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Institutional Credit in Irian Jaya/West Papua and its Prospects

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September 2001

A trip to Irian Jaya/West Papua in August 2001 was made in the first instance to accompany Mr. Abdul Salam, Director Rural Banking, Bank Indonesia for the inauguration of the Maluku-Irian Jaya Chapter of Perbarindo, the trade association of BPR (Bank Perkreditan Rakyat). This occurred with great eclat in the presence of the media and the Vice Governor -- and Dr. Timberg was then able to meet with various informants about the state of small credit in Irian Jaya/West Papua.

Findings

Sustainable financial and economic development requires strong financial institutions and these are lacking in Irian Jaya. The lack may be due to the lack of experience with credit, the effects of extensive and poorly administered programs of grants, or it may be due to the lack of autonomous and appropriate financial institutions in the region. The few banks which had provided small-scale credit in the region are generally curtailing their lending. BRI (Bank Rakyat Indonesia) which is expanding elsewhere does not have much of a presence in Irian Jaya. An extensive program by the Irian Development Foundation apparently degenerated after management was handed over to provincial government.

I have been able to identify five types of small scale credit which exist. Even though commercial banks primarily serve as a safe place to save and provide limited consumer finance secured against government salaries or to fund public sector contracts, they do make some loans. As contrasted to 3.6 trillion of public funds deposited (May 2001) they have .7 trillion of loans outstanding of which over two thirds were small scale. About 60% of the credit was for consumption. Business loans are few and have shown no upward trend. Only 32 billion of bank credit is accounted for by government credit programs. Of the commercial credit, roughly 120 billion was accounted for by KUPEDES, i.e. BRI microlending, alone (Communication from Don Johnson).

There are six BPR in Irian Jaya which have been growing rapidly and generally prospered. They may be benefiting by the banks' weakness. The backers of a number of other potential BPR are moving toward applying for licenses. The backers of the present and potential BPR are a mixed group including local yayasans and investors from Jakarta. Three of the present BPR are owned by one yayasan (two in good shape, one being reorganized) and this yayasan plans other BPR, as well as intending to conduct an agricultural credit program. Another BPR is controlled by the Modern Express group

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from Jakarta, which owns and is promoting BPR and other enterprises throughout eastern Indonesia. The BPR account for a little less than 10 billion of publicly deposited funds, and over 10 billion of credit, but are growing quite rapidly. They receive almost no external funding. Bank funds for lending to BPR have declined from over 400 million to nothing with the merger of Bank Exim into Mandiri and the termination of its BPR involvements.

There are a variety of registered cooperatives which report 23 million of loans.

In addition there are a number of unregistered credit unions, many with Catholic Church sponsorship. Credit Union Coordination of Indonesia (CUCO) informs me that as of Dec. 31, 2000 there were 12 credit unions with 575 million rp in loans outstanding, apparently mostly on the North Coast. I do note one, Nit Meke Wamena, with 342 members and 71 million of loans outstanding.

Finally, there are government and NGO programs. The two programs on which I have data are those of Trickle Up and World Vision. Both are grant programs for their first stage, though they have been used by BPR as a way to get new entrepreneurs into their clientele. That is a new entrepreneur gets a grant – and if he saves the proceeds of his enterprise with the BPR he can then get a loan at their normal 36% rate. This is incidentally lower than the normal alternative for small lending, as set by the Army Coop which charges 60%.

All of these institutions account for very little credit given Irian Jaya's size – even if we only consider its urban, modern, and less indigenous Papuan sector. What there is, is concentrated in Jayapura and on the Northern Coast more generally. See Table I below.

Each of the existing groups of institutions has some potential for expansion but will require a reorientation that has not yet occurred.

Program Possibilities

For the present it is difficult to be more specific about program possibilities with the credit unions or the commercial banks. Irian Jaya would seem to be natural terrain for expanding BRI's activities both at the micro and retail level. On the other hand, other banks need to enter the market – especially given the moribund state of Bank Mandiri as a retail lender – since that bank dominates the Irian Jaya market. One has the impression that the Irian Jaya lending to BPR of Bank Exim which merged into Bank Mandiri were reasonably profitable – but dropped after the merger because of centralized control of that bank's activities.

It would appear that the best prospects lie with expanding the BPRs, though the leading group here, YPPWI (Yayasan Pengembangan Prakarsa Wirausaha Irian Jaya), is already well provided with partners, especially NOVIB and HIVOS (Two large Dutch NGOs). They could undoubtedly benefit from partnership with Opportunities International (which they have explored because of common Evangelical ties) as well perhaps from

association with PT UKABIMA, to which I am introducing them. They and the industry more generally are obvious candidates for the CGAP Training. USAID could perhaps jump start such training by paying UKABIMA directly to do some CGAP courses. Further, IRIS might explore letting its microfinance expert, Beth Wilkinson, who worked for a long time in Papua New Guinea (her husband is the world's leading Papuan sculptor, based in San Diego), do some exploratory work with the industry.

The major NGO grant programs have, perhaps wisely, worked their grants in connection with credit, typically run on a commercial basis through BPR.

Attachments

List of Contacts

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Mr. Sam Resoeboen, DPRD I, Wakil Komisi B
Mr. John Norman and Jeremiah Wamea, Bank Indonesia, Jayapura
Mr. Agus Rumasemba, Mr Jeffrey Maryam, Foundation for Entrepreneurship Initiative Development in Irian Jaya
Mr. L. Harwanto, Director Bank BPR Modern Express, Ambon
Ir. Yenny Rustan, Director BPR Irian Sentosa, Jayapura
Mr. Leroy Houllebecq, IRIS Project, Jakarta
Mr. Don Jonson, Harvard Group, Jakarta
Mr. Abdul Salam, Director, Rural Banking, Bank Indonesia

Table I -- Small Credit in Irian Jaya/West Papua In Billions of Rp

INSTITUTION	Credit Outstanding in Billion Rp		
KOPTA-USP	16.9	June 2001	
KUD-USP	2.7	June 2001	
KSP	1.6	June 2001	
TPSP	1.5	June 2001	
BPR	10	May 2001	
Commercial Banks	711	May 2001	
Of which BRI	120	July 2001	
Unit Desa			
Of which consumption	400	May 2001	
Of which SME incl. Consumption	433	February 2001	
Credit Unions	.6	December 2000	
Total	657		
BPD Irian Jaya	296	June 2001	

The first four are different varieties of registered coops.

Table II -- Geographic Distribution of Credit in Irian Jaya/West Papua
In Millions of Rp

	Jaya	Sorong	Biak	Mawoh	Yupen	Jayam	FakFak	Pantai	Other	Total
Cbank	196	101	67	73	85	32	33	49	23	657
SME	164	32	60	43	33	12	31	38	21	434
Deposits	1234	508	217	217	318	90	124	485	158	3349
KSP	.12	1.2	.012	.016	.076	.048	.02	Merauke .136	Wat .02	
USP-Kopta	3.4	5.2	.852	1.3	.343	.9	.07	1.5	Nabire 2	
USP KUD	.2	1	.04	.2	.06		.05	.01	'9	
TPSP	.3	.3	.4	.5						