.D. in Education, Sussex University, UK.            Founding Board Member, Ganesha Microfinance Foundation.            Elizabeth Sweeting joined MBK as CEO in January 2006. Previously Senior Consultant for several international organizations including World Bank, ADB and British Council in Africa and Asia. 15 years of experience in Indonesia, working with Department of Education.</p>
	<p><b>Chief Finance Officer (CFO)</b>  <b>Mr. Syachriel Arifin</b>            Mr. Syachriel Arifin joined MBK in January 2010. He is a seasoned senior banker, spending 8 years in Bank Niaga, 5 years in Citibank, 6 years in Panin Bank and 5 years in Bank Putera. He has also undertaken development work for Muhammadiyah, the largest Moslem organization in Indonesia, as well as Mercy Corps and ILO.</p>
	<p><b>Chief Operational Officer (COO)</b>  <b>Mr. Sartono Ali Putro (Tono)</b>            Higher Diploma in Agriculture.            Mr. Sartono joined MBK in August 2008 as regional operational manager. He has twenty years of experience in community development and microfinance in Indonesia.</p>
	<p><b>Regional Manager, West Java I</b>  <b>Ms. Susanti Gandaatmaja</b>            Junior Degree in Economics, Borobudur University.            Ms. Susanti joined MBK in April 2003. She started as field officer, then promoted to deputy branch manager, branch manager and area supervisor, then Manager, business expansion.</p>
	<p><b>Regional Operations Manager, West Java II</b>  <b>Mr. Achmad Ramdhani</b>            Degree in Economics, Krisna Dwipayana University, Jakarta.            Mr. Ramdhani joined MBK in September 2008. He has ten years of experience in private commercial banking, starting as Credit Officer, then Branch Manager, and finally Operational Head in charge of some 30 branches across Indonesia.</p>
	<p><b>Manager, Internal Audit</b>  <b>Ms. Dahlya Desyany</b>            Degree in Information Management, Bina Nusantara University.            Ms. Dahlya joined MBK in November 2004. She started as deputy branch manager, then promoted to branch manager and district supervisor, before assuming the post of Internal Audit Manager.            Her previous experience was as book-keeper in a private firm.</p>

	<p><b>Manager, Human Resources Development</b>  <b>Ms. Hanni Widiastuty</b>  Higher Diploma (III) in Occupational Health, University of Indonesia.  Ms. Hanni joined MBK in November 2004. She started in MBK as deputy branch manager, then branch manager and district supervisor.</p>
	<p><b>Manager, MIS and IT</b>  <b>Mr. A. Iman Rahman</b>  Masters in Information Technology, <i>Institut Teknologi Bandung</i> (ITB).  Mr. Iman joined MBK in April 2007. He worked for three years as systems analyst prior to joining MBK.</p>

## D. PERFORMANCE INDICATORS, 2005-2009

	2005	2006	2007	2008	2009
<i>Exchange rate: US\$1 =</i>	9.386	9.035	9.400	10.950	9.400
<b><u>Institutional Characteristics</u></b>					
Total clients	12,335	27,978	65,528	105,690	144,951
Percent women	100%	100%	100%	100%	100%
Total assets (Rp 000)	6,428,659	11,708,432	36,979,860	83,057,521	138,306,186
