

Bank Indonesia

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Brief presentation

Until the 1970s, Bank Indonesia, the central bank set rates and refinancing according to the priority of the economic sector. During the 1970s, a first wave of major financial deregulations appeared with the opening of capital accounts to foreign flows, however indigenous firms were still protected. Following the oil crisis, the 1980s see further deregulations with credit ceilings abolished, rates liberalised, preferential refinancing curtailed. In 1988, the deregulation package, called PATKO 88, offers new banking licences, such as BPRs, and relaxes regulations on bank branching and deposits.

In the 90s, there is a further reduction in subsidised loan programs and upward adjustment in refinancing rates. The 1992 new Banking Act removes distinctions between development and savings banks, with new private and foreign banks established, competition with state banks increased, and interest rates fully deregulated. In 1994, after a scandal related to the Indonesian development bank (Bapindo), Bank Indonesia strengthens its control over non-bank financial institutions, and undertakes a more selective licensing policy. The late 1990s and the financial crisis saw a major restructuring of the financial system, with bank closures, mergers, and heavy public recapitalisation. The governments extended a guarantee on bank deposits and certain bank liabilities to prevent a bank run. In 1999, the new Central Bank Act finally established Bank Indonesia as an independent central bank, free from political interference.

Involvement in microfinance

With the application of Bank Indonesia regulation in 1999, subsequently replaced by a 2004 regulation, the policy of Bank Indonesia in assisting small enterprises and cooperatives has undergone fundamental changes. Bank Indonesia is now barred from providing direct funding to support the microenterprise and SME sectors, previously supported through the refinancing line KLBI. Thus, the role of Bank Indonesia in helping micro, small, and medium enterprises is now conducted indirectly, mainly through technical assistance and institutional capacity building. Since the new regulations issued in 1999, the financing is now undertaken by PNM, acting as a wholesale fund for microfinance.

Over the years, Bank Indonesia has had an active role in supporting the development of micro-, small- and medium-scale business credit (UMKM) through banking credit policy, institutional development and technical assistance provision. Through banking credit policy, it encourages commercial banks to lend to BPRs. It also encourages capacity building of BPRs, with support from GTZ and Bankakademie in implementing a certified training system, extending technical assistance and information technology development.

As of March 2004, Bank Indonesia had suspended 194 BRPs from operations. In addition, Bank Dagang Bali was closed by Bank Indonesia because of its low capital adequacy ratio and liquidity problems, related to family ownership of the bank.

Regulatory framework

The legislation governing the banking system in Indonesia (the Banking Act, 1992 and amending legislation of 1998) provides for two kinds of banks. General banks are

commercial banks (Bank Umum, BU) or primary banks, offering a full range of financial products. People's Credit Banks (BPR) or secondary banks are much smaller, offering basic products only. BPRs are allowed to accept deposits, but are limited in terms of location, function and portfolio composition. They are locally based and mostly privately owned institutions. Initially set up with paid-up capital of Rp.50 million, this requirement was increased in 1999 to Rp.500 million, for local areas. Minimum capital requirements were also increased for BPRs operating in the Jakarta region, from Rp.50 million to Rp.2 billion (US\$192,000), and for provincial capitals to Rp.1 billion. The regulators have sought to encourage a consolidation of the BPRs, with larger but fewer ones. In result, the creation of new BPRs has slowed down since the new legislation.

All commercial banks with microfinance windows are supervised by Bank Indonesia. In addition, Bank Indonesia has special arrangements with other institutions to supervise on its behalf, e.g. BKDs, supervised by BRI branches. To comply with the 1992 Banking law, the BKDs were granted a number of collective BPRs licenses, as they were too small for individual licenses.

The cooperative sector is regulated by a government regulation of 1995 and a ministerial decree of 1998, which restricts credit and savings activities to financial cooperatives (KSP) or specialised units of multipurpose cooperatives (USPs). Minimum capital requirements are also imposed.

LDKPs have been encouraged to convert into BPRs but a majority has not done so. Therefore LDKPs are still licensed and regulated by provincial governments. While LDKPs are restricted to mobilise savings, a specific category of LDKPs, called Lembaga Perkreditan Desa (LPDs) or 'village credit boards' in Bali are allowed by Bank Indonesia to accept deposits from members at village level, with the requirement that they do not use a banking terminology.

The government is drafting a microfinance bill, to provide legal support to the development of MFIs, and to coordinate the 50,000 or so non-bank financial providers (cooperatives, LDKPs and similar organisations), BRI Units, and regional development banks. However, it seems that the bill will not regulate NGOs that use donor funds to operate, but will encourage them to transform into formal institutions, which will be subject to audit and financial regulations. The bill is expected to be passed in 2005.

Distinctive features

To supervise the banks, Bank Indonesia uses a CAMEL (Capital, Assets quality, Management, Earnings, Liquidity) rating system comprising seven ratios and 25 questions. For BPRs the six components of the CAMEL rating system are weighted 30% (Capital), 30% (Assets quality), 20% (Management), 10% (Earnings), 10% (Liquidity). In 2003, with the amendment of the Bank Indonesia Act, the transfer of banking supervision was decided, with the establishment of the Financial Services Supervisory Agency (LPJK).

Sources

- Development policy and strategy of Indonesian banks to support sustainable financial services to micro, small and medium enterprises. Presentation by Sri Mulyati Tri Subari, during microfinance workshop jointly organised by BWTP and Gema-PKM in Jakarta, August 2004.
- Bank Indonesia website www.bi.go.id