

**The 2nd Annual Conference of PECC Finance Forum**

*Issues and Challenges for Regional Financial Cooperation in the Asia-Pacific*

**Hilton Hua Hin Resort & Spa, Hua Hin, Thailand**

**July 8-9, 2003**

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**SessionIV: Financing SMEs: Issues and Options from the Ecotech Perspective**

**Financing Challenges of SME's  
from the Policy Perspective**

**Rudjito**

President Director  
Bank Rakyat Indonesia

# Financing Challenges of Small Medium Enterprises (SMEs) from the Policy Perspective

(The Experience Bank Rakyat Indonesia in SMEs Financing)

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**CEO PT Bank Rakyat Indonesia (Persero)**

*The 2<sup>nd</sup> Annual Conference of PECC Finance Forum  
Thailand, July 8-9, 2003*



**BANK BRI**

# AGENDA



World Bank Group Support for SMEs



SMEs : Global and Indonesian Definitions



Strategic Roles of SMEs



Challenges to Develop SMEs



Policies of The Indonesia Banking Industry to Develop SMEs



Bank BRI Policies to Develop SMEs



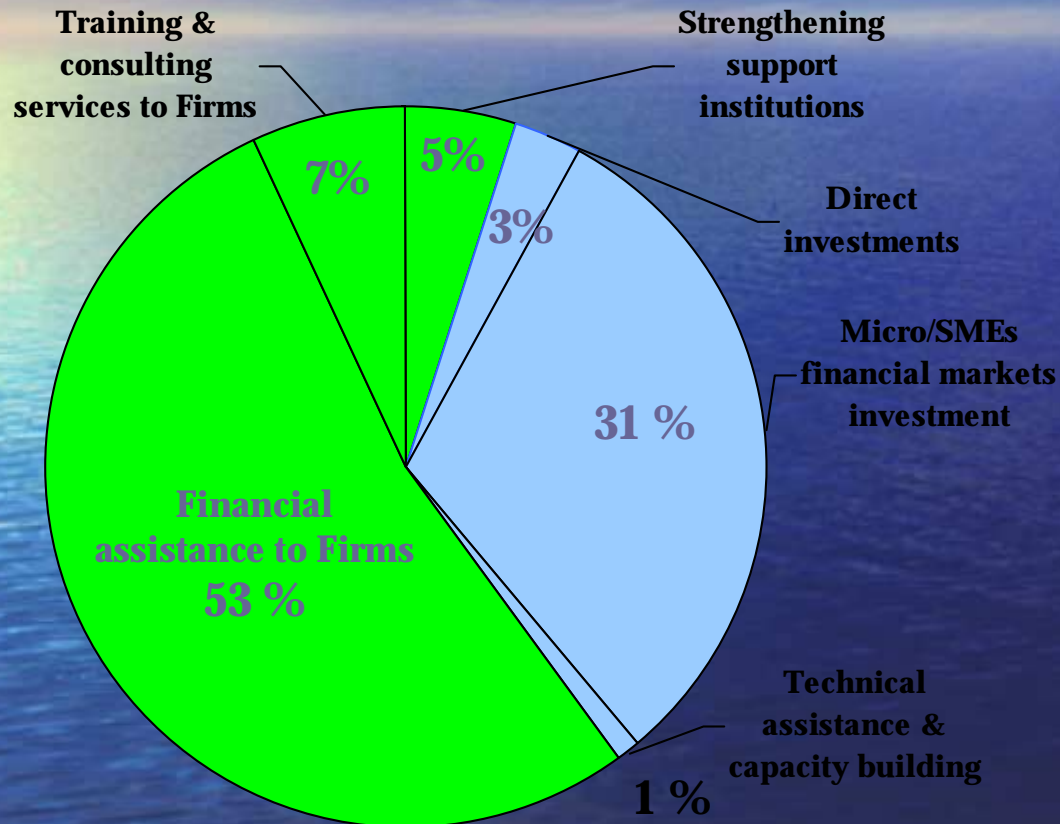
Bank BRI's Microfinance



BRI Domestic and International Recognition

# World Bank Group Support for SMEs

**World Bank Group SMEs Project Funding,  
2002 Total US\$ 1.5 billion**



 **World Bank US\$ 910 million**

 **I F C US\$ 540 million**

- Of today's population of approx 6 billion, 3 billion live on US\$ 2 a day or less.

- The billion or so that are fortunate enough to live in the wealthy industrialized nations account for 80 percent of the US\$ 35 trillion global economy.

- The other US\$ 5 billion living in developing and transition economies must compete for the remaining 20 percent.

- In an era of constrained public budgets, their biggest hope for income lies with locally owned small business.

- This is why The World Bank Group supported SMEs and provided US\$ 1.5 billion in SMEs support in 2002.

# SMEs : Global and Indonesian Definition

## **SME definition according to IFC (International Finance Corporation) - The World Bank Group**

| Scale             | Employee  | Total Assets        | Annual Sales        |
|-------------------|-----------|---------------------|---------------------|
| Micro Enterprise  | up to 10  | up to \$100,000     | up to \$ 100,000    |
| Small Entrerprise | up to 50  | up to \$ 3 million  | up to \$ 3 million  |
| Medium Enterprise | up to 300 | up to \$ 15 million | up to \$ 15 million |

## **Swiss Contact Foundation**

| Kind of Business          | Criteria  |
|---------------------------|---|
| Small and Medium business | <ul style="list-style-type: none"><li>- Workers 5 - 250 people</li><li>- Asset (excl. land &amp; building) &lt; IDR 1 billion</li><li>- Annual sales : 0 – IDR 15 billion</li></ul> |


# SMEs : Global and Indonesian Definition

## Indonesia's Regulations

| Institution / Law                  | Size of Business  | Criteria   |
|------------------------------------|---|--|
| Law no.9/1995 about Small Business | Small business<br> | <ul style="list-style-type: none"><li>• Asset <math>\leq</math> IDR 200 million excluding land and building (+/- US\$ 22,000)</li><li>• Annual sales up to IDR 1 billion (+/- US\$ 112,000)</li><li>• Owned by Indonesian citizen</li><li>• Independent, not affiliated with middle or corporate business.</li><li>• With or without having legal entity</li></ul> |
| Central Bureau of Statistics (BPS) | Micro business  | Workers : 5 persons, including family workers  |
|                                    | Small business  | Workers $\leq$ 19 people   |
|                                    | Middle business   | Workers 10 – 99 people   |

# SMEs : Global and Indonesian Definition

## Indonesia's Regulations

| Institution/ Act   | Size of Business   | Criteria   |
|--|--|--|
| (Law 10/1999)<br>Medium business   | Medium business  | Asset IDR 200 million – IDR 10 billion<br>(equivalent US\$ 22,000 – US\$ 1,100,000)  |
| <br>Bank Indonesia<br>(Central Bank) | Micro business<br>(SK Dir BI No. 31/24/KEP/DIR tgl 5 Mei 1998)     | <ul style="list-style-type: none"><li>- Very small scale business run by family members.</li><li>- Local resources and simple technology</li><li>- Easy to exit and entry.</li></ul>   |
|  | Small business<br>(Law no.5/ 1995)                                 | Asset $\leq$ IDR 200 million (US\$ 22,000) excl. land & building.<br>Annual sales $\leq$ IDR 1 billion (US\$ 112,000)  |
|  | Medium business<br>(SK Dir BI No. 30/45 Dir/UK tgl 5 Januari 1997) | Asset $\leq$ IDR 5 billion (US\$ 561,000) for industrial sector.<br>Asset $\leq$ IDR 600 million (US\$ 67,000) exc. Land & building and excluding non-industrial sector manufacturing.<br>Annual sales $\leq$ IDR 3 billion (US\$ 336,000) |

# Strategic Role of SMEs

## SMEs Figures in Indonesia

SMEs population is very dominant (99,99%)

Labor intensive ( 99,45% )

SMEs contribution to GDP relatively small (54,74%) if compared to The SMEs population

