

# Introduction to the first International Conference Integrated Microfinance Management for Sustainable Community Development

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*Prof. Tri Hanggono, Prof. Ganjar Kurnia, Prof. Himendra, Dr. Adiatma, Participants of the Conference, Distinguished Guests, Ladies & Gentlemen,*

My wife and I feel most honoured and regard it as a true privilege to be invited here today at the grand opening of this important International Conference on Integrated Microfinance Management: *An Alternative Approach to the Provision of Financial and Non-financial Services to the Poor.*

I wish to express our high appreciation for the excellent work carried out by the Organizing Committee of the Faculty of Economics and Business of Universitas Padjadjaran (FEB/UNPAD) under the responsibility of Dr. Adiatma Siregar and the support of Prof.Dr. Tati Joesron, in close cooperation with the former Coordinator of M.IMM Dr. Asep Mulyana and his successor Dr. Anwar Mukhammad, kindly supported by Prof.Dr. Tri Hanggono and Prof. Ramdan Panigoro and the Rectorat of UNPAD to set the international stage for such a unique Conference, being the first of its kind in a global perspective to draw world-wide attention to our new, alternative approach to attain poverty reduction at the community level in Indonesia and elsewhere around the globe.

It goes without saying that we have to miss here today the presence of the Dean Dr. Nury Effendi, and we all wishing him a speedy recovery to join us again soonest.

I also would like to express my gratitude for the contribution of our LEAD Programme of Leiden University as a partner in the organization of the Conference, and the support to enable substantial input and contributions from our LEAD staff, including our Senior Advisor Mr. Vredevoogd, and our scientists Dr. Musuto Chirangi from Tanzania, Mr. De Bekker from Leiden, and our Liaison Officer of LEAD and FEB Mr. Kurniawan Saefullah. Moreover, we are very pleased that all PhD Fellows from LEAD have

submitted their abstracts to the Conference, among which we welcome Mrs. Wina Erwina, Mrs. Weny Asmadi, Mrs. Arum Perwitasari and Mr. Kusnandar who completed already their Master degrees to be here with us today. Similarly, I am very pleased with the contributions from former LEAD PhD Fellows Mrs. Dr. Poppy Djen Amar and Mrs. Dr. Nanet Ambaretnani.

Today's ground-breaking Conference builds on the pioneering activities, which our LEAD Programme of Leiden University had the privilege to jointly start with Universitas Padjadjaran since the late 1980's, later on formalized in 1996 with the undersigning of the MoU between both our universities, and it is indeed most fortunate, that both Rectors who undersigned that MoU exactly 20 years ago are among us here today to witness and substantiate the steady progress which we jointly have made ever since in research, training and project development.

Here I wish to pay special tribute to Prof. Himendra and Drs. Vredevoogd for their historical role in our most successful year-long UNPAD-UL cooperation programme.

Among the various joint activities of exhibitions, centennials, projects and programmes, the successful Master Programmes in medical anthropology and ethnomedicine under the joint TWINMAP Programme started already in the year 2000 to highlight the growing interest in joint research & training in *applied ethnoscience* in the medical social sciences, setting the tone for further cooperation in multidisciplinary fields later onwards, such as in ethno-agriculture, ethno-ecology, ethno-communication, ethno-pharmacy, ethno-mathematics and, last but not least, ethno-economics.

Before I elaborate on the promising development of ethno-economics as part of development economics within the context of today's International Conference, I would like to mention here the timely establishment in 1994 of the first *Indonesian Resource Center of Indigenous Knowledge* (INRIK), which has continued its work up until today, and which – in my opinion – deserves further development and university-wide support beyond rather mono-disciplinary IKS-based research, into more advanced multi-disciplinary education and training at the post-graduate level in different sub-fields, in which several faculties can provide their input and work together in a successful way in order to accumulate important applied-oriented information and learning in different sectors of the society, which is most useful for the solution of multifaceted problems in order to achieve sustainable development in Indonesia in the near future.

In the meantime, our multidisciplinary LEAD Programme at Leiden University further developed the significance of the role of systems of indigenous knowledge, belief, practice and institutions in the process of sustainable community development in development economics, particularly ethno-economics, where we were confronted with recurrent socio-economic problems of persistent poverty among the rural

population in several African and Asian countries, manifest in severe deprivations among the poor and low-income families as the result of lack of income, access to education and health, and an insufficient level of a living standard.

