



The World's Best-Kept Financial Inclusion Secret Revealed: The Untold Success Story of BRI Microbanking Since 1895

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Jay K. Rosengard

NOVEMBER 2022



HARVARD Kennedy School

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for Democratic Governance
and Innovation

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Rosengard's areas of expertise include banking and financial institutions, microfinance and digital finance, public finance and fiscal policy, tax and budget reform, municipal finance and management, inter-governmental fiscal relations, and public administration. Rosengard has been working on financial inclusion in Indonesia since 1982, when he began assisting the Central Java Regional Development Bank with the Badan Kredit Kecamatan (BKK) microfinance program. Additionally, he has been a long-time member of the Bank Rakyat Indonesia (BRI) "Keluarga Besar Microbanking" (Microbanking Extended Family) since assisting with the commercialization of BRI microbanking in the mid-1980s as part of the Harvard Institute for International Development advisory team.

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Jay K. Rosengard, November 2022

*“A story must be told or there'll be no story,
yet it is the untold stories that are most moving.”*

*The Letters of J.R.R. Tolkien, letter to his son
Christopher on January 30, 1945*

Executive Summary

Bank Rakyat Indonesia (BRI), Indonesia People's Bank, has been the most successful promoter of financial inclusion in Indonesia since the country declared independence in 1945.

BRI's first major financial inclusion initiative was the 1970 creation of a nationwide network of BRI “unit desas,” or village units, for channeling Bimas (Mass Guidance) agricultural credit. The primary objective of Bimas was to promote national self-sufficiency by bringing the Green Revolution to Indonesia. It was initiated to encourage farmers to use new fertilizer-responsive rice varieties. BRI provided credit for a package of inputs comprising new rice seed, fertilizer, insecticides, and a cost-of-living allowance. By 1989, there were 2,843 units and 835 village service posts (sub-units) throughout Indonesia, with a staff of 14,341 employees, helping to make Bimas a tremendous success in terms of its Green Revolution objectives. Indonesia, previously the world's largest rice importer, became a net exporter of rice. However, by the 1983–84 planting season, successful rice farmers no longer needed Bimas support, leaving only marginal and failing farmers in the program. Bimas was not fiscally viable, and the Ministry of Finance told BRI it could no longer afford to subsidize the unit desas.

BRI thus began its microbanking metamorphosis and rebirth with painful adjustment and slow adaptation, subsequently laying the foundation for dramatic growth and rapid expansion. Three principal policy changes turned unit desas from marginally useful, extremely costly entities that had outlived their initial mission into profitable rural banks providing vital financial services: 1) transformation of unit desas from Bimas conduits to full-service rural banks; 2) internal treatment of unit desas as semiautonomous units of account (discrete profit/loss centers); and 3) evaluation of unit desas based primarily on their profitability rather than on hectares covered or money lent. As of December 31, 1989, BRI unit desa operations had grown dramatically. They had made more than 6.4 million loans, totaling almost 3.4 trillion rupiah (Rp); attracted nearly 6.3 million savers; and accumulated Rp 957 billion in client savings. Kupedes loan portfolio quality remained high, with a long-term loss ratio of 3.3% and portfolio status of 5.4%. While the unit desas lost more than Rp 25.1 billion in 1984, by 1986 they were profitable, and in 1989 they made a profit of Rp 36.9 billion. Total unit desa assets more than quadrupled, growing from Rp 300 billion in 1985 to Rp 1.3 trillion in 1989.

BRI has built on its successful commercialization of microbanking in the mid-1980s to grow, broaden, and deepen its microbanking business over the past three decades. A combination of astute leadership, institutional innovation, and rapid adoption of evolving financial technology has been critical in BRI's continued microbanking dominance. At present, BRI is a very large and diversified bank, and microbanking is a critical component of its business model. As of December 31, 2021, BRI was Indonesia's largest bank with assets of Rp 1,678 trillion (≈ USD 113 billion) and generated total net annual profits of Rp 33.1 trillion (≈ USD 2.2 billion), of which 52% came from microbanking. It had

loans outstanding of Rp 945 trillion (\approx USD 64 billion) and 14.5 million borrowers, with microloans comprising 42% of total value and 91% of total borrowers. Moreover, BRI had third-party funds of Rp 1,113 trillion (\approx USD 75 billion) and 179 million savings accounts, with microsavings comprising 32% of value and 80% of accounts. It also had Indonesia's most extensive distribution network, with the micro-banking component prominent throughout the country.

BRI faces two significant future challenges if it is to remain a profitable and effective global leader and national driver of financial inclusion. First, it must continue to evolve and adapt amidst an increasingly difficult political and economic environment. This is indeed a formidable challenge but one BRI has successfully met since Indonesia declared independence in 1945. However, the second challenge facing BRI is even more daunting. While continuing to navigate the treacherous waters of well-intentioned but counterproductive national policies that threaten to undermine past accomplishments in financial inclusion, BRI must also manage a transition back to sustainable, market-based microbanking.

Introduction

When people discuss microfinance and financial inclusion, seldom do they mention Bank Rakyat Indonesia (BRI), Indonesia People's Bank. Yet BRI is the world's largest, longest-running, financially viable microfinance service provider. This is indeed the world's best-kept financial inclusion secret.

The purpose of this policy brief is to share BRI's success story with all those interested in promoting financial inclusion, as there is much to learn from BRI's experience. Every country is unique and examples from elsewhere should not be replicated without adaptation to local context, but fundamental concepts can certainly transcend national borders and better inform the design and implementation of financial inclusion initiatives.

So, please read on to discover how BRI's experience might help you in your efforts to improve access to, and utilization of, formal financial services by your country's unbanked and underbanked households and businesses.

Financial Inclusion Context

Since this policy brief reveals the world's best-kept financial inclusion secret, it is important first to address two key contextual questions: What is financial inclusion, and why should we care about it?

In many low-income countries, most households and businesses do not have access to formal financial services. This "unbanked majority" is therefore deprived of the financial tools essential for generating the economic prosperity of higher-income families and large firms. They lack the same bank services required by the top of the economic pyramid, namely:

- Payment services for foreign and domestic remittances.
- Savings services for income smoothing and asset accumulation.
- Loans to produce additional income and finance investment.
- Financial risk management tools, like health and crop insurance, to decrease vulnerability to external shocks¹

As a result, this excluded population is compelled to resort to more expensive and less effective semi-formal and non-formal financial services.

Why does this matter? Financial inclusion ensures equal opportunity to utilize services essential in managing household and enterprise finances regardless of one's income level or size of business. This, in turn, mitigates financial marginalization, generating more equitable and sustainable growth and avoiding increases in gross domestic product (GDP), a proxy for the size of a nation's economy, along

with concurrent widening income and wealth gaps, an undesirable but common global phenomenon nowadays. In short, financial inclusion promotes economic empowerment of the excluded through innovations in financial product design, delivery, and regulation compatible with the unique characteristics of these neglected but potentially profitable markets.

Many cross-country and longitudinal studies show a strong positive relationship between financial development and economic growth, and between economic growth and poverty alleviation. There is no consensus on the details of this positive association, such as:

- Under what conditions and in what sequence this might occur.
- Whether financial development is a function or a determinant of economic growth.
- The direction of causality and endogeneity of variables.

Nonetheless, there is a consensus that:

- A nation cannot have sustained economic growth unsupported by financial development and vice versa.
- Financial inclusion is a critical component of overall financial sector development.

Snapshot of BRI²

BRI has been the most successful promoter of financial inclusion in Indonesia since the country declared independence in 1945. Before recounting BRI's remarkable financial inclusion journey, this section will provide a snapshot of BRI today.³

At present, BRI is a very large and diversified bank, and microbanking is a critical component of its business model. As of December 31, 2021, BRI:

- Was Indonesia's largest bank with assets of Rp 1,678 trillion (\approx USD 113 billion).⁴
- Generated total net annual profits of Rp 33.1 trillion (\approx USD 2.2 billion), of which 52% came from microbanking.
- Had loans outstanding of Rp 945 trillion (\approx USD 64 billion) and 14.5 million borrowers, with microloans comprising 42% of total value and 91% of total borrowers.
- Had third-party funds of Rp 1,113 trillion (\approx USD 75 billion) and 179 million savings accounts, with microsavings comprising 32% of value and 80% of accounts.

BRI also had Indonesia's most extensive distribution network at the end of 2021, with the microbanking component prominent throughout the country and consisting of:

- Six overseas networks.
- 18 regional offices, 450 branches, and 588 sub-branches.
- 14,463 ATMs; 7,407 CRMs (customer relationship management ATMs); 203,027 EDCs (electronic data capture machines); and 57 E-Buzz buses (mobile mini-branches).
- BRIsat, BRI's satellite with 45 transponders, which launched in June 2016.
- 5,222 units (offices below the branch level); 1,833 unit teras (market-based, mobile, and boat sub-units); 525 unit cash offices; 355 unit payment points; 503,031 BRILink agents; and 14,484 Mitra UMi agents (who also serve as BRILink agents).
- Total staff of 82,718, of which 67% (55,888) were microbanking staff.