**Advantages of SMEs :**

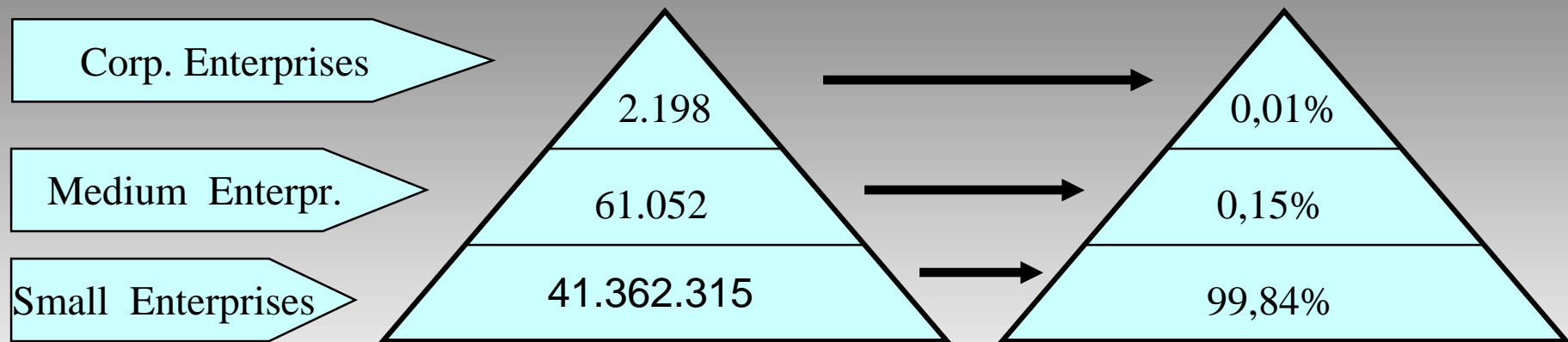
- crisis resistant
- loyal in paying the loan

**Some aspects  
That should be  
noticed by  
The Bank**

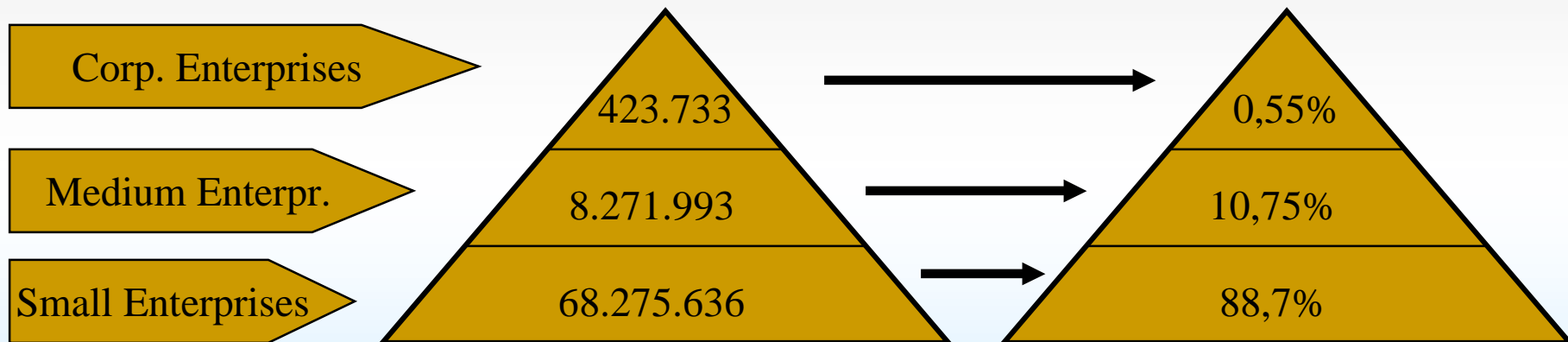


# Strategic Role of SMEs

## Number of SMEs and Corporate Enterprises year 2002



## Number of Labor Absorbed by SMEs and Corp.Ent. year 2002



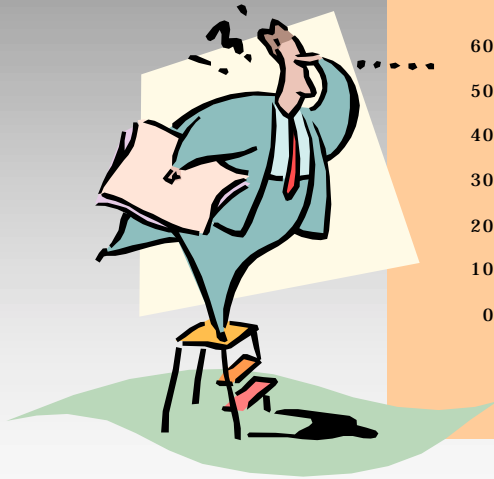
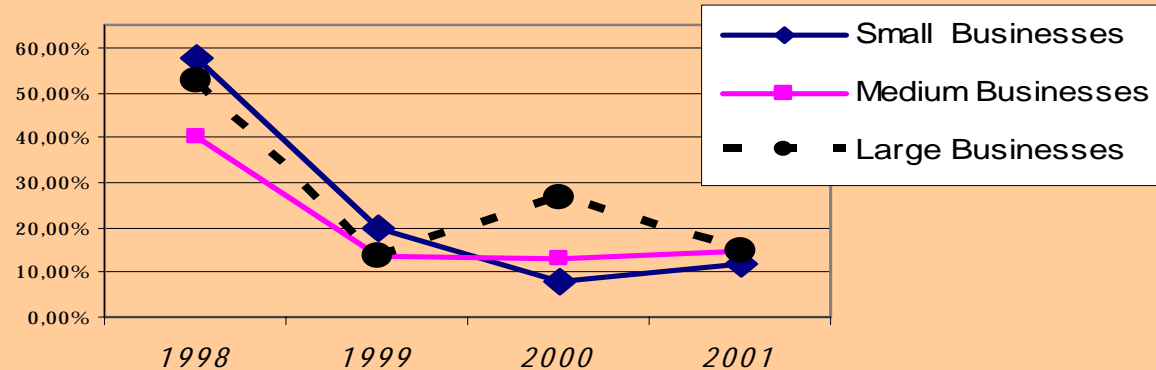
**Almost all of business sectors in Indonesia are small enterprises**

Sumber: BPS dalam Studi Komprehensif Tentang Potensi UKM-Koperasi dan Sumber Pendanaannya Di Indonesia, 2002 (Mataserv, 2002)

# Strategic Role of SMEs

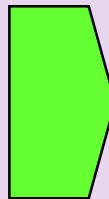
## SMEs CONTRIBUTION to GDP

Growth of GDP : Small business, Medium and Large Businesses  
year 1998-2001 ( current price )



SME's CONTRIBUTION to GROSS DOMESTIC PRODUCT

| Year | Small business |       |
|------|----------------|-------|
|      | Rp. billion    | %     |
| 1997 | 253,93         | 40,45 |
| 1998 | 399,77         | 41,83 |
| 1999 | 478,20         | 43,08 |
| 2000 | 516,36         | 39,93 |
| 2001 | 578,36         | 39,40 |



**Despite small business population still dominant, during 1997 - 2001 its growth seems low, so that contribution to GDP decreasing gradually.**

## TODAYS REALITY

CRISIS

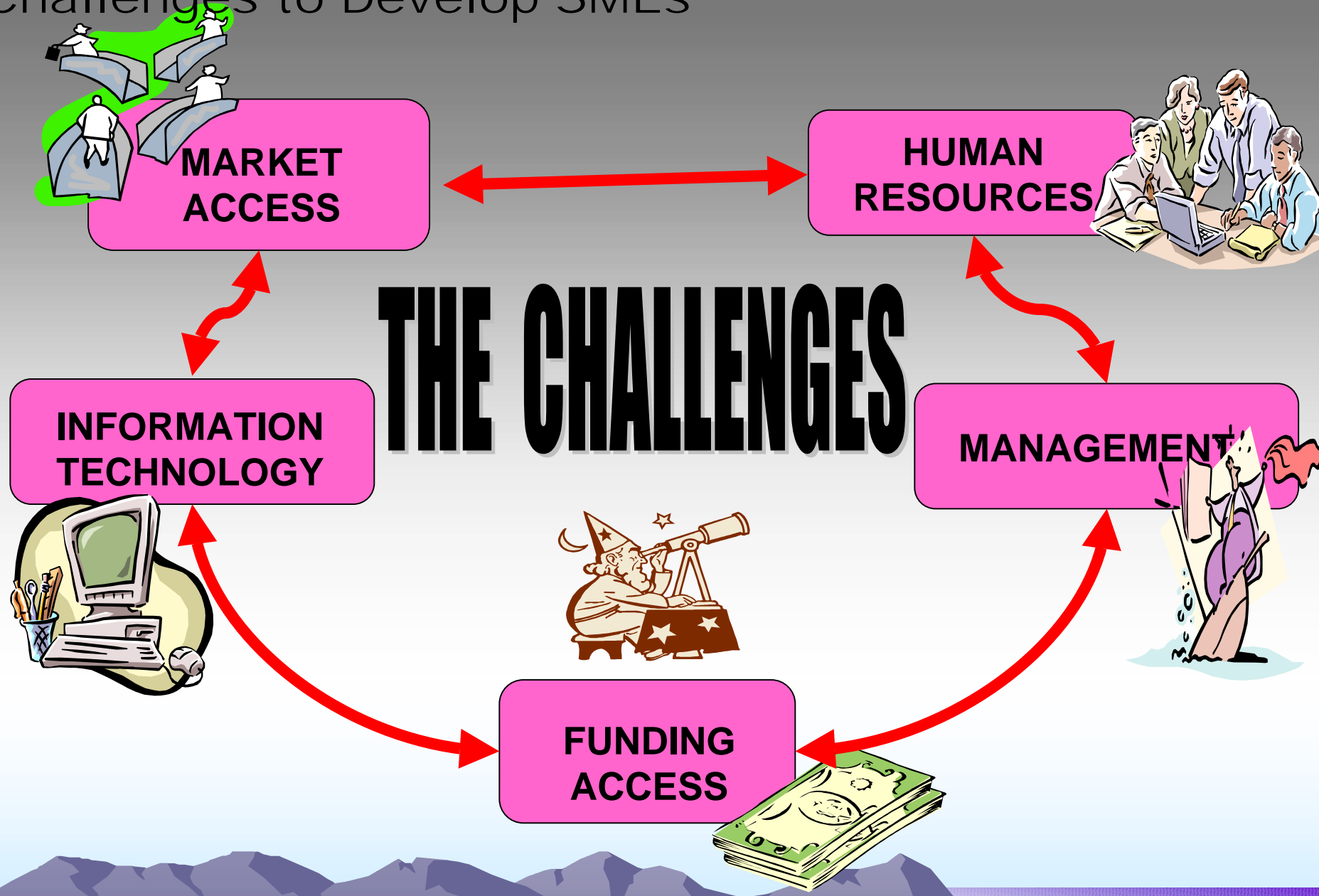
- **ECONOMIC GROWTH ONLY 3 % yoy.**
- **POVERTY + UNEMPLOYMENT INCREASED**

