Analysis of Potential Demand for Microfinance Services in West-Java by District Areas

Muhammad Nashihin*a

*Universiti of Trilogi, Jln TMP Kalibata, Jakarta 12760, Indonesia

Abstract

Indonesia has long history of microfinance services in both rural and urban areas. However, financial inclusion in Indonesia currently is quite low compared to other developing countries. One of the strategies is to establish microfinance institutions (MFI). The MFI is believed to be an important tool to reach the low-income people. Access to financial services has allowed many low-income families to make a significant progress in their own efforts to escape from poverty. The government supports the growth of microfinance services through many instruments, such as regulations, subsidy, and directed credit policies. The government aware that such policies have not been effective in providing the poor with a sustainable access to the MFIs services. Assessing potential demand is one aspect to ensure that the microfinance is feasible and hence the sustainability of the services is assured. This study is aimed to analyze the potential demand for microfinance services in West Java by district areas. The approach used in this study is to employ the rich information about household and household members in the National Socio-Economic Survey (Susenas) data. Data from Bank of Indonesia on the size of depositor funds or credit disbursed in rural banks (BPR) are also used to supplement the previous data sources. The result shows that potential demand for microfinance services in West Java are almost 2 million people who are self-employed and self-employed with no paid workers. The potential demand for saving is estimated at Rp 1,902 billion, micro credit is estimated at Rp 16,669 billion, and the need for microfinance institution in terms of BPR is about 513 units, which is far above the existing number of BPR in West Java.
Keywords: demand for microfinance services; West Java; potential demand for saving; potential demand for micro credit; BPR

1. Background

Indonesia has long history of Micro Financial Institution (MFI) in both rural and urban areas. Among a large number of commercial banks owned by foreigner during the colonial period, there were two financial institution owned by Indonesian, i.e., BKDs (Badan Kredit Desa, village banks) and BRI-Units (Lapenu 1998). Most of them were located in Java (in the rice-producing great plains). According to Syukur M. (1991) as written in (Lapenu 1998), this kind of financial institution by the beginning of the twentieth century were more than 20,000. They are still exist today, but in more limited numbers (5,300 in 1993). Meanwhile, the BRI-Units is a national state bank and was established in 1895 (during the Dutch colonial period). The BRI-Units operated at district levels. Until 1968, the BRI-Units mostly served civil servants and, on occasion, farmers or entrepreneurs.

There were two paths of the MFI development during President Soeharto administration. Prior to 1984 the development of MFI or financial institution in general was characterized by state intervention. After 1984, in which, banking reforms were implemented, the development was characterized by a financial liberalization (Lapenu 1998). Number of financial institution rose significantly. Post the 1997 economic crisis, there were other regulatory reforms. That was, a relatively small and community-based financial institutions were instructed to merge into the larger ones. The main assumptions behind the reforms were that bigger financial institutions were safer than smaller ones (Rosengard et al. 2007).

In terms of financial inclusion, Indonesia is currently quite low compared to other developing countries. According to Rosengard (2007), the proportion of rural households who actively use savings accounts is still below 40% and almost 50% are still lack of access to micro credit. Although roughly 40 percent of poor households were judged creditworthy according to the criteria of Indonesia’s largest microfinance bank, it has been estimated that less than 10 percent had recently borrowed from a microfinance or formal lenders (Johnston and Morduch 2008). In line with this issue, Rosengard (2011) found two paradoxes in the Indonesian financial sector. The first one is that Indonesia has been known as a global leader in microfinance, but access to microfinance services has been declining. The second paradox is that the Indonesian commercial banks have been liquid and profitable, and the Indonesian economy has been doing well over the past decade, but small and medium enterprises are facing a credit crunch.

One of the strategies to increase financial inclusion is to establish microfinance institutions (MFI). The MFI is believed to be an important tool to reach the low-income people. Access to financial services has allowed many low-income families to make significant progress in their own efforts to escape poverty. According to Claessens (2011) the first principle for expanding financial services is to promote entry of firms to the industry and to promote a competition among them.

The government supports the growth of microfinance services through many instruments, such as regulations, subsidy, and directed credit policies. The government aware that such policies have not been effective in providing people who are poor with the sustainable access to the MFIs services.