Evolution of BRI

Established in 1895, during the Dutch colonial period, BRI is now celebrating its 127th anniversary since Raden Arya Wirya Atmaja founded it in Purwokerto (Central Java) as De Poerwokertosche Hulp en Spaarbank der Inlandsche Hoofden (Help and Savings Bank for Purwokerto's Aristocrats/Bank Bantuan dan Simpanan Milik Kaum Priyayi). After undergoing many name changes, BRI's final name during the colonial period was Algemene Volkscredietbank (AVB), or People's General Credit Bank/Bank Perkreditan Rakyat, in 1934. Under Japanese occupation during World War II, the name was changed once again, to Shomin Ginkou (People's Bank/Bank Rakyat). After independence, BRI was then nationalized in 1946, becoming Indonesia's first state-owned bank, and in 1949 it was renamed Bank Rakyat Indonesia Serikat (United Indonesia People's Bank). In 1960, BRI became Bank Koperasi Tani Nelayan (BKTN), Fishermen and Farmers Cooperative Bank.

In 1968, it became commercial bank BRI, and in 1969, it was appointed as the sole bank to disburse Bimas (short for Bimbingan Massal, Mass Guidance) agricultural credit via BRI units. In 1984, BRI commercialized its microbanking business after the government ended the Bimas program. Key milestones since microbanking commercialization include:

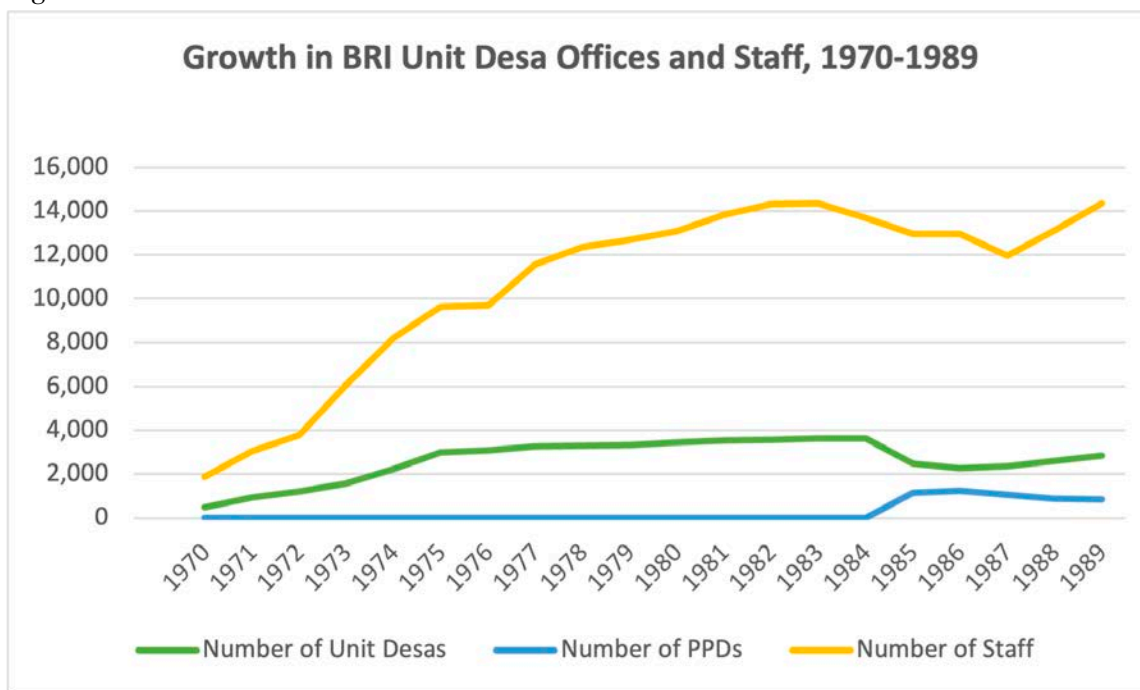
- In 1992, BRI became an LLC.
- In 2003, BRI sold 30% of its shares and became the publicly listed company PT Bank Rakyat Indonesia (Persero). The public now owns 47%.⁵
- In 2007, BRI acquired Bank Jasa Artha, later changed its name to BRI Syariah, and in 2021 consolidated with Bank Mandiri Syariah and BNI Syariah to become Bank Syariah Indonesia (BSI), Indonesia's largest Islamic bank.
- In 2016, BRI launched BRIsat, becoming perhaps the only bank with its own satellite.⁶
In 2019, BRI launched PINANG through its BRI Agro subsidiary, the first digital lending bank in Indonesia.

Rise and Fall of the Bimas Empire, 1970–1983⁷

BRI's first major financial inclusion initiative began in 1969 with a pilot project in Yogyakarta to create BRI unit desas (village units) for channeling Bimas agricultural credit. The primary objective of Bimas was to promote national self-sufficiency by bringing the Green Revolution to Indonesia. It was initiated to encourage farmers to use new fertilizer-responsive rice varieties, together with increased fertilizer dosages and insecticides. BRI provided credit for a package of inputs comprising new rice seed, fertilizer, insecticides, and a cost-of-living allowance. This financial assistance was accompanied by technical assistance, as Indonesia's agricultural extension service was expanded dramatically to transmit newly available rice production technology.

The BRI unit desa system was expanded into a national program in 1973, with units established based on the number of rice fields they could cover from a given location. By 1989, there were 2,843 units and 835 village service posts (PPDs), essentially sub-units, throughout Indonesia with a staff of 14,341 employees (Figure 1).

Figure 1:

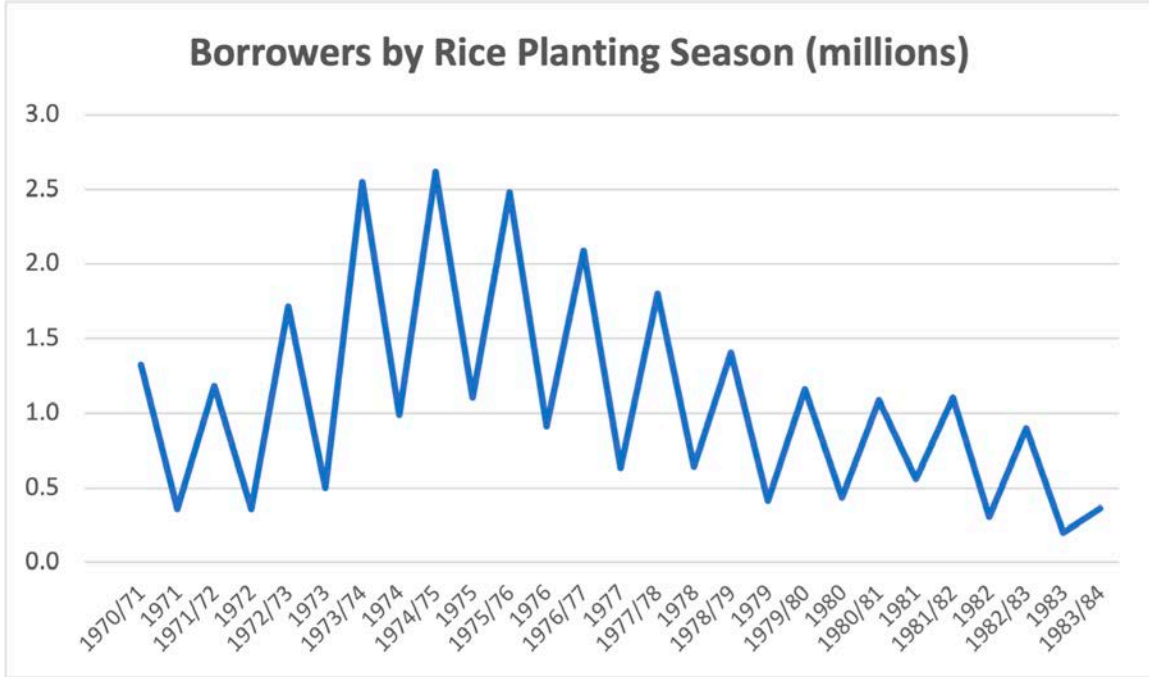


Source: Patten and Rosengard, *Progress With Profits*.

Bimas was a tremendous success in terms of its Green Revolution objectives. Indonesia's dramatic increase in rice production enabled it to transform itself from the world's largest rice importer to a net exporter of rice. However, by the 1983–84 planting season, successful rice farmers no longer needed Bimas support, leaving only marginal and failing farmers in the program. Bimas was not fiscally viable, and the Ministry of Finance told BRI it could no longer afford to subsidize the unit desas. This was because:

