

**AGENCY FOR INTERNATIONAL DEVELOPMENT  
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ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

**1. Project/Subproject Number**

497-0357

**2. Contract/Grant Number**

497-C-00-98-00045-00

**3. Publication Date**

June 26, 2002

**4. Document Title/Translated Title**

Small Credit in West Java

**5. Author (s)**

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2.  
3.

**6. Contributing Organization (s)**

Nathan/Checchi Joint Venture/PEG Project

**7. Pagination**

23

**8. Report Number**

PEG 96

**9. Sponsoring A.I.D. Office**

ECG, USAID/Jakarta

**10. Abstract (optional - 250 word limit)**

**11. Subject Keywords (optional)**

1. Indonesia  
2. Small scale credit  
3. West Java  
4. Small & medium enterprises (SMEs)  
5. Microcredit  
6.

**12. Supplementary Notes**

**13. Submitting Official**

C. Stuart Callison, Chief of Party

**14. Telephone Number**

011-62-21-520-1047

**15. Today's Date**

December 16, 2002

.....DO NOT write below this line.....

**16. DOCID**

**17. Document Disposition**

DOCRD [ ] INV [ ] DUPLICATE [ ]

## Small Credit in West Java

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June 26, 2002

The surprising thing given West Java's size and general development is the underdevelopment of its institutions for small, medium, and micro credit. The average level of such credit is far lower per capita than in Central and East Java, to say nothing of Bali. See Appendix I on the Credit Development Index. The upward trend has also been relatively weak, the level of troubled institutions high, and remedial action less.<sup>2</sup>

This seems to be the case despite the enormous regional variation within West Java, from the suburban Jakarta area of BOTABEK (Bogor, Tangerang, and Bekasi) and the new province of Banten (still included with West Java in some data) to the mountainous areas of the Puncak and Garut.

Why this is the case is probably over-determined by history and culture, but it clearly presents both a challenge and an opportunity. In what follows I will outline the state and trends in the financial flows and follow them with some policy recommendations.

### *Credit by Institution*

The broad pattern of credit by institution type can be seen in Table I below.

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<sup>1</sup> The Partnership for Economic Growth (PEG) is a United States Agency for International Development (USAID)-funded Project with the Government of Indonesia. The views expressed in this report are those of the authors and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

<sup>2</sup> The point was made in Detlev Holloh, *Profi Microfinance Institutions Study*, Denpasar: Profi, March 2001 by citing Cecile Lapenu, "Indonesia's rural Financial System: The Role of the State and Private Institutions, Report for the World Bank Project "Sustainable Banking with the Poor," 1998 also reference articles in the Bandung *Pikiran Rakyat* newspaper.

**TABLE 1 : Credit in West Java**

**Table 1A By Institution in Trillions Rps**

Source Institution	Credit	Small Credit	Consumption	Small Business Credit
<b>Commercial Banks<sup>1</sup></b>	73	10.6	7.3	3.3
<b>Government Banks<sup>1</sup></b>	37.8	9.5	7.1	2.4
<b>BRI Micro<sup>2</sup></b>	1.45	1.45	0.3	1.15
<b>BRI Retail<sup>2</sup></b>	1.84	1.51	1.16	0.35
<b>BNI<sup>3</sup></b>	NA	1.17	NA	0.206
<b>BPD<sup>4</sup></b>	3.7	3.1	3.05	0.05
<b>Private Banks<sup>1</sup></b>	16.2	1.1	0.2	0.9
<b>Local Banks<sup>5</sup></b>	9.8	NA	NA	NA
<b>Foreign Banks</b>				
and				
<b>Joint Banks<sup>1</sup></b>	18.9	0.000138	NA	NA
<b>BPR<sup>1</sup></b>	0.869	0.869	0.175	0.794
<b>Cooperatives<sup>6</sup></b>	0.400 - 0.800	0.400 - 0.800	NA	NA
<b>BMT<sup>7</sup> (Baitul Mal Wa Tamwil)</b>	0.020 - 0.040	0.020 - 0.040	NA	NA
<b>Credit Union<sup>8</sup></b>	0.0235	0.0235	NA	NA
<b>Bina Swadaya</b>	0.015	0.015	NA	NA
<b>Swamitra</b>	0.036	0.036	NA	NA
<b>KDP<sup>9</sup></b>	0.012 – 0.018	0.012 – 0.018		
<b>Pawnshop<sup>10</sup></b>	0.478	0.478		

Sources: 1. Regional Economic-Financial Statistics Java Barat, Bandung, Bank Indonesia: November 2001. Tables No.10, No.12 for October 2001. Figures already exclude Banten.

2. Don Johnson, Harvard Office at BRI, and Mr. Suwardi Saropie, Pemimpin Wilayah Ritel Bandung, and Mr. H.Z. Elfani, Wakil Pemimpin Wilayah, January 29, 2002. Consumption data from Retail Branches includes all consumption, not only that counted as SME. Small Business Credit excludes data from BOBEK (Bogor, Bekasi), but that is small. Data from December 2001.

3. Interview with BNI Regional Office in Bandung (January 29, 2002) with Mr. Tri Kuntoro, Wakil Pemimpin Wilayah Bidang Pembinaan Cabang III, Hidajat Djoko Sampurno, Wakil Pemimpin Wilayah Bidang Pemasaran Bisnis, F. X. Sukamdiarto, Wakil Pemimpin Wilayah Bidang Pembinaan Cabang I, and

Mr. Djoko Harjanto, Wakil Pemimpin Divisi Pembinaan Bisnis Ritel dan Menengah and Tedy Sudrajat, Manager, BNI, Jakarta, May 1, 2002. There was 1.17 Trillion of lending in limits of under 5 billion rps in West Java, of which 206.5 was non consumption lending under 500 billion rps, 312.4 billion program lending, and 656 other small lending including consumption. (For April 30, 2002)

4. Interview with Bank Jabar, Bank Pembangunan Daerah Jawa Barat officers in Bandung, Mr. Rochadi Santoso, Kepala Biro Perkreditan and Mr. Usi Suryana, Kepala Biro Perencanaan and Pengembangan, January 28, 2002.