Assessing potential demand is one aspect in ensuring that the microfinance is feasible and hence the sustainability of the services is highly possible. A lack of awareness on the demand side of the MFI becomes a driving force behind the gap between actual and potential demand for microfinance services(Janssen 2009).

In line with the issue, this study is aimed to analyze the potential demand for microfinance services in West Java by district areas.
2. The methods to estimate potential demand for microfinance services

Several methods can be applied to estimate the potential demand for microfinance services. Following SEON Foundations (2008), to estimate the potential demand for microfinance services used in this study is to employ the information about household and household-members in the National Socio-Economic Survey data (SUSENAS, 2005), especially information on job or employment’s status. There are seven categories, in which among others are (i) self-employed people, i.e. people who run his/her own business solely, (ii) self-employed people and helped by no-paid workers. The proportion of household members who are under the two categories is estimated from the data for each district in West Java. Those who are under the two categories and who are considering themselves as being poor (as answered in the survey) are the source of potential demand for microfinance services. The proportion is then applied to number of population within each district to get number of people who are self-employed as mentioned. Data from Bank of Indonesia on the size of depositor funds or credit disbursed in BPR are also used to supplement the previous data source.

3. The Types of Demand on MFIs Services

3.1. MFI Vs microcredit

The terms microfinance and microcredit are actually two different concepts. However, as the two terms are very closely related, they are often misused interchangeably. Microcredit refers to small amount of credit (loans) disbursed by Microfinance institutions (MFI) to customers that are not served by the regular financial system. Usually the repayment period is short and no collateral is required. Also, the typical borrowers are from low income individuals and households who have no or very few assets that can serve as collateral (Bouman 1989) as cited in Janssen (2009).

Other characteristics are that microcredit is usually in the scheme of group lending with rigorous monitoring and progressive lending to lower the risks of default, and to lower the costs of monitoring and administration (Bramono et al. na). The reason is that the selection of borrower is done group members. This to ensure that trustworthy and creditworthy of the borrower is admitted into the group. Furthermore, other group members know their fellow villagers best. The repayments of loan are quickly and frequently, i.e., daily basis, or weekly, or once every two weeks. By doing so, monitoring to creditworthiness of the borrowers can be implemented by the lender more frequently. Lastly, progressive lending means that borrowers may raise their loans after a first credit scheme has been paid on schedule. This means the progressive lending provides an incentive for borrowers to repay their loans on time.

It now turns to microfinance concept. As its literally meaning, microfinance refers to the whole range of financial services being offered to mostly low-income people. This may include microcredit, micro insurance, and saving deposits from low-income households (micro savings). Sometimes it even involves helping clients business and financial advice (Bramono et al. na). The inclusion of saving services to the poor is important, as it allows the microfinance institutions to do banking like activities to community. According to Armendariz and Morduch (2010), this is more important than the role of microfinance in giving a microcredit.

Compared to financial services from a bank, there are two distinctive features of microfinance services. As noted by Syaikhu et al. (2004) the microfinance services are small in size both for credit and saving services. No collaterals requirements are another distinctive feature.

A lot of attention has been paid to the growth and the role of microfinance in the development. The existence of microfinance has opened new possibilities for extending markets, reducing poverty, and fostering social change. However, there has also been a series of puzzles, which have not yet been resolved, some myths as well.

Several myths about the microfinance are as follows (Armendariz and Morduch 2010) p 4-5. First, microfinance is essentially about providing loans. However, serving to the low-income households to save is also important. And
even, for the poorest, saving is more important. Second, microfinance has been famous for the high repayment rates on loans, which is due to the scheme of group lending contracts. Indeed, group lending has been a critical innovation. However, the secret of the high repayment goes beyond group lending. That is, the role of female customers and the improved management practices. Third, microfinance has an important role in poverty reduction and gender empowerment. But, the microfinance is not a magic bullet. It needs some necessary conditions in which it works. The microfinance may not work everywhere or for everyone. Finally, most micro lenders today are both serving the poor and making profits. However, subsidies are still needed to move microfinance forward.