SME

**THE PROBLEM IS : HOW to INCREASE SME's ROLE !**

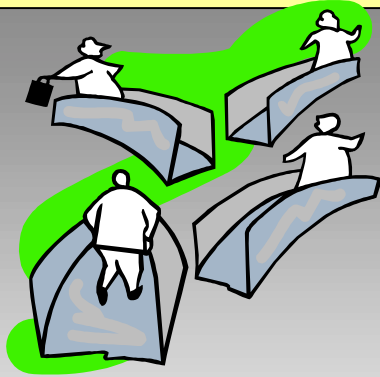


# Challenges to Develop SMEs



# Challenges to Develop SMEs

## 1. Market Access



- = lack of raw material supply,
- = weak in competing in free market,
- = lack of quality orientation,
- = narrowed market share,
- = lack of business partnership opportunity

## 2. Information Technology



=traditional equipment,

=lack of transportation & communication infrastructure

Low production efficiency



# Challenges to Develop SMEs

## 3. Funding Access



- = limited capital
- = not eligible to perform bank's requirement
- = misunderstanding of banking approaches :
  - the subsidy paradigm, that SMEs should be subsidized by Government or third party.
  - corporate banking* paradigm, that SMEs should has balanced sheet, license, credit proposal etc.

## 4. Management

- = unable to identify clear target market
- = product and service are not *market driven*
- = simple work mechanism
- = simple accounting system
- = lack of cost and benefit analysis

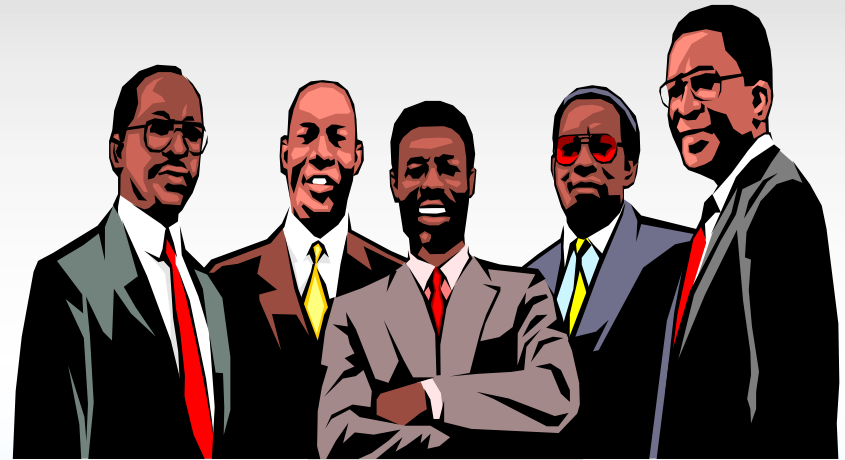


*Low productivity & effectivity*

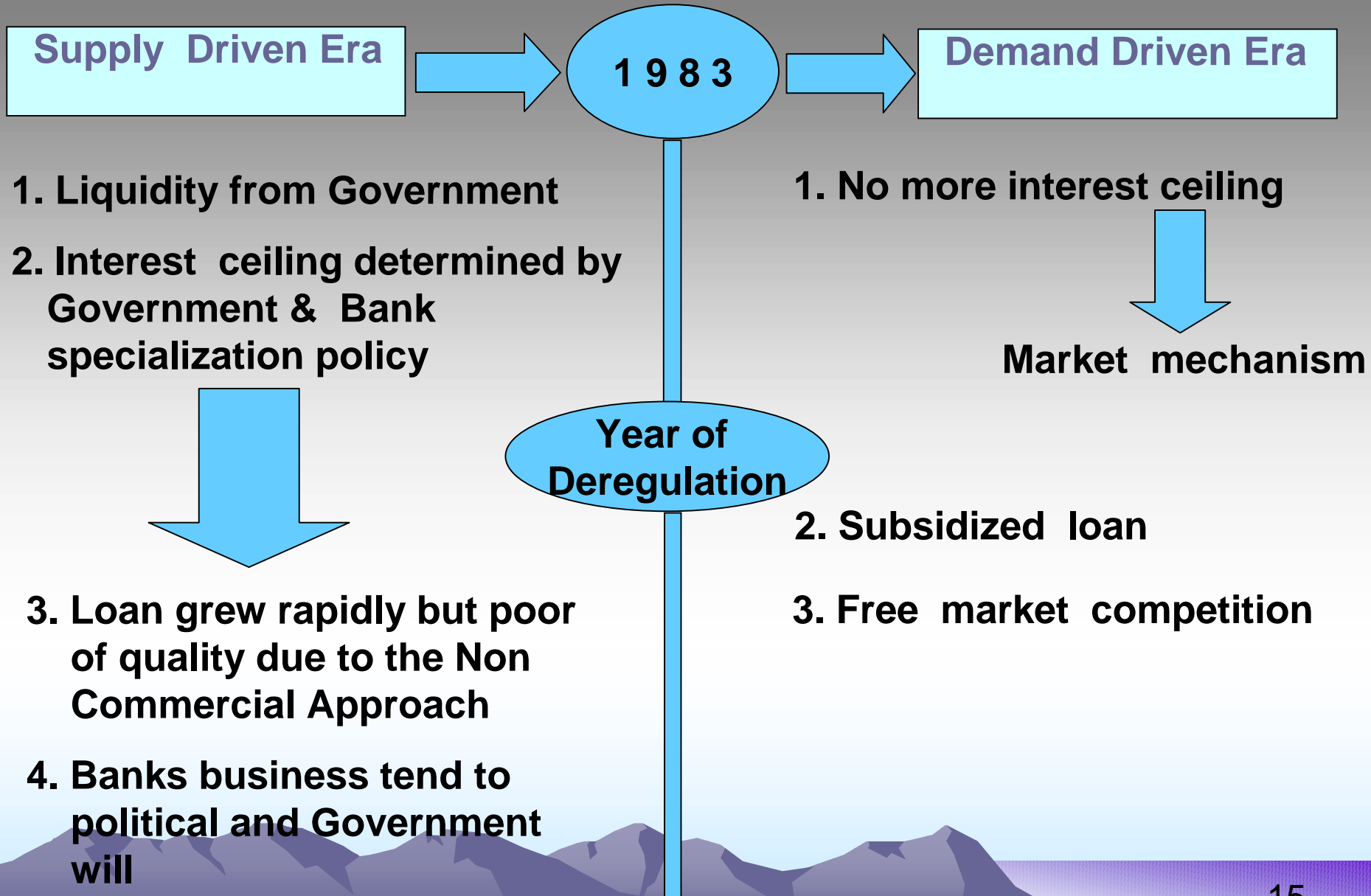
# Challenges to Develop SMEs

## 5. Human Resources

- = run by family members or relatives
- = lack of high education,
- = lack of skill, traditional oriented
- = lack of accessibility to information and technology development



# Policies of The Indonesia Banking Industry





# Policies of The Indonesia Banking Industry

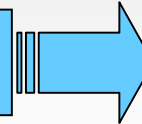
## Demand Driven Era

Along with the Government policy in Reorganization and Deregulation in Trading, Banking & Financial industry, BRI change the Supply Driven to The Demand Driven paradigm by doing :

