

**THE ROLE OF *BANK RAKYAT INDONESIA* (BRI)  
IN STRENGTHEN  
SMALL AND MEDIUM ENTERPRISES (SME)**

**Presented by  
DR. Mulyaningrum**

**Paper Presented at Industrial Talk  
Institute of Technology Management & Entrepreneurship  
Universiti Teknikal Malaysia Melaka  
(UTeM)  
Renaissance Hotel, Melaka, 28 July 2007**

**THE ROLE OF *BANK RAKYAT INDONESIA (BRI)*  
IN STRENGTHEN SMALL AND MEDIUM ENTERPRISES (SME)**

**DR. Mulyaningrum**  
**Lecturer of Institute of Technology Management & Entrepreneurship**  
**Universiti Teknikal Malaysia Melaka**  
**(UTeM)**

**INTRODUCTION**

The Indonesian government has recognized the importance of having modern Small and Medium Enterprises (SMEs) as an important element in creating a sophisticated economy, especially through their role in developing inter-industry linkages, or as supporting industries producing components and parts for Large Enterprises (LEs) either, via market mechanism or subcontracting system or other form of production linkages.

SMEs contribute significantly to the economic development as 54.74% of Gross Domestic Product (Ministry of Cooperatives & SMEs, 2001). Of Indonesia's 2.8 million industrial establishments, 2.5 million are micro enterprises and 245,000 are SMEs, together accounting for 60 percent of manufacturing employment. SMEs have an important role in creating job opportunities. However, SMEs have limited access to high quality business services.

Despite the fact that SMEs are very potential for building a stable economic growth, developing SMEs is difficult issue. The most common problems for SMEs are lack of access to market information, technology, low quality of human resources, and lack of access to capital. Most MSEs do not understand what kind of products needed by market, how big the market and when the products needed and how to deliver the products. SMEs also have weakness in bargaining power especially in dealing with big buyers. Even if they understand the market, they sometimes find difficulties in raw material supply, both in the availability and price.

**PROBLEM STATEMENT**

Access to capital is not only constraint for SMEs to grow, but it is considered an important problem in developing SMEs. There is a common misunderstanding that banks are reluctant to lend money to SMEs as the banks never believe that lending to SMEs are commercially viable for them. SMEs that are essential to sustainable growth and poverty reduction will never get enough of the capital they need to build and expand the business.

**FINANCING SMEs**

Recently, there were 74 private commercial banks in Indonesia and 4 large state-owned banks such as *Bank Mandiri*, *Bank Negara Indonesia (BNI)*, *Bank Rakyat Indonesia (BRI)* and *Bank Tabungan Negara (BTN)*. Prior to the financial turbulence, the state-

owned banks dominated the banking industry, which represented nearly 50% of market share [<http://www.indonesiamatters.com/950/50-banks-unsound/>].

For some banks, financing SMEs may be very difficult. This is not surprising as some problems arise beyond the capability of the banks to handle such as business environment which is not conducive or a systematic ill in the financial sector. There is also legal issue in enforcing contract or business issue to obtain and enforce loan collateral. Furthermore, banks usually regard lending to SMEs is a high risk and unprofitable business due to (Mulyaningrum, 1995; Rudjito, 2007):

- Unavailability of accurate, reliable information on enterprises' financial condition and performance
- Unconvinced and weak business plan
- Weakness in SMEs management, market links, governance, and information technology
- Weakness in banks staff including loan officers are not sufficiently trained in lending to SMEs
- Banks' weakness in identifying the characteristic of SMEs
- Weaknesses of the bank adopting appropriate lending technologies and operation system that will enable them to realize this market potential and to lend profitably to small business
- The availability of other investing tools which give opportunity to the banks to have lower risk investment such as holding government paper
- Higher overhead cost due to a high number of customers with smaller loan size

Aiming at promoting and strengthen the SMEs, the Indonesian government encourages the banks to have at least 20% of its portfolio in SMEs. This policy requires a lot of commitment from banks as lending to this sector requires specific treatment. There are several ways to provide financial assistance for SMEs, including:

- Developing lending programs appropriate for the enterprises
- Simplifying administrative procedures and collateral system
- Providing technical assistance
- Providing loan guarantee and micro credit insurance

With so many constraints to grow, SMEs will have to face greater challenges in free trade era in the next couple years. Strengthening SMEs must be a priority in order to prepare the facing challenges. The clients' limitation and the banks' interest must be formulated such that the loans delivery mechanism can provide access for SMEs without eliminating principles and prudential banking.

