

Bank Rakyat Indonesia

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Brief History

BRI's ancestor, the Priyayi Bank of Purwokerto, was created in 1895 by Raden Wiriamadya, a Javanese government official. Intended for the Indonesian elite in its first years, the Dutch administration reorganised it as a cooperative bank in 1897, following the example of those that appeared in Europe after 1850. In 1946, it changed its name to Bank Rakyat Indonesia and became a state-owned commercial bank in 1950. At the beginning of the 1970s, 3,600 BRI Unit Desas (village banks) were created as part of a government program, BIMAS, whose aim was to provide inputs for the rice-green revolution. They were then used as channelling agents for different subsidized government lending programs but all of them failed to reach sustainability. In 1984, the Unit Desas were completely restructured: each became an individual profit center and adopted a commercial approach to microfinance (no subsidies, sustainable interest rates, efficient management, efforts to mobilize savings) that led them to financial profitability from 1985 onwards. Today, BRI's microfinance system is the world's largest and most profitable microfinance network in the world. In 1992, BRI became a limited liability corporation, and a public company in 2003.

Methodology

BRI is divided into four Strategic Business Units: Micro Banking, Retail Banking, Corporate Banking and Investment Banking. Its microfinance services are provided through the Micro Banking Unit, also known as BRI Unit.

The main saving products available are:

- SIMPEDES, or Simpanan Pedesaan (Village Savings), a deposit instrument allowing an unlimited number of transaction and therefore favoured by low-income households that need full liquidity. There are no fees to open an account, and except for the smallest balances (less than \$10), it has a positive real interest rate. Aimed at attracting new customers, lotteries are organized every six months with prizes in kind. 75.7% of BRI micro-banking accounts are SIMPEDES.
- SIMASKOT, is the equivalent of the SIMPEDES for urban areas with an emphasis on security.
- TABANAS BRI, a government saving program, offers similar features than SIMPEDES but is not as popular. It can be explained by the fact that until a few years ago, no more than two withdrawals per month were allowed and, moreover, its lottery offers prizes in cash whereas most depositors favour prizes in kind.

BRI has only one micro-loan product, KUPEDES, designed for working capital or investment purposes. Carefully selected, the borrowers are given loans whose amount depends on the borrower's current income flow and always require some form of collateral (a SIMPEDES account, land, furniture, motorcycle, etc.). The minimum amount is Rp.25,000 (US\$3), and the maximum is Rp.50,000,000 (US\$5,000). The minimum loan term period is one month

and the maximum is 24 months for working capital loans or 36 months for investment loans. Loans can be repaid in monthly, quarterly or bi-annually instalments. The interest rate increased by 0.5% if the repayment is not made on time. The repayment rate is very high: 98.34%.

Area of Operations

BRI has the widest network in Indonesia with 13 Regional Offices, 324 Domestic Branches, 4,049 BRI Units (96% of which are profitable), 148 Sub-Branch Offices and 240 Village Service Posts. BRI tends to focus on district capitals and relatively well-developed areas.

Clients

At the end of September 2004, BRI had 87% of its loan portfolio in micro, small and medium enterprises, while the corporate lending represented the remaining 13%. 31% of the Rp.58,119 billions in loan outstanding was related to the microenterprise sector, or Rp.18,146 billions.

Active clients	Active savers	Active borrowers	Gender
30 million	30 million	3.1 million	N/a

As of August 2004

Poverty Focus

Even if BRI do not target the poor, a large proportion of its clients are in the middle and upper end of the poor class in Indonesia. *The Income Generating Program for Small Farmers and Fishermen (P4K)* is supervised and administered by BRI's branches, and targets explicitly poor farmers.

Average Loan Outstanding	Average outstanding loan size / GNP per capita	Average deposit size
US\$425	50%	US\$ 77

As of 2000

Distinctive Features

The management of each unit is extremely effective. Functioning as individual profit centers, their performance is monitored and specific staff incentives implemented. In addition, the Units are allowed to move their excess funds to BRI branches, where they are well remunerated, encouraging saving mobilization in Units.

The emphasis on savings is another key of BRI's success: 4 savings instruments were available from the beginning, each aiming at different targets, filling a gap for the poorest households. This allowed the Units to increase the number of loans and to be more sustainable. Deposits went past the outstanding loan portfolio in 1989 and the deposit-to-loan ratio is now over 225%.

The Units have an excellent repayment rate of over 98%, partly thanks to an incentive system for repayment. Indeed, 25% of the interest paid is repaid to the borrower when installments are repaid on time during six consecutive months. Also, borrowers that do not fail to pay have the possibility of being granted bigger loans. However, unlike many other MFIs, the loans provided by the Units require a collateral, equivalent to the value of the loan principal and interest to be paid and, for loans over 559\$, land certificates are needed. Because of these characteristics, BRI do not reach hardcore poverty but rather the better-off poor.

Innovations

As a way to encourage more clients to open saving accounts, BRI launched bi-annual lotteries for SIMPEDES accounts' holders in 1984. Each saver receives free lottery ticket depending on their minimum monthly account balances. As the lotteries are held in the

branches, winners are located within a small area so most people either won or know someone who won and it makes these lotteries very popular.

BRI also introduced unlimited withdrawals for savers in Indonesia after field studies showed that a limit to the numbers of withdrawal was the main obstacle preventing people to open saving accounts in rural banks. Contrary to what many people feared, the number of withdrawals did not increase as a result. It showed that savers didn't want to withdraw more frequently but simply to have the freedom to do so.

Since 2002, BRI started to put online its unit network, with already around 10% (450 units) effectively on-line by August 2004. BRI introduced a new facility called Simpedes Berkartu, or Simpedes with a card + in 2004.

Financial results

In 2003, BRI made after tax profit of Rp. 2,502 billions. Over the period August 2003 to August 2004, the repayment rate has been 99.4%. Non-performing loans level was 6% overall in 2003, while for microcredit it was only at 2.8%.

Loan Portfolio (microcredit)	Portfolio at risk (%)	Savings Deposits	OSS / FSS	RoE / RoA
Rp.18,146 billions	2.8% (NPL for microcredit)*	Rp.30,000 billions	>100%	43.41%*/4.02%*

As of September 2004, except (*) December 2003

Challenges and development plans

BRI needs to keep a strong focus on micro and small banking activities to remain successful. Another challenge is the dependency of the Microbanking division on BRI overall policy on the use of units' profits and investments decisions. Instead of being allocated to loss-making corporate activities, units' profits could be used to lower interest rates on credit, increase deposit rates or invest in renovating and/or expanding the unit network. Other challenges for BRI are: extending further its outreach in rural areas, bringing ICT to microfinance and building linkages between large companies and small enterprises.

Inclusion in financial Sector

BRI is one of the largest commercial banks in Indonesia, and the most profitable and efficient bank. It successfully realised an IPO and share listing on the 10th November 2003, with shares oversubscribed 15.4 times. In 2003, BRI issued a 10 years subordinated note for US\$150 million, and a subordinated bond of Rp.500 billion.

Sources

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