Innovations in Small Enterprise Lending by Bank Danamon Simpan Pinjam in Wiradesa Sub-district, Central Java
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Rural Investment Climate Assessment Website: www.worldbank.org/id/rica
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The initial phase of the RICA project has four components: the Rural Investment Climate Survey, National Conference on the Rural Investment Climate, and five case studies that complement the quantitative survey with qualitative research. The case studies were designed to increase understanding of the policy and institutional setting and how it influences the failure or success in implementation and outcomes. The RICA Case Studies were chosen around five themes where knowledge gaps exist or where good examples of innovation have been found. The knowledge gained from these case studies will be incorporated into the RICA Report.

For more information on the RICA project, please refer to www.worldbank.org/id/rica.
Case Study 4:  
Innovations In Small Enterprise Lending by Bank Danamon  
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ABSTRACT

In less than two years, the microfinance lender Danamon Simpan Pinjam has opened over 600 new branches in Indonesia with over 235 billion IDR in outstanding loans. This case study explores the reasons for DSP’s apparent success and rapid growth by examining in detail one DSP branch, and its competitors, in Wiradesa sub-district, Pekalongan district, Central Java.

The key reasons behind DSP’s success include, first, the tight targeting of one group of clients with financial products suited to their needs. DSP’s loan products, in terms of size, collateral requirements, and repayment terms, are designed to offer maximum convenience to borrowers. DSP focuses on market traders and places its branches within two kilometers of these clients to ensure easy access to them. DSP offers two products, a maximum 50 million and a maximum 200 million rupiah loan, and to date its total outstanding is roughly evenly divided between the two products.

Second, DSP has executed its strategy effectively on the ground by forging close contacts with clients—DSP staff visit most clients daily at their place of work to collect loan repayments.

Third, DSP has used information technology creatively to both improve customer convenience and enhance internal monitoring of its portfolio. The electronic data capture mechanism (EDC) used by all credit officers quickly and accurately records payments. Information from the EDC is downloaded to bank branch computers each day and in turn uploaded daily to DSP headquarters, giving senior managers real-time information regarding the organization’s performance.

Finally, DSP benefits from the deep pockets of Bank Danamon by being able to focus on building a lending portfolio without having to mobilize significant amounts of savings. This lowers overhead costs for DSP compared to its rivals that mobilize large amounts of savings.

DSP has positively impacted upon the availability of credit for small market traders in and around Wiradesa, though it has achieved this more often by offering larger loans to clients who have borrowed from formal banks before, and less often by attracting new clients who have never borrowed from the formal sector. There is also strong anecdotal evidence that these larger loans and expanded clientele are enabling DSP borrowers to both expand and deepen their business activities—most borrowers interviewed could cite specific examples regarding how DSP loans had improved their livelihoods. In addition, DSP’s rapid growth in outstanding loans has significantly expanded the pool of available credit among the five microfinance banks operating in Wiradesa.

But there are limitations regarding how much of DSP’s success can be easily copied by other competing banks. While no single factor related to DSP’s success is particularly difficult to adopt, all of DSP’s innovations together are structured around a strong senior management team and a robust, but flexible, corporate culture that values risk-taking and individual effort. These “soft” factors are harder to copy. DSP’s current rapid growth might be endangered by a rapid increase in non-performing loans, or possibly, by administrative restrictions upon its freedom to open new branches.

This case was written by Julie Hackett, consultant (U.S.A.) and Stefan Nachuk, World Bank (Indonesia). Research was based on field research in Malang district in September 2005; team members included Janes Imanuel Ginting, and Novia Cici Anggraini, consultants (Indonesia). Technical advice and review was provided by Andi Ikhwan and Don Johnston (thematic authors). Analytical and managerial support by Neil McCulloch, World Bank (Indonesia). Editorial support was provided by Juliana Wilson, consultant (U.S.A). See Bibliography for works referenced. This case is copyrighted by the World Bank and may not be reproduced or reused without its permission.
INTRODUCTION

After commissioning market research in 2003, Bank Danamon senior management decided to commit significant resources to the creation of a subsidiary bank, Danamon Simpan Pinjam, designed to focus exclusively on the micro and small enterprise market. After interviewing 1,000 small and micro businesses in eight major Indonesian cities, researchers concluded that there was a viable market within the 19.5 million micro and small businesses in Indonesia. Research indicated that while 94% wanted loans, only 36% had borrowed from commercial banks, with an additional 5% having borrowed from the People’s Credit Bank (BPR).