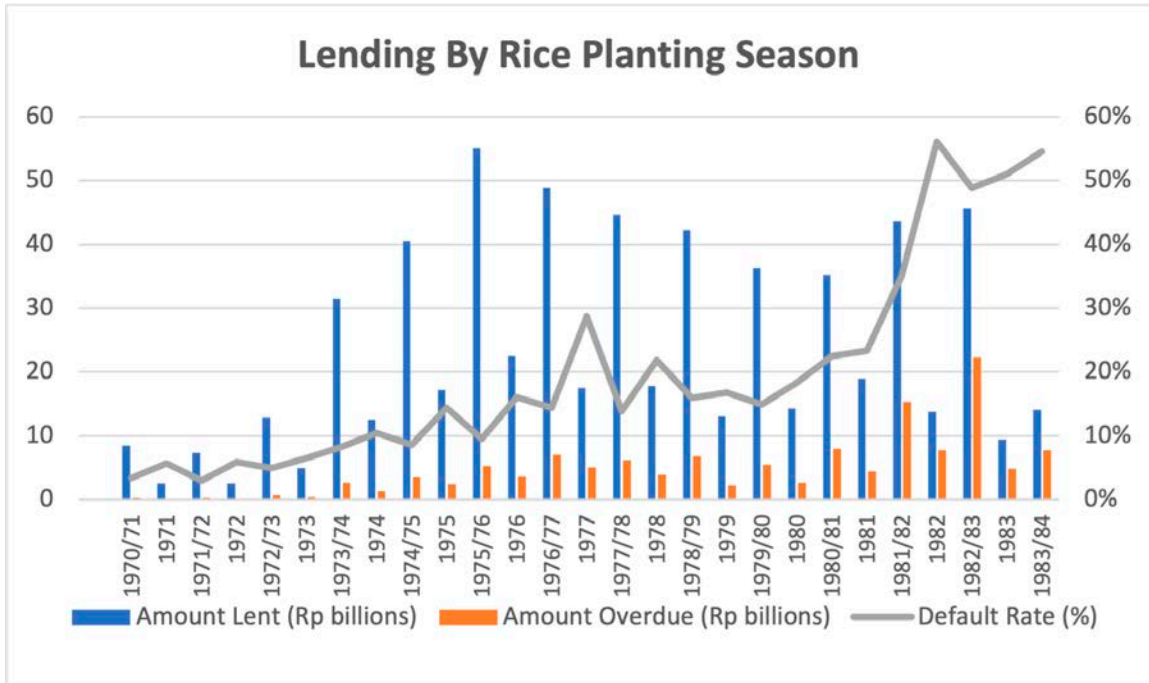
- Borrowers dropped over 85%, from a high of 2.5 million farmers in 1975–76 to approximately 364,000 in 1983–84, and Bimas lending was one-quarter the amount lent eight years earlier (Figures 2 and 3).
- The ratio of BRI unit desa staff to total Bimas credit realized dropped from 1:667 hectares in 1970 to 1:0.6 hectares in 1984.
- Losses grew from Rp 72 million in 1970 to Rp 25 billion in 1984, and the annual Ministry of Finance administrative subsidy grew from zero in 1970 to Rp 22 billion in 1983.

Figure 2:



Source: Patten and Rosengard, *Progress With Profits*.

Figure 3:



Source: Patten and Rosengard, *Progress With Profits*.

BRI thus had three options: 1) absorb an annual loss of Rp 30–40 billion; 2) close more than 3,600 units staffed by nearly 14,000 employees, leaving most of Indonesia without formal financial services since BRI unit desas were the only bank in most of the country; or 3) make the unit desas profitable. BRI chose option 3, so this crisis served as a catalyst for the commercialization of BRI microbanking.

During this Bimas period, the embryos of future market-based BRI unit savings and credit products were also designed and implemented. Although many of these precursors were subsidized, they nevertheless gave BRI unit desas the operational experience to successfully manage individual savings and loan accounts. Funds mobilization was robust and loan quality was high—subsequent re-pricing, product enhancement, and institutional reform would make future BRI unit savings and credit products financially sustainable.

In 1974, BRI introduced Kredit Mini as a loan window for off-farm economic activities at an annual interest rate of 12%, followed in 1980 by the introduction of Kredit Midi, which allowed the unit desas to extend larger nonagricultural loans, also at 12% per year.

Beginning in 1976, BRI unit desas mobilized rural funds via Tabanas (Tabungan Nasional, or National Savings), a nationwide savings program (not exclusive to BRI) that offered market savings rates at an annual rate of 12%, which later increased to 15%.

Elements of these three programs are reflected in current BRI unit products: present credit facilities (with one major exception) are essentially Kredit Mini/Midi with a different source of funding and higher interest rates, while the most popular savings instrument is a refined version of Tabanas.

Metamorphosis and Rebirth, 1984–1989

BRI began its microbanking metamorphosis and rebirth with painful adjustment and slow adaptation, which subsequently laid the foundation for dramatic growth and rapid expansion.

Three principal policy changes turned unit desas from marginally useful, extremely costly entities that had outlived their initial mission into profitable rural banks providing vital financial services: 1) transformation of unit desas from Bimas conduits to full-service rural banks; 2) internal treatment of unit desas as semiautonomous units of account rather than as discrete profit/loss centers; and 3) evaluation of unit desas based primarily on their profitability rather than on hectares covered or money lent.

BRI made two fundamental changes to enable the transformation of unit desas into full-service rural banks. First, in 1984, BRI introduced Kupedes (Kredit Umum Pedesaan, General Rural Credit), essentially Kredit Mini/Midi at a higher interest rate. Second, in 1986, BRI introduced Simpedes (Simpanan Pedesaan, Village Savings), basically Tabanas at a slightly lower rate but exclusive to BRI, with unlimited withdrawals and a prize lottery. BRI also continued to offer demand and time deposits.

Transforming unit desas into profit/loss centers required financial realignment to become separate accounting units, thereby instilling responsibility for performance and providing incentives based on clear results. This, in turn, required four major accounting changes: unit desa balance sheet reconstruction, supply of additional branch liquidity as a unit desa loan with interest, deposit of excess unit desa funds in a branch interest-bearing account, and unit desa payment of branch supervision costs.

The third reform pillar, evaluating unit desas based primarily on profitability, entailed physical reallocation from proximity to rice-growing land to areas with the greatest Kupedes market potential and consolidation of unit desas and creation of pos pelayanan desa (PPDs), village service posts, essentially sub-units.

BRI also made two significant loan design changes. First, the unit desas offered a menu of Kupedes loans, all with the same effective interest rate but with different repayment schedules aligned to the variety of enterprise cash flows of borrowers. For example, petty traders had monthly repayments, brackish water shrimpers repaid after four months, and rice farmers had seasonal repayments.

Second, BRI set the Kupedes interest rate sufficient to cover unit desa cost of funds, operating expenses, and credit risk. The result was a nominal rate of 1.5% per month on the borrower's original balance (a flat rather than a declining balance interest rate), equivalent to an effective rate of 2.6% per month, if all installments were paid on time, for 12-month loans. This effective annual rate of 31.2% was considerably more than the 12% rate for Bimas, Kredit Mini, and Kredit Midi. But it was essential to cover the high operational costs of bringing relatively small, short-term loans to remote customers. For customers, the main attraction was quick, accessible credit with low borrower transaction costs. BRI also provided an innovative incentive to promote high loan quality. Rather than penalize borrowers for late payments, it instead offered borrowers a 0.5% per month rebate for timely repayment (included in the above calculations). It is much easier to provide a rebate to a borrower in good standing than to collect a penalty from a delinquent borrower.

Additionally, three other elements were critical to BRI's successful microbanking commercialization. These included: 1) rigorous oversight of BRI unit desa field operations by BRI branches, regional offices, and the head office; 2) substantial initial investments in retraining BRI unit desa field staff, and subsequent investments in constantly upgrading skills with refresher training; and 3) incentives for all BRI unit desa employees, based primarily on unit desa profitability, made possible by the accounting and reporting changes described previously.

As of December 31, 1989, BRI unit desa operations had grown dramatically (Figures 4-7):

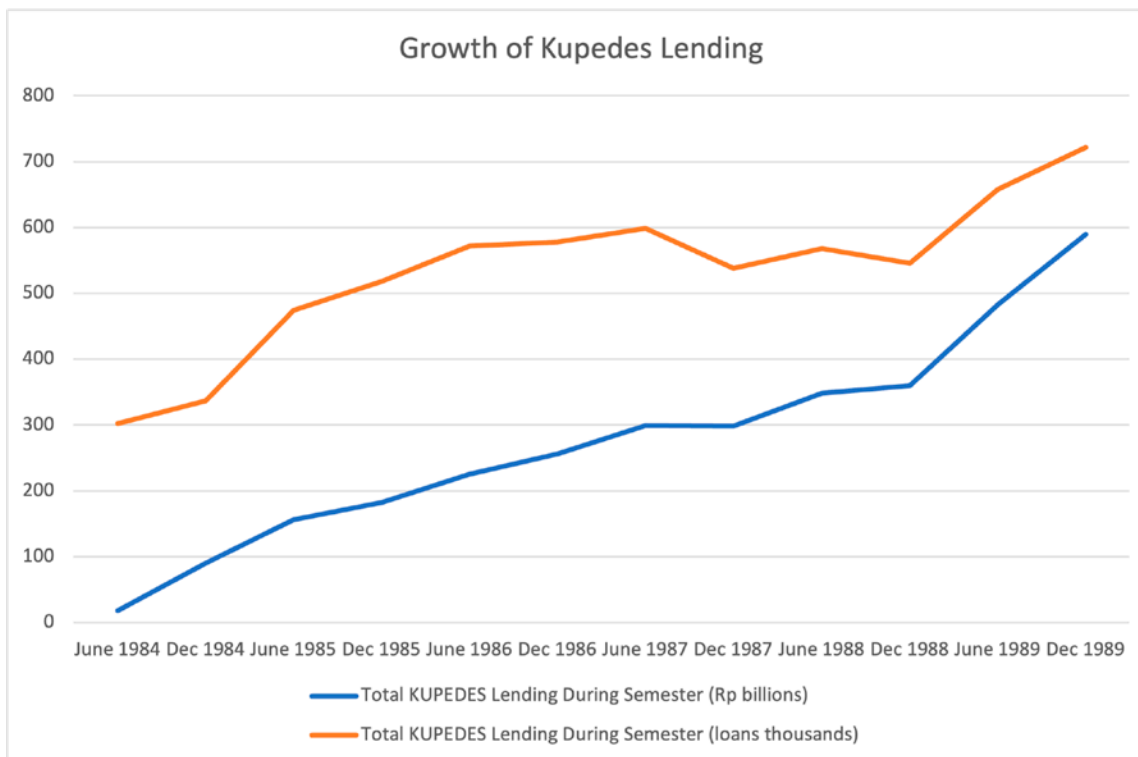
- They had made more than 6.4 million loans, totaling almost Rp 3.4 trillion.
- Kupedes outstanding was 1.6 million borrowers for a total of Rp 846 billion.
- Kupedes monthly lending averaged 120,000 borrowers and Rp 98 billion.
- Unit desas had attracted nearly 6.3 million savers and accumulated Rp 957 billion in client savings, with 113% of Kupedes loans outstanding.
- Simpedes comprised 2.7 million savers and total savings of Rp 700 billion, with 83% of Kupedes loans outstanding.
- Kupedes loan portfolio quality remained high, with a long-term loss ratio of 3.3% and portfolio status of 5.4%.
- In 1984, the unit desas lost more than Rp 25.1 billion, but by 1986, they were profitable, and in 1989, they made a profit of Rp 36.9 billion.
- Total unit desa assets more than quadrupled, growing from Rp 300 billion in 1985 to Rp 1.3 trillion in 1989.