5. See Table 2 below, the credit includes considerable amounts from outside of West Java.

6. Data from Mr. Rochmat, Dinas Kooperasi, Propinsi Bandung, February 2002.

7. Data from PINBUK West Java, Interview with Mr. Agus Sumarno, Ketua and Mr. Irawan D. Sudrajat, Kepala Divisi SDM.

8. Data from CUCO, February 2002

9. For 2002, Interview with Mr. Doddy D Sumantri at Bappeda, Bandung

10. Pegadaian central office in Jakarta, December 2001. The number excluding Botabek (Bogor, Tangerang and Bekasi) and Banten area.

**Table 1B Trends by Institution in Trillion Rps**

<b>Source Institution</b>	<b>Small Business Credit October 2001</b>	<b>Small Business Credit October 2000</b>	<b>Small Business Credit December 31, 1996</b>
<b>Commercial Banks<sup>1</sup></b>	3.3	2.9	3.7
<b>Government Banks<sup>1</sup></b>	2.4	2.1	2.4
<b>BRI Micro</b>	1.15	NA	NA
<b>BRI Retail</b>	0.35	NA	NA
<b>BNI</b>	0.52	NA	NA
<b>BPD</b>	0.050	NA	NA
<b>Private Banks</b>	0.9	0.8	1.3
<b>Local Banks</b>	0.451	NA	NA
<b>BPR<sup>1</sup></b>	0.794	0.671	0.514
<b>Cooperatives</b>	0.400-.800	0.400-.800	0.400-.800
<b>BMT</b>	NA	NA	NA
<b>Credit Union</b>	NA	NA	NA
<b>KDP</b>	0.012 - .018	NA	NA
<b>Pawnshop</b>	0.478	0.327	0.249

Source: Same as IA.

## **Commercial Banks**

As can be seen in Table I above, of Rp 73 trillion in commercial bank credit in West Java as of October 2001, roughly 11 trillion was small credit (using the old definition), 9.5 trillion of that from government banks. Seven point one percent was consumer lending, leaving 3.5 trillion in small business credit. Of that total small business credit, 1.7 trillion was for trade, only 0.3 trillion for agriculture, and 0.3 for industry. Given the overall importance of small scale agriculture the figure for agriculture appears very low.

Incidentally, of the Rp 73 trillion total, almost 12 trillion was consumer lending, implying five trillion of consumer lending which was not small scale. This would have had to be consumer lending in limits of over Rp 25 million, for automobiles, etc. Thirty two trillion was for industry and 3 trillion for agriculture, presumably large scale agriculture and plantations.

## **By Bank**

Of the banks, the BPD (Bank Pembangunan Daerah, Provincial Development Bank in Indonesia) Bank JABAR, accounted for Rp 3.5 trillion of credit in December 2001. As usual, almost of all of this was small but mostly for consumption. The BPD estimates that 20% or roughly Rp 70 billion is business credit, three quarters of that in amounts of under 500 million or notionally about Rp 50 billion. BPD also have Rp 350 billion outstanding of KUT (Kredit Usaha Tani, a government agricultural credit program).

Other than the BPD, the data on the other commercial banks is complex. Except for BRI (Bank Rakyat Indonesia) they do not routinely report their data by province or even their overall breakdown by category (except for SME lending). But their offices, especially but not exclusively from the Government Banks, are often willing to supply data on request. The problem is that none of the banks, of any size, has a single unit responsible for West Java. Much of JABOTABEK (suburban Jakarta, JABOTABEK = Jakarta, Bogor, Tangerang and Bekasi) is often supervised from Jakarta, and there are sometimes regional offices in Cirebon, Taksimalaya etc. For example, in the case of Bukopin, the BOTABEK region minus Karawang is handled by Jakarta. Of the total credit of Rp 72 billion from the Bandung Regional Office, 23 billion was to borrowers of less than one billion, 80% of that to borrowers of less than 500 million. Swamitra, a microlending program connected with Bukopin, had Rp 3.5 billion outstanding.

In BNI's (Bank Negara Indonesia) case as well, BOTABEK was under Jakarta. BNI had a fair amount of program lending, presumably almost all of it in the small scale category -- roughly Rp 312 billion outstanding as of April 30, 2002. As would be expected the two largest items are the various programs of the Family Planning Board (for which BNI, plus some BPR (Bank Perkreditan Rakyat) and the Post Office where BNI and BPR do not reach, is the disbursing agent) and credit to farmers, much of which is in arrears. The Bandung branch also has a small pilot microlending activity (average loan under Rp 5 million) which is conducted by roaming extension workers and accounts for slightly

more than Rp 4 billion in credit to roughly 1000 borrowers. There are 206.5 billion in non-program SME credit, and 656 billion in other lending in amounts of less than 5 billion.

It is no secret that the largest commercial bank for SME lending is BRI, both through its retail and micro branches. Figures are kept separately for West Java, Bogor (including Depok), and Bekasi. Overall lending is as in Table 2 below as of December 2001.

**Table 2 BRI Lending in West Java in Rps, December 2001**

	<b>Retail &amp; Medium</b>		
	<b>Consumption Credit</b>	<b>Non-Consumption Credit</b>	<b>Savings</b>
<b>Kanwil Bandung</b>	1,071,616,777,834	630,168,560,066	2,474,687,920,892
<b>Bogor</b>	68,184,005,107	30,985,629,572	268,960,211,988
<b>Bekasi</b>	21,711,216,591	15,020,726,403	107,053,822,234
<b>Sub Total, West Java</b>	1,161,511,999,532	676,174,916,041	2,850,701,955,115

**Micro Units**

<b>Consumption Credit (Pengh. Tetap)</b>	<b>Non-Consumption Credit</b>	<b>Savings</b>	<b>Consumption Credit (Pengh. Tetap)</b>	
303,531,701,848	1,144,852,567,743	2,094,212,587,774	303,531,701,848	<b>Kanwil Bandung</b>
37,608,734,659	63,031,217,835	316,780,897,231	37,608,734,659	<b>Bogor</b>
9,476,820,130	82,552,680,810	252,733,510,924	9,476,820,130	<b>Bekasi</b>
350,617,256,637	1,290,436,466,388	2,663,426,098,929	350,617,256,637	<b>Sub Total, West Java</b>

	<b>Outstanding by Amount in Millions of Rps by Size</b>		
	<b>0 – 350</b>	<b>&gt; 350 - 500</b>	<b>&gt; 500</b>
<b>Bandung</b>	316,384	31,186	141,798

Source: Mr. Don Johnson, Harvard Group at BRI.