DSP serves small market traders, a group that constitutes approximately 20% of micro businesses in Indonesia. DSP defines small market traders as business operations that have an annual sales turnover of not more than 2 billion IDR (200,000 US$) or have borrowing needs of between 1 and 500 million IDR (approximately 100 to 50,000 US$). It has two lending products: Dana Pinjam 50 and Dana Pinjam 200, with maximum loan sizes of 50 million and 200 million rupiah, respectively.

While Bank Danamon’s research also identified other potential markets, such as agriculture and fisheries, they ultimately chose small traders as their target market because small traders compact geographic locations and their strong cash flow makes regular repayment of loans relatively easy. Farmers and fishermen, though they make up about 58% of the micro sector, were judged by DSP managers as too risky and difficult a market to tackle at the outset.

DSP’s rapid expansion has resulted in the opening of 609 DSP branches servicing close to 180,000 small and micro businesses across Indonesia. DSP has 97 branches in Sumatra, 484 in

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1 Including Jakarta, Surabaya, Yogyakarta, Bandung and Semarang
2 “In need of loans” was defined by the research findings that of the 1000 SMEs that were interviewed, six percent said that they would never borrow. The other 94% indicated that they would benefit from loans. There was no consideration as to whether or not these respondents were creditworthy.
3 Micro Business per Economic Sector 2003 – Farmers and Fishermen 58.36%, Services 14.24%, Home Industry 6.96% and Others 0.44% [what is this from??]
4 www.bankdanamon.co.id
Java, 14 in Bali, 14 in South Sulawesi, 10 in North Sulawesi, 5 branches in East Kalimantan, and 6 branches in South Kalimantan.\(^5\)

DSP’s rapid growth has already created some tension with its competitors. BPR filed a complaint with the Bank of Indonesia in mid-2004 alleging unfair competition from DSP. The complaint centers on the classification of banks and regulations for each level. Bank Danamon, and by extension DSP, is classified as a Level 1 or foreign exchange bank whereas BPR is classified as a Level 4 or a bank caters to special needs. As a result of this classification, BPR cannot open more than one new branch per year while DSP, as a Level 1 bank, is allowed to expand as quickly as it wants. Further allegations of unfair practices include events in 2003 when the Bank of Indonesia sponsored “linkage” programs between national banks and local banks. BPR claims that DSP staff copied lists of BPR clients for future use.

Bank Indonesia brokered a meeting between DSP and BPR in October 2004, during which DSP agreed to no longer “hijack” BPR’s clients.\(^6\) Despite this, BPR staff continue to complain that DSP is still approaching their clients out in the field.

**RESEARCH QUESTIONS**

This case study focuses on Danamon Simpan Pinjam’s strategy to develop a new business model focused upon providing financial services to small market traders through the DSP branch, Wiradesa sub-district, Central Java.

The research team tested 2 hypotheses:

1. Has the entrance of DSP into Wiradesa’s local lending market significantly increased small traders’ access to credit?
2. Which innovations differentiate DSP from other banks and cooperatives in Wiradesa?

**WIRADESA SUB-DISTRICT**

Pekalongan district is located in the province of Central Java, approximately two hours from the provincial capital, Semarang. Within the district, there are 19 sub-districts, with 270 villages. The majority of Pekalongan’s approximately 844,000 inhabitants live in rural areas.\(^7\) Wiradesa is its most densely populated sub-district, with about 55,000 people. The principal economic activities include farming (33% of the workforce), manufacturing, trade, services, and fishing. Wiradesa has 93 small enterprises, 70 medium enterprises and five large enterprises.\(^8\)

Micro industries total 4,410 and constitute 96 percent of all enterprises. There are two principal marketplaces—Wiradesa and Banjarsari, which combined have 3,221 small traders specializing in staple goods, shoes and clothing. The Wiradesa Market consists of 42 shops, 141 kiosks, 744 open kiosks, and 263 petty traders for a total of 1,163 small traders. The Banjarsari Market consists of six shops, 502 kiosks, 1,300 open kiosks and 250 petty traders, with a total of 2,058 small traders.\(^9\)

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\(^5\) There is a total of 630 branches in existence but 21 of these branches (6 in S. Kalimantan, 5 in E. Kalimantan, and 10 in N. Sulawesi) are not yet in operation.