Total assets (US\$)	684,920	1,295,897	3,934,028	7,585,162	14,713,424
Gross loan portfolio (Rp 000)	4,136,919	9,105,260	25,191,547	57,013,869	100,384,420
Gross loan portfolio (US\$)	440,754	1,007,776	2,679,952	5,206,746	10,679,194
Average outstanding balance (Rp 000)	335	333	390	553	708
Average outstanding balance (US\$)	36	37	42	51	75
Average portfolio balance per client/GNI	3%	2%	2%	3%	3%
Branches	5	15	31	55	113
Personnel	57	122	258	420	779
<b><u>Financial Structure</u></b>					
Capital/asset ratio (total equity/total assets)	7%	8%	25%	12%	16%
Capital adequacy ratio (incl 50% sub-debt)	50%	30%	27%	13%	20%
Debt to equity ratio (including quasi-equity)		0.8	2.1	5.5	2.8
Total liabilities/total equity	13.9	11.2	3.0	7.3	5.1
UTJ/portfolio (equiv. to deposit to loans)	8.9%	9.5%	8.6%	9.1%	17.3%
UTJ/assets (equiv. to deposit to assets)	5.7%	7.4%	5.8%	6.3%	12.6%
Gross portfolio/total assets	64.4%	77.8%	68.1%	68.6%	72.6%
Liquid assets as % of total assets	29.8%	17.8%	23.0%	21.1%	21.2%
Foreign exchange loans/total loans			61%	60%	36%
Foreign exchange loans/equity			163%	397%	151%
<b><u>Financial Performance</u></b>					
<b><u>As % of average total assets (Yt, Yt-1)</u></b>					
Gross return on average total assets	28.0%	41.6%	29.8%	31.2%	36.4%
- Financial costs	0.2%	3.5%	6.8%	9.4%	7.1%
=Gross financial margin	27.9%	38.1%	23.0%	21.8%	29.3%
- Loan loss provision	4.6%	2.6%	0.7%	0.7%	0.4%
- Operating expense	19.9%	27.6%	24.6%	18.5%	18.6%
- Taxes paid	0.6%	2.1%	0.1%	0.3%	0.1%
=Operating margin after tax (AROA)	2.8%	5.8%	0.3%	2.4%	10.2%
-adjustment for unrealized forex losses	-	-	-	-1.1%	5.1%
= Adjusted AROA for potential forex losses	2.8%	5.8%	0.3%	1.3%	15.3%
After tax return on equity, average (AROE)	35.8%	75.7%	1.2%	14.9%	70.8%
-adjustment for unrealized forex losses	-	-	-	-4.1%	51.0%
= Adjusted AROA for pot. forex losses	35.8%	75.7%	1.2%	10.8%	121.9%
Operational sustainability (cumulative)	114%	124%	93%	109%	140%
Operational sustainability (quarterly)	128%	107%	86%	121%	141%
Financial sustainability ratio				93%	122%
<b><u>Revenues</u></b>					
Financial revenues/assets, average	28.0%	41.6%	29.8%	31.2%	36.4%
Profit margin (net operat. income/fin. rev)	9.9%	13.9%	0.9%	7.6%	28.0%
Yield on gross portfolio, average (nominal)	49.8%	55.9%	41.7%	45.6%	51.2%
Yield on gross portfolio, average (real)					
<b><u>Expenses</u></b>					
Total expenses/assets, average	24.7%	33.7%	32.1%	28.6%	26.1%
Financial expenses/assets, average	0.2%	3.5%	6.8%	9.4%	7.1%
Provision for loan impairment/assets, avg	4.6%	2.6%	0.7%	0.7%	0.4%
Operating expense/assets, average	19.9%	27.6%	24.6%	18.5%	18.6%
Personnel expense/assets, average	8.8%	14.3%	14.3%	12.7%	11.9%
Administrative expenses/assets, average	11.1%	13.3%	10.3%	5.8%	6.6%
Cost of debt, average	0.2%	4.1%	9.5%	12.3%	9.7%

	2005	2006	2007	2008	2009
<i>Exchange rate: US\$1 =</i>	9.386	9.035	9.400	10.950	9.400
<b><u>Efficiency</u></b>					
Operating expense/loan portfolio, average	35.9%	37.8%	34.9%	27.0%	26.1%
Personnel expense/loan portfolio, average	15.8%	19.5%	20.3%	18.6%	16.8%