Private banks obviously have a much smaller role in SME credit. The 8 banks based in Bandung (one is the BPD) do some SME lending as can be seen in Table 2 below, but are concentrated in consumer lending. Much of the lending by the two biggest banks is outside of West Java, however. The September data from the private banks located in Bandung are given in Table 3 below.

***TABLE 3 : Credit from Private Banks headquartered in Bandung in Billion of Rps***

Bank	Credit	Small Business Credit	Percentage
Bisnis	114	10	9%
Nusantara Parahyangan	1332	42	3%
NISP	5997	335	6%
Himpunan Saudara	219	16	7%
Tabungan Pensiunan Nasional	2108	20	1%
Artos	50	12	24%
Fama	62	16	26%
Total	9882	451	5%

Source: Laporan Publikasi for September 31, 2001 on Bank Indonesia Website.

### **Bank Perkreditan Rakyat (BPR)**

BPR account for Rp 0.867 trillion in credit of which 0.135 trillion is for consumption and 0.457 trillion for trade. The figures for BPR are indicated in Table 1 above. For the non-BOTABEK (Bogor, Tangerang and Bekasi) BPR NPL was only 12.18%, a low percentage in relative terms. There were reported to be 317 non-BOTABEK BPR, 175 belong to the provincial authorities, and 11 Bank Pasar belong to the municipalities. There were reported to be 727 BPR for the province as a whole, meaning that 410 were in JABOTABEK. Both of these figures include a considerable number of banks in the process of closure. At least 100 are in the process of closure, and another 100 under special supervision requiring their recapitalization within six months.<sup>3</sup>

<sup>3</sup> Regional Economic-Financial Statistics Java Barat, Bandung, Bank Indonesia: November 2001. I.1 for October 2001. Figures already exclude Banten.

## **Lembaga Dana Kredit Pedesaan (LDKP), Badan Kredit Desa (BKD) etc.**

There were 790 smaller publicly owned credit institutions, LPK (Lembaga Perkreditan Kecamatan) not yet BPR and BKD (Badan Kredit Desa, owned by the villages and connected with Bank Rakyat Indonesia).<sup>4</sup> This suggests roughly 82 unconverted LPK (but this figure includes Banten), with Rp 16 billion of assets, 11 billion of credit, and about 5 billion of savings deposited.<sup>5</sup> Though these smaller financial institutions were reported as having made a small loss for the year they appear heavily capitalized. Only half of their loans were classified as standard. BKD are reported as having extended Rp 11.2 billion of credit in 2001. There are reported to be 414 BKD in West Java (including Banten). These cover only 5.8% of the villages in contrast in 20% and over in other sections of Java. The West Java BKD in June 2000 had a loan portfolio of 9.5 billion and savings deposits of 1.2 billion.

## **Finance Companies and Pawnshops**

There are also a number of multifinance and leasing companies operating in West Java as well as extensive operations by the state pawnshop. I did not have sufficient time to estimate the size of the finance company activities, but know it is extensive especially in financing consumer durable purchases. See Appendix II -- Finance Companies in the Bandung Phonebook. The Pawnshop data is given in Table 1. A national survey estimates that 69% of pawnshop advances were for business purposes.

## **Microfinance Institutions (MFI)**

The 40 to 60 MFI associated with the Kecamatan Development Program (KDP) of the Provincial Development Authority (Badan Pembangunan Daerah -- BAPPEDA) are expected to receive Rp 300-500,000,000 each in 2002, of which 40-60% is usually used for revolving credit funds. No detailed information is normally collected about those funds.

Other MFI are treated below under the cooperative rubric, the reasons for which will be explained.

## **Savings and Loan Cooperatives**

The data for savings and loan cooperatives are complex. On the one hand, many cooperatives are not registered and a fluctuating number now report their data, particularly after the implementation of provincial autonomy. Whole regencies are missing from the data. On the other hand, there are no resources for field verification.

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<sup>4</sup> Ibid.

<sup>5</sup> Detlev Holloh, Profi Microfinance Institutions Study, Denpasar, March 2001.



As can be seen from Table 4 below, on August 28, 1998, the last full data available, pure savings and loan cooperatives had 284,000 members, cumulative annual credit of Rp 37.1 billion and deposits and capital of Rp 31 billion. The accounting in terms of annual volume rather than outstanding is characteristic of Indonesian cooperative statistics. These pure savings and loan cooperatives had 15 billion of funds which were borrowed from banks elsewhere. There were 719 rural cooperatives (Koperasi Unit Desa) with specialized savings and loan units which had 1.4 million members and Rp 27 billion of annual credit, Rp 17 billion of capital and deposits, and Rp 4.5 billion of borrowings and 4663 urban cooperatives (Koperasi Perkotaan) with 839,000 members, Rp 432 billion of credit, Rp 320 billion of capital and deposits and Rp 6.8 billion of borrowed funds. These are reasons to think that the number of cooperatives has not changed much, nor have their membership figures changed, and the volume of external borrowings may also be stable. There are reasons to think that there has been some decline in the volume of their business, though this is hard to determine from the figures.