Figure 4:

Growth of BRI Unit Desa Operations, 1984-1989													
Date	Total KUPEDES Lending During Semester		Total KUPEDES Outstanding At End Of Semester		Cumulative KUPEDES Lending		Total Savings At End Of Semester					Savings to KUPEDES (%)	
	(Rp billions)	(loans thousands)	(Rp billions)	(loans thousands)	(Rp billions)	(loans thousands)	TABANAS	SIMPEDES	Giro	Time Deposits	Total		
	June 1984	18.1	302	71.6	360	81.1	302	26.9	0.0	2.6	0.0		29.5
Dec 1984	90.2	337	111.1	641	171.3	639	39.1	0.3	2.0	0.8	42.2	n.a.	38.0
June 1985	156.1	474	180.1	854	327.4	1,113	39.5	0.5	1.9	1.1	43.0	n.a.	23.9
Dec 1985	182.7	518	229.0	1,035	510.1	1,631	63.8	5.1	13.8	2.2	84.9	n.a.	37.1
June 1986	225.7	572	284.9	1,164	735.8	2,203	66.5	15.5	11.8	3.0	96.8	n.a.	34.0
Dec 1986	256.3	578	334.4	1,232	992.1	2,781	78.4	82.6	10.9	3.9	175.8	3,544	52.6
June 1987	299.1	599	403.2	1,301	1,291.2	3,380	66.7	121.8	16.6	5.3	210.4	3,854	52.2
Dec 1987	298.7	538	429.2	1,315	1,589.9	3,918	79.5	182.6	12.5	12.7	287.3	4,184	66.9
June 1988	348.1	568	492.6	1,379	1,938.0	4,486	70.3	214.7	9.8	21.8	316.6	4,251	64.3
Dec 1988	359.6	546	538.7	1,386	2,297.6	5,032	89.5	342.0	16.6	44.4	492.5	4,998	91.4
June 1989	483.0	658	690.6	1,490	2,780.6	5,690	86.4	454.9	8.4	71.6	621.3	5,365	90.0
Dec 1989	589.7	722	845.6	1,644	3,370.3	6,412	113.6	699.8	26.3	117.3	957.0	6,262	113.2

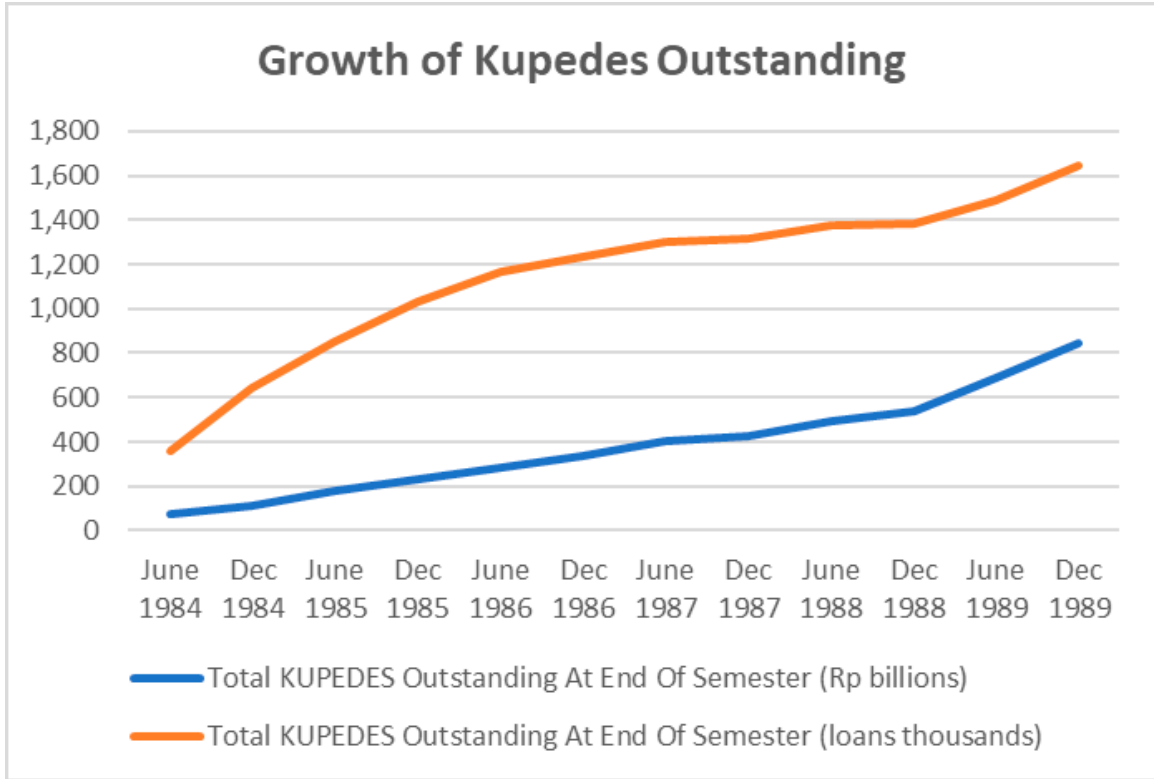
Source: Patten and Rosengard, *Progress With Profits*.

Figure 5:



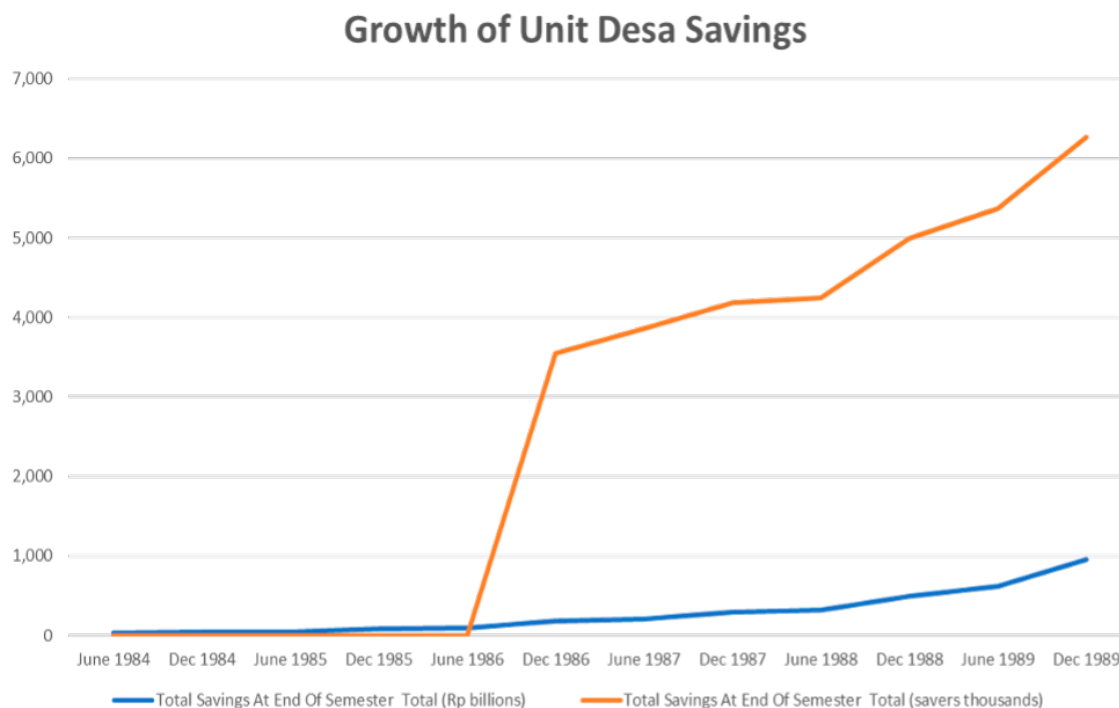
Source: Patten and Rosengard, *Progress With Profits*.

Figure 6:



Source: Patten and Rosengard, *Progress With Profits*.

Figure 7:



Source: Patten and Rosengard, *Progress With Profits*.

Into the New Millennium, 1990–Present

BRI has built on its successful commercialization of microbanking in the mid-1980s to grow, broaden, and deepen its microbanking business over the past three decades. Despite domestic and international adversity, BRI microbanking has successfully adapted to a continuously changing economic and political landscape to remain the driving force propelling Indonesia's efforts to enhance financial inclusion. Critical in BRI's continued microbanking dominance has been a combination of astute leadership, institutional innovation, and rapid adoption of evolving financial technology (fintech).