1. Community Base Development

2. Technology & Communication Building

3. Institutional Building



- Regulatory Policy
- Supervisory Policy

4. Human Capacity Building

- Local Recruitment
- Cultural Approach
- Training Program
- Reward & Punishment

# Policies of The Indonesia Banking Industry

## **Demand Driven & IT Driven Era**

**Along with national economic development and decentralization (regional autonomy) BRI**

### **1. Internal Empower Policy**

**More delegation of authority for Regional, Branch and Unit Managers**

### **2. Synergy, supported by Information Technology**

# Policies of The Indonesia Banking Industry

## Transitions in Indonesia's Banking Industry

1983 - 1991

1983 – 1988 : Deregulation  
1991 : Overheated

1997-1998

“Fall Season”  
(Economic/Monetary Crisis)

1999-2000

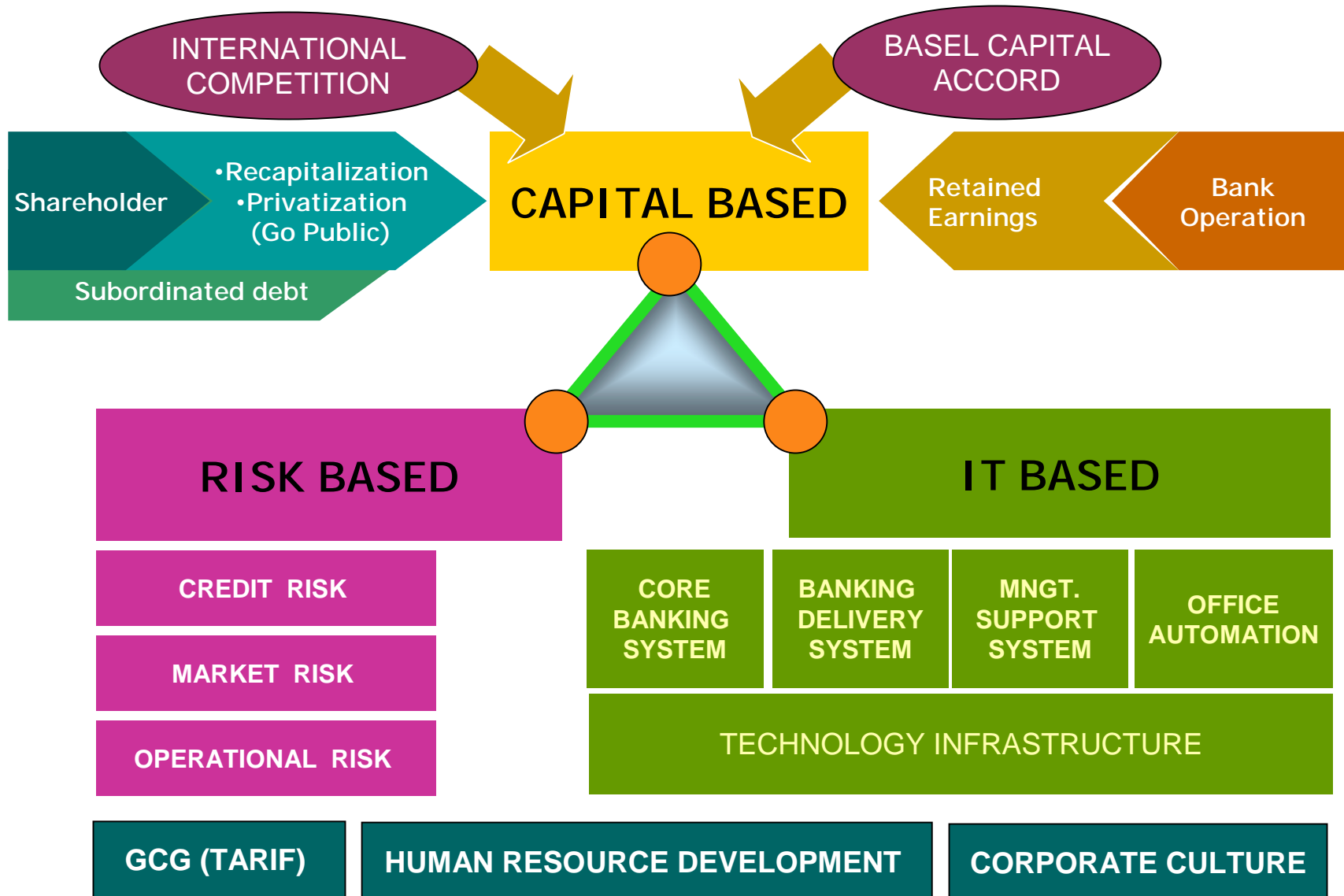
“Winter Season”  
(Recapitalization, Restructurization,  
Consolidation)

2002

“Spring Season”  
(business expansion)

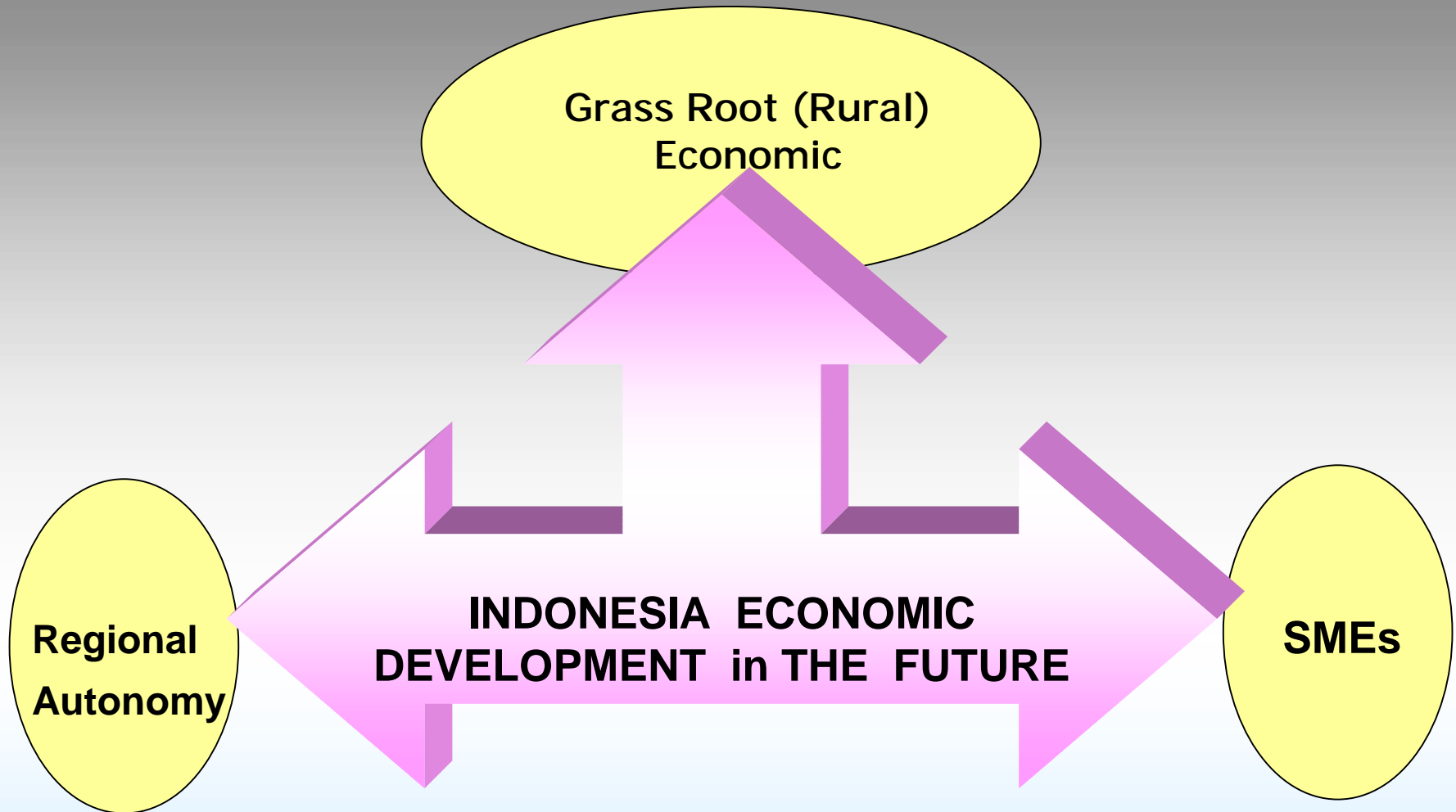
It is in this “spring season”, banks should explore all their capability include expanding their business to SMEs to be able to have everlasting “harvesting time”

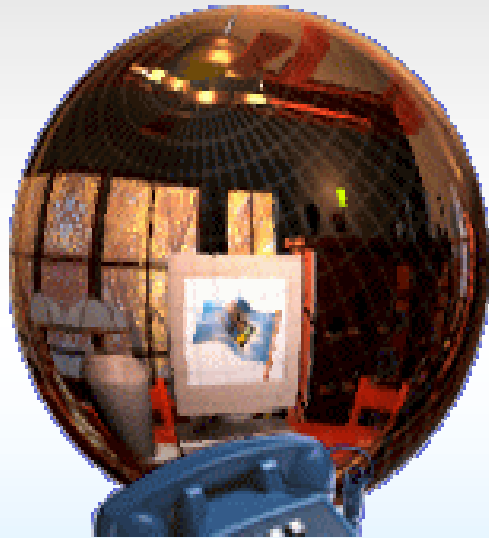
## THREE PILLARS FOR FUTURE BANKING



# Policies of The Indonesia Banking Industry

## ECONOMIC DEVELOPMENT in THE FUTURE





# BRI's ROLE and POLICIES in FINANCING SMEs

## BRI's COMMITMENT to DEVELOP SMEs

### VISION

To be a leading commercial bank placing utmost priority on customer satisfaction

### MISSION

- To perform the best banking activities by delivering services mainly to micro, small, and medium enterprises in order to support the economic development.
- To provide excellent services to its customers through widely distributed network supported by professional human resources, and to conduct good corporate governance practices
- To provide optimal profits and benefits to its stakeholders.