**Table 4 Savings and Loan Cooperatives, Amounts in Billions Rps.**

**Table 4A August 1998**

Category	Number	Members	Credit	Deposits	Capital	Borrowings	Profit
<b>KSP</b>	247	284,207	37	9.6	15.5	21.4	21
<b>KUD</b>	719	1,268,161	27	4.4	15.2	4.4	1.1
<b>KOFTA</b>	4663	838,696	431.9	48.3	290.9	67.9	15
<b>TOTAL</b>	5629	2,491,064	495.9	62.3	87.9	327.5	37.1

**Table 4B July 31 1997**

Category	Number	Members	Credit	Deposits	Capital	Borrowings	Profit
<b>KSP</b>	248	274,682	30.1	9.5	20.4	10.3	2
<b>KUD</b>	723	1,207,964	25	4.6	14	5.9	1.6
<b>KOFTA</b>	4665	831,024	325.1	47.9	285.1	67.4	14.5
<b>TOTAL</b>	5436	2,313,670	380.2	62.1	319.5	83.6	18.1

Source: District Cooperative Office, Bandung

Notes: KSP -- Koperasi Simpan Pinjam -- pure credit cooperatives, figures exclusive of Bait Maal wa Tamwil and all but one Credit Union.

KUD -- Koperasi Unit Desa, rural multipurpose cooperatives. These are their savings and loans units.

KOPTA -- Koperasi Perkotaan, urban multipurpose cooperatives, including those for employees at various places of business, students and staff in educational institutions etc. These are their savings and loan units.

In savings and loan cooperatives deposits and capital overlap, both primarily belonging to members. Borrowings refer to external borrowings from banks.

There are several forms of "pre-cooperation" on which figures are available. These include the Usaha Ekonomi Desa (UED) of the Home Ministry and the Usaha Peningkat Pendapatan Keluarga of the Family Planning Board. The latter largely works through Bank BNI in whose figures it is included. There were reported to be 5000 UED with 9.1 billion of credit, 11.8 billion of assets, and 1.4 billion of savings deposits at the end of 2001.<sup>6</sup>

### **Swamitra**

Bank Bukopin had 47 Swamitra cooperatives in West Java. The Swamitra data are given in Table 5 below and include data for Jakarta DKI (Daerah Khusus Ibukota) as well as Banten.

***Table 5 Data of Swamitra as of January 2002 in Billions Rps***

<b>Location</b>	<b>Number</b>	<b>Credit</b>	<b>Savings</b>	<b>Asset</b>	<b>Borrowers</b>	<b>Savers</b>
<b>Jabotabek</b>	37	26	6	28	4021	17294
<b>West Java</b>	10	12	6	14	2253	8333
<b>TOTAL</b>	47	36	12	42	6274	19627

Source: Group Head Micro Banking, Bukopin, March 4, 2002

### **BMT (Baitul Mal Wa Tamwil)**

Though reporting is slightly more complete for BMT (Baitul Mal Wa Tamwil) and credit unions it is still far from complete. The reported assets for the 237 BMT in December 2001 were Rp 19.6 billion, almost all in the form of members' funds, but a large number

<sup>6</sup> Bandung District Cooperative Office.

of active BMT did not report. The figures we give in Table 1 may be underestimates by a considerable amount. The BMT had been growing rapidly, but experience some decline over the last several years from which they are recovering. They were originally self help groups which linked to commercial bank credit programs, but have reinvented themselves as deposit based institutions.<sup>7</sup>

### **Credit Unions**

There are 147 credit unions in West Java and Banten (as of Dec. 31, 2000)(it is not possible to separate Banten figures) with 32,787 members of which 65 are registered with the Provincial Cooperatives Office, but not included with one exception in its figures. They accounted for Rp 23.5 billion of credit, had Rp 43.75 billion of assets and Rp 23.7 billion of savings and share capital. Much of the Bandung area cooperative activity are connected with a project of Parahyangan University. Table 6 below gives the details of these groups.

***Table 6 Credit Union Data Dec. 31, 2000, Amounts in Billions Rps***

<b>Location</b>	<b>Number Credit Union</b>	<b>Members</b>	<b>Credit</b>	<b>Share Capital</b>	<b>Savings</b>	<b>Assets</b>	<b>Reserves</b>	<b>Gross Income</b>	<b>Registered with Cooperative Office</b>
<b>Bogor/ Banten</b>	58	16,956	10.8	6.3	8.8	26.95	5.6	1.4	42
<b>West Java</b>	89	15,831	12.7	8.4	.166	18.8	1.6	1.3	23
<b>TOTAL</b>	147	32,787	23.5	14.7	9	45.75	7.2	2.7	65

Source: CUCO, Jakarta, March 5, 2002.

### **Bina Swadaya**

An NGO, Bina Swadaya, has a group of unaffiliated credit cooperatives, generally not registered which are called Usaha Bersama Simpan Pinjam or Kelompok Simpan Pinjam. They accounted for Rp 1.5 billion of credit and Rp 0.8 billion of savings for 10,412 members in West Java. Table 7 below gives the details of these groups.

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<sup>7</sup> Pinbuk West Java.

**Table 7 Bina Swadaya Microcredit Data September 2001, Amounts in Millions Rps**

<b>Location</b>	<b>Bandung</b>	<b>Indramayu</b>	<b>Garut</b>	<b>Bogor/Bekasi</b>	<b>TOTAL</b>
<b>Credit</b>	277	727	148	352	1504
<b>Savings</b>	105	180	242	237	784
<b>Groups</b>	88	80	108	133	409
<b>Savers</b>	1989	2428	2908	3087	10482
<b>Profit</b>	.3	7	16	19	42
<b>Lending Rate</b>	NA	NA	2-10%	2-5%	NA

Source: Mr. Em Haryadi, Bina Swadaya, March 5, 2002

### **Government Funds**

A variety of government funds were made available for SME development. As of March 2001 the amount provided from the Central Government budget according to from the West Java Provincial Cooperatives Office (Dinas) was Rp 6.2 billion though Rp 36 billion were planned for the year. The final figures are not in, but another Rp 30 billion was planned from provincial budgets. This contrasts to a planned Rp 44.8 billion of which 19.9 was disbursed in 1998. From 2000 the central government disbursements of Rp 28.8 billion included 24 billion from "Fuel Subsidy Funds." Other sums are provided through other channels. Eleven billion rupiah appear to have gone either directly or indirectly to SME from the profits of public enterprises under the PUKK (Pembinaan Usaha Kecil dan Koperasi) program.