Gross national income (GNI) per capita	12,000	14,400	16,800	20,900	20,900
Average salary	7,309	10,597	13,509	18,176	16,955
Average salary/GNI per capita	61%	74%	80%	87%	81%
Personnel costs/total operating costs	44%	52%	58%	69%	64%
Cost per borrower	95	112	121	165	202
Total cost/portfolio, average	36.7%	37.9%	41.2%	36.3%	35.6%
Overhead ratio (HO/total expenses)	42%	30%	19%	20%	15%
<b><u>Productivity</u></b>					
Clients per staff	247	229	254	252	186
Clients/accounts officer (>2mths)	333	354	431	376	328
Account officers/total staff	77%	76%	73%	75%	75%
HO staff/total staff ratio	11%	7%	4%	3%	2%
Centres/account officer	14	17	20	19	13
<b><u>Risk and Liquidity</u></b>					
Portfolio at risk >30 days	0.000%	0.000%	0.001%	0.003%	0.005%
Portfolio at risk >90 days				0.003%	0.000%
Write-off ratio	0.000%	0.000%	0.000%	0.000%	0.000%
Risk coverage ratio	-	-	101171%	38341%	20461%
<b><u>Outreach Indicators</u></b>					
Cumulative clients recruited	13,377	32,285	76,504	135,824	199,530
Cumulative dropouts	<u>1,042</u>	<u>4,307</u>	<u>10,976</u>	<u>30,134</u>	<u>54,579</u>
<b>Net clients approved</b>	<b>12,335</b>	<b>27,978</b>	<b>65,528</b>	<b>105,690</b>	<b>144,951</b>
% Growth in clients (over prv. period)	17%	7%	18.0%	4.3%	8.1%
New clients recruited year-on-year	9,609	18,908	44,219	59,320	63,706
Clients returning to programme/quarter				226	1,579
Cumulative clients returning to programme				226	4,453
<b>Net active clients by loan cycle</b>	<b><u>12,335</u></b>	<b><u>27,372</u></b>	<b><u>64,548</u></b>	<b><u>103,734</u></b>	<b><u>143,183</u></b>
1st cycle	9,593	19,264	42,740	54,673	66,321
2nd cycle	1,222	6,036	14,381	30,280	39,223
3rd cycle	1,517	903	5,441	11,629	22,017
4th cycle	3	1,169	1,986	4,674	8,992
5th cycle				772	3,736
6th cycle and above				<u>1,006</u>	<u>1,587</u>
<b>Total clients with loans</b>	<b>12,335</b>	<b>27,372</b>	<b>64,548</b>	<b>103,034</b>	<b>141,876</b>
In process (existing clients)				700	1,307
% in 1st cycle	10%	31%	34%	53%	46%
<b><u>Dropout</u></b>					
Total dropouts this quarter	105	834	1,328	6,029	5,670
Quarterly dropout rate	0.9%	3.0%	2.0%	5.7%	3.9%
Year-on-year dropout rate (M-CRIL)	4.3%	10.5%	9.2%	15.3%	14.4%
<b>Total leaving the programme</b>					<u>5,670</u>
Voluntary dropouts					2,639
Taking paid employment					1,026
Death					92
Pushed-out by MBK					1,913
<b>Total leaving the programme (%)</b>					<u>100.0%</u>
Voluntary dropouts					46.5%
Taking paid employment					18.1%
Death					1.6%
Pushed-out by MBK					33.7%
Branches	5	15	31	55	113
Net number of centres	613	1,554	3,747	5,849	7,866
<b>Average clients per centre</b>	<b>20</b>	<b>18</b>	<b>17</b>	<b>18</b>	<b>18</b>

	2005	2006	2007	2008	2009
<i>Exchange rate: US\$1 =</i>	<i>9.386</i>	<i>9.035</i>	<i>9.400</i>	<i>10.950</i>	<i>9.400</i>
<b>Portfolio</b>					
<b>Total portfolio outstanding (Rp. 000)</b>	<b>4,136,919</b>	<b>9,105,260</b>	<b>25,191,547</b>	<b>57,013,869</b>	<b>100,384,420</b>
Total portf. outstanding (\$)	440,754	1,007,776	2,679,952	5,206,746	10,679,194
Average portf. outstanding Rp. 000	335	333	390	553	708