### **THE ROLE OF *BANK RAKYAT INDONESIA (BRI)* IN STRENGTHEN SMEs**

BRI has been known as the largest commercial micro banking system in the world. BRI is the only bank in the world that provided financial services to large numbers of poor people on a long-term sustainable basis by operating as a profitable business (Robinson, 2005). The success story of *Bank Rakyat Indonesia's Unit Desa (BRI Unit Desa)*, which provides banking services to millions of low-income rural families in Indonesia,

demonstrates that Rural Financial Institutions can achieve financial self-sustainability and a high degree of outreach (Yaron & Benyamin, 2007).

BRI's micro banking system, which has been profitable every year since 1986, is now an integral part of Indonesia's financial system. Currently, BRI has the widest network in Indonesia with 13 Regional Offices, 324 Branches, 64 Sub-branches, 4,000 BRI-Units and 238 Village Service Post. This wide network enables BRI to serve rural areas, the location of micro and small enterprises.



Figure 1. BRI Networking

BRI also has overseas networks that are branch in the Cayman Island, Singapore and New York. At BRI's branches, the bank provides full banking system such as loans to small and medium business, loans against salaries and pensions, trade finance, and food security program loans, as well as credits to cooperatives. Meanwhile, medium and corporate lending is managed by the Regional Office and Head Office. The branches also provide saving (BRITAMA), saving for pilgrimage (*Tabungan Haji*), current deposit and time deposit accounts. While at the BRI-Units, the services are limited to single loan product (*Kredit Usaha Pedesaan = KUPeDES*), rural saving (*Simpanan Pedesaan = SIMPEDES*), urban saving (*Simpanan Masyarakat Kota = SIMASKOT*), time deposit and current deposit. Recently, BRI has established an Islamic Banking Unit, which provides banking products under Islamic Law such as saving and deposit, working capital, letter of credit, bank guarantee, etc.

BRI is the only bank that has a numerous experience in strengthening micro enterprises and SMEs in Indonesia. BRI was established in Purwokerto, Central Java, by *Raden Bei Aria Wiraatmadja* on December 16, 1895 (Rudjito, 2007). As a commercial bank, BRI provides a wide range of banking products and services such as commercial loans particularly to micro, small and medium scale enterprises, saving products and other financial services. Uniquely, BRI has a microfinance window, the BRI-Unit System

which provides financial services to low income people (economically active poor) and micro enterprises particularly in rural areas.

Since its establishment, the bank consistently prioritizes its business focus to micro and small enterprises development, which is stated in the mission of the bank that is to give the best banking services focusing on micro enterprises, and small and retail business to enhance activity of society (Rudjito, et al., 2003). There are two main approaches in serving the micro and small enterprises. For the micro entrepreneurs who are still below poverty line, BRI provides subsidized loans since their conditions and levels of capabilities are not sufficient enough to accommodate the commercial approach. Meanwhile, for micro enterprises above poverty line, BRI provides fully commercial basis loans since they have capabilities to do so.

In general the approach of BRI in strengthening SME can be classified into 4 layers:

- Poverty alleviation program, targeted to clients below the poverty line. At this level, BRI provides loan schemes to the bottom layer of the poor communities, e.g. rural income generating project for farmer and landless.
- Program loans, targeted to customers above the poverty line. The services encompass loans for supporting agricultural and cooperatives development, which the interest rates set up by the government.
- Microfinance, targeted to active working poor and micro entrepreneurs living above the poverty line, which the interest rates based on market.
- SME loans up to RP 5 billion. The loan scheme at this level is designed for SME that need additional capital greater than the levels 1 & 2, that generally have advanced business practice and management capability.

One of the programmes from BRI is commercial loans called **KUPEDES** (*Kredit Usaha Pedesaan*, General Rural Credit) which is distributed to almost all areas in Indonesia. KUPEDES loans were introduced in February 1984. The instrument was designed to meet borrower's need as shown in field studies and through *Kredit Mini* and *Kredit Midi*. These studies and experiences consistently showed that prompt availability and convenience of the location are the most important criteria to the borrower. The level of interest rate charged is also important, but ranks below availability and convenience.

The source of funds KUPEDES comes from market. Loans are not available to start new ventures, because of the much higher credit risk in supplying venture capital. The loan size is up to RP 50 million (US\$ 5,600). The aim of KUPEDES is to extend small loans to individuals or enterprises considered eligible, and also members of a group or community with fixed incomes such as civil servants or state employees with certain rank, employees of well-established regional companies, pensioners on fixed incomes and others. The minimum amount of loan by KUPEDES is RP 25,000 (US\$ 3.00) and the maximum amount is RP 50,000,000 (US\$ 5,000).

The minimum loan term period is one month and the maximum is 24 months for working capital loans, and 36 months for fixed asset loans. BRI keeps the procedure as simple as possible and avoiding much paper work. Creditworthiness' of the prospective borrowers

is based on prospective clients' character as there is no reliable information about the business performance. Even, on very small loans (below RP 2 millions) BRI waives the collateral requirements.