### **Regional Distribution**

As attached Table 8 and Appendix III show, West Java credit data may be separated into BOTABEK (Bogor, Tangerang and Bekasi Regencies) and the rest, though for certain purposes Cirebon and Bandung (City and Regency) should be separated.

**Table 8 BOTABEK Versus the Rest in Trillions of Rps, Commercial Bank Figure, Except BPR Data**

Location	BOTABEK	Non-BOTABEK	Cirebon Separate	Bandung Separate
Credit	55.573	15.138	1.055	19.438
Depositor Funds	27.174	47.656	2.837	36.877
Small Business Credit	0.8878	2.353	0.728	0.660
BPR Credit	0.300 approx	0.561	NA	NA
Small Consumer Credit	3.917774	3.163	0.321	1.266

Source: Regional Economic-Financial Statistics Java Barat, Bandung, Bank Indonesia: November 2001, various tables and Bisnis Indonesia,

Obviously, BOTABEK as part of Metro Jakarta has big corporate headquarters with large credits, 80% of the West Java total, but only 3/8ths of the deposits, 4/7th of the consumer credit, a quarter of small business credit, and one third of BPR credit.

### **Conclusions and Recommendations**

The British economist, Joan Robinson, quoted a student as saying that "Human nature is the same everywhere in the world, especially India." And it probably is in West Java as well. What is needed to increase the flow of credit to Small and Micro Enterprise is not more targeted government funds. These will always be in short supply, and frequently misused. What is needed, as Prof. HS Dillon reminds us, is to develop a working set of financial institutions and markets which collect savings and allocate credit through prices which reflect opportunities and productivity. Savings will be attracted by institutions which offer the best rates, security, and service and flow to those with the best investment possibilities, who are thus ready to pay the most.

These financial markets and institutions are relatively underdeveloped in West Java, as compared to other regions of the country. However, in almost every institutional category there are some institutions which are prospering and expanding. The successful ones should be encouraged to expand, the failures cleared out of the way to make room for others. A failed financial institution destroys large amounts of national wealth, while successful ones increase them. As Henry Jackelen of the UN said many years ago -- bad financial institutions change gold into dross. The expansion of the successful institutions, the reports of their managers that they have sufficient credit demand, and the expansion of many small scale NGO credit programs, even those charging 48-72% annual interest, suggests that there is adequate demand, and that the technologies to meet it are available.

Interventions to assist the development of financial institutions can occur on several levels. Some institutions are constrained by regulatory obstacles. Provision needs to be made to permit outside investment in capital starved provincial owned institutions. There are private parties willing to invest their own capital in new BPR, they might be encouraged. On the other hand, both BPR and Savings and Loan Cooperatives, but especially the latter are constrained by problems of public trust -- which could be addressed by closing unsustainable units, restructuring salvageable ones, and unleashing profitable ones.

Technological levels in small lenders are relatively low, again as compared to other parts of the country, and training and technical assistance programs, comparable to what is occurring in East Java BPR would be desirable. The East Java effort has been facilitated by a strong BPR organization, but efforts are feasible even in its absence. The self-interest of outside BPR funding institutions, such as the commercial banks, ACDI/VOCA, Mercy Corps etc. may impel them to support technological upgrading of their partners. With cooperatives, the province or regencies could take initiatives to improve prudential regulation and technological levels.

USAID should stand ready to help financial institution development -- both by supporting needed diagnostic studies and policy dialogue and support to actual training and technical assistance. USAID has already supported UKABIMA to do technical assistance, but they only have a small number of affiliates in West Java. There may be some possibility for added value to existing USDA/USAID funding through ACDI/VOCA working together with the IBI (Institut Bankir Indonesia) Perbarindo (Association of Indonesia Rural Bank) Center which is a designated training center for BPR. USAID generally does not have the money for capital assistance, and in any case if financial activity is worthwhile it should be supported with commercial funds. In fact, cheap donor money typically undercuts the development of sustainable financial institutions.

The IFC (International Finance Cooperation) is planning training in SME lending for commercial banks, but perhaps USAID can assist in seeing that there is West Java participation (since IFC's initial focus seems to be Eastern Indonesia). The Bank Indonesia Office in Bandung expressed interest in the USAID Loan Guarantee -- and a session might be done on it in Bandung if any of the smaller banks there are interested. NISP, of course, already participates in the program, and plays a leading role in West Java development. BRI, with whom USAID also has a collaborative development has expansion plans which USAID should continue to assist. Precisely because of the weak institutional situation in West Java, BRI's initiatives to expand its BKD network are a priority here. The analogous programs of Bukopin, BNI etc. need to be continually monitored.

The smaller NGO microfinance programs should be assisted to gain legal status and tighten their management --whether through the new Microfinance Institutions Law or a

reformed cooperative structure. The effort by Mercy Corps to develop self-regulatory institutions is a particularly good one.

The role of the provincial government is considerable. USAID should stand ready to respond to requests for technical assistance (diagnostic studies etc.) The Provincial government is the only party which can effectively provide regulation and support to the cooperatives and as owner of it, the Provincial Development Bank and the regencies own a considerable number of small financial institutions, many of which are not performing up to the optimal level. The provincial government should also be interested in facilitating the considerable volume of small credit activity done under NGO auspices.

## Appendix I

### Credit Development Quotients I, II, and III

By Thomas Timberg and Irfan Abdullah

The attached table is meant to give a Credit Development Quotient as a rough indicator of the state of financial development in the different provinces of Indonesia. The quotient is the sum of small scale and microcredit (SME) divided by the population. The credit involved is typically almost half consumption credit as you will note from the attached Table I. A Second Quotient is computed for business credit alone, at least to the extent to which it can be separated out, Credit Development Quotient II. A third figure, Credit Development Quotient III is provided which only looks at the credit from microlending institutions including the Unit Desa. The precise proportions of consumption credit, except for commercial banks are difficult to determine, both statistically and even conceptually. This is the reason for the three separate quotients.