3.2. MFI in Indonesia

Indonesia has a deep experience in the promotion of MFIs, the expansion of microfinance, and the alleviation of poverty (Seibel and Parhusip 1997). The development of microfinance institution (and formal bank in general) is affected by the government regulation. The first milestone of the regulation is banking law No.14/1967 on the Principles of Banking. Under this law, the establishment of new banks beyond those set out in the law was prohibited. However, the existing ones still allowed to keep running. The microfinance that already established were the Fund and the Rural Credit Institutions (LDKP) in West Java, District Credit Agency (BKK) in Central Java Business Loans, micro credit for People (KURK) in East Java, Lumbung Pittih Nagari (LPN) in West Sumatra, and the Village Credit Institutions (LPD) in Bali.

The following regulation is the deregulation of banking in 1983 which led to a surge in national resource mobilization and a multitude of financial innovations. Next law is PAKTO 88 (October Pack1988), in which the establishment of new BPR is easier. It led to the establishment of a rapidly increasing number of BPR and the transformation of small financial institutions into BPR.

The following law is the Law no. 7/1992 on banking. According to this law, Indonesia’s financial system comprises bank and non-bank financial institutions. Only two types of banks are recognized by the law: commercial banks and rural bank (BPR). This means microfinance institutions that do not qualify as BPR was considered as an illegal bank or commonly referred to as non-formal institutions (Syaikhu et al. 2004).

Table 1: Three broad categories of Microfinance players in Indonesia

| Institutional Microfinance                          | Program Microfinance                      | Individual Microcredit |
|-----------------------------------------------------|-------------------------------------------|------------------------|
| 1. Commercial Banks (mainly BRI Units)              | 1. Microfinance System Building           | 1. Moneylenders         |
| 2. People’s Credit Banks (BPR)                      | 2. Poverty Alleviation Programs           | 2. Traders              |
| 3. Village Credit Fund Institutions (LDKP)          | 3. Crisis-related channeling of funds     | 3. Shopkeepers          |
| 4. Village Credit Institutions (BKD)                | 4. NGO microcredit programs               | 4. Neighbours           |
| 5. Village Savings & Credit Units (UED-SP)          |                                           | 5. Family Members       |
| 6. State-Owned Pawnshops                            |                                           |                        |
| 7. Microfinance Cooperatives                         |                                           |                        |
| 8. Savings and Credit Association                   |                                           |                        |

Source: (Adra, Turpin, and Reuze 2009)

The players in the microfinance sector providing services for low income people in Indonesia can be classified into three broad categories, i.e., institutional microfinance; program microfinance, and individual microfinance (Table 1). Within each category are numerous types. Rural MFIs are quite heterogeneous. The followings are the players within institutional microfinance (Adra, Turpin, and Reuze 2009):

1. Commercial banks, mainly BRI-Units (state-owned bank),
2. People’s Credit Banks (BPR), secondary banks created after the PAKTO 88,
3. Rural Credit Fund Institutions (LDKP), microfinance institution established by provincial governments since the 1970s. The most outstanding one is Lembaga Perkreditan Desa (LPD) in Bali, which has more than half of all LDKPs and incorporating more than 75% of all assets and 85% of all deposits,
4. Village Credit Boards (BKD), only in Java only with long history dated back to colonial times,
5. Village Economic Unit – Savings and Credit (UED-SP), tiny village institutions under supervisions of the Ministry of Home Affairs since 1995,
6. The pawn business, has been a monopoly of the government and is organized in form of a profit-oriented state enterprise since 1990,
7. Cooperatives, established under the state’s control since 1945. They are headed by the Ministry of Cooperatives.
8. Credit Unions, known as Koperasi Kredit (Kopdit). This operates is similar to savings & credit cooperatives, and Savings and credit service posts operate at the village level and are supervised and technically assisted by BRI.

The next players are under governmental and social programs providing easy and cheap credit of microfinance. A lot of programs are under this category. The last participants are individual microfinance consisting of money lenders, shopkeepers, and the like.

Among the participant mentioned, the BRI-unit is well known as one of the largest and most successful microfinance institution in the world (Patten, Rosengard, and Johnston Jr. 2001). Perhaps one of the most remarkable features of microfinance in Indonesia is the sector's self-financing capacity (Seibel and Parhusip 1997).