Leadership

Since the mid-1980s, senior BRI management has remained vigilant in its commitment to promote financial inclusion in Indonesia in a commercially viable, institutionally sustainable manner. BRI has been determined to maintain its position as a leading global social entrepreneur, successfully achieving the “double bottom line” of financial profitability and social value added.

This adherence to a constant mission over such a long period of time shows remarkable leadership given the many internal disruptions and external shocks BRI has experienced during this period. For example, the company went public in 2003 and has undergone many changes in its board of directors. Additionally, BRI has continued to operate throughout the East Asian financial crisis and the resignation of President Suharto in 1998, followed by the transition to a competitive democracy and contemporaneous nationwide fiscal decentralization. It's also had to deal with the global financial crisis of 2008 and the recent COVID-19 pandemic.

Continuing this commitment, its current “Vision BRI 2025” states that BRI strives to be not only “the most valuable banking group in Southeast Asia by 2025” but also a “champion of financial inclusion” that will lead in achieving the national target of 90% of Indonesian adults using financial services by 2025.

Institutional Innovation

As described in greater detail in the following sections, BRI has greatly extended its microbanking reach by both enlarging its physical presence and partnering with other financial institutions serving microenterprises and low-income households.

BRI has expanded its microbanking footprint by not only adding many more units around the country but also by establishing smaller, cost-effective sub-units called teras. Some teras are mobile, while others are located in markets or on ships. It has also created BRILink agents to identify and provide service to customers who might normally be beyond the reach of BRI unit offices.

To complement BRI's internal efforts to go further down market and service an even lower-income clientele, in 2021 the Ministry of State-Owned Enterprises created Ultra Micro Holding (UMi) under BRI, which also absorbed PT Pegadaian (National Pawnshop Company) and PT Permodalan Nasional Madani (PNM), Madani National Capital. Pegadaian was founded in 1901 and had 4,100 outlets spread throughout Indonesia as of August 2020. Its main business is providing loans collateralized by movable assets, and its supporting businesses include, among many others, microenterprise financing as well as incremental gold purchases and savings.⁸ PNM was established in 1999 in the aftermath of the East Asian financial crisis to manage credit programs previously subsidized by Bank Indonesia (central bank). Today, PNM's main business, launched in 2015, is Mekaar (Building a Prosperous Family Economy), which provides loans to disadvantaged women entrepreneurs similar to the Grameen Bank group lending model.⁹ At the end of 2021, PNM had 2,985 Mekaar branches serving approximately 8 million customers throughout Indonesia.¹⁰

The objective of UMi is to enhance the provision of financial services to low-income households and microenterprises through synergies and complementarities between BRI, Pegadaian, and PNM. For example, BRI can handle the banking functions for Pegadaian and PNM, BRI and Pegadaian can cross-sell their financial services, BRI can provide additional loan capital for PNM to on-lend to its clients, and the best PNM borrowers might graduate to the BRI units. Ultra Micro Service Centers (Sentra Layanan Ultra Mikro, or Senyum) have been established and BRI is training Mitra UMi agents (UMi partner agents) to facilitate UMi activities. It is too early to assess UMi performance since the program has just been launched, but BRI is hopeful that UMi will extend the financial services ecosystem for the “people's economy.”

Fintech Adoption

The successful adoption of financial technology (fintech) by BRI units began when they computerized their offices many decades ago, shifting from a manual general ledger accounting system and field reporting via faxes to microcomputer- and web-based digital accounting and reporting. This challenging transformation greatly increased BRI unit productivity, enabling them to lower their operating costs and, when facing stiff competition primarily in urban areas, reduce their Kuyedes interest rates as well.

Today, BRI units have many digital applications, often embedded in field outreach initiatives, whose dissemination was significantly accelerated by the need for remote and contactless banking because of the COVID-19 pandemic. These include:

- **BRIKODES (BRI Kodifikasi Desa):** A super platform application that utilizes village to national level big data statistical analysis to better inform BRI formulation of financial inclusion strategies, enhance microbanking risk management, and facilitate microbanking strategic business mapping.

- **Pojok Mantri Desa (PMD):** A mechanism that combines utilization of BRI microbanking digital applications with the physical presence of BRI unit loan officers (mantris) in rural villages (desas) and urban neighborhoods (kelurahans).
- **BRISPOT:** A BRI internal application that helps BRI unit loan officers handle all aspects of unit loan processing.
- **BRIMO:** A BRI “financial supermarket” or “one-stop financial solution” application for BRI customers with more than 100 features to enable comprehensive digital banking.
- **QRIS (QR Code Indonesia Standard):** A tool developed by Bank Indonesia and the Indonesian Payment System Association to enable digital payments everywhere in Indonesia, including local traditional markets in remote regions of the country.
- **Pasar.id:** An application that enables traditional market sellers and buyers to replace in-person with online transactions.
- **Stroberi Kasir:** An application that helps users manage transaction record-keeping, inventory control, administrative and financial services, and business governance.
- **Stroberi Tagihan:** An application that helps users manage billing transactions and monitor accounts receivable.

Expansion of Microbanking Distribution Network

BRI has greatly expanded its microbanking distribution network by more than doubling its microbanking offices from 3,040 in 1990 to 6,919 in 2021. However, rather than just increase the number of BRI units, it also introduced a relatively less expensive sub-unit office, the BRI teras. BRI has also strengthened its efforts to go further down market by developing a network of BRILink agents, which has grown tenfold from about 50,000 agents in 2015 to over 500,000 agents in 2021. BRILink agents are drawn from BRI’s best microloan borrowers. They help to identify new entry-level borrowers as well as process financial transactions, like payments, loan installments, and savings deposits. In 2021, BRILink agents processed almost 1 billion financial transactions, generating Rp 1.3 trillion (≈ USD 90 million) in BRILink agent fees and mobilizing Rp 19.4 trillion (≈ USD 1.3 billion) in savings (Figures 8 and 9).

Figure 8:

EXPANSION OF BRI MICROBANKING OFFICES						
Year	BRI Teras					Total Microbanking Offices
	BRI Units	Total Teras	Office Teras	Mobile Teras	Boat Teras	
	3,040	0	0	0	0	3,040
1991	3,210	0	0	0	0	3,210
1992	3,194	0	0	0	0	3,194
1993	3,267	0	0	0	0	3,267
1994	3,388	0	0	0	0	3,388
1995	3,512	0	0	0	0	3,512
1996	3,595	0	0	0	0	3,595
1997	3,691	0	0	0	0	3,691
1998	3,703	0	0	0	0	3,703
1999	3,694	0	0	0	0	3,694
	3,724	0	0	0	0	3,724
2001	3,817	0	0	0	0	3,817
2002	3,916	0	0	0	0	3,916
2003	4,049	0	0	0	0	4,049
2004	4,046	0	0	0	0	4,046
2005	4,112	0	0	0	0	4,112
2006	4,229	0	0	0	0	4,229
2007	4,297	0	0	0	0	4,297
2008	4,417	0	0	0	0	4,417
2009	4,544	217	217	0	0	4,761
	4,649	617	617	0	0	5,266
2011	4,849	1,404	1,304	100	0	6,253
2012	5,000	2,128	1,778	350	0	7,128
2013	5,144	2,671	2,206	465	0	7,815
2014	5,228	2,976	2,454	522	0	8,204
2015	5,360	2,543	1,907	636	0	7,903
2016	5,380	2,545	1,907	635	3	7,925
2017	5,382	2,536	1,895	638	3	7,918
2018	5,381	2,069	1,933	133	3	7,450
2019	5,382	2,049	1,912	133	4	7,431
	5,382	1,867	1,731	132	4	7,249
2021	5,222	1,697	1,561	132	4	6,919

Source: Bank Rakyat Indonesia.

Figure 9:

GROWTH OF BRILINK AGENT NETWORK				
Year	Total Agents	Total Financial Transactions Processed by Agents	Agent Fee Income from Financial Transactions (billions of rupiah)	Savings Mobilized by Agents (billions of rupiah)
2015	50,259	23,605,822	20.0	521.6
2016	84,550	98,375,300	70.6	1,382.7
2017	279,750	202,074,131	161.6	3,930.5
2018	401,550	378,721,682	448.8	5,499.0
2019	422,160	521,323,167	788.7	8,426.0
2020	504,233	727,615,014	1,159.7	13,270.1
2021	503,151	929,380,697	1,342.9	19,376.7

Source: Bank Rakyat Indonesia.

