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5. Author (s)
1. Thomas A. Timberg
2. Sukiswo Dirdjosuparto
3.

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The world of small-scale credit sometimes seems ruled by folk proverbs: "Rather than give someone fish, teach them how to fish" or "A penny saved is a penny earned". But the most appropriate proverb in contemporary Indonesia is, "If you are given lemons, make lemonade".

Some of the more enterprising souls in the country's financial sector have been finding opportunities in the banking meltdown. Several business groups have been buying up ruined Bank Perkreditan Rakyat (BPRs) or rural credit institutions and turning them around. One of the most successful of these groups is PT Sari Kusuma of Semarang, which has bought and turned around nine BPRs in Central Java.

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Opportunities in the banking quagmire

The Jakarta Post, Monday, October 29, 2001

Thomas A. Timberg and Sukiswo Dirdjosuparto, Financial Analysts, Jakarta[1]

The world of small-scale credit sometimes seems ruled by folk proverbs: "Rather than give someone fish, teach them how to fish" or "A penny saved is a penny earned". But the most appropriate proverb in contemporary Indonesia is, "If you are given lemons, make lemonade".

Some of the more enterprising souls in the country's financial sector have been finding opportunities in the banking meltdown. Several business groups have been buying up ruined Bank Perkreditan Rakyat (BPRs) or rural credit institutions and turning them around. One of the most successful of these groups is PT Sari Kusuma of Semarang, which has bought and turned around nine BPRs in Central Java.

Seven of these secondary banks were acquired in 1995. At that time they had a portfolio which, in some cases, was over 80 percent in arrears and were losing money rapidly.

Now their cumulative bad debt is almost negligible and they have returned to profitability. The group is led by a prominent local tobacco trader and a retired Bank Central Asia (BCA) executive. The company executives were confident that the application of well-bred management systems, professional autonomy for local managers, careful attention to markets and clients, and profitability could salvage the BPRs.

The executives were able to retain many of the former employees. In fact, they were all offered continuing employment, but a few, especially at the senior level, were not willing to adjust to the new system. This only goes to show that their belief that good systems make good employees, is justified.

The Sari Kusuma management invested in a quasi-online computer information system and insisted on rigorous documentation of the claims and obligations of all their banks. Initially, many of the loan files were in poor condition and debts had sometimes been fraudulently entered. Management set high but realistic targets for each branch to attract public funds, issue loans and collect past bad debts. They continually adjusted these targets.

The management also invested equally in human resource development, in-house and external training, and in staffing levels that are high for the industry.

They strongly encouraged everyone to take a marketing approach to banking. Each manager is expected to leave the office to visit clients by 10 a.m., while office liaison and backroom work is handled by an office manager.

The new management succeeded in collecting most of the previously uncollectible debts. Most legitimate debtors were cooperative when approached. The banks offered concessions on interest and penalties to the smaller borrowers and assistance in selling collateral to the larger

[1] Dr. Thomas A. Timberg is Small Credit Adviser, USAID/PEG at Bank Indonesia, and Dr. Sukiswo Dirdjosuparto is the Director, Indonesian Institute of Bankers. The Partnership for Economic Growth (PEG) is a 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.

ones. The only non-collectible debts were those where the debtors were no longer traceable.

Fraudulently recorded debts were settled with the former owners, but several debtors whose payments had not been entered, volunteered to pay again.

In contrast to other countries where death often becomes an obstacle to payment, in Java, death means a guarantee of payment. In Java no one wants to bury his father with his debts still pending.

PT Kusuma is not the only one which salvaged several secondary banks. Many others are also interested, partly because of the reluctance of Bank Indonesia to license new secondary banks, and salvaging the secondary banks has become a standard market entry technique across Java.

Infobank magazine, in its May 2001 issue, reported on the turnaround of BPR Jaya in Brebes, Central Java. The reported price of a "clean BPR", with a net capital value of zero was Rp 120 million. To re-launch the business, investors have to put in another Rp 700 million to Rp 1.2 billion. People are willing to purchase such a bank.

The vigorous market for secondary bank licenses suggests that it is profitable to make small loans in Indonesia.

The most common interest rates cited are 30 percent to 36 percent a year, though some lenders are asking as much as 60 percent a year.

There is clearly money to be made not only in lending to small borrowers, but in collecting their bad debts. Several banks (Artha Graha, Danamon, BNI) eagerly bought IBRA's small loan portfolio at a big discount. Their continuing interest in the business suggests it was profitable for them.