# Bank BRI - Policies to Develop SMEs

**July 2000 - 2002**

Restructuring efforts by management resulted in becoming the best state owned bank in Indonesia

**1992**

New status as PT (Corporate), opportunity to develop overall banking business widely

RENEWAL

CONSERVATION

**1997**

Economic and monetary crisis, significant decline in banking business, most Indonesian banks has to be restructured and re capitalized

**2003 & beyond**

Current Challenge: new landscape of business, what strategy should be implemented

CHOICE

CRISIS

**1968**

Formally become Bank Rakyat Indonesia, a state owned bank, functioning as agent of development. State owned Bank

Become a commercial bank focus on micro, retail and small medium business

EXPLOITATION

CREATIVE DESTRUCTION

**1998 – June 2000**

Banking crisis, shareholder (govt) made a political change by re capitalizing & restructuring effort in: management, organization, IT, audit system and risk management etc.

**1969 – 1983**

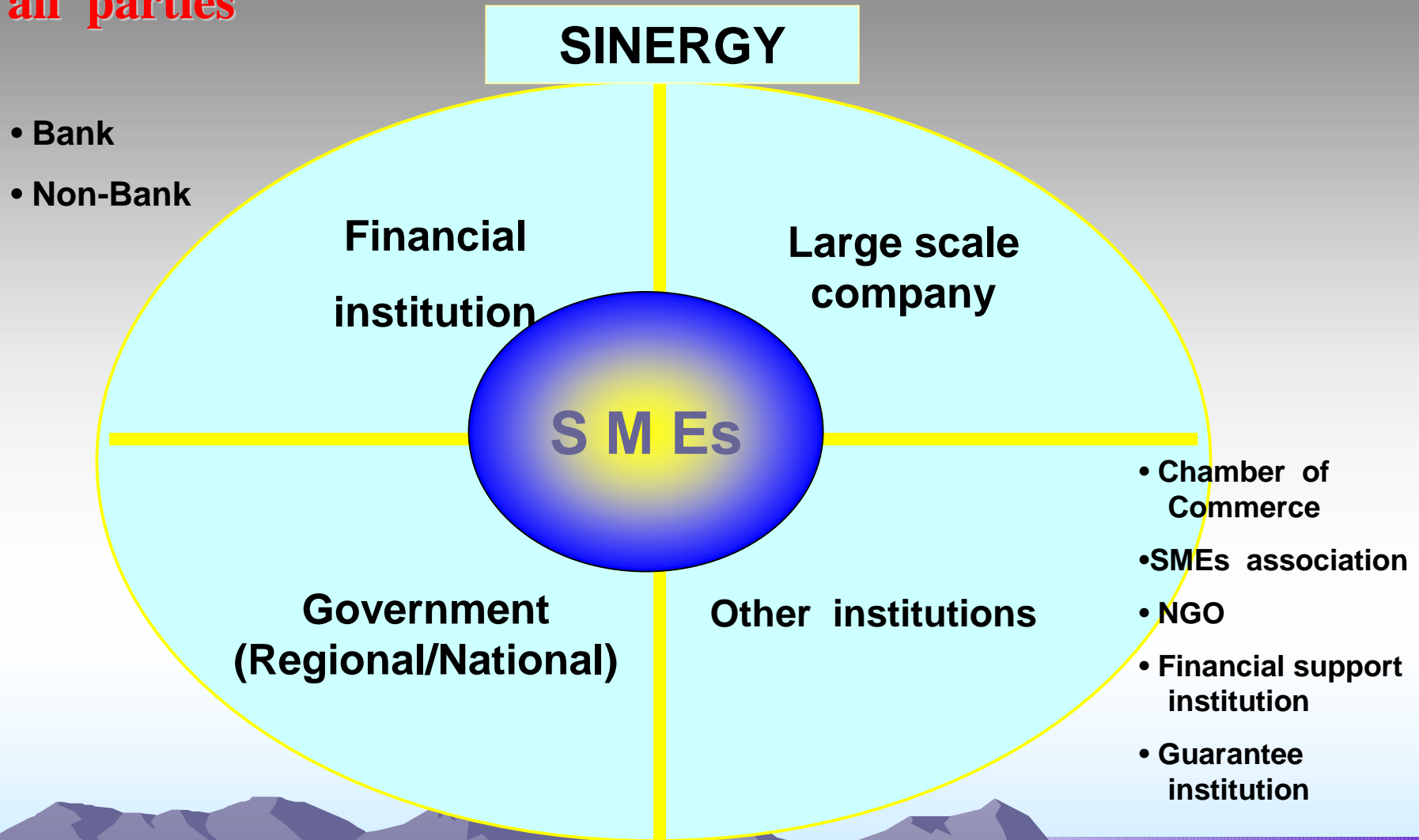
Pioneering micro business trough BIMAS & INMAS using non-commercial approach. Experiencing a big loss. In 1984 switching into commercial approach and success with BRI Unit