Growth of Credit and Savings

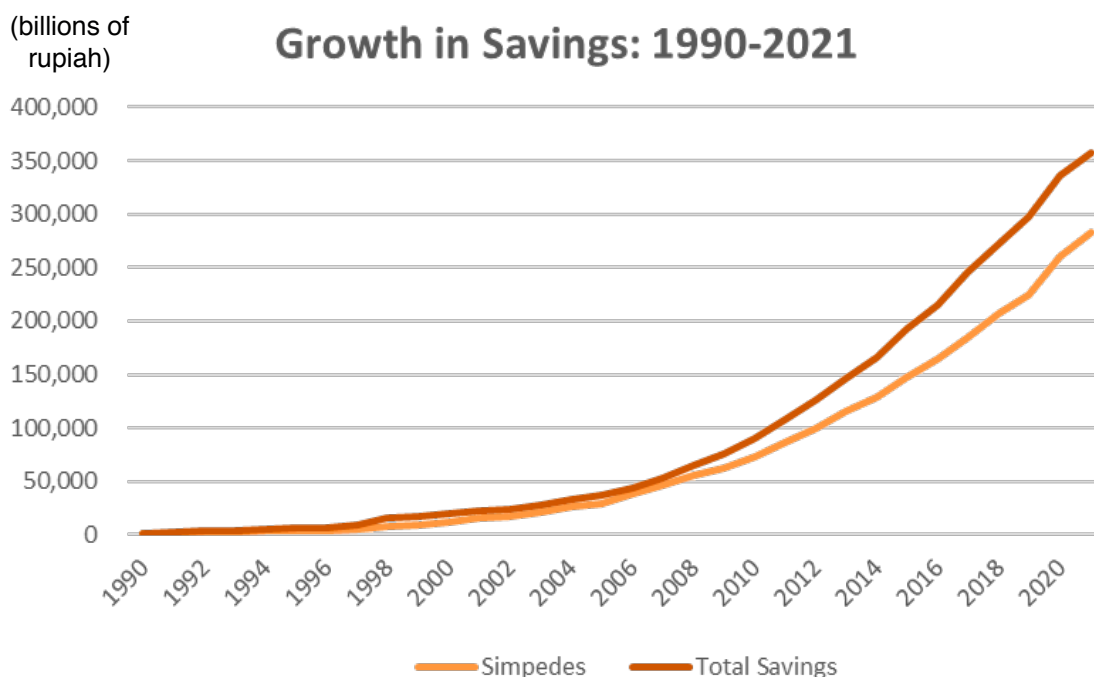
Through this expanded distribution network, both loans and savings grew substantially. The number of borrowers increased sevenfold, rising from 1.9 million in 1990 to 13.2 million in 2021, with loans outstanding rising from Rp 1.4 trillion to Rp 390.6 trillion (\approx USD 26 billion) during the same period (Figure 10). Savings grew just as dramatically, rising from Rp 1.7 trillion in 1990 to Rp 356.8 trillion (\approx USD 23.8 billion), with four-fifths of these savings in Simpedes accounts (Figure 11).

Figure 10:

GROWTH IN LENDING		
Year	Loans Outstanding	
	Borrowers	Value (billions of rupiah)
	1,893,138	1,382
1991	1,837,549	1,456
1992	1,831,732	1,649
1993	1,895,965	1,957
1994	2,053,919	2,458
1995	2,263,767	3,191
1996	2,488,135	4,076
1997	2,615,679	6,685
1998	2,457,652	4,697
1999	2,473,923	5,957
	2,715,609	7,827
2001	2,790,192	9,873
2002	3,056,103	12,011
2003	3,100,358	14,540
2004	3,210,678	19,189
2005	3,313,532	22,785
2006	3,455,894	27,284
2007	3,515,812	32,602
2008	4,460,580	42,756
2009	4,728,266	54,076
	5,085,322	71,178
2011	5,301,085	83,803
2012	5,514,987	99,859
2013	6,385,410	124,048
2014	7,177,845	143,033
2015	7,758,986	166,887
2016	8,815,897	200,024
2017	9,339,929	228,862
2018	9,945,456	264,416
2019	10,504,719	297,004
	11,698,136	343,868
2021	13,247,353	390,559

Source: Bank Rakyat Indonesia.

Figure 11:



Source: Bank Rakyat Indonesia.

This growth has been steady even during the recent global financial crisis of 2008 and the COVID-19 pandemic beginning in 2020.

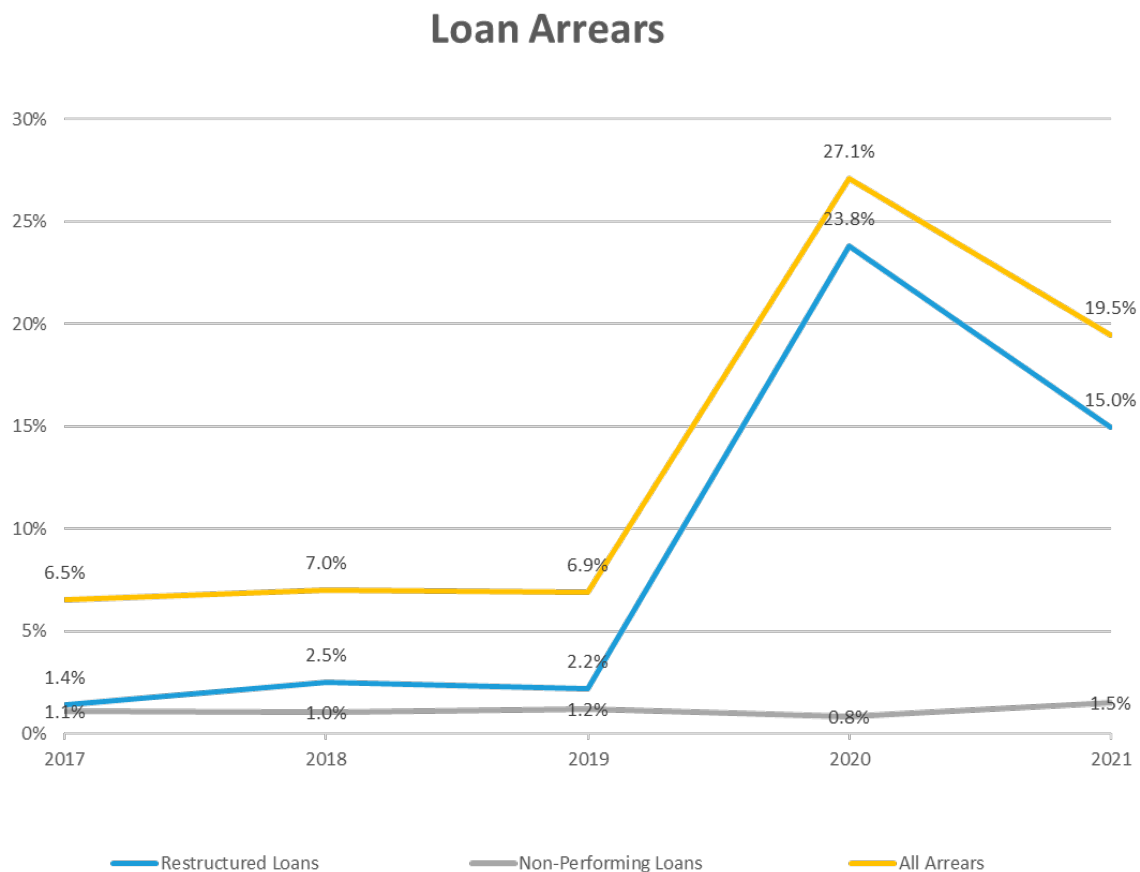
The only decline was a slight drop in lending in 1998, during the East Asian financial crisis. Even then, BRI's microbanking was much more resilient than BRI's retail and corporate banking (most of BRI's corporate portfolio was written off and its retail non-performing loans reached about 40%). It also contrasted sharply with the poor performance of competing Indonesian banks; between November 1, 1997 and March 13, 1999, 61 banks were closed, another 11 banks were nationalized, and four of the seven state banks were merged.

The excellent repayment of BRI's microenterprise borrowers was due to four key factors: 1) the microenterprise loans were all installment loans tailored to the borrower's cash flow, so as the loans were repaid, loan leverage was reduced and the borrowers were less vulnerable to external shocks; 2) the microenterprises were more likely to be engaged in the purchase and sale of domestically produced essentials, so they faced less cyclical demand and also benefitted as consumers went down market and switched from luxury and imported goods to domestic staples; 3) the rural sector was less affected than urban areas by the monetary crisis, although it was more affected by the severe drought that struck Indonesia at the same time; and 4) the microenterprise borrowers valued their future access to credit and savings services very highly, so they were reluctant to break their banking relationship with the BRI units.¹¹

Although the steady growth in BRI unit lending was accompanied by high loan quality over the past three decades, with non-performing loans consistently around 1%, this changed when the full force of the COVID-19 pandemic hit Indonesia. Mandatory market shutdowns and stay-at-home orders meant borrowers had little or no income with which to repay their loans. Thus, total loan arrears quadrupled

from 6.9% in 2019 to 27.1% in 2020, and loan restructurings rose from 2.2% to 23.8% during the same period. Consequently, given the time lag as the aging of arrears works its way through the loan portfolio, non-performing loans almost doubled from 0.8% in 2020 to 1.5% in 2021. This is still a very low figure by international standards but relatively high for BRI units and evidence of COVID-19's lingering negative impact on BRI unit borrowers (Figure 12).