Average portf. outstanding (\$)	36	36	42	51	75
Current Portfolio size (Kredits)				103,349,150	174,472,600
Repayment from current portfolio				46,335,281	74,088,180
Total clients in responsibility fund	12,335	27,372	64,548	103,734	143,183
Client responsibility fund (CRF)	368,610	862,995	2,159,095	5,196,295	17,400,636
Average CRF per client	30	32	33	50	123
<b>Portfolio quality</b>					
<u>Portfolio in arrears (Rp. 000)</u>					
0 -30 days			3,192	-	28,259
31-60 days				-	2,222
61-90 days				-	2,684
91-180 days			249	1,154	
<u>&gt; 180 days</u>				<u>333</u>	-
Total			3,441	1,487	33,165
Portfolio at risk (>30)			249	1,487	4,906
<b>% PAR (&gt;30)</b>			<b>0.001%</b>	<b>0.003%</b>	<b>0.005%</b>
Portfolio at risk (>90)				1,487	0
<b>% PAR (&gt;90)</b>				<b>0.003%</b>	<b>0.000%</b>
Write-off (Rp 000)					333
Write-off ratio					<b>0.0003%</b>
<u>Overdue principal (Rp. 000)</u>					
0 -30 days			222	-	1,139
31-60 days				-	1,097
61-90 days				-	1,542
91-180 days		-	249	796	-
<u>&gt; 180 days</u>		-		<u>333</u>	-
Total			471	1,129	3,778
<u>Client with arrears</u>					
0 -30 days		1	15	-	50
31-60 days				-	9
61-90 days				-	8
91-180 days		<u>1</u>	1	3	
<u>&gt; 180 days</u>		<u>1</u>		15	-
Total		3	16	18	67
Clients at risk (>30)			1	18	17
<u>Repayment and Write-off</u>					
Cumulative Repayment Rate				99.998%	99.998%
Write-off (Rp 000)				314	333
<b>Personnel</b>					
<u>Total Staff (field + head office)</u>	<u>57</u>	<u>122</u>	<u>258</u>	<u>420</u>	<u>779</u>
Head office staff	6	9	11	14	17
<u>Field staff</u>	<u>51</u>	<u>113</u>	<u>247</u>	<u>406</u>	<u>762</u>
District staff (incl. 1 driver)	2	5	28	37	66
Branch managers	5	15	31	55	113
<u>Field officers</u>	<u>44</u>	<u>93</u>	<u>188</u>	<u>314</u>	<u>583</u>
Field officers confirmed (>2 mths)	21	49	152	281	442
Probationary field officers (<2 mths)	7	14	36	33	141
Portfolio/field officer > 2mths (Rp.000)	111,809	115,256	165,734	202,896	227,114
Portfolio/field officer > 2 mths (US\$)	11,912	12,757	17,631	18,529	24,161
<b>Impact on Poverty</b>					
% Poor, new clients (Cashpor housing index)	90%	80%	75%	75%	75%
Moderately poor	10%	20%	25%	25%	25%
Non-poor	-	-	-	-	-
Client retention rate	95.7%	89.5%	90.8%	84.7%	85.6%

	2005	2006	2007	2008	2009
<i>Exchange rate: US\$1 =</i>	<i>9.386</i>	<i>9.035</i>	<i>9.400</i>	<i>10.950</i>	<i>9.400</i>
<b><u>Balance Sheet (Rp. 000)</u></b>					
<b><u>Total assets</u></b>	<b><u>6.428.659</u></b>	<b><u>11.708.432</u></b>	<b><u>36.979.860</u></b>	<b><u>83.057.521</u></b>	<b><u>138.306.186</u></b>
Outstanding portfolio	4,136,919	9,105,260	25,191,547	57,013,869	100,384,420
(Portfolio loss reserve)	-217,188	-455,055	-251,915	-570,138	-1,003,850
Net outstanding portfolio	3,919,731	8,650,205	24,939,632	56,443,731	99,380,570
% Portfolio loss reserve ratio	5.3%	5.0%	1.0%	1.0%	1.0%
Cash and current bank accounts	1,913,789	2,079,334	1,557,773	2,243,833	2,789,095
Short-term savings/deposit accounts			6,956,292	15,302,196	26,469,317
Other current assets	46,906	76,834	296,276	797,579.3	2,417,395
<b><u>Net fixed assets</u></b>	<b><u>548,233</u></b>	<b><u>902,060</u></b>	<b><u>3,229,887</u></b>	<b><u>4,051,087</u></b>	<b><u>7,249,809</u></b>
