

SUMMARY

KTUT SILVANITA MANGANI. The Impact of Branchless Banking Program on the Performance of Households' Micro and Small Business in Rural Area: A Case Study in Bogor District, West Java, Indonesia. Supervised by YUSMAN SYAUKAT, BUSTANUL ARIFIN, and MANGARA TAMBUNAN.

One approach to achieve inclusive financial goals as a form of financial delivery channels to serve the 'unbanked' and 'underbanked' communities--most of whom live in rural areas-- is Branchless Banking (BB). BB is limited financial services provided by financial service providers, such as banks to customers without having to come to the bank office. To that end, banks use third parties called agents as an extension of bank services in the rural areas as well as using information technology. The BB program is the fifth pillar of the National Strategy for Inclusive Finance (SNKI), which was declared in 2012. Bank Indonesia (BI) named its program as the Digital Financial Service (LKD) and Financial Services Authority (OJK) calls it as "Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif" or "Laku Pandai"—Non-Office Financial Services in the Framework of Financial Inclusion.

The OJK report of the third quarter, 2016 indicates that the BB program has been implemented in the community. However, there has been no publication of the success of the program regarding goals in the Inclusive Finance Strategy. This study aims: (1) To portrait the implementation of BB program in rural areas, (2) To analyze the implementation of BB program in accordance with its function to eliminate price and non-price barriers, (3) To analyze the existence of target groups (customers) involved in the BB program, in terms of production activities and financial transactions related to the goals of the Financial Inclusion Strategy, and (4) To analyze the potential of economic development of target groups (customers) related to the development of BB program.

Portraits in the field indicate that there are still few micro-small business actors around the agents involved in the program. The frequency of transactions conducted by business households on BB agents is relatively low, and tend to use cash (cash basis). In general, transactions are made for the purposes of payment transactions.

The evaluation of BB program implementation with principal-agent approach reveals several problems that occur in the selection process, including the adverse selection behavior of the (prospective) agent and moral hazard behavior of the agent. Problems occurring in the selection process such as the location of the BB agent close to the "Mini-mart", the agents are adjacent to each other (in one village there are more than one agent from the same bank), the location of the agent is close to the bank office. Other issues that are also involved in the selection process are the presence of a passive 'big' agent and caused reluctance of 'small' people to make transactions with that agent, aside closed on Sundays. It was revealed that agents brought EDC machines to other locations and thus become inactive in serving the community at the listed locations.

Related to adverse selection behavior, there are agents who also have business activities as collector of electricity payment and agent who has business as operator of financial transaction to surrounding community by using internet

(internet banking). Thus, transactions occurring still the transaction in form of "transferring" and transactions stages do not reflect the growth of the target number as expected in the Inclusive Finance Strategy. Another issue related to adverse selection is that there are spouses of agents who have business activities as informal credit lenders. This type of business is contrary to the program's goal of creating a formal financial system in the rural areas.

On the other hand, in exercising its role as an extension of bank services in rural areas, agents have the potential to engage in moral hazard behavior, which is inconsistent with the bank's objectives as principal. Some kinds of that behaviors are mark-up the tariffs, prohibition using customer ATM card as well as the behavior of pseudo transactions. Problems in the process of agent selection and moral hazard behavior can be a barrier in the form of price and non-price for achieving inclusive financial goals through the BB program.

This study also conducts an analysis of the behavior of households business that conducts financial transactions through BB agents. The model explains that the BB program (value of transactions) affects the economic behavior of households business through non-food consumption expenditure. In contrast, households economic behavior does not affect the BB program. The behavior of investment variables explains that the business characteristics of the households involved in the BB program are those that are traditional and relatively stagnant. The model also explains that the savings program is potentially developed through savings programs for school children.

The simulation results indicate that the development of the BB program in rural areas has not been linked to production development activities as expected in inclusive financial policies through the BB program. Furthermore, the simulation results in the form of a combination of the increase in transaction value and investment show that with traditional and stagnant business characteristics, in order to achieve better results that in line with the goals of the Financial Inclusion Strategy, the development of the BB program needs to be accompanied by other programs that can increase the business capacity of small micro enterprises in rural areas.

Keywords: BB, financial inclusion , financial transaction, household economic behaviors, moral hazard behaviors, transaction value