Loans products for SMEs are Investment Loans, Working Capital Loans, and Exports Loans, with maximum loan up to RP 5 billion. Even though the loan procedures are not as simple as the KUPEDES, but they are not as complicated as the loans procedures for medium entrepreneurs or corporations. As the loan size is quite significant, BRI use conventional banking approach in evaluating the prospective borrowers.

Realizing that many SMEs still require facilitator for business growth, BRI collaborate with some relevant institutions to develop SMEs business. BRI has collaboration with some universities in providing technical assistance or research in developing SMEs. Some problems may arise from SMEs ignorance of marketing product overseas. BRI tried to encounter the problems by having collaboration with Export Development Agency. This collaboration provides SMEs the opportunity to expose their product abroad through trade show.

BRI actively involves in developing SME-Center, together with TELKOM (a state owned telecommunication company). SME-Center is a virtual center, a node of network and point of transit of local business to connect with the internet in order to access the global market. BRI has established 9 SME-Center located in 9 BRI Branches Offices. The establishment of SME of these centers received positive responses from entrepreneurs as they can utilize the facilities in SME-Center to explore the business opportunities. In the next coming year, BRI will establish another 40 SME-Center (Rudjito, 2007).

Realizing the need of the clients, BRI also provide technical assistance for them. While credit officers are visiting the client for monitoring they also give direct assistance regarding administration, market information, financial management, etc. In order to anticipate the development of information technology for business expansion, BRI is developing a site for SMEs called SME Online at the BRI website.

As a leading micro banking institution, BRI has a commitment to share its wealth of experience with other countries interested in microfinance. In 1996, BRI established the International Visitor Program (BRI-IVP). BRI-IVP provides Study Visit Programs and training programs, which have been attended by 1,700 visitors from 37 countries. On 5<sup>th</sup> – 9<sup>th</sup> March 2007, *Bank Kerjasama Rakyat Malaysia* visit BRI-IVP. They want to be as successful launching similar product in Malaysia ([www.bwtp.org/links/News\\_2007](http://www.bwtp.org/links/News_2007)).

## **CONCLUSION**

Several lessons can be drawn from BRI's experience as a good model of micro banking system for strengthening SME:

- Simplicity, the system designed to be very simple, to keep the system efficient and effective
- Accessibility, easily accessible by to clients, who mostly live in remote areas

- Demand driven that fit to the customers' needs and preferences
- Transparency, accounting system and procedures are set up transparently and easy to understand for both officers and clients
- Sustainability, all costs are recovered by income with a sufficient margin for growth
- Independency, BRI work with out intervention from outside parties
- Incentives, these are given to employees who perform well, and to customers who pay the loan on time
- Local based (community) development approach through using local resources
- Continuous training to enhance the capacity of staff in delivering the services to the clients
- Effective supervision to ensure managers and officers comply with sound banking practices.

### **REFERENCIES**

Mulyaningrum. (1995). *The Increasing of Women Access in Informal Sectors to Banking Credits through Developing Banking Field Officer*. Center of Women Study, Bengkulu University – Indonesia. (Research Report).

Robinson, M.S. (2005). *Why the Bank Rakyat Indonesia Has the World's largest Sustainable Microbanking System*. Publication Date: April. Published by Bank Rakyat Indonesia. Retrieved July 22, 2007 from <http://www.microfinancegateway.org>

Rudjito. (2007). *Strategies for Developing Micro, Small and Medium Enterprises*. Paper presentation on The Non-Aligned Movements's Business Forum on South-South Cooperation. International Visitor Program Bank Rakyat Indonesia. Retrieved July 20, 2007 from <http://www.asli.com.my/documents/msme.pdf>

Rudjito, M. Nazirwan and Ninis Adriani. (2003). *Transforming Public Sector Bank: The Quest of Bank Rakyat Indonesia in Achieving a Sustainable Micro banking Institution*. Paper presentation on the World Bank Conference on Transforming Public Sector Banks in Washington DC, 9-10 April. Retrieved July 15 2007 from <http://www.indonesiamatters.com/950/50-banks-unsound/>

Yaron, J., McDonald Benyamin. 2007. *Developing Rural Financial Market*. Retrieved July 26, 2007 from <http://www.worldbank.org-fandd-images-1297>

*BRI Special forum on commercial micro financing in the Asia Bankers Summit 2007*. Retrieved July 3, 2007 from ([www.bwtp.org/links/News\\_2007](http://www.bwtp.org/links/News_2007)).

*BRI microfinance study visit Bank Kerjasama Rakyat Malaysia 5<sup>th</sup> – 9<sup>th</sup> March, 2007*. Retrieved July 3, 2007 from <http://www.ivpbri.com/news.php?id>

*Developing Small and Medium Enterprises in Indonesia*. News Release. Retrieved July 3, 2007 from <http://www.adb.org/Documents/News>