3.3. The potential demand for microfinance services

As noted by Johnston and Morduch (2008), the logic behind the establishment of microfinance is that hundreds of millions of poor and very poor households seek capital. They need loans to build small businesses, but due to the lack of collateral, they are not able to access the loans from formal financial institution.

The innovative of microfinance institution operating like a bank meets the demand with more flexible collateral requirements. This type of institution became more popular after the Nobel Peace Prize was awarded to Muhammad Yunus and the Grameen Bank of Bangladesh in 1996. According to Yunus (2008, p. 3), as cited by Johnston and Morduch (2008), the key features of microcredit include the idea that the loans are designed “to help the poor families to help themselves to overcome poverty.” Further, “it is not based on any collateral, or legally enforceable contracts. It is based on a ‘trust,’ not on legal procedures and system.” And specifically, “it is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.”

In Indonesia, the potential expansion of the microfinance services is still widely open. The demand for microfinance services both demand for micro credit and saving deposit services can be considered still widely opened. Indonesia is clearly under-banked by standard measures of financial depth even the non-bank financial institutions are included in the estimation (Rosengard and Prasetyantoko 2011). This is of great concern to the government because financial sector can trigger a high economic growth.

The following are some factors supporting the expansion of the microfinance services (Soetrisno 2003):
1. There is a lot of micro and small enterprises that are still not reached by the microfinance institutions,
2. The micro and small enterprises are located next to the microfinance institutions,
3. Potential saving deposits from the low income people is still not explored yet especially in rural areas,
4. Support of domestic and international institutions are strong enough

Furthermore, market segmentation of microfinance institutions in general are still opened and in diverse segment because most of the micro and small enterprises cannot be served by the formal bank. That is, the micro and small enterprises that are considered by the formal bank as (Soetrisno 2003):
1. Having no ability to fulfill required administration,
2. Having no sufficient collateral,
3. Involving a high transaction cost,
4. Out of the bank branch service areas.

4. The Results and Discussion
According to BI (2010), the average saving size of low income group as indicated by average saving deposits (per customer) at BPR as of December 2010 was Rp 927 thousands (Table 2). There was an estimates of micro saving account provided by BPR in 1995 (15 years backward), i.e., Rp 413 thousand (Seibel and Parhusip 1997). Based on the World Table of the World Bank, Indonesian Consumer Price Index (CPI) in 1995 and 2010 were 28.23 and 145.59, respectively with the base year of 2005. Based on these data, it is estimated that the annual inflation rate between 1995 and 2010 was 11.56 percent. With this inflation rate, the purchasing power of Rp 310 thousands in 1995 was equal to Rp 2,129 thousands in 2010. This means that average size of size deposits in indicated in Table 2 is actually far below the size in 1993 estimated by Seibel and Parhusip. Table 2 also shows that average micro credit disbursed by BPR was Rp 8,129 thousand, meanwhile on the average BPR were keeping 4,001 saving account.

Table 2: Main indicators of BPR in West Java (2010)

| Indicators                        | July  | August | September | October | November | December |
|-----------------------------------|-------|--------|-----------|---------|----------|----------|
| # BPR                             | 379   | 379    | 379       | 378     | 377      | 376      |
| Source of funds (Rp. 000)         |       |        |           |         |          |          |
| - Saving deposits per customer    | 865   | 827    | 839       | 884     | 893      | 927      |
| - Time deposits per customer      | 60,598| 61,708 | 63,299    | 63,537  | 64,010   | 63,552   |
| Allocation of funds (Rp. 000)     |       |        |           |         |          |          |
| - Credit disbursed                | 8,454 | 8,635  | 8,643     | 8,172   | 8,567    | 8,129    |
| Number of Customers (# Account) per BPR |       |        |           |         |          |          |
| - Saving deposit                  | 3,899 | 3,935  | 3,956     | 3,974   | 4,001    | 4,001    |
| - Time Deposits                   | 190   | 188    | 190       | 192     | 194      | 196      |
| - Debitors                        | 1,709 | 1,721  | 1,725     | 1,876   | 1,793    | 1,920    |

Source: estimated from BI (2010)

Based on these indicators shown in Table 2, the estimates of potential demand for various products of microfinance institution such as potential demand for saving deposits, for micro credit, and the number of BPR could be estimated for each district.