**BRI's Loops & History**



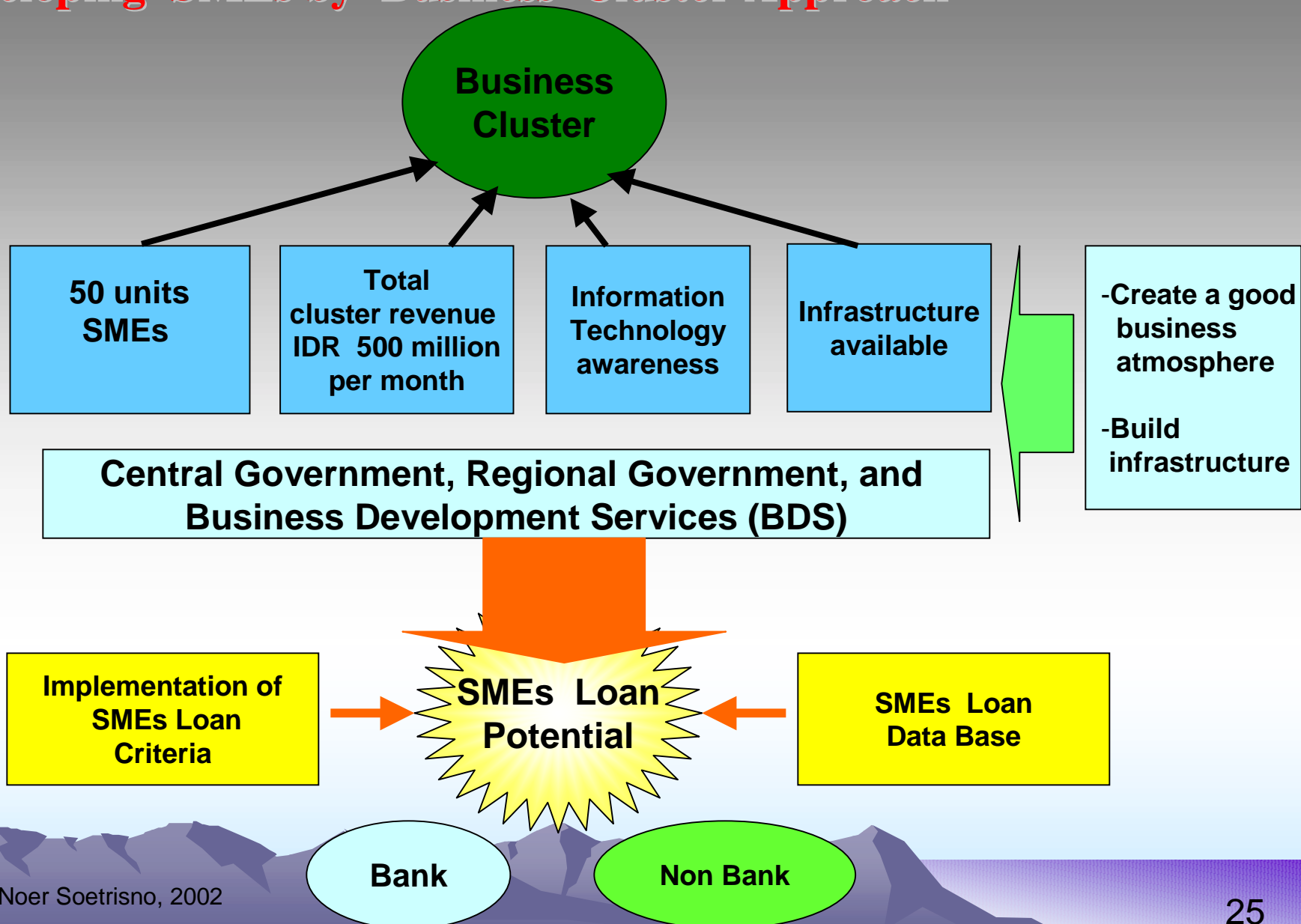
# Bank BRI - Policies to Develop SMEs

**SMEs development is not only bank responsibility, but all parties**

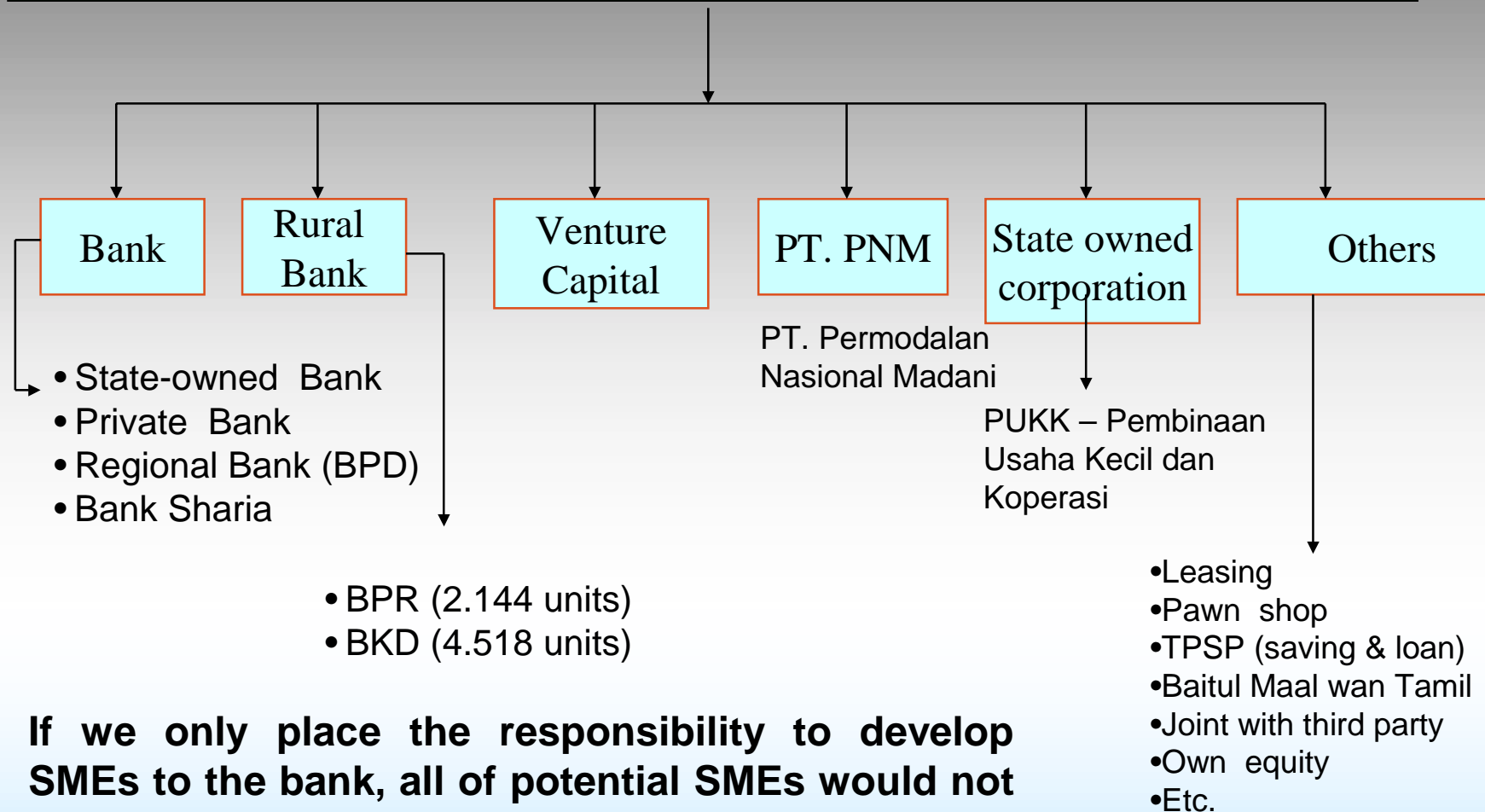


# Bank BRI - Policies to Develop SMEs

## Developing SMEs by Business Cluster Approach

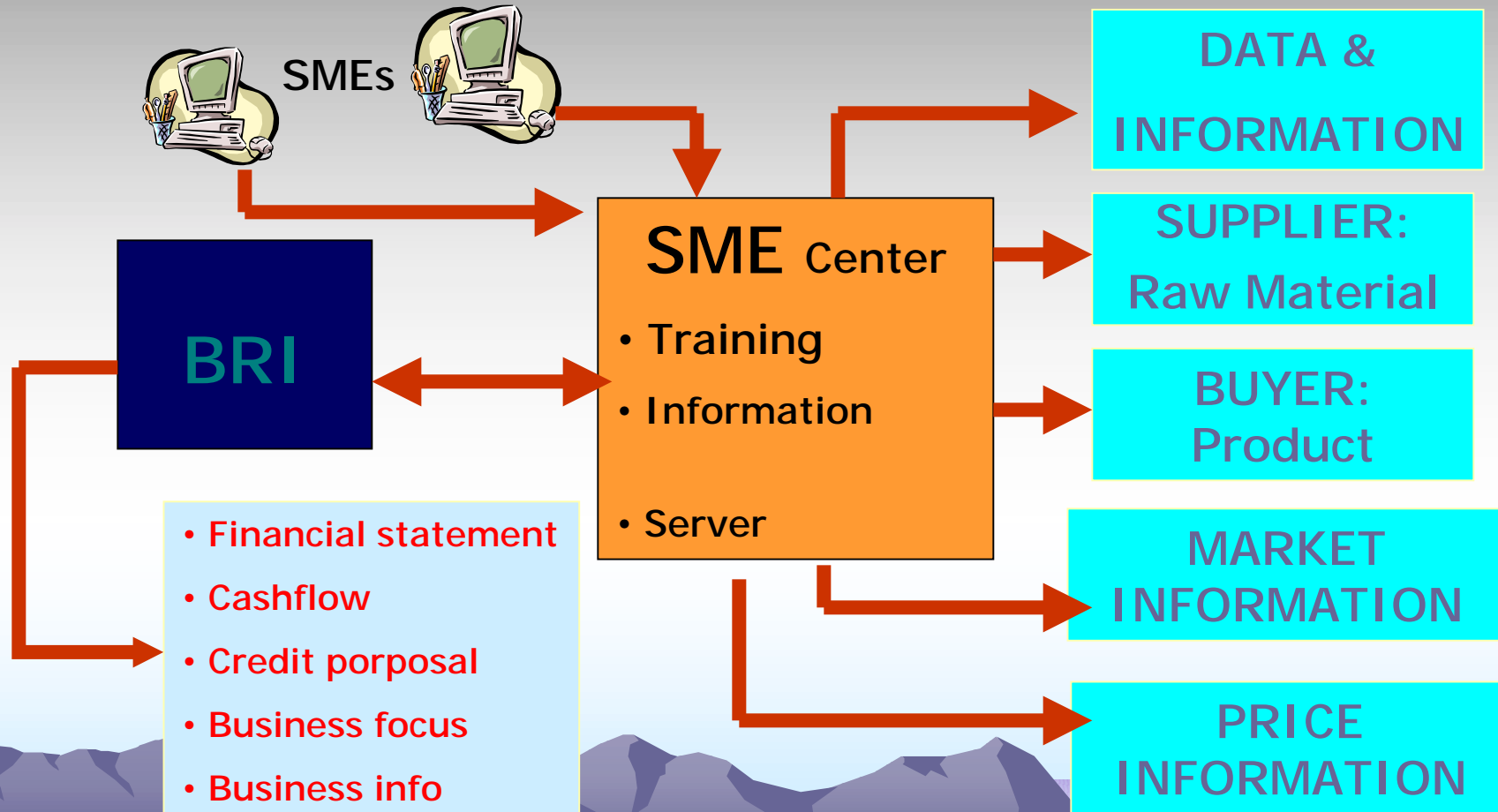


## FINANCIAL RESOURCES FOR SMEs & COOPERATION

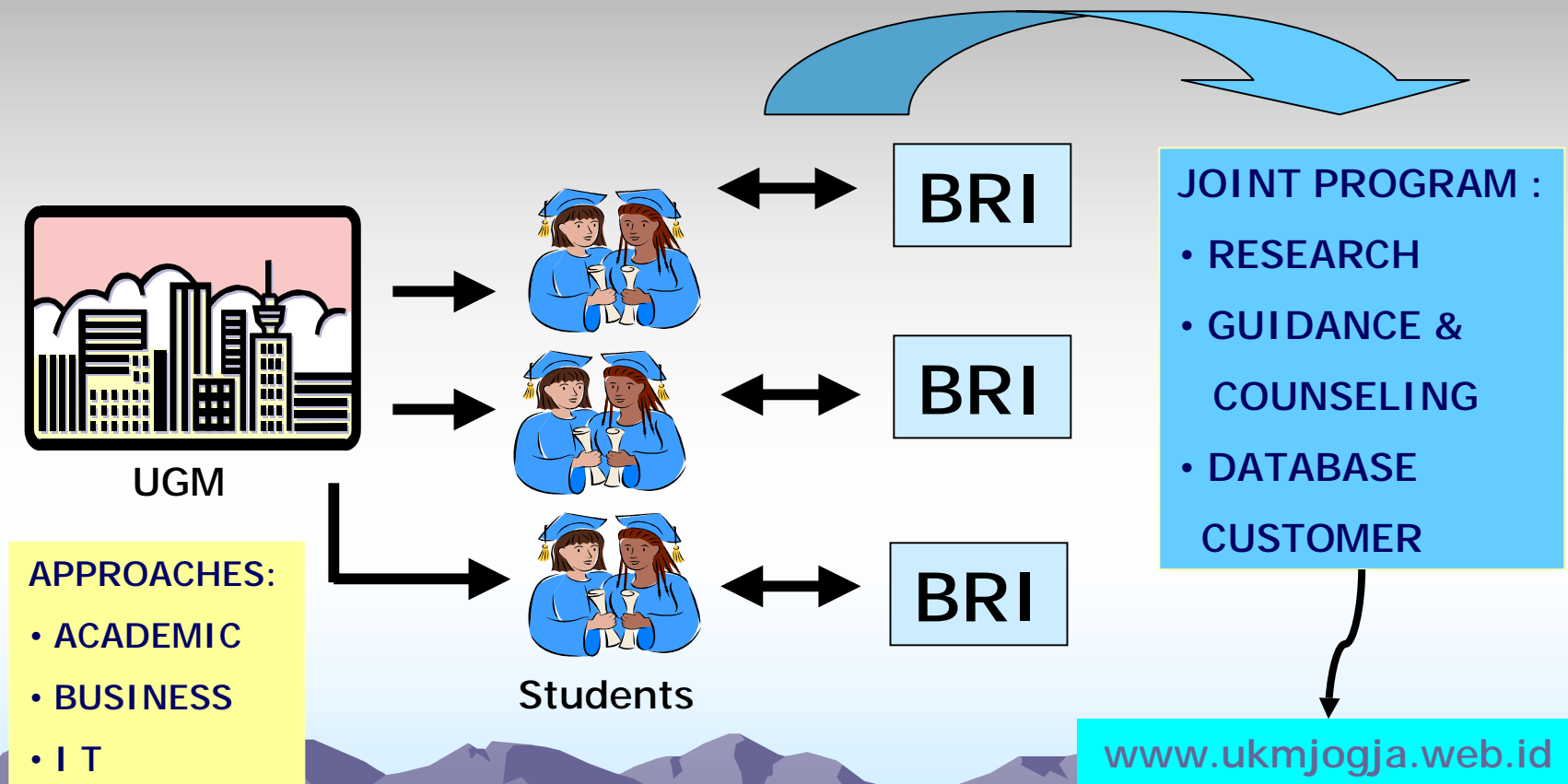


