

## **Best Practices and Standards**

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### **BRI KUPEDES credit product**

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For the KUPEDES credit product offered by BRI units, the repayment has been high due to many factors, among them:

- Borrowers are selected on their ability to use loans productively and their ability and willingness to repay them
- Loans are provided in gradually increasing amounts based on the borrower's repayment record and the creditworthiness of the enterprise
- Loans are provided with attractive terms at reasonable costs, customised to clients' needs.
- Unit staffs treat clients with respect and courtesy.

### **BRI Units**

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BRI units have been very successful vehicles to disburse KUPEDES credits and collect SIMPEDES savings products. BRI units' characteristics can explained this success:

- BRI Units are individual profit centers. At the end of 2000, 98% of them were profitable, thanks to the spread between interest rates on loans and the costs of funds, the savings mobilised.
- BRI Units are supported by skilled and experienced staff, motivated by incentive to reach higher performance, and held accountable for their results.
- Interest on loans should be higher than in standards banks, to reflect the higher costs of providing smaller loans through local sub-branches.
- Focus on financial services only.
- Standardised and simple systems, products, procedures, and reporting process.

In addition, the key success factors for BRI units had been the following:

- Constant focus on sustainability (Pricing, loan quality)
- Simplicity (products, services, procedures)
- Transparency (active supervision, MIS, good reward and punishment system)
- Prudential banking practices (applying multi-dimensional approach (financial, sociological and cultural approaches to clients), client's repayment capacity)
- Accessibility (open outlets as close as possible to clients, which requires huge amount of capital expenditures)

### **BKK Central Java**

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From Badan Kredit Kecamatan (BKK) of Central Java, an LDKP system owned by the provincial government of Central Java, we learn some valuable lessons:

*[Adapted from Robinson, 2002]*

- Small, short-term individual loans to rural households can be provided by rural credit organisations owned by local governments at interest rates that cover costs and risks and enable profitability.
- Such organisations can be managed with low operating costs, and can be successful even if open only one day a week.
- Loans can be financed by retained earnings, savings, and commercial bank loans.
- Loans should have a range of maturities and repayment options suitable to the community.
- Providing subsidised loans to borrowers leads to losses and can eventually result in unit closure or severe retrenchment
- Training and incentives for management and staff are essential
- Large external injections of liquidity discourage voluntary savings mobilisation
- Small voluntary savings accounts can be cross-subsidised with larger time deposits
- Emphasis should be placed on appropriate loan loss provisioning and bad debt write-off, an ongoing problem for the BKK Central Java.
- Donors that support institutional capacity building for critical needs get maximum return on their investments
- Links between microfinance institutions and local governments and banks can be advantageous for both in a variety of ways.

## **Sources**

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