The Small Scale Lending is as reported in Bank Indonesia figures, which still uses the old definitions -- including consumption lending up to Rp 25 million, housing lending generally to Rp 75 million, and business lending to Rp 350 million. The new definition, business lending only up to Rp 500 million has not yet been implemented for public statistics, though it can be collected from the individual bank statements posted on the Bank Indonesia website.

The figures are as reported. The Bank and BPR ones are almost certainly accurate, remembering that they include considerable amounts of NPL (up to 20% or more of the total). The cooperative figures are judged to be overstated in a recent German report, though not in the provinces where I was able to do ground verification.<sup>8</sup> The LDKP (Lembaga Dana Kredit Pedesaan) and BKD (Badan Kredit Desa) figures are probably fairly good, as certified by the same source.

The other categories of credit providers which might have been covered, but are not, are small, at least in regard to business credit. Some of these are the residual funds from the large government programs of recent years. The UED-SP (Usaha Ekonomi Desa) and UP2K (Usaha Peningkatan Pendapatan Keluarga), and PDM-DKE (Program Pemberdayaan Daerah dalam Mengatasi Dampak Krisis Ekonomi) are hard to get accurate figures on. All of the figures are generally judged to be inflated. Even if they were not so UED-SP is highly concentrated in Sumatra. The maximum amount in Java as a whole is Rp 15 billion. All of these programs have dispersed sums in recent years, but it is not clear how much remains as a loan fund. In one village of West Java, surveyed by SMERU (the UED-SP accounted for an accumulated Rp 2.8 million, UP2K for Rp 500,000, and PDM-DKE for Rp 16 million (much of the latter embezzled on the way down).<sup>9</sup>

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<sup>8</sup> Detlev Holloh, ProFi Microfinance Institutions Study, Denpasar, ProFI, March 2001

<sup>9</sup> Hadi Sartono, Bambang Soelaksono, and Sri Kusumastuti Rahayu, "Kredit Perdesaan di Kabupaten Cirebon Jawa Barat," Jakarta: SMERU, September 2000



An article in a recent issue of the *Jurnal Analisis Social* of AKATIGA (VI, 3, December 2001, reports over 50,000 small credit institutions and 25 million borrowers for the country as a whole.<sup>10</sup>

Another category is small mutual savings institutions, some of which are registered as cooperatives and some of which are not. The two most prominent categories here are the credit unions and the Bait Malwa Tamwil (BMT), Islamic savings and loan coops. The proportion unregistered varies between one and two thirds. The total claimed for BMT are about Rp 11 billion and for credit unions, Rp 59 billion in Java and Bali. In Central Java eighty percent of BMT were reported to be registered. The unregistered amount here should also be small. Bina Swadaya also has a program with 4897 members and Rp 425.2 million credit (Bandung and Garut areas only).

As you will note the dates for the data vary a little, but that should not affect orders of magnitude.

There may be objection to the choice of SME lending, rather than overall lending in the numerator. But SME lending does constitute almost 40% of all lending outside of Jakarta, and the relative magnitudes would change little, except for Jakarta. Further, because of the large role of conglomerates and parastatals the larger scale lending picture outside of Jakarta is often influenced by non-commercial factors.

The Javanese and Balinese figures show an important role for specialized Microfinance Institutions, in contrast to the outer islands on which they are often rarer. To the extent that such institutions exist (in Flores or West Kalimantan) they are often credit unions with Catholic Church sponsorship, and frequently registered as credit cooperatives under the Cooperative Law. Nonetheless, both the coverage and credit is not comparable to that in Java and Bali. But because of the smaller populations the per capita availability of small business credit is often higher than in Java and, in any case, comparable. Thus the spread of small credit seems fairly even throughout the country, though this is less the case for very small microcredit. The one dramatic difference is between West Java and the rest of the island, reflecting the considerably weaker development of microcredit there.

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<sup>10</sup> Catatan Editorial, p. viii and other.

**Table 1**

Province	Population (thousand) <sup>1</sup>	Monetary Amount of Credit (million Rps)							Quotient (Rps)
		Small Scale <sup>2</sup>	Business	BPR	Cooperatives <sup>3</sup>	Other		Total	
						LDKP	BKD		
Irian Jaya <sup>a</sup>	2,165	425,292	151,284	8,465	20,254			454,011	209,705
Bali <sup>b</sup>	3,052	2,138,444	1,060,960	370,652	151,178	250,335		2,910,609	953,673
East Nusa Tenggara <sup>c</sup>	3,850	410,367	228,076	10,585	24,218			445,170	115,629
West Java <sup>d</sup>	42,332	10,316,048	3,241,803	767,911	495,910	11,167	9,507	11,600,543	274,037
DKI Jakarta <sup>e</sup>	9,604	10,473,550	4,322,049	364,227	788,351			11,626,128	1,210,551
Yogya <sup>f</sup>	3,052	808,022	362,255	135,200	41,637	8,670	1,783	995,312	326,118
Central Java <sup>g</sup>	31,043	5,504,005	3,697,821	880,443	549,281	51,529	35,102	7,020,360	226,150
East Java <sup>h</sup>	35,160	7,671,243	4,257,875	726,819	1,214,638	9,113	101,256	9,723,069	276,538
East Kalimantan <sup>i</sup>	2,579	823,586	460,823	8,243	22,416			854,245	331,231
North Sulawesi <sup>j</sup>	2,804	1,422,513	905,129	159,719	41,478			1,623,710	579,069
Jambi <sup>k</sup>	2,589	596,352	376,162	4,267	17,506			618,125	238,750

Notes:

1)Year 1999 (projection based on Population Survey 1995)

2)The Number for Bali, East Nusa Tenggara, West Java, North Sulawesi and Jambi includes small scale credits which is given to BPR & off balance sheet transaction