**If we only place the responsibility to develop SMEs to the bank, all of potential SMEs would not be served properly.**

# BRI SME CENTER'S DEVELOPMENT

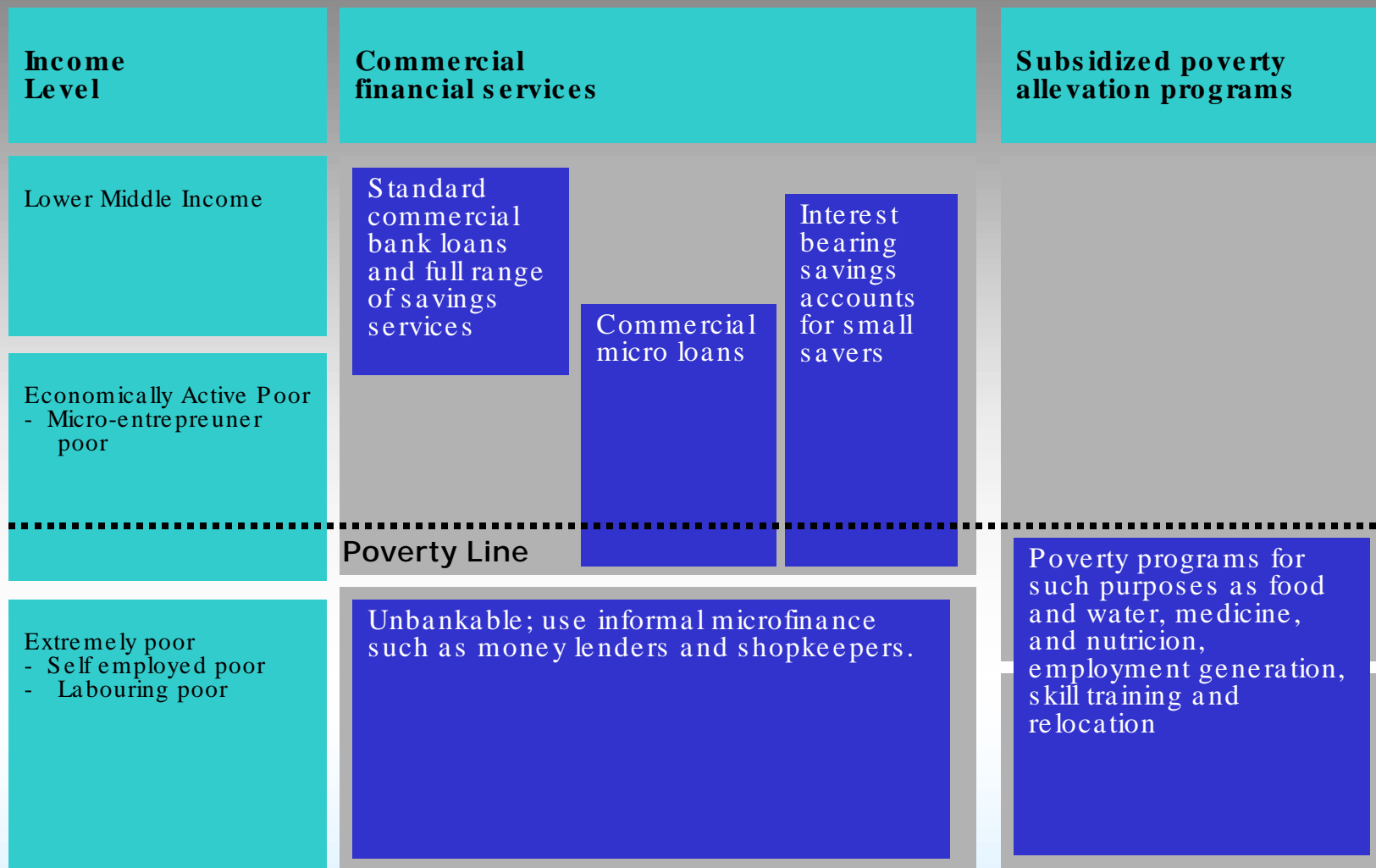


# JOINT PROGRAM BRI WITH UNIVERSITY



# Bank BRI - Policies to Develop SMEs

## SMEs Development Philosophy



Source : Simanowitz, Anton with Walter, Alice. "Ensuring Impact", Imp-Act, Institute of Development Studies, UK, 2002 (internet).