\(^6\) Conversation with Bank Indonesia Regional Director in Semarang, October 2005.

\(^7\) Kabupaten Pekalongan Dalam Angka 2004 (Pekalongan District in Figures 2004)

\(^8\) In Indonesia, there are several definitions of micro and small enterprises, depending on which agency provides the definition. In general around four indicators are typically used to define micro and small enterprises (i) value of assets (aside from land and buildings), (ii) value of annual sales, (iii) number of workers, and (iv) maximum value of credit granted.

\(^9\) Kabupaten Pekalongan Dalam Angka 2004 (Pekalongan District in Figures 2004)
The DSP Wiradesa branch has become one of DSP’s fastest growing units, with over 16 billion IDR (1.6 million US$) in outstanding loans and a 67% monthly increase in the client numbers. The Wiradesa branch serves both markets places with 89% of their customers located within a two-kilometer radius of the branch office in Wiradesa. This study focuses on the small traders in the Wiradesa Market.

**Methodology**

The three person research team spent 13 days in Pekalongan District, 3 days in Semarang, and 3 days in Jakarta meeting with managers and staff of DSP, BRI, BPR, Kospin Jasa Cooperative, BMT An Najah Cooperative, borrowers from each of these institutions, non-borrowers and informal money lenders. Interviews were conducted with over 40 respondents including staff from DSP and competing banks, Bank Indonesia staff, informal moneylenders, and local traders, including those who had and had not borrowed from DSP.

Both semi-structured interviews and ranking exercises were employed by the team.

**Key Players**

In Wiradesa sub-district, there are two village co-ops, eight savings and loans co-ops, 16 lending institutions (including commercial banks), and approximately 40 informal money lenders. There are four banks that compete directly with DSP, all targeting the same market of small traders in Wiradesa.11

**DSP Wiradesa** is a division of Bank Danamon opened its Wiradesa branch in July 2004. It serves 908 customers and has over 16 billion IDR (approximately 1.6 million US$) in outstanding loans.

**Kospin Jasa (Koperasi Simpan Pinjam or Savings and Loan Cooperative)** was established in Pekalongan district in 1973 by an organization of small and medium enterprises. Kospin Jasa’s national headquarters is located in Pekalongan, it has 47 branches, all in Java. This co-op has members of Javanese, Chinese and Arabic descent. The Wiradesa branch has over 20 billion IDR (about 2 million US$) in outstanding loans.

**BRI (Bank Rakyat Indonesia or the Indonesian People’s Bank)** is Indonesia’s oldest state-owned bank, established in 1895. In the early 1980s, BRI entered into a relationship with the Harvard Institute for International Development to revamp its operations by using market-based savings and lending rates, more rigorous management techniques, and shifting its lending focus from farmers to micro and small enterprises with the KUPEDES (Kredit Usaha Pedesaan or Loans for Rural Enterprises) product. As a result both savings mobilization and lending volume exploded and BRI became a model for SME financial institutions throughout the world. BRI has had a branch in Wiradesa since 1969.12 The Wiradesa branch has outstanding loans of about 4.4 billion rupiah (about 440,000 US$).

**BPR (Bank Perkreditan Rakyat or the People's Credit Bank)** BKK (Badan Kredit Kecamatan or Sub district Credit Institution) was established in 1971. BKK was one of many small credit institutions that emerged after the Indonesian government began focusing on economic

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10 Source: Kecamatan Wiradesa in figure 2004
11 DSP considers BPR and BRI to be their biggest competitors but Kospin Jaya and BMT also lend to the same target market.
12 In December 2003 FSP reached a rare milestone in development assistance as it concluded twenty years of Harvard advisory services to Bank Rakyat Indonesia (BRI). This relationship began in the early 1980s, and since 1987, first the Harvard Institute for International Development and later M-RCBG provided technical assistance directly to BRI in savings mobilization, credit instruments and delivery systems, strategic management, information technology, human resource development, and BRI's International Visitor's Program.
development. BKK lends to both local government officials and small traders. BPR has 411 borrowers in Wiradesa and over 1 billion IDR (about 100,000 US$) in outstanding loans.