Property and equipment	784,825	1,408,538	4,264,137	5,980,119	10,693,014
(Accumulated depreciation)	236,592	-506,478	-1,034,250	-1,929,032	-3,443,205
Other non-current assets (net)					
<b><u>Current Liabilities</u></b>	<b><u>449,847</u></b>	<b><u>864,411</u></b>	<b><u>2,914,337</u></b>	<b><u>13,808,373</u></b>	<b><u>66,844,058</u></b>
Client responsibility fund	368,610	862,995	2,159,095	5,196,295	17,400,636
Short-term loans				7,347,004	47,081,675
Interest payable on loans			99,602	705,185	1,362,618
Withholding Tax		1,416	31,929	227,607	131,878
Other liabilities	81,237		623,711	332,281	867,251
<b><u>Long-term Liabilities</u></b>	<b><u>5,546.808</u></b>	<b><u>9,886.037</u></b>	<b><u>24,855.549</u></b>	<b><u>59,265,279</u></b>	<b><u>48,850,852</u></b>
Employee pension benefits	-			21,255	55,611
Long-term loans	<u>5,546.808</u>	<u>9,886.037</u>	<u>24,855,549</u>	<u>59,244,024</u>	<u>48,795,241</u>
<b><u>Subordinated debt</u></b>	<b><u>5,546.808</u></b>	<b><u>5,218.637</u></b>	<b><u>1,782.855</u></b>	<b><u>1,782.855</u></b>	<b><u>8,731,388</u></b>
<b><u>Senior long-term loans</u></b>	<b><u>-</u></b>	<b><u>4,667,400</u></b>	<b><u>23,072,694</u></b>	<b><u>57,461,169</u></b>	<b><u>40,063,853</u></b>
Foreign loans			15,049,500	39,657,976	34,044,290
Total senior loans		4,667,400	23,072,694	64,808,173	87,145,527
Total loans	5,546,808	9,886,037	24,855,549	66,591,028	95,876,916
<b><u>Total liabilities</u></b>	<b><u>5,996.655</u></b>	<b><u>10,750.448</u></b>	<b><u>27,769.886</u></b>	<b><u>73,073.651</u></b>	<b><u>115,694.910</u></b>
<b><u>Total equity</u></b>	<b><u>432.004</u></b>	<b><u>957.983</u></b>	<b><u>9,209.974</u></b>	<b><u>9,983.870</u></b>	<b><u>21,869.192</u></b>
Paid-up Capital	100,000	100,000	3,000,000	9,114,000	9,114,000
Adjustment			6,114,041	41	41
Retained Earnings	200,677	332,004	32,867	95,933	1,477,264
Profit/loss, end of year	131,327	525,979	63,066	773,896	11,277,888
Adjustment for unrealized forex losses				-4,871,601	742,085
<b><u>Total Equity adjusted for forex losses</u></b>	<b><u>432.004</u></b>	<b><u>957.983</u></b>	<b><u>9,209.974</u></b>	<b><u>5,112.269</u></b>	<b><u>22,611,277</u></b>
<b><u>Total liabilities &amp; equity</u></b>	<b><u>6,428.659</u></b>	<b><u>11,708.432</u></b>	<b><u>36,979.860</u></b>	<b><u>83,057,522</u></b>	<b><u>138,306,186</u></b>
<b><u>Income Statement (Rp.000)</u></b>					
Profit sharing ratio (new working capital)	30%	25%	25%	35%	25%
<b><u>Financial revenue</u></b>	<b><u>1,329,377</u></b>	<b><u>3,773,419</u></b>	<b><u>7,257,908</u></b>	<b><u>18,746,826</u></b>	<b><u>40,329,143</u></b>
<b><u>Profit-sharing and fees on portfolio</u></b>	<b><u>1,309,314</u></b>	<b><u>3,702,404</u></b>	<b><u>7,143,826</u></b>	<b><u>18,429,248</u></b>	<b><u>39,706,953</u></b>
Profit-sharing on Portfolio	1,301,147	3,679,253	7,110,094	18,109,293	32,934,725
Profit-sharing surcharge on portfolio				181,088	6,659,056
Fee income	8,166	23,151	33,733	138,867	113,171
Interest income on investments	20,063	71,015	114,081	317,578	622,190