As mentioned previously, the Susenas provides information on job status of every household member. There are seven categories, in which among others are (i) self-employed people, i.e. people who run his/her own business solely, (ii) self-employed people and helped by no-paid workers. The proportion of the people under these categories is estimated and the results are shown in Table 3.
Table 3: The proportion and the number of people who were self-employed plus self-employed with no-paid workers

| No. | Districts          | 2005 | 2010 |
|-----|--------------------|------|------|
|     | % of self-employed | Population | # of self-employed |  
|     | people plus self-employed people with no-paid workers | plus self-employed people with no-paid workers | |
| (1) | (2) | (3) | (4) | (5) |
| 1   | Kab. Bogor         | 11.7 | 4,174,490 | 488,971 |
| 2   | Kab. Sukabumi      | 14.1 | 2,410,152 | 340,326 |
| 3   | Kab. Cianjur       | 16.6 | 2,300,558 | 382,947 |
| 4   | Kab. Bandung       | 11.6 | 4,515,042 | 524,305 |
| 5   | Kab. Garut         | 14.5 | 2,424,800 | 350,395 |
| 6   | Kab. Tasikmalaya   | 19.3 | 1,778,638 | 342,510 |
| 7   | Kab. Ciamis        | 22.7 | 1,660,363 | 376,320 |
| 8   | Kab. Kuningan      | 19.0 | 1,153,980 | 219,377 |
| 9   | Kab. Cirebon       | 15.6 | 2,273,436 | 355,300 |
| 10  | Kab. Majalengka    | 21.4 | 1,283,917 | 275,344 |
| 11  | Kab. Sumedang      | 17.9 | 1,128,357 | 202,060 |
| 12  | Kab. Indramayu     | 19.4 | 1,852,843 | 359,821 |
| 13  | Kab. Subang        | 18.9 | 1,528,395 | 288,106 |
| 14  | Kab. Purwakarta    | 11.6 | 846,085 | 97,822 |
| 15  | Kab. Karawang      | 14.1 | 2,094,392 | 295,187 |
| 16  | Kab. Bekasi        | 15.2 | 2,146,016 | 325,582 |
| 17  | Kota Bogor         | 10.9 | 1,044,504 | 113,605 |
| 18  | Kota Sukabumi      | 12.6 | 338,833 | 42,635 |
| 19  | Kota Bandung       | 12.4 | 2,493,496 | 309,023 |
| 20  | Kota Cirebon       | 12.5 | 335,005 | 41,739 |
| 21  | Kota Bekasi        | 9.9 | 2,287,195 | 225,620 |
| 22  | Kota Depok         | 9.1 | 1,506,592 | 136,717 |
| 23  | Kota Cimahi        | 7.8 | 659,213 | 51,347 |
| 24  | Kota Tasikmalaya   | 13.0 | 634,839 | 82,470 |
| 25  | Kota Banjar        | 14.2 | 182,592 | 25,861 |
| Total | 14.5 | 43,053,732 | 6,253,391 |

*Note: Column (5)=(3)*(4)*

*Source: Author’s estimates based on SUSENAS 2005*

On the average, people who were self-employed plus self-employed and having no paid workers in West Java according to BPS (2005), i.e., SUSENAS 2005, were almost 15 percent of the population (Table 3). Among districts in West Java, the highest percentage was in Kab. Ciamis and the smallest one was in Kota Cimahi. Assuming the proportion for each district is constant over the period of 2005 to 2010, the estimated self-employed plus self-employed people with no paid workers in 2010 was 6.3 million (column 5). The SUSENAS gives other information. When the head of household of these people were asked: “Do you thing that your household are poor?” the answers indicates that 32.79 percent of them were considering themselves as being poor.

