Microfinance Success Amidst Macroeconomic Failure: The Experience of Bank Rakyat Indonesia During the East Asian Crisis

RICHARD H. PATTEN, JAY K. ROSENGARD and DON E. JOHNSTON, JR. * 

Harvard University, Cambridge, MA, USA

Summary. — The Bank Rakyat Indonesia (BRI) unit system is recognized as one of the largest and most successful microfinance institutions in the world. Indonesia has been more drastically affected by the East Asian monetary crisis than other countries in the area. It is therefore worthwhile looking at the BRI experience during the crisis—not only the experience in microenterprise credit, but also in small, medium and corporate credit and in savings mobilization. The comparative performance of different parts of BRI during the East Asian crisis suggests essential features in the future design of sustainable microfinance institutions, products, and delivery systems. © 2001 Elsevier Science Ltd. All rights reserved.

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1. BACKGROUND ON BANK RAKYAT INDONESIA (BRI) ¹

BRI is one of three state-owned commercial foreign exchange banks in Indonesia. BRI is owned entirely by the Government, but operates under all of the prudential norms and regulations that every commercial bank must adhere to in Indonesia. BRI’s primary mission is the provision of rural and urban community banking services by mobilizing family savings and delivering credit products to medium, small and microenterprises.

Although BRI was established in 1968 under National Law Number 21/1968, it is actually the successor to a series of banks in Indonesia going back more than 100 years, beginning with De Poerwokertosche Hulp-en Spaarbank der Inlandsche Hoofden, founded in 1895. BRI grew to become one of Indonesia’s largest banks, as indicated by its position early in the East Asian Crisis: as of December 1997, BRI’s total assets were $16.7 billion, including a net loan portfolio of $12.6 billion, and 1997 pre-tax profits totaled $56.7 million. ² It had 324 branches covering the entire country, overseas offices in Singapore, Hong Kong and New York, and a workforce of over 44,000 employees.

During the same year the East Asian Crisis hit, BRI re-organized into four strategic business units (SBUs).

SBU Microbanking is in charge of BRI’s 3,694 units. A unit is a small bank office with four to eleven staff. The units also maintain 319 cash posts which are open three to five days a week to receive and pay out savings, and to receive loan repayments. Each unit is a separate profit/loss center with its own balance sheet and profit and loss statement. The units make loans of Rp 25,000 to Rp 25 million. There were 2.6 million microloans outstanding totaling Rp 6.9 trillion at the end of July 2000. The units also provide savings, giro, and time deposit accounts; there were 25.1 million accounts in the units at the end of July 2000 totaling Rp 18.5 trillion. ³

SBU Retail Banking is in charge of BRI’s branches, which provide full banking services. They make small business loans up to Rp 3 billion, loans against salaries and pensions, and “program loans” (channeling of loans for government schemes, such as those to cooperatives or to the government agency that provides agricultural price support). The branches also provide savings, giro and time deposit accounts. The branches have recently introduced an on-line facility for savings account holders.

* Final revision accepted: 15 November 2000.
SBU Corporate makes large corporate loans (above Rp 3 billion), including dollar-denominated loans.

SBU Treasury and Investment handles treasury functions, including the maintenance of BRI primary reserves in Bank Indonesia and the purchase of Bank Indonesia certificates (SBIs). It also controls BRI financial subsidiaries.

2. THE MONETARY CRISIS

(a) Onset

The monetary crisis in Indonesia began (or was signaled) in mid-1997 when Bank Indonesia, the central bank, decided that its foreign reserves were insufficient to support the exchange rate, at that time Rp 2,450 to the US dollar. By mid-1998, the exchange rate had plunged to Rp 14,900 to the US dollar. As of the end of March 2000, the crisis appears to have ended, with Bank Indonesia predicting a stable exchange rate and growth at a rate of 4–5% for the second quarter of 2000.

There were at least three causes of the monetary crisis which were relevant to BRI’s situation:

(i) There was a severe drought in the 1997–98 season, and one entire crop of rice was lost.

This resulted in both rising prices and a shortage of demand from farmers for the products and services of micro and other local enterprises.

(ii) For many years Indonesia has maintained an open capital account. The rupiah has been allowed to depreciate about 5% a year against a basket of currencies. High rupiah interest rates compared to interest rates in neighboring countries, when coupled with the seeming certainty of the rate of depreciation, brought in large amounts of “hot” short-term money. Once there was a loss of confidence, this short-term money could and did move out very quickly, triggering the decision of Bank Indonesia to allow the market to set the exchange rate.

(iii) The large Indonesia conglomerates borrowed dollars abroad, running up a private sector short-term foreign exchange debt more than twice the total foreign debt of the Government, most of which consists of long-term concessional loans. Bank Indonesia was unable to keep track of this private foreign debt, which was more than twice the country’s foreign exchange reserves, and was therefore uninformed of possible short-term demands against the country’s foreign exchange reserves if these loans were not rolled over.

![Inflation and one-month SBI rates](image-url)
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