<b><u>Total expenses</u></b>	<b><u>1,170,558</u></b>	<b><u>3,054,418</u></b>	<b><u>7,821,600</u></b>	<b><u>17,166,582</u></b>	<b><u>28,888,413</u></b>
<b><u>Financial expenses</u></b>	<b><u>225,507</u></b>	<b><u>552,026</u></b>	<b><u>1,830,671</u></b>	<b><u>6,068,180</u></b>	<b><u>8,323,567</u></b>
Interest and fee expense	8,012	314,542	1,652,947	5,636,222	7,855,160

	2005	2006	2007	2008	2009
<i>Exchange rate: US\$1 =</i>	<i>9.386</i>	<i>9.035</i>	<i>9.400</i>	<i>10.950</i>	<i>9.400</i>
Portfolio loss reserve expenses	217,495	237,484	177,724	431,958	468,407
Provision for foreign exchange losses					
<u>Operating expenses</u>	<u>945,051</u>	<u>2,502,391</u>	<u>5,990,929</u>	<u>11,098,402</u>	<u>20,564,845</u>
Personnel expense	416,613	1,292,811	3,485,331	7,633,995	13,207,778
All other expenses	528,438	1,209,580	2,505,598	3,464,407	7,357,067
Personnel expense ratio	44%	52%	58%	69%	64%
<u>Operating expenses</u>	<u>945,051</u>	<u>2,502,391</u>	<u>5,990,929</u>	<u>11,098,402</u>	<u>20,564,845</u>
HO Operating Expense	392,574	739,957	1,162,368	2,237,411	3,117,038
Branch Operating Expense	552,477	1,762,434	4,828,561	8,860,991	17,447,807
Overhead ratio	42%	30%	19%	20%	15%
(HO/total operating expenses)					
<u>Net Operating Income before tax</u>	<u>158,819</u>	<u>719,002</u>	<u>-563,693</u>	<u>1,580,243</u>	<u>11,440,730</u>
Grant income for operations			<u>656,063</u>		
Total income before tax	-		92,370	1,580,243	11,440,730
<u>Corporate Tax</u>	<u>27,492</u>	<u>193,022</u>	<u>29,304</u>	<u>153,767</u>	<u>162,842</u>
Net Income after Tax	131,327	525,979	63,066	1,426,477	11,277,888
<u>Unrealized forex gains (losses)</u>				<u>-652,580</u>	<u>5,613,686</u>
<b>Adjusted Profit/Loss</b>	<b>131,327</b>	<b>525,979</b>	<b>63,066</b>	<b>773,896</b>	<b>16,891,574</b>
<b><u>Balance Sheet (US\$)</u></b>					
Total assets	684,920	1,295,897	3,934,028	<u>7,585,162</u>	<u>14,713,424</u>
Outstanding portfolio	440,754	1,007,776	2,679,952	5,206,746	10,679,194
(Portfolio loss reserve)	-23,140	-50,366	-26,799	-52,067	-106,793
Net outstanding portfolio	417,615	957,411	2,653,152	5,154,679	10,572,401
% Portfolio loss reserve ratio	0	0	0	0	0
Cash and current bank accounts	203,898	230,142	165,721	204,916	296,712
Short-term savings/deposit accounts			740,031	1,397,461	2,815,885
Other current assets	4,997	8,504	31,519	72,838	257,170
<u>Net fixed assets</u>	<u>58,410</u>	<u>99,841</u>	<u>343,605</u>	<u>369,962</u>	<u>771,256</u>
Property and equipment	83,617	155,898	453,632	546,130	1,137,555
(Accumulated depreciation)	25,207	-56,057	-110,027	-176,167	-366,298
Other non-current assets (net)					
<u>Current Liabilities</u>	<u>47,927</u>	<u>95,674</u>	<u>310,036</u>	<u>1,261,039</u>	<u>7,111,070</u>
Client responsibility fund	39,272	95,517	229,691	474,547	1,851,131
Temporary loan, Dhanani (int. free)					
Short-term loans				670,959	5,008,689
Interest payable on loans			10,596	64,400	144,959
Withholding Tax		157	3,397	20,786	14,030
Other liabilities	8,655		66,352	30,345	92,261
<u>Long-term Liabilities</u>	<u>590,966</u>	<u>1,094,193</u>	<u>2,644,207</u>	<u>5,412,354</u>	<u>5,196,899</u>