3)Per September 1999

a)per February 2001

b)per April 2001 except for BPR per December 2000 and for LPD per March 2000

c)Per April 2001 except for BPR per December 2000

d)Per September 2001 except for LPK/BKD per June 2000, Regional Economic – Financial Statistics For West Java, Bank Indonesia Bandung, October 2001

e)Per December 2000

f)Per February 2001 except for BKUP/BKD per June 2000

g)Per October 2000 except for BPR per December 2000 and BKK/BKD per June 2000

h)Per February 2001 except for LKURK/BKD per June 2000

i)Per May 2001 except for BPR per December 2000

j)Per March 2002, Regional Economic – Financial Statistics for North Sulawesi and Gorontalo, Bank Indonesia Manado, April 2002

k)Per May 2001 except for BPR per December 2000

**Table 2**

Province	Population (thousand) 1	Monetary Amount of Credit (million Rps)					Quotient (Rps)	
		Business	BPR	Cooperatives <sup>2</sup>	Other			Total
					LDKP	BKD		
Irian Jaya <sup>a</sup>	2,165	151,284	8,465	20,254			180,003	83,142
Bali <sup>b</sup>	3,052	1,060,960	370,652	151,178	250,335		1,833,125	600,631
East Nusa Tenggara <sup>c</sup>	3,850	228,076	10,585	24,218			262,879	68,280
West Java <sup>d</sup>	42,332	3,241,083	767,911	495,910	11,167	9,507	4,526,298	106,924
DKI Jakarta <sup>e</sup>	9,604	4,322,049	364,227	788,351			5,474,627	570,036
Yogya <sup>f</sup>	3,052	362,255	135,200	41,637	8,670	1,783	549,545	180,061
Central Java <sup>g</sup>	31,043	3,697,821	880,443	549,281	51,529	35,102	5,214,176	167,966
East Java <sup>h</sup>	35,160	4,257,875	726,819	1,214,638	9,113	101,256	6,309,701	179,457
East Kalimantan <sup>i</sup>	2,579	460,823	8,243	22,416			491,482	190,571
North Sulawesi <sup>j</sup>	2,804	905,129	159,719	41,478			1,106,326	394,553
Jambi <sup>k</sup>	2,589	376,162	4,267	17,506			397,935	153,702

**Table 3**

Province	Population (thousand) <sup>1</sup>	Monetary Amount of Credit (million Rps)				Quotient (Rps)	
		BPR	Cooperatives <sub>2</sub>	Other			Total
				LDKP	BKD		
Irian Jaya <sup>a</sup>	2,165	8,465	20,254			28,719	13,265
Bali <sup>b</sup>	3,052	370,652	151,178	250,335		772,165	253,003
East Nusa Tenggara <sup>c</sup>	3,850	10,585	24,218			34,803	9,040
West Java <sup>d</sup>	42,332	767,911	495,910	11,167	9,507	1,326,827	31,343
DKI Jakarta <sup>e</sup>	9,604	364,227	788,351			1,152,578	120,010
Yogya <sup>f</sup>	3,052	135,200	41,637	8,670	1,783	187,290	61,366
Central Java <sup>g</sup>	31,043	880,443	549,281	51,529	35,102	1,516,355	48,847
East Java <sup>h</sup>	35,160	726,819	1,214,638	9,113	101,256	2,051,826	58,357
East Kalimantan <sup>i</sup>	2,579	8,243	22,416			30,659	11,888
North Sulawesi <sup>j</sup>	2,804	31,822	41,478			73,300	26,141
Jambi <sup>k</sup>	2,589	4,267	17,506			21,773	8,410

## **Appendix II : Finance Companies in the Bandung Phone Directory**

1. Arta Chakra Multifinance
2. Clipan Finance Indonesia
3. Federal International Finance
4. Mirasurya Multifinance
5. Proxim Alia Lestari Indo Artha
6. Rahan Parahyangan Int Finance
7. BII Finance
8. Dipo Star Finance
9. Tiara Artsa Utama
10. Bumiputra BOT Finance
11. Orix Indonesia Finance

### ***LEASING***

1. Adira Dinamika Multifinance
2. SBL Dharmala Finance
3. Bundas Altanusa Finance
4. Mira Surya Multifinance
5. Mutlindo Auto Finance
6. Olympindo Multifinance
7. Orix Bina Usaha Leasing
8. Oto Mutliartha
9. Surya Artha Nusantara Finance
10. Swadarma Indofama Finance

## Appendix III

### Financial Geography in West Java as of September 2001 in Million Rps

Type	Name of Regency										
	Kotamadya Bandung	Kabupaten Bandung	Kotamadya Cimahi	Kabupaten Sukabumi	Kotamadya Sukabumi	Kabupaten Cianjur	Kabupaten Garut	Kabupaten Sumedang	Kabupaten Subang	Kabupaten Purwakarta	Kabupaten Tasikmalaya
<b>Third Party Fund</b>											
Government Banks											
Private Banks											
Rural Banks											
<b>Third Party Fund<sup>1</sup></b>	34,538,905	2,338,412	700,430	270,269	1,117,959	820,630	479,739	351,372	400,197	568,711	162,354
Demand Deposits	6,283,282	482,671	96,753	18,276	230,120	111,392	84,742	66,401	66,723	134,898	3,895
Time Deposits	22,080,692	1,147,761	330,218	42,904	514,647	297,934	133,742	85,849	102,490	215,710	15,793
Saving Deposits	6,174,931	707,980	273,459	209,089	373,192	411,304	261,255	199,122	230,984	218,103	142,666
<b>Amount of Credit</b>											
Government Banks											
Private Banks											
Rural Banks											
<b>Amount of Credit<sup>1</sup></b>	14,125,762	5,312,236	952,419	1,057,770	214,999	919,396	561,951	635,637	900,092	6,371,657	571,149
Working Capital	5,862,355	3,442,777	603,846	752,610	78,322	313,859	306,832	273,311	412,239	1,501,126	224,899
Investment	6,797,186	1,030,929	261,674	36,685	31,731	362,098	21,281	153,641	280,872	4,696,572	37,442
Consumer	1,466,221	838,530	86,899	268,475	104,946	243,439	233,838	208,685	206,981	173,959	308,808
<b>Small Credit</b>											
Government Banks											
Private Banks											
Rural Banks											
<b>Small Credit<sup>1</sup></b>	1,775,780	149,749	195,232	13,924	385,634	270,050	373,493	234,652	360,402	407,430	81,423
Small Business	647,633	12,007	93,533	11,661	115,861	93,254	149,251	95,341	187,133	62,669	54,045
Working Capital	546,814	11,626	86,470	10,891	107,859	86,300	137,377	84,639	175,761	54,280	48,092
Investment	100,819	381	7,063	770	8,002	6,954	11,874	10,702	11,372	8,389	5,953
Consumer	1,128,147	137,742	101,699	2,263	269,773	176,796	224,242	139,311	173,269	344,761	27,396