# Bank BRI - Policies to Develop SMEs

## SMEs Financing Scheme provided by Bank BRI

### 1. Program Loan (subsidized)

- P4 K Loan (The rural income generating project for Farmers and Landless)
- KKP Loan (Loan that aimed to create food availability)
- Loan by PUKK liquidity

### 2. Commercial Loan

**Micro Scale : KUPEDES (up to IDR 50 million)  
For economically active poor & micro enterprises**

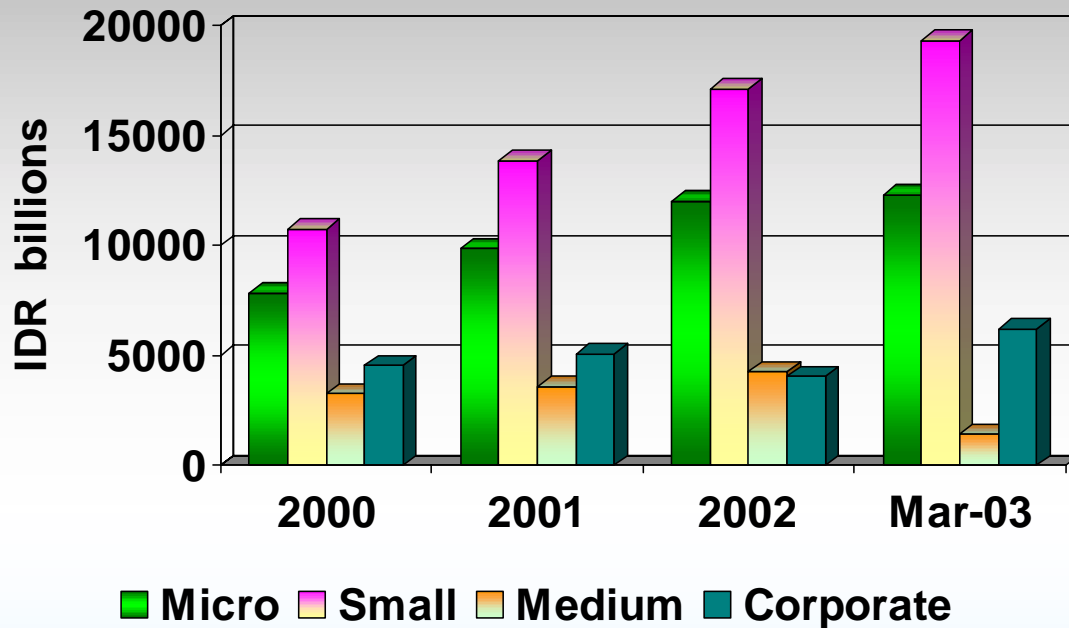
**Small Scale (up to IDR 5 billion)**

- Small Loan : KKI and KKM loan
- Retail Loan : KI and KMK loan
- Export/Import Loan : KMKE and KMKI loan

**Medium Scale : Loan > IDR 50 million to 50 billion**

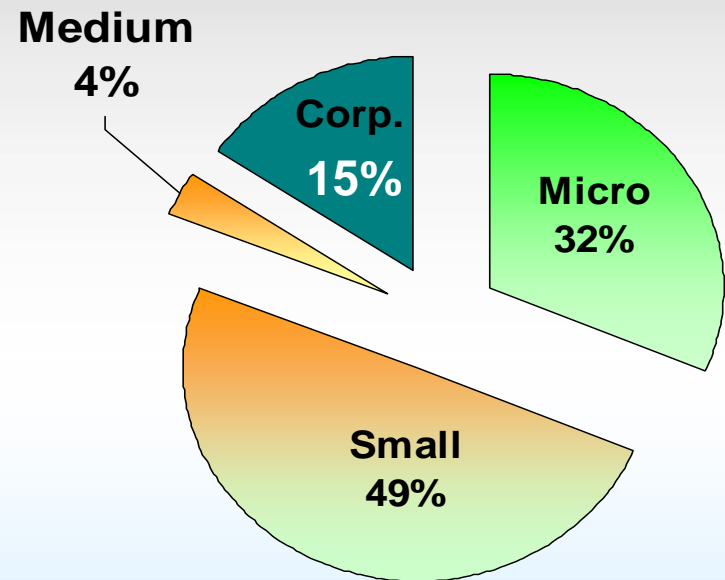
# BRI's CREDIT PORTFOLIO

**Credit Outstanding**



**Credit Portfolio**

March 2003





# BRI's NETWORK

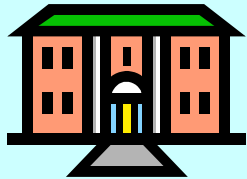
Total : 4.644 outlets  
(excl ATM)



1 Head Office



3.918 BRI Units



13 Regional Offices

11 Regional Audit Offices



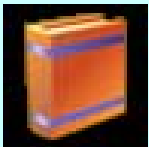
240 Village Service Posts



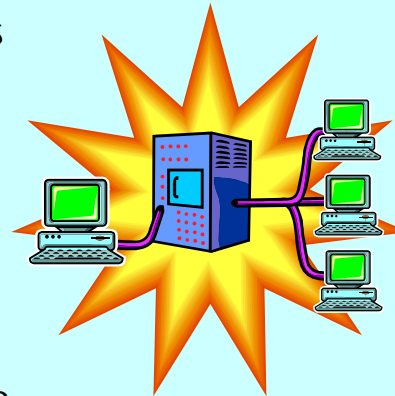
325 Branches



128 Sub Branch Offices



8 Sharia Branches



ATMs :

582 ATM BRI

2.385 ATM Bersama

3.627 ATM Link

ATM Cirrus around The World



Phone Banking Facility

Total BRI :  
30.859 employees  
(excl contractual –based)

## BRI's NETWORK SPREAD

Banda Aceh Regional  
Office : 784 employees

Medan Reg Office :  
1.392 employees

Padang Reg Office :  
1.503 employees

Palembang Reg Office :  
1.872 employees

Banjarmasin Reg Office :  
1.204 employees

Jakarta Reg Office :  
2.937 employees

Bandung Reg Office :  
3.763 employees

Semarang Reg Office :  
124 employees \*)

### Overseas :

- BRI New York Agency
- BRI Caymand Island Branch
- BRI Representative Office Hong Kong

Manado Reg Office :  
1.043 employees

Makassar Reg Office :  
2.190 employees

Denpasar Reg Office :  
1.765 employees

Surabaya Reg Office :  
4.616 employees

Yogyakarta Reg Office :  
6.337 employees \*\*)

Others : 1.989 employees (Head Office,  
KCK, Overseas branches)

\*\*) Incl Smg Regional branches employees

\*) Smg Regional Office only, excl the branches employees



## The BRI Unit System

- BRI-Units formed in order to support Government's program to achieve rice self-sufficiency production by applying modern technology in rice cultivation.
- The transformation of BRI Units took place within the context of overall financial sector deregulation.
- In June 1983, the government suspended ceilings on credits, removed controls on interest rates for both deposits and savings and prioritizes savings mobilization. These changes provided an opportunity for BRI to explore new services and products.
- The deployment of the technology and system was meant to enable BRI Units to improve their services, increase efficiency and anticipate business competition
- The business practice in BRI Units are :

**Community Based Development**  
***Quasy Unit Banking System***

## The BRI Unit System

### - The Microfinance's Key Success Factors :

**Simplicity**

**Continuous Training**

**Accessibility**

**Supervision**

**Demand Driven**

**Incentives**

**Transparency**

**Independency**

**Cost Recovery**

**Sustainability**

# DOMESTIC AWARDS

1. 1990, BRI received Upakarti award from Indonesia Government as pioneer in developing SMEs
2. 1995, Customer Service Award from Gatra Magazine and Marketing Centre Service from Marketing Research Specialist, London.
3. 1998, Sugianto Pioneer Awards from Microfinance Network
4. 1998, Satya Lencana award from Indonesia Government as pioneer in developing Cooperation and small businesses.



# INTERNATIONAL

# RECOGNITION

"The BRI Unit System, which is fully self-financing and computerized, has become one of the world's greatest success stories in microfinance"

(Harvard Institute for International Development/HIID)

"BRI's micro banking system ... is the most advanced example of The microfinance revolution"

(Marqurite S. Robinson, the Author of the Microfinance Revolution)

"BRI bet on the poor and won"  
(Nancy Barry, The President of Woman World Banking, 1999)

"The program succeeded because the bank loaned at the market rates, used income to finance their operations ..... included simple loan process, close supervision, appropriate staff training and performance incentives"

(World Bank News, April 4, 1996, p. 6)

"The performance of Bank Rakyat Indonesia's micro financing system, which provides and extraordinary example of commercially viable approach that succeeded during an exceptionally severe economic crisis" (Joint Ministerial Statement, APEC Small and Medium Enterprise Ministerial Meeting Acapulco, Mexico August 24-25, 2002)



**Thank you**