Employee pension benefits				1,941	5,916
Long-term loans	590,966	1,094,193	2,644,207	5,410,413	5,190,983
<u>Subordinated debt</u>	<u>590,966</u>	<u>577,602</u>	<u>189,665</u>	<u>162,818</u>	<u>928,871</u>
<u>Senior long-term loans</u>		<u>516,591</u>	<u>2,454,542</u>	<u>5,247,595</u>	<u>4,262,112</u>
Foreign loans			1,601,011	3,621,733	3,621,733
Total senior loans		516,591	2,454,542	5,918,555	9,270,801
Total loans	590,966	1,094,193	2,644,207	6,081,372	10,199,672
<u>Total liabilities</u>	<u>638,894</u>	<u>1,189,867</u>	<u>2,954,243</u>	<u>6,673,393</u>	<u>12,307,969</u>
<u>Total equity</u>	<u>46,026</u>	<u>106,030</u>	<u>979,784</u>	<u>911,769</u>	<u>2,326,510</u>
Paid-up Capital	10,654	11,068	319,149	832,329	969,574
Adjustment			650,430	4	4
Retained Earnings	21,380	36,746	3,496	8,761	157,156

	2005	2006	2007	2008	2009
<i>Exchange rate: US\$1 =</i>	<i>9.386</i>	<i>9.035</i>	<i>9.400</i>	<i>10.950</i>	<i>9.400</i>
Profit/loss, end of quarter	13,992	58,216	6,709	70,675	1,199,775
Adjustment for unrealized forex losses				-444,895	78,945
<u>Total Equity adjusted for forex losses</u>	46,026	106,030	979,784	466,874	2,405,455
<b><u>Total liabilities &amp; equity</u></b>	684,920	1,295,897	3,934,028	7,585,162	14,713,424
<b><u>Income Statement (US\$)</u></b>					
Profit sharing ratio (new working capital)	30%	25%	25%	35%	25%
<u>Financial revenue</u>	141,634	417,645	772,118	1,712,039	4,290,334
<u>Profit-sharing and fees on portfolio</u>	139,496	409,785	759,982	1,683,036	4,224,144
Profit-sharing on Portfolio	138,626	407,222	756,393	1,653,817	3,503,694
Profit-sharing surcharge on portfolio				16,538	708,410
Fee income	870	2,562	3,589	12,682	12,040
Interest income on investments	2,138	7,860	12,136	29,003	66,190
<b><u>Total expenses</u></b>	124,713	338,065	832,085	1,567,724	3,073,235
<u>Financial expenses</u>	24,026	61,099	194,752	554,172	885,486
Interest and fee expense	854	34,814	175,845	514,723	835,655
Portfolio loss reserve expenses	23,172	26,285	18,907	39,448	49,831
Provision for foreign exchange losses					
<u>Operating expenses</u>	100,687	276,966	637,333	<u>1,013,553</u>	<u>2,187,750</u>
Personnel expense	44,387	143,089	370,780	697,168	1,405,083
All other expenses	56,301	133,877	266,553	316,384	782,667
Personnel expense ratio	44%	52%	58%	69%	64%
<u>Operating expenses</u>	100,687	276,966	637,333	<u>1,013,553</u>	<u>2,187,750</u>
HO Operating Expense	41,825	81,899	123,656	204,330	331,600
Branch Operating Expense	58,862	195,067	513,677	809,223	1,856,150
Overhead ratio	42%	30%	19%	20%	15%
(HO/total operating expenses)					
<u>Net Operating Income before tax</u>	<u>16,921</u>	<u>79,580</u>	<u>-59,967</u>	<u>144,314</u>	<u>1,217,099</u>
Grant income for operations			69,794		
Total income before tax			9,827	144,314	1,217,099
<u>Corporate Tax</u>	<u>2,929</u>	<u>21,364</u>	<u>3,117</u>	<u>14,043</u>	<u>17,324</u>
Net Income after Tax	13,992	58,216	6,709	130,272	1,199,775
<u>Unrealized forex gains (losses)</u>	-			<u>-59,596</u>	<u>597,201</u>
<b>Adjusted Profit/Loss</b>	13,992	58,216	6,709	70,675	1,796,976