**BMT An Najah Co-op (Baitul Maal wa Tamwil or Islamic Financial Institution)** was established in 1994 in Pekalongan District. It operates according to Islamic banking principles, which requires profit-sharing in lieu of interest rates. There are 26 branches in Pekalongan, with 263 borrowers and 40 million IDR (about 400,000 US$) in outstanding loans.\(^{13}\)

In addition, other key players in Wiradesa include:

**Market Traders** are concentrated in Wiradesa and Banjarsari markets. There are 3,221 small traders in Wiradesa specializing in staple goods, shoes and clothing. The traders operate principally in small shops and kiosks and their average income ranges from 30,000 to 50,000 IDR (3-5 US$) per day. About 80% of them borrow less than 50 million IDR (5,000 US$).

**Bank Indonesia** is Indonesia’s Central Bank, and regulates the entrance of commercial lending institutions into the market. The Central Bank branch in Java has set up the Satgas KKMB (Working Group on Empowering Bank’s Financial Consultant Partner) which links commercial banks to SMEs who require credit.

**DID THE ENTRANCE OF DSP INCREASE ACCESS TO CREDIT FOR SMALL TRADERS?**

Yes, evidence shows that there has been:

1. an increase in the number of small traders who are borrowing from the formal sector in Wiradesa,
2. an increase in the aggregate amount of money being lent by banks that target this market and
3. an increase in the business volume of DSP customers.

In the short time it has been in operation in Wiradesa, DSP’s clientele has surpassed that of BPR, BRI, and BMT An- Najah. Kospin Jasa has the highest borrower base but Kospin Jasa has been in Wiradesa for 32 years, compared with DSP’s 15 months.

**Table 1: Banks lending to SMEs in Wiradesa**

<table>
<thead>
<tr>
<th>Bank/Coop</th>
<th>National Branches</th>
<th>Number of local borrowers</th>
<th>Local Outstanding Loans</th>
<th>Arrived in Wiradesa</th>
<th>Employees Wiradesa Branch</th>
<th>Loan Amount Per Employee (Wiradesa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>609</td>
<td>908</td>
<td>16,752,000,000</td>
<td>2004</td>
<td>9</td>
<td>1,861,333,333</td>
</tr>
<tr>
<td>BRI</td>
<td>3,986</td>
<td>780</td>
<td>4,406,575,000</td>
<td>1969</td>
<td>7</td>
<td>629,510,714</td>
</tr>
<tr>
<td>BPR</td>
<td>3,154</td>
<td>411</td>
<td>1,052,732,000</td>
<td>1971</td>
<td>13</td>
<td>150,390,285</td>
</tr>
<tr>
<td>Kospin Jaya</td>
<td>47</td>
<td>1,042</td>
<td>20,473,408,805</td>
<td>1973</td>
<td>26</td>
<td>787,438,800</td>
</tr>
<tr>
<td>BMT An-Najah</td>
<td>3</td>
<td>263</td>
<td>400,000,000</td>
<td>1994</td>
<td>8</td>
<td>50,000,000</td>
</tr>
</tbody>
</table>

No compiled data exists on the number of DSP clients who have never borrowed from a commercial lending institution in the past. Nevertheless, sales officers in this DSP branch reported a range from 25 – 40% of their customers had never borrowed from a commercial lending institution.\(^{14}\) This implies that while DSP’s original market research pointed to a large group of potential clients who had not yet borrowed from formal financial institutions, DSP has in fact been most successful at attracting clients who have already borrowed and/or saved with

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\(^{13}\) Under the Principles of Islamic banking it is prohibited to charge interest on loans and/or deposits. Instead, investors and depositors are compensated by profit-sharing of various investments of the banks participants.  

\(^{14}\) These are informal estimates from two credit officers in the Wiradesa Branch.
formal banks before. Anecdotal evidence from discussions with DSP borrowers supports this conclusion (see text box below).

