

### Badan Kredit Desa (BKDs)

---

In this document:

- Brief History
- Methodology
- Area of Operations
- Clients
- Poverty Focus
- Distinctive Features
- Innovations
- Financial Results
- Challenges & Development Plans
- Inclusion in Financial Sector

#### **Brief History**

---

The Badan Kredit Desas, or BKDs, (village-owned credit organizations) are village-owned financial institutions more than a century old. They come from the former lumbung desas (rural cooperative) and the bank desas (rural banks funded by loans from the government) which, in 1907, were regulated as Badan Kredit Desa. From the beginning, they were established as sustainable organisations charging high interest rates, except in their first years as they received capital grants from the government. Their number increased to 13,500 before WW2 and then decreased dramatically to about 4000 in 1950 and, remained underdeveloped due to their independence from political interference, the former president Suharto favouring the state-owned BRI Unit Desas. Approximately 5,000 BKDs currently operate in Indonesia.

#### **Methodology**

---

Each BKD is owned by a village from which three members approve loans. Managed by village leaders, BKDs offer savings and credit products to their clients. Loans are typically of a small size, without collateral, and are processed quickly. BKDs are not allowed to mobilise voluntary savings. They usually open one day a week, the amount deposited by clients is transferred to the BKD account at BRI. BKDs finance their lending requirements through mobilised earning on deposits, compulsory savings and borrowings from BRI.

Loans are designed for individuals only and require compulsory savings. The interest rates are set by local governments, and therefore are different depending on each BKD. Loans are generally for a short period of time, usually 12 weeks, with 10 to 12 identical installments.

The first instalment represents the interest due on the loan while the next one is a forced savings payment and the final 8-12 are repayments of capital. It is usually not permitted for borrowers to withdraw their forced savings, even after the loan has been repaid, so it is generally considered an additional cost. In result, interest rates on loans are high.

Even if not legally allowed to do so, some BKDs mobilise voluntary savings.

#### **Area of Operations**

---

Even though the BKDs operated in all parts of Indonesia during the colonial period, today they exist only on Java and Madura.

#### **Clients**

---

Active clients	Active savers	Active borrowers	Gender
n/a	n/a	n/a	n/a

## Poverty Focus

BKDs come as a good complement to the BRI Units as they reach deeper in villages and serve poorer clients.

Average Loan Outstanding	Average outstanding loan size / GNP per capita	Average deposit size
n/a	n/a	n/a

## Distinctive Features

As village members select the beneficiaries of the loans, information collection is not a problem, and the selection eliminates "unsecured characters", allowing a fairly good repayment rate (80%). The village board receives a fee on loan collection that works as a good incentive.

## Innovations

n/a

## Financial results

The BKD system is sustainable though the repayment rate is not as good as for the BRI unit. Loans are financed primarily with retained earnings and forced savings, though some borrow from BRI branches.

Loan Portfolio	Portfolio at risk (%)	Savings Deposits	OSS / FSS	RoE / RoA
n/a	n/a	n/a	n/a	n/a

## Challenges and development plans

BKDs generally suffer from poor performance, weak management capacity and are restrained by village bureaucracy.

## Inclusion in financial Sector

Bank Rakyat Indonesia is in charge of the supervision of the BKDs, on behalf of Bank Indonesia. BKDs are recognised as generic BPRs, even if they are not individually licensed as such. To comply with the 1992 Banking law, BKDs were granted a number of collective BPRs licenses, as they were too small for individual licenses. BRI's staff inspect them each month and help them in their relation with the BRI branches (loans, savings, etc.).

## Sources

- Robinson (Marguerite S.), The Microfinance Revolution, Volume 2: Lessons From Indonesia, Washington, The World Bank, 2002
- Charitonenko (Stephanie), Afwan (Ismah), Commercialization of Microfinance Indonesia, Asian Development Bank, November 2003
- Indonesia chapter in 'The role of central banks in microfinance in Asia and the Pacific'. Asian Development Bank. 2001