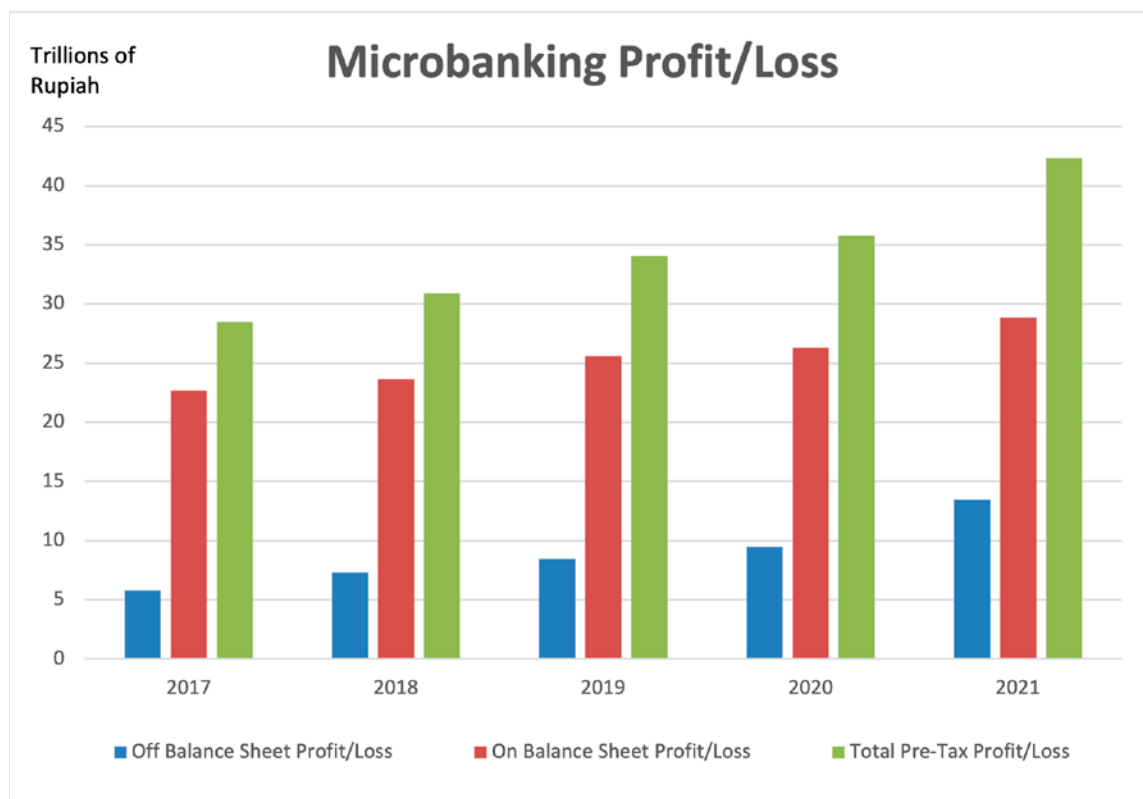
Figure 12:



Source: Bank Rakyat Indonesia.

Despite these challenges, BRI microbanking has remained extremely profitable: total pre-tax profits increased 48.4% during this period, rising from Rp 28.5 trillion in 2017 to Rp 42.3 trillion in 2021 (= USD 2.8 billion).

Figure 13:



Source: Bank Rakyat Indonesia.

Development Impact

It is clear that microbanking contributes significantly to overall BRI profitability. This is important not only for BRI's long-term financial sustainability but also for the funding of national priorities in other sectors due to BRI's annual payments of national taxes and shareholder dividends.

However, the justification for maintaining BRI's status as a state-owned enterprise is that it can also have a positive social impact. Often, state-owned banks look much like private banks but with much poorer performance due to political interference in personnel and lending decisions, in which case the appropriate policy response is either commercialization and corporatization or privatization.

But state-owned banks can also justify government ownership by being innovative social enterprises that mitigate market failures, such as asymmetries of information and incomplete markets, to provide commercially sustainable formal financial services to unbanked and underbanked low-income households and family businesses. This, in turn, should create new jobs or improve the productivity of those currently employed as well as increase income and improve living standards for microbanking customers.

However, unlike tracking annual profits, it is difficult and expensive to assess the development impact of microbanking. BRI nonetheless has conducted two impact evaluations since it commercialized microbanking four decades ago.

The first evaluation was conducted in 1989 by BRI's Planning, Research, and Development Department.¹² The survey was carried out in 16 unit desas located in four provinces with a sample of 1,404 Kupedes borrowers and a subset of 192 borrowers for in-depth interviews.

Key survey findings are as follows:

- The majority of Kupedes borrowers came from landless and near-landless families who used their house plot and/or house to guarantee their loans.
- The participation of women in Kupedes was high at 24.4% of borrowers.
- Kupedes households were characterized by “occupational multiplicity,” often combining agricultural with non-agricultural occupations.
- Kupedes served mainly non-agricultural sectors of the rural economy, such as petty trade, cottage industries, and service occupations, and Kupedes agricultural loans were used mostly for livestock operations rather than rice growing (those who requested loans for rice inputs were directed to a government program, KUT).
- Participation in Kupedes was associated with both increased employment for hired workers in borrower enterprises and increased incomes for borrower families who were below the poverty line.
- Kupedes had a major impact on profits earned by borrower enterprises; after an average of three years of program participation, profits increased by 93.5% (adjusted for inflation).
- Kupedes had a major impact on total household income for borrower families, increasing it by 75.9% on average (adjusted for inflation).
- Kupedes had a positive impact on the standard of living of borrower families. Many borrowers reported they were able to purchase new clothing, entertainment appliances, furniture, or vehicles; make housing repairs or upgrades; spend more on school-related expenses; increase consumption of protein foods, such as meat and fish; and switch from a traditional medical specialist (dukun) to local government health clinics (Puskesmas) and local health workers/ doctors, and give birth in maternity clinics rather than at home with a traditional midwife (dukun bayi).

The second evaluation was conducted in 2001 by BRI and the Harvard Kennedy School (HKS).¹³ The survey consisted of a nationwide, stratified random sample of 1,426 households located in 10 provinces, 10 districts/municipalities, and 72 villages/neighborhoods served by 61 BRI units throughout Indonesia. The study had four objectives: 1) create a demographic, socioeconomic, and business profile of both current and potential BRI unit customers; 2) assess the impact of BRI unit products and services on the lives and businesses of unit customers; 3) determine effective access of households and microenterprises to BRI unit products and services; and 4) identify underserved market niches for BRI microbanking products and services.

Key survey findings are as follows:

- Kupedes households were mostly headed by married males who were primarily farmers or traders, and they were likely to have some secondary education.
- Many Indonesians remained unbanked or underbanked, but BRI dominated the market for those with access to formal financial services: two-thirds of the respondents did not have credit from any institution, but for the one-third with credit, 58% were BRI borrowers (74% of these were exclusively unit borrowers). Furthermore, 62% of respondents did not have savings at any institution, but of the 38% with savings, two-thirds saved exclusively at the BRI units, and 82% had at least one account at BRI (branch or unit).
- BRI units nurtured long-term customer relations and depended heavily on repeat borrowers. About one-third of Kupedes borrowers had been BRI unit customers between 0–3 years (average of 3.2 loans), another third between 4–10 years (average of 6.6 loans), and the remaining third for 11 years or more (average of 11.2 loans).

- Most Kupedes loans were used for working capital in support of agricultural (rice, dry staples, tree crops, fish) and off-farm activities (mostly petty trade and services).
- Since the East Asian financial crises of 1997–98, business income increased for half of the Kupedes borrowers, and business performance metrics (sales, variety of goods, number of customers, input purchases, and employment diversity) improved for 40% of Kupedes borrowers. Most employment progress was due to improvements in workforce productivity rather than an increase in workers employed.
- Since the East Asian financial crises of 1997–98, household income had increased for 53% of Kupedes borrowers; conditions for savings and investment improved for 35% of Kupedes borrowers; and most households reported improvements in standard of living measures, such as food consumption, housing conditions, health services, education expenses, consumer durables, and leisure expenditures.

Both of these surveys are very encouraging. In addition to documenting the significant positive social impact of BRI microbanking, they indicate considerable scope for BRI to expand and enhance its microbanking services.

Future Challenges

BRI faces two significant future challenges if it is to remain a profitable and effective global leader and national driver of financial inclusion.

First, it must continue to evolve and adapt amidst an increasingly difficult political and economic environment. This is indeed a formidable challenge but, as chronicled in this policy brief, one BRI has successfully met since Indonesia declared independence in 1945.

However, the second challenge facing BRI is even more daunting. While continuing to navigate the treacherous waters of well-intentioned but counterproductive national policies that threaten to undermine past accomplishments in financial inclusion, BRI must also manage a transition back to sustainable, market-based microbanking.

In November 2007, President Susilo Bambang Yudhoyono launched the KUR (Kredit Usaha Rakyat, People's Business Credit) microenterprise credit program, and the program has grown steadily over the past 15 years. The purpose of KUR is to provide working capital and investment loans to “feasible but not bankable” micro and small businesses as well as cooperatives. Although KUR is funded entirely with commercial bank funds, the interest rate is highly subsidized and the government covers most of the value of KUR loan defaults.

KUR is a giant leap backward in Indonesia's efforts to promote sustainable financial inclusion. KUR is clearly not fiscally sustainable, and it also crowds out financially viable market-based microbanking. One of the reasons BRI was able to commercialize microbanking in the 1980s was Indonesia's liberalization and deregulation of the financial sector. In contrast, KUR is a return to financially repressive policies that failed so spectacularly previously.¹⁴ This ultimately will decrease access to formal financial services for low-income households and microenterprises.

The fiscal and crowding-out problems are especially acute for BRI. With respect to cost, the KUR program is quite large and keeps growing, while lending ceilings continue to rise as lending rates fall. BRI does about 70% of total KUR lending (all state-owned banks, including BRI, account for about 90% of KUR loans); the national KUR lending target for 2022 is Rp 373 trillion (≈ USD 24.9 billion), of which BRI's “quota” is Rp 260 trillion (≈ USD 17.3 billion). Although the Ministry of Finance now pays BRI a 10% subsidy for KUR microloans and 12% subsidy for KUR super microloans, and government-owned insurance companies cover 70% of BRI's KUR loan losses, national budget constraints will compel the

government to eventually end this financial support.