As a new player in the local credit market, DSP loan outreach has grown significantly since its entrance into the market. The increased amount of credit disbursed to small traders as a result of DSP’s entrance into the market correlate positively to the increase number of borrowers in DSP. From December 2004 to August 2005, it has grown by about 92% in comparison to its main competitors Kospin Jasa and BRI, which grew at 18% and 12% respectively.

Figure 1: Loan Growth Dec 04-Aug 05

This is striking because figures for credit availability throughout the district as a whole indicate that credit availability has increased modestly, in line with growth in local RGDP—the rapid increase in DSP’s lending is dramatically different from the observed overall trend of lending throughout the district. Though Figure 2 below summarizes credit availability for all banks in Pekalongan district, it is interesting to note that Figure 1 demonstrates that with the exception of DSP, the other banks focusing on microfinance in Wiradesa saw modest or no increase in lending volume in the preceding nine month period, implying that their lending growth has roughly tracked that of all formal banks in the district. Thus, DSP has demonstrated exceptionally rapid growth, whether measured in comparison to its direct rivals in Wiradesa, or in comparison to the total amount of loans outstanding in Pekalongan district.

Figure 2: RGDP and Loan Outstanding of Pekalongan Regency, 2000-2004

Source: Central Java Bank Indonesia Office in Pekalongan Regency in Figures 2000 – 2004
Note: According to the publication Pekalongan Regency in Figures 2000 – 2004, the growth rate of commercial banks’ outstanding credit has tended to be roughly the same as the RGDP growth rate. RGDP data for 2004 is still very provisional, the growth rate in 2004 appears to show a negative value compared with 2003. But once updated data on 2004 RGDP is obtained, it is likely that the RGDP growth rate and the growth rate of commercial banks’ outstanding credit will not in fact differ from the observed trend in the 2001–2003 period.
Similarly, anecdotal evidence from DSP borrowers indicates that they are able to borrow more money with less administrative hassle than they have been able to borrow from DSP’s competitors in Wiradesa. This borrowing has enabled many borrowers to increase the size of their existing enterprises and/or invest in new businesses.

With banks other than DSP, clients were limited to borrowing smaller amounts from the other banks because this large pool of funding was simply not available. Although interest rates for DSP loans are relatively high, ranging from 2 to 3% per month, borrowers did not cite high interest rates as having a negative impact on their decision to borrow from DSP. The main concern was the capacity to grow their businesses as a result of the availability of larger loan amounts.

Four out of six of the interviewed DSP borrower respondents claimed that they had been able to expand the volume of their business either through opening an additional business or through increasing the supply of their goods. Three respondents used these sizeable loans made available by DSP to start new businesses.

How are DSP Loans Helping Small Traders?  15

Ibu Berlian borrows money from DSP because DSP doesn’t require a land certificate as collateral. She previously tried to borrow from BRI and Lippo Bank, but she was rejected since she didn’t have a land certificate, and DSP is willing to accept building usage-rights as collateral. She said, “DSP’s advantage is that it is willing to help arrange even small loans. Other banks, like BRI, do not want to do this. DSP staff are also ready to help arrange the money. Basically, DSP’s service is good.”

Ibu Soleha is a small trader in the Wiradesa market. Every year at Ramadhan she needs more money to buy more goods to sell. Ibu Soleha received a loan of Rp 50 million from DSP. The loan approval took two weeks. Even so, according to her friends’ experiences with Bank Mandiri and BRI, the loan approval process at DSP was quicker. After receiving the loan from DSP, Ibu Soleha used Rp 40 million of the loan to open a new rice milling business, which is managed by her husband. She is using the remaining Rp 10 million to buy more goods for her stall.

Suhardjo, 34, has been running a metal scraps business for 15 years. He has a daily income of 1 million, and had been a loyal client of BRI, taking three loans in the amounts of 5, 10, and 50 million rupiah. “I wanted to borrow more because I had a lack of working capital to buy a shop in the city to sell the metal scraps, but the loans available from BRI cannot exceed Rp 50 million”. In July 2005, he was approached by one of DSP credit officers. He applied for a loan of 250 million rupiah from DSP. “The application process was easier and I could borrow 250 million with no problem.” He used 170 million rupiah to buy a shop and the rest for working capital. He acknowledges that it is too early to assess the impact of the money borrowed from DSP. But he felt that his new shop will help him to expand his metal scraps business because he can now sell some of the better-valued metal scraps at higher prices.