To estimate the potential demand for microfinance services, two estimates are applied, i.e., low estimates and high estimates. The low estimates mean the source of the potential demand is from those who are considering themselves as being poor out of the people shown in Table 3. This means the source of the potential demand is from 32.79 percent of the number indicated in column 5 of Table 3. The high estimate means the source of the potential demand is from all of the people shown in column 5 of Table 3. The low estimates and the high estimates are shown in Table 4 and Table 5 respectively.
Table 4: Various Potential demand indicators for microfinance services in West Java (low estimates)

| No. | Districts            | Potential demand for saving (Rp 000) | Potential demand for microcredit (Rp 000) | # BPR needed |
|-----|----------------------|--------------------------------------|-------------------------------------------|--------------|
| 1   | Kab. Bogor           | 149,000,000                          | 1,304,000,000                             | 40           |
| 2   | Kab. Sukabumi        | 104,000,000                          | 908,000,000                               | 28           |
| 3   | Kab. Cianjur         | 117,000,000                          | 1,021,000,000                             | 31           |
| 4   | Kab. Bandung         | 160,000,000                          | 1,398,000,000                             | 43           |
| 5   | Kab. Garut           | 107,000,000                          | 934,000,000                               | 29           |
| 6   | Kab. Tasikmalaya     | 105,000,000                          | 913,000,000                               | 28           |
| 7   | Kab. Ciamis          | 115,000,000                          | 1,004,000,000                             | 31           |
| 8   | Kab. Kuningan        | 67,000,000                           | 585,000,000                              | 18           |
| 9   | Kab. Cirebon         | 109,000,000                          | 948,000,000                               | 29           |
| 10  | Kab. Majalengka      | 84,000,000                           | 734,000,000                               | 23           |
| 11  | Kab. Sumedang        | 62,000,000                           | 539,000,000                               | 17           |
| 12  | Kab. Indramayu       | 110,000,000                          | 960,000,000                               | 29           |
| 13  | Kab. Subang          | 88,000,000                           | 768,000,000                               | 24           |
| 14  | Kab. Purwakarta      | 30,000,000                           | 261,000,000                               | 8            |
| 15  | Kab. Karawang        | 90,000,000                           | 787,000,000                               | 24           |
| 16  | Kab. Bekasi          | 99,000,000                           | 868,000,000                               | 27           |
| 17  | Kota Bogor           | 35,000,000                           | 303,000,000                               | 9            |
| 18  | Kota Sukabumi        | 13,000,000                           | 114,000,000                               | 3            |
| 19  | Kota Bandung         | 94,000,000                           | 824,000,000                               | 25           |
| 20  | Kota Cirebon         | 13,000,000                           | 112,000,000                               | 3            |
| 21  | Kota Bekasi          | 69,000,000                           | 602,000,000                               | 18           |
| 22  | Kota Depok           | 42,000,000                           | 365,000,000                               | 11           |
| 23  | Kota Cimahi          | 16,000,000                           | 137,000,000                               | 4            |
| 24  | Kota Tasikmalaya     | 26,000,000                           | 220,000,000                               | 7            |
| 25  | Kota Banjar          | 8,000,000                            | 69,000,000                                | 2            |

1,902,000,000  16,669,000,000  513

Note: Column (3)=32.79%*column (5) of Table 3*average saving size in BPR by Dec 2010 shown in Table 2 (round-up) Column (4)=32.79%*column (5) of Table 3*average micro credit in BPR by Dec 2010 shown in Table 2 (round-up) Column (5)=32.79%* column (5) of Table 3/average saving account in BPR by Dec 2010 shown in Table 2

Source: Author’s estimates based on SUSENAS 2005

Based on the low estimates, the indicators of potential demand for microfinance services are as follows:

1. Potential demand for saving deposit is amounting to: Rp 1,902 billion
2. Potential demand for micro credits is amounting to: Rp 16,669 billion
3. Potential demand for established microfinance institution in terms of BPR: 513 units

Compared to the existing BPR in West-Java by December 2010, which was 376 units, the low estimate of 513 units indicates a shortage supply of microfinance services. This means the idea of establishing new BPR or microfinance in West-Java to increase the financial inclusion can be implemented.
Table 5: Various Potential demand indicators for microfinance services in West Java (high estimates)