1)Not including BPR

Source : Regional Economic-Financial Statistics West Java, Bank Indonesia Bandung, October 2001

Type	Name of Regency										
	Kotamadya Tasikmalaya	Kabupaten Ciamis	Kotamadya Banjar	Kabupaten Cirebon	Kotamadya Cirebon	Kabupaten Kuningan	Kabupaten Indramayu	Kabupaten Majalengka	Kabupaten Pandeglang	Kabupaten Lebak	Kabupaten Karawang
<b>Third Party Fund</b>											
Government Banks											
Private Banks											
Rural Banks											
<b>Third Party Fund<sup>1</sup></b>	1,114,366	383,318	98,010	429,699	2,407,078	332,703	557,570	255,532	128,587	199,640	1,825,882
Demand Deposits	200,938	63,928	9,243	68,812	378,305	38,523	47,896	45,443	34,695	28,091	286,791
Time Deposits	514,705	71,559	35,031	96,155	1,183,185	59,696	174,366	49,109	26,612	42,719	1,018,278
Saving Deposits	398,723	247,831	53,736	264,732	845,588	234,484	335,308	160,980	67,280	128,830	520,813
<b>Amount of Credit</b>											
Government Banks											
Private Banks											
Rural Banks											
<b>Amount of Credit<sup>1</sup></b>	172,528	536,957	4,095	647,634	408,432	293,743	446,701	419,152	340,650	244,634	2,106,750
Working Capital	93,432	187,574	2,511	317,014	194,690	120,102	238,393	232,115	185,576	102,334	1,110,018
Investment	15,966	18,294	3	62,011	54,677	22,999	29,614	7,112	17,772	21,973	512,547
Consumer	63,130	331,089	1,581	268,609	159,065	150,642	178,694	179,925	137,302	120,327	484,185
<b>Small Credit</b>											
Government Banks											
Private Banks											
Rural Banks											
<b>Small Credit<sup>1</sup></b>	437,449	172,722			728,031	110,397	278,488	119,599	70,626	83,744	395,364
Small Business	186,936	26,902			406,937	24,039	155,090	14,005	11,891	5,795	213,793
Working Capital	163,895	25,110			375,434	22,708	151,224	13,882	11,323	5,795	178,873
Investment	23,041	1,792			31,503	1,331	3,866	123	568	0	34,920
Consumer	250,513	145,820			321,094	86,358	123,398	105,594	58,735	77,949	181,571

Type	Name of Regency									Total
	Kabupaten Bekasi	Kotamadya Bekasi	Kabupaten Serang	Kotamadya Cilegon	Kabupaten Tangerang	Kotamadya Tangerang	Kabupaten Bogor	Kotamadya Bogor	Kotamadya Depok	
<b>Third Party Fund</b>										75,680,489
Government Banks										35,526,014
Private Banks										39,304,228
Rural Banks										850,247
Time Deposit										619,212
Saving Deposit										231,035
<b>Third Party Fund<sup>1</sup></b>	2,280,708	3,605,268	850,864	1,854,876	4,256,617	4,036,340	1,594,584	4,633,247	2,236,375	74,830,242
Demand Deposits	459,309	411,218	268,664	218,652	646,922	732,974	344,940	527,179	286,622	12,678,298
Time Deposits	977,605	2,025,222	258,343	1,160,732	2,375,534	1,738,156	552,919	2,623,794	1,232,617	41,184,077
Saving Deposits	843,794	1,168,828	323,857	475,492	1,234,161	1,565,210	696,725	1,482,274	717,136	20,967,867
<b>Amount of Credit</b>										71,478,590
Government Banks										36,254,858
Private Banks										34,228,206
Rural Banks										767,911
Business										645,346
Consumer										122,566
<b>Amount of Credit<sup>1</sup></b>	12,174,013	740,731	1,435,962	1,854,104	9,409,853	700,451	5,912,576	918,675	319,970	70,710,679
Working Capital	7,870,719	452,603	607,590	682,439	6,380,393	481,341	2,740,532	427,240	56,066	36,254,858
Investment	2,627,096	149,232	505,240	1,043,825	1,321,707	130,465	2,125,568	246,379	16,759	22,639,350
Consumer	1,676,198	138,896	323,132	127,840	1,707,753	88,645	1,046,476	245,056	247,145	11,816,471
<b>Small Credit</b>										11,083,959
Government Banks										9,241,108
Private Banks										1,074,940
Rural Banks										767,911
<b>Small Credit<sup>1</sup></b>	889,084	252,089	317,666	387,099	12,419	895,647	65,110	656,281	196,464	10,316,048
Small Business	7,507	108,932	87,344	175,149	12,419	163,277	12,293	101,025	6,081	3,241,803
Working Capital	3,325	92,244	73,578	166,733	2,675	128,647	11,637	84,163	5,602	2,866,957
Investment	4,182	16,688	13,766	8,416	9,744	34,630	656	16,862	479	374,846
Consumer	881,577	143,157	230,322	211,950	0	732,370	52,817	555,256	190,383	7,074,263