Since the pure monetary “dollar-a-day” poverty line of the World Bank showed soon to fall short to assess and measure the complexity of poverty, which led to the development of a more realistic Multidimensional Poverty Index (MPI) on additional socio-economic indicators, the LEAD Programme embarked on the paradigm shift of the late 1990’s from a ‘top-down’ to the ‘bottom-up’ approach towards the role of Indigenous Knowledge Systems (IKS) in development with a view to design alternative solutions to such socio-economic drama of unacceptable high poverty rates among large segments of the rural population of newly-developing nations, including Indonesia.

In the meantime, the concept of **microcredit** had been introduced in the late 1970’s by Muhammad Yusuf of the Grameen bank in Bangladesh, where relatively small, largely subsidized loans were provided to groups of poor and low-income families with low interest rates, and microcredit rapidly developed into a popular poverty reduction model which came to dominate many programmes and projects since the late 1980s.

Soon thereafter, the development of microcredit led to the introduction of extended financial services of the 1990s, such as micro-insurance, micro-deposits and micro-savings, provided by a growing number of microfinance institutions (MFIs). This process soon adopted the term of ‘*microfinance*’ covering a reference to a complex commercial process of distributing small-scale finance or microfinance with the objective to make the poor 'bankable'.

The basis for this 'microfinance revolution', referred to by the economist Bateman (2010) as the 'new wave' microfinance, had been laid by the emergence in the course of the 1990s of a new policy of *neoliberalism*, introducing the credo that all institutions and organizations operating in the socio-economic sector of the society, including public and private enterprises, public services and government agencies, should attain financial self-sufficiency and sustainability.

With the subsequent decline in external subsidies from donors for low interest rates for loans, it became clear that the NGOs and MFIs could not become self-sufficient solely on the basis of high repayment rates. By consequence, they soon transformed into conventional profit-making financial institutions as they had to replace their subsidized low interest rates by more commercially-oriented market-based interest rates on their loans, reducing them to the category of common financial institutions and commercial banks.

The provision of extended financial services to the poor through the new '*microfinance model*' began to find its way among MFIs throughout the world to switch to a practice of seeking more clients with an increased number of commercial unsubsidized loans and services, also attracting the interest from international capital investment funds.

Interestingly, one of the very first financial institutions to implement this new model in Indonesia was the *Bank Rakyat Indonesia* (BRI), which attuned its state-subsidized credit programmes in the rice sector also to the strategy of commercialization.

It is clear that the shift of the 1990s from *microcredit* to *microfinance* introduced a new era of extension of the commercialisation of various financial and banking institutions, often at the costs of their low-income clients. The process eventually even weakened the position of the poor. Notwithstanding, glamorous initiatives were launched by Hollywood stars, business tycoons, European and Middle-Eastern royalty and politicians committed to promote and lobby for microfinance, all pertaining to the designation by the U.N. of the Year 2005 as the *International Year of Microcredit*, and the subsequent awarding of the *Nobel Peace Prize* in 2006 to Muhammad Yunus and the Grameen Bank.

However, as the result of growing disillusion stemming from the neoliberal approach in microfinance, an international debate developed between the defenders of the *financial systems* approach and those who support the *poverty lending* approach. While the first approach advocates the notion that the capacity of MFIs to achieve self-sustainability can only be generated from income from lending money to clients and reducing operational costs of the institutes, the *poverty lending* approach, however, emphasizes the importance of providing credit with subsidized interest rates to help overcome poverty as the poor cannot afford high interest rates.

Eventually, the global poverty crisis and resulting persistent human suffering, for which conventional development paradigms seem to fail finding an adequate solution, render the need for the development of alternative approaches most urgent. As part of a wider multidimensional socio-economic and ecological problem, strategies to reduce poverty, crucial to attain sustainable development, have to encompass an alternative system-wide integration of knowledge, practice and experience in which the human factor should become the point of embarkation for such a rather holistic re-orientation at the community level. Apart from social considerations of empathy and compassion with the poor, who from a humanitarian perspective would deserve better, there is also an interest in reducing poverty from national governments, not only out of embarrassment, but also an economic concern as the increased costs of public services which provide support to the poor tend to have a negative impact on the national economy.

International organizations and national governments have become aware of the fact that a worldwide decrease in poverty is playing a contributive role in achieving global sustainable socio-economic development, rendering poverty reduction a primary goal in their recent development policies and strategies.