15 An ideal measure of customer welfare as a result of borrowing from DSP would have been an evident increase in profit. This proved a difficult task to gather such information as respondents had either not recorded their profits or it was simply too soon to tell as they had just recently received their loans from DSP.
WHAT MAKES DSP DIFFERENT THAN ITS LOCAL COMPETITORS?

DSP is different from its competitors due to a combination of small factors that enable it to offer higher quality services to its target group of clients while rapidly expanding its branch network. Below are four factors that, combined, help explain why DSP has been able to succeed to date.

<table>
<thead>
<tr>
<th>What Makes DSP Different</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tight targeting of one market with an appropriate product</td>
<td>Market traders are targeted, but with loan sizes that are larger than what BRI offers.</td>
</tr>
<tr>
<td>Good execution on the ground</td>
<td>Daily visits to clients for loan repayments make it easy for clients, builds client loyalty, create bonds between DSP staff and clients, and promote higher repayment rates.</td>
</tr>
<tr>
<td>The creative and intensive use of information technology</td>
<td>Smartcard and biometric ID enable clients to repay anywhere in country. EDC speeds up and simplifies loan repayments. EDC allows quick downloading of repayment information to branch computers. Branch computers daily send results to region and center.</td>
</tr>
<tr>
<td>Deep pockets from Danamon</td>
<td>Allows DSP to focus upon building a lending portfolio without having to mobilize large amounts of savings.</td>
</tr>
</tbody>
</table>

Targeting a Tightly Defined Market with an appropriate product

<table>
<thead>
<tr>
<th>Bank</th>
<th>National Coverage</th>
<th>Targets Only One Specific Clientele</th>
<th>Maximum Loan Sizes for Small Traders?</th>
<th>Other Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>Yes</td>
<td>Yes</td>
<td>200 million</td>
<td>No</td>
</tr>
<tr>
<td>BRI</td>
<td>Yes</td>
<td>No</td>
<td>3 million</td>
<td>Has maximum 50 million loan for agriculture, fisheries, forestry</td>
</tr>
<tr>
<td>Kospin Jaya</td>
<td>No</td>
<td>No</td>
<td>150 million</td>
<td>Loans up to 600 million for enterprises</td>
</tr>
<tr>
<td>BMT-An Najah</td>
<td>No</td>
<td>No</td>
<td>20 million</td>
<td>No</td>
</tr>
<tr>
<td>BKK-BRR</td>
<td>No</td>
<td>No</td>
<td>25 million</td>
<td>Maximum 40 million loan for civil servants</td>
</tr>
</tbody>
</table>

DSP’s decision to exclusively target small market traders nationwide allowed them to focus not only on their clientele but also on the areas in which this clientele operated—central marketplaces throughout Indonesia. Reliable cash flow, clustered location and a diversity of products also made small market traders an attractive market to DSP.

Simply targeting a specific market segment is not enough; the market also has to be targeted with the appropriate product. This combination of targeting one group with the right product on a national scale is where DSP excels. Compared with its competitors, BRI for example, no other organization operates nationally, exclusively targets market traders, and offers the same range of loan sizes as does DSP. One of the biggest concerns that BRI has is that its clients cannot grow with it—as they demand increased loan sizes over time, BRI’s products are unable to fulfill this demand. BRI’s maximum loan size at the Unit Desa level is 50 million rupiah, relatively small compared to what DSP and Kospin Jaya offer. BRI managers are aware of this discrepancy, and there are rumors that they are considering upping the loan size available at the Unit Desa level to 100 million rupiah.
In Wiradesa, DSP’s main competitors service clients in many sectors. For example, BRI also services farmers and fishermen. Kospin Jasa and BMT an-Najah offer consumptive loans. While this means that these other lending institutions offer more lending products, it also means that their clientele has a range different needs and is spread out throughout the locale. For an institution that has been in operation for some time, this may be a more manageable operation.