| No. | Districcs          | Potential demand for saving (Rp 000) | Potential demand for microcredit (Rp 000) | # BPR needed |
|-----|--------------------|--------------------------------------|------------------------------------------|-------------|
| 1   | Kab. Bogor         | 454,000,000                          | 3,975,000,000                           | 122         |
| 2   | Kab. Sukabumi      | 316,000,000                          | 2,767,000,000                           | 85          |
| 3   | Kab. Cianjur       | 356,000,000                          | 3,113,000,000                           | 96          |
| 4   | Kab. Bandung       | 487,000,000                          | 4,262,000,000                           | 131         |
| 5   | Kab. Garut         | 325,000,000                          | 2,849,000,000                           | 88          |
| 6   | Kab. Tasikmalaya   | 318,000,000                          | 2,785,000,000                           | 86          |
| 7   | Kab. Ciamis        | 349,000,000                          | 3,060,000,000                           | 94          |
| 8   | Kab. Kuningan      | 204,000,000                          | 1,784,000,000                           | 55          |
| 9   | Kab. Cirebon       | 330,000,000                          | 2,889,000,000                           | 89          |
| 10  | Kab. Majalengka    | 256,000,000                          | 2,239,000,000                           | 69          |
| 11  | Kab. Sumedang      | 188,000,000                          | 1,643,000,000                           | 51          |
| 12  | Kab. Indramayu     | 334,000,000                          | 2,925,000,000                           | 90          |
| 13  | Kab. Subang        | 268,000,000                          | 2,342,000,000                           | 72          |
| 14  | Kab. Purwakarta    | 91,000,000                           | 796,000,000                             | 24          |
| 15  | Kab. Karawang      | 274,000,000                          | 2,400,000,000                           | 74          |
| 16  | Kab. Bekasi        | 302,000,000                          | 2,647,000,000                           | 81          |
| 17  | Kota Bogor         | 106,000,000                          | 924,000,000                             | 28          |
| 18  | Kota Sukabumi      | 40,000,000                           | 347,000,000                             | 11          |
| 19  | Kota Bandung       | 287,000,000                          | 2,512,000,000                           | 77          |
| 20  | Kota Cirebon       | 39,000,000                           | 340,000,000                             | 10          |
| 21  | Kota Bekasi        | 210,000,000                          | 1,835,000,000                           | 56          |
| 22  | Kota Depok         | 127,000,000                          | 1,112,000,000                           | 34          |
| 23  | Kota Cimahi        | 48,000,000                           | 418,000,000                             | 13          |
| 24  | Kota Tasikmalaya   | 77,000,000                           | 671,000,000                             | 21          |
| 25  | Kota Banjar        | 24,000,000                           | 211,000,000                             | 6           |

|          |                        | 5,798,000,000                        | 50,833,000,000                          | 1,563       |

Note: Column (3)=column (5) of Table 3*average saving size in BPR by Dec 2010 shown in Table 2 (round-up)
Column (4)=column (5) of Table 3*average micro credit in BPR by Dec 2010 shown in Table 2 (round-up)
Column (5)=column (5) of Table 3/average saving account in BPR by Dec 2010 shown in Table 2

Source: Author’s estimates based on SUSENAS 2005

The high estimates shown in Table 5 reinforce the finding in Table 4. That is, the indicators of potential demand for microfinance services are as follows:

1. Potential demand for saving deposit is amounting to: Rp 5,798 billion
2. Potential demand for micro credits is amounting to: Rp 50,833 billion
3. Potential demand for established microfinance institution in terms of BPR: 1,563 units

All indicators of the potential demand based on high estimates are roughly five times of the indicators based on low estimates. Therefore, the shortage of supply of microfinance is much higher than the previous estimates.

5. Concluding Remarks
The estimated potential demand confirms what have been believed that the market of microfinance services in West Java still widely open. This is indicated by the existing number of BPR (a type of microfinance) in 2010 is much lower than the number of BPR needed. There has been a shortage of supply of microfinance services in West-Java.

It should be noted that early this year, the government of Indonesia issued a new legal framework for developing microfinance in Indonesia, namely the MFI Act No.1/2013 that will come into force on 8 January 2015.

Throughout of the paper, microfinance refers to all parties providing both saving and credit services in small scale to mostly low-income people. This function may be followed by some business development services. However, the new act defines microfinance as a financial institution that is specially established to provide the business development services and community empowerment, both through loans and financing in micro scale business to members and community, management deposits, as well as to provide consulting services for business development which is not only looking for a profit. Thus, the act puts the MFI function as microfinance institution, Business Development Service (BDS) provider, and Community Development Service (CDS) provider simultaneously. The latter definition could have different meaning with the commonly microfinance definition and used in this paper.
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