The United Nations Development Programme (UNDP) as one of the United Nations agencies engaged in the poverty reduction conundrum, contends in its report *Sustaining Human Progress* (2014) that progress in poverty reduction is continuing, but it has to admit that more than 2 billion people are either near or living in 'multidimensional poverty', as categorized by the *Multidimensional Poverty Index* (MPI). This index measures deprivation in the three dimensions of the *Human Development Index* (HDI), *i.e.* health, education and living standards. As the indigenous peoples make up about 5 percent of the world's population, they account for some 15 percent of the world's poor, with as many as a third of them living in extreme rural poverty.

In this context, the Secretary-General Ban Ki-moon in his recent address to the United Nations General Assembly at the occasion of the completion of the U.N. *Millennium Development Goals* (MDGs 2000) in 2015, entitled: *The Road to Dignity by 2030*, underscored the overarching objective of the new *U.N. Post-2015 Sustainable Development Agenda* to eradicate poverty by 2030, stating: '*We live in a world of plenty, and at a moment of enormous scientific promise. And yet, for hundreds and hundreds of millions across the globe, this is also an age of gnawing deprivation.*'

Based on preliminary positive experience with the functionalization of local peoples' knowledge, belief and practice in attaining improved health care and education at the community level in Kenya, East Africa, later onwards, LEAD developed in collaboration with the Faculty of Economics and Business of Universitas Padjadjaran in Indonesia an alternative strategy to contribute to finding a solution for the relatively high poverty rates in Indonesia.

In 2007, when I was invited to present the annual Cleveringa Lecture at the Trisakti School of Management in collaboration with Dr. Anak Agung Gde Agung – a former LEAD PhD Fellow - to introduce the new concept of Integrated Microfinance Management in relation to Health Communication, many scientist and students from UNPAD made the special effort to come to Jakarta and participate in the event as a significant step towards the further development of the IMM concept in cooperation between LEAD and FEB.

The new IMM strategy is based on the **integration of microfinancial services with non-financial services**, especially designed for poor and low-income families at the community level, encompassing not only financial support services, but also health services, education services, communication services,

and socio-cultural services, whereby the key issue in the IMM approach is that it takes the alternative route from the 'bottom-up' mode, starting with the local peoples own indigenous knowledge, practice and institutions, in this way rendering acceptance of such integrated management strategies and local peoples' participation no longer a problem at the community level.

In this way, we wish to develop a new form of horizontal integration between various service sectors with the local participants at the community level, where the local institutions are revitalized as local service centers under the management of our newly-trained integrated microfinance managers from FEB/UNPAD.

It was most rewarding that the Netherlands Ministry of Economic Affairs in The Hague saw the great potential in the new concept, and as such was prepared to provide financial support to the joint LEAD-FEB Project proposal to design, develop and implement our strategy in a twofold way: our contribution to the educational need in Indonesia for improved post-graduate training, and our contribution to the societal need in Indonesia for poverty reduction at the community level. We were pleased also to invite to participate in the set-up of the new programme the Mediterranean Agronomic Institute of Chania (MAICH), the Indonesian Movement of Microfinance (Gema PKM) and the Martha Tilaar Group in Jakarta, where I welcome with great pleasure the presence today of both key persons from Indonesia Drs. Bambang Ismawan and Mrs. |Dr. Martha Tilaar

The joint Netherlands-Indonesian endeavour not only seeks to provide an IKS-based solution to the lagging reduction of poverty in Indonesia – still hovering around more than 11% of the population despite the relatively high socio-economic growth rate - as a newly-developing nation, but also seeks to provide an urgently needed community-based contribution to the realization of the United Nations *Post-2015 Development Agenda for Sustainable Development Goals* (SDG 2015), where poverty reduction is among the highest priorities for the future.

As a result of the growing interest and activities in the new field of IMM around the world, the Conference on IMM&SCD invites scholars, researchers and students to contribute to the further development of this integrated approach by submitting their abstracts and presenting their papers related to the theoretical, methodological and practical development of Integrated Microfinance Management for poverty reduction in Indonesia and beyond. We are most grateful for the keen interest of the media, where I would in particular mention the accurate coverage by the Bandung-based Newspaper *Pikiran Rakyat* in their recent articles.

While the first International IMM Conference poses a challenge to all its participants to further develop, substantiate and promote the integrated microfinance management mission, it is for me as the founder of

the IMM concept an honour and indeed a great pleasure to witness the process of its further development and implementation and dissemination in Indonesia and beyond within the challenging environment of complicated processes of socio-economic development and globalization, wishing all participants a successful conference in the days to come.

It is now to us to place Indonesia with its rich cultural heritage of indigenous knowledge, belief and practice on the world map as a great potential to achieve truly sustainable community development in the years to come!

Thank you very much.

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