The current crowding-out of BRI's market-based microbanking makes the inevitable end of government subsidies and guarantees especially problematic. To date, most BRI KUR lending has been done by the BRI units, placing BRI loan officers in an untenable position. The most recent increase in KUR loan ceilings (up to Rp 500 million, about US\$33,000) now covers all BRI unit loan products at an annual effective interest rate of 6%, one-third to one-fourth of Kupedes lending rates (Figure 14). This undercuts not only BRI's efficacious microbanking business model but also the BRI unit coping strategy to date of segmenting borrowers by loan amount and graduating the larger borrowers from subsidized KUR loans to market-priced Kupedes loans. Even though this approach still meant the lowest-risk BRI unit borrowers paid the highest interest rates, an inverse relationship contravening the fundamental tenets of prudential banking, it nonetheless provided a mechanism for borrowers to progress from subsidized to unsubsidized lending.

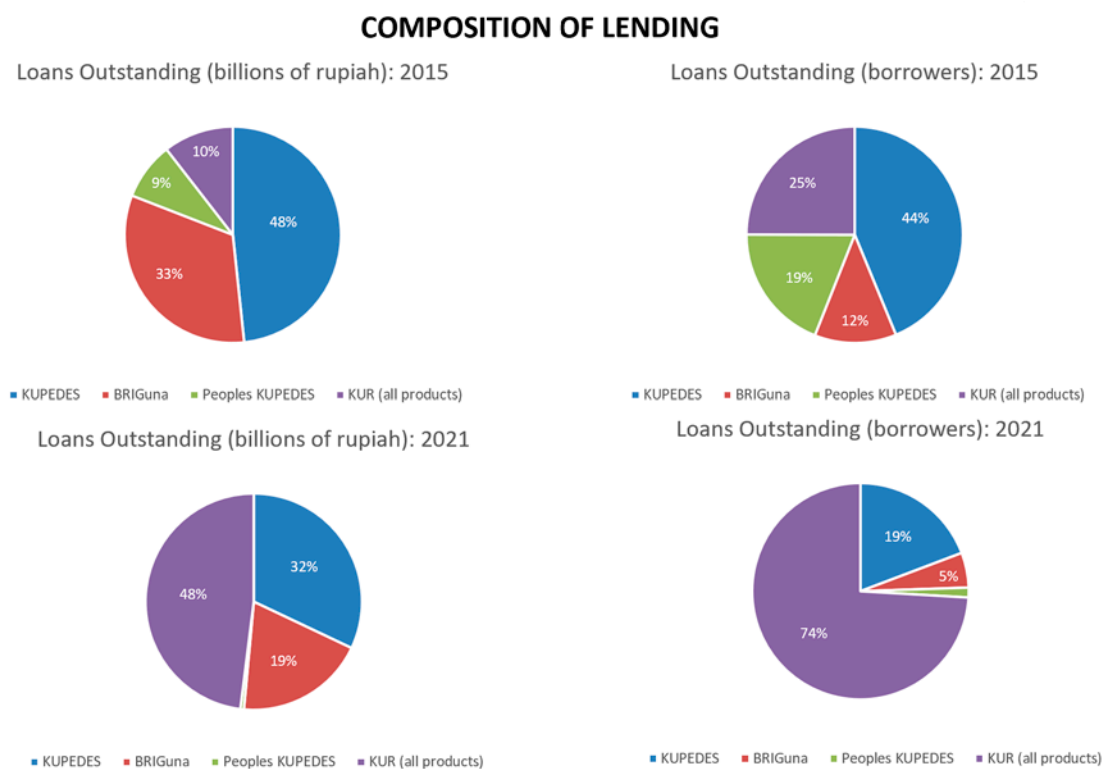
Figure 14:

Selected BRI Loan Products Features				
<i>Loan Product</i>	<i>Loan Range</i>	<i>Annual Effective Interest Rate</i>	<i>Loan Term</i>	<i>Repayment Period</i>
Kupedes (unit)	≤ Rp 500 m	19.5% - 26.5%	≤ 5 years	monthly, seasonal (3,6,9,12 months), one-time payment
Briguna (unit)	≤ Rp 500 m	17.5% -20.5%	≤ 15 years	monthly (payroll deduction)
KUR Super Mikro (unit)	≤ Rp 10 m	6.0%	≤ 3 years (working capital) ≤ 5 years (investment)	monthly, seasonal (3,6,9,12 months), one-time payment
KUR Mikro (unit)	> Rp 10 m - ≤ Rp 100 m	6.0%	≤ 3 years (working capital) ≤ 5 years (investment)	monthly, seasonal (3,6,9,12 months), one-time payment
KUR Kecil (branch)	> Rp 100 m - ≤ Rp 500 m	6.0%	≤ 3 years (working capital) ≤ 5 years (investment)	monthly, seasonal (3,6,9,12 months), one-time payment

Source: Bank Rakyat Indonesia.

Consequently, KUR now dominates BRI unit lending. From 2015 to 2021, the Kupedes share of total BRI unit lending dropped from 48% to 32% of loan value and from 44% to 19% of borrowers. During the same period, the KUR share of BRI unit lending rose fivefold from 10% to 48% of value and tripled from 25% to 74% of borrowers (Figure 15). Moreover, the largest KUR loans are made by BRI branches as part of their small-scale lending, providing an incentive for some of the best BRI unit borrowers to migrate from BRI units to BRI branches.

Figure 15:



Source: Bank Rakyat Indonesia.

Designing and implementing an off-ramp from KUR and an on-ramp back to KUPeDES will challenge even the extraordinary negotiating skills and management expertise of BRI's leaders. It will also need the full support of the Ministry of Finance, Bank Indonesia, and the Financial Services Authority, as well as the political backing of Indonesia's next president.¹⁵ Nonetheless, if past performance is indicative of future results, BRI will surmount these hurdles creatively and effectively, just as it has mitigated the worst potential impacts of KUR on its non-KUR microbanking activities.

Endnotes

1. For a comprehensive overview of the current global state of financial inclusion, see: The World Bank's *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19* (<https://www.worldbank.org/en/publication/globalfindex>).
2. All underlying data in this policy brief, unless otherwise noted, was provided by Bank Rakyat Indonesia from internal proprietary databases; the author is responsible for all data analysis and interpretation.
3. For a brief overview of BRI, see: <https://bri.co.id/en/tentang-bri>.
4. All figures in this policy brief are in nominal Indonesian rupiah (Rp) except for the most recent figures (2021), which are converted to USD at an exchange rate of Rp 15,000 = US\$1.
5. For the IPO prospectus, see: UBS Investment Bank and Bahana Securities, *PT Bank Rakyat Indonesia (Persero) Offering Circular*, October 31, 2003.
6. For a detailed account of BRIsat, see: Ninok Leksono, *Dari Langit Untuk Negeri: Inovasi Perbankan Modern* [From the Sky for the Country: Modern Banking Innovation] (Jakarta: Buku Kompas), 2016.

7. For a more detailed history of the development of BRI microbanking, see: Richard H. Patten and Jay K. Rosengard, *Progress With Profits: The Development of Rural Banking in Indonesia*, A Copublication of the International Center for Economic Growth and the Harvard Institute for International Development (San Francisco: ICS Press), 1991; Bank Rakyat Indonesia, *One Hundred Years: Bank Rakyat Indonesia 1895–1995* (Jakarta: BRI, 1995); and Bank Rakyat Indonesia and BRI Microfinance Center (BMC), *Kepelaporan dan Keteladanan BRI dalam Keuangan Mikro [Reporting and Exemplar of BRI in Microfinance]* (Jakarta: PT Infoarta Pratama/Infobank and BMC), 2019.
8. To learn more about PT Pegadaian, see: <https://www.pegadaian.co.id/> and https://www.pegadaian.co.id/uploads/laporan/Laporan_Tahunan_PT_Pegadaian_Tahun_2021.pdf.
9. For more on the Grameen Bank lending model, see: <http://grameenresearch.org/grameen-group-lending-model/>.
10. To learn more about PNM, see: <https://www.pnm.co.id/> and https://www.pnm.co.id/uploads/attachments/annual_report/file/43/AR_2021_PNM_Lengkap_270422_.pdf.
11. For a more detailed account of BRI unit performance during the East Asian financial crisis of 1997–98, see: Richard H. Patten, Jay K. Rosengard, and Don E. Johnston, Jr., “Microfinance Success Amidst Macroeconomic Failure: The Experience of Bank Rakyat Indonesia During the East Asian Crisis,” *World Development*, vol. 29, no. 6 (2001), pp. 1057–1069.
12. For complete evaluation findings, see: Roes Haryanto and Ann Dunham Sutoro, BRI Planning Research and Development Department, *Briefing Booklet: Kupedes Development Impact Survey* (Jakarta: BRI), March 1990. Roes Haryanto was a senior career BRI employee; Ann Dunham Sutoro was a rural anthropologist and the mother of Barack Obama.
13. For complete evaluation findings, see: PT Bank Rakyat Indonesia and Center for Business and Government, John F. Kennedy School of Government, Harvard University, *BRI micro banking services: development impact and future growth potential* (Jakarta: BRI), October 2001.
14. For an evaluation of subsidized credit programs previously administered by BRI, see: Jay Rosengard, *Study of Selected Priority Credit Programs*, unpublished internal memo to BRI management, June 1, 1992.
15. Indonesia’s next presidential election is scheduled for 2024.

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