

Microfinance in the Financial Sector

In This Document

- Commercial Banks in Microfinance
- Commercialisation of microfinance
- Linkages

Commercial Banks in Microfinance

The advance development of commercialisation of microfinance in Indonesia, through mainly BRI units and BPRs, resulted in a massive outreach of financial services in rural areas, especially in terms of savings products.

Bank Indonesia defines a microcredit loan as one under Rp. 50 million (about US\$5,500). At the end of August 2004, loans channelled to SMEs were 20% of the total loans disbursed by banks.

Bank Indonesia's figures show that only 0.01% of loans to SMEs are non-performing loans. Most banks that survived the financial crisis 1997-98 were banks that lent to SMEs, due to the small amount of non-performing loans in their portfolio.

A few commercial banks have started to venture into microfinance, attracted by the profitability and sustainability of BRI units. However, despite some large investments, they have still a limited outreach.

Bank Danamon has made substantial investments in setting up units dedicated to microfinance, following the BRI model.

Bank Mandiri provides lending and technical assistance to BPRs and aims to lend directly to more SMEs, with the objective of having half of its portfolio in SME lending. It started a new program targeting small businesses in September 2003, providing credit below Rp.2 million (US\$215). Bank Mandiri received guarantee funds to lend to SMEs, on a pilot basis, in Eastern Indonesia, Surabaya and Aceh. In providing credit of a maximum size of Rp.5 million (US\$535), Bank Mandiri uses collection companies to collect repayments, and rely on technology to reduce transaction costs, with the use of ATMs and barcodes.

Bank Bukopin was originally set up as a cooperative bank, and has still cooperatives holding its share capital. It collaborates with public cooperatives, KUD, providing starting capital and training to set up new cooperatives. Bank Bukopin also provides lending to groups through the cooperative system. It provides technical assistance, monitoring and supervision, and technology support to existing cooperatives. These organisations become 'mini banks' and can borrow from Bank Bukopin at commercial rate. Bank Bukopin has also become involved directly into microbanking, providing up to Rp.50 million (US\$5,300) to individual borrowers.

Commercialisation of microfinance

A few NGOs have ventured into commercial microfinance by setting up their own BPRs. Bina Swadaya, one of the largest and oldest NGO in Indonesia, set up four BPRs in the last fifteen years, which have adopted a dual mission mixing social objective and commercial principles. Equity is generally split between Bina Swadaya and its staff association, following requirements for at least two shareholders. Yayasan Purba Danarta established in its own commercial bank in 1990 in Semarang, Central Java, while another, Lembaga Penelitian

dan Pengembangan Sumber Daya (LP2SP) in East Lombok, West Nusa Tenggara established its own cooperative, supporting its credit and savings groups. Yayasan Dharma Bhakti Parasahabat (YDBP) uses BPRs, by acquisition and creation, to extend its outreach in microfinance.

Linkages

In addition, to encourage further lending to microenterprises and SMEs, Bank Indonesia implemented from 1989 to 1997-98 a project linking commercial banks with self-help groups (Program Hubungan Bank dan Kelompok Swadaya Masyarakat, or PHBK), with assistance from GTZ. In addition to technical assistance, the project provided subsidised liquidity credit through the banking system.

Indonesia was one of the first countries in Asia to try linkages between commercial banks and microfinance providers. Savings and credit groups were provided loans by banks, directly or through NGOs, described as Self-Help Promoting Institutions (SHPI). Most of the banks participating were private BPRs, or state-owned commercial banks. SHPIs were more successful in social mobilisation than financial intermediation and were encouraged to focus only on non-financial assistance while banks and SHGs established direct financial relationships. With a stronger focus on BPRs, and direct financial linkages with SHGs, the program grew to a peak of 12,000 groups in 1999, with Rp.10.8 billion (US\$1.2 million) deposited in commercial banks, and Rp.71.7 billion (US\$7.7 million) provided in credit. The program was heavily subsidised, and very expensive to manage, but introduce the ideas that self-help groups could also be an effective vehicle to channel microfinance. After the withdrawal of GTZ in early 2000, Bank Indonesia continued the project, which was officially terminated a few years later.

As of December 2003, 30 commercial banks and 948 BPRs have voluntarily participated in a linkage program, informally promoted by Bank Indonesia, with total outstanding credit amounting to Rp. 429,636 million (US\$46 million), for a total loan facility of Rp.711,889 million (US\$79 million). Bank Internasional Indonesia, Bank Mandiri and Bank Niaga were the largest lenders among commercial banks. This initiative is not a regulatory measure, and commercial banks were free to lend to BPRs or not, and to decide of their own conditions. No subsidy is attached to the lending, only to the technical assistance.

In December 2004, Bank Mandiri has agreed to provide Rp.150 billion (US\$16 million) in funds to BPR in central Java, and also to assist BPRs with capacity building, such as IT development. Bank Mandiri already provides important funding to other BPRs, and has included in its corporate plan to distribute 50% of its credit to SMEs.

Finally some NGO-MFIs such as Yayasan Dharma Bhakti Parasahabat (YDBP) are able to borrow from commercial banks.

Sources

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