Kospin Jaya, the only bank with more outstanding loans than DSP in the district, is also the only other bank in Wiradesa that offers loans that are anywhere near as large as DSP’s. Their product portfolios are similar: almost half of DSP’s loan portfolio is for its 200 million rupiah product, while 60% of Kospin Jaya’s portfolio is for its 150 million rupiah product. This indicates that there is significant demand for relatively larger loan sizes among traders and other small enterprises, but in Wiradesa at least, only DSP and Kospin Jaya are able to meet the demand for these products.

In addition, DSP has tried to be as flexible as possible regarding collateral. “Character, Capability and Collateral” otherwise known as the “three Cs” are key in the loan approval process for DSP. Character carries the most weight in the loan process. The emphasis on the community banking approach and the hiring of local staff who are already familiar with the marketplace are both important tools used for character assessment. The Capability of the borrower lies in whether or not that borrower has a clear and feasible business plan to utilize the loan. Capability also factors in the income of the borrower, which helps to assess the ease or difficulty with which the borrower can repay their loans. This is done through an income assessment that looks at the borrowers monthly expenses and projected income.

DSP has taken a different approach than most banks making Collateral the third factor in its loan approval process. Collateral has always been viewed as a major obstacle to loan approval for micro and small business owners. Either the borrower was unsure and afraid that the requirements would be out of reach or the borrower simply could not provide sufficient collateral. For example, BPR and BRI staff identified collateral as the most important component of the loan application. At DSP, if the borrower rates well on the first and second of the three C’s—character and capability—then collateral requirements can be relaxed. Similarly Kospin Jasa and MT An Najah place high value on personal integrity as part of their decision process.

**Good Execution on the Ground**

“DSP is different from other lenders because its professionalism in terms of management and top level support”. Pak Hadi – Cluster Manager

A crucial part of DSP’s success comes from their highly effective on-the-ground customer relations strategy. The most important thing that DSP has done is to offer efficient, polite service at the customers’ place of business. The vast majority of DSP clients repay their loans on a daily basis without ever having to leave their businesses. Not only does this facilitate prompt payment, but offers an significant level of convenience to borrowers.

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**DSP's Flexible Collateral Requirements Bring a New Borrower into the Formal Banking System**

DSP borrower Ibu Berlyanti used her loan to add capital to her store and to open a distribution company. Previously she attempted to borrow from BRI but she was unable to provide the certificate of ownership for her house, so was denied the loan. In contrast, DSP waived the requirement for a certificate of ownership and accepted a business operating license. She has taken two loans of 100 million IDR and 300 million IDR from DSP.
### Bank How Clients Repay Loans Frequency

<table>
<thead>
<tr>
<th>Bank</th>
<th>How Clients Repay Loans</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>- Cash Pick-Up Service</td>
<td>Daily, weekly, Monthly (most repay daily)</td>
</tr>
<tr>
<td></td>
<td>- Payment at the Branch Office</td>
<td></td>
</tr>
<tr>
<td>BRI</td>
<td>- Payment at the Branch Office</td>
<td>Monthly</td>
</tr>
<tr>
<td></td>
<td>- Deposit with the AO in charge</td>
<td></td>
</tr>
<tr>
<td>Kospin Jaya</td>
<td>Customers go to the bank to deposit funds into their savings account, and the daily loan repayment is then debited from their account</td>
<td>Monthly</td>
</tr>
<tr>
<td>BMT-An Najah</td>
<td>Cash Pick-Up Service is available but most pay at the branch office</td>
<td>Daily, Weekly, Monthly</td>
</tr>
<tr>
<td>BKK-BRR</td>
<td>Payments made to the Branch Office</td>
<td>Installment System, Monthly (Principal + Interest)</td>
</tr>
</tbody>
</table>

### Higher Interest Rates do not Deter Borrowers

DSP borrowers pay interest of 2-3% per month for their loans, higher than they would if they borrowed from DSP’s competitors (except for informal moneylenders)—for example, BRI charges only 1.25 to 1.45% per month. Few borrowers, though, have voiced complaints about the interest rates, focusing instead on the benefits of simple paperwork, helpful staff, large loan amounts available, and the convenience of DSP staff coming to them to collect loan payments.

Microfinance experts have argued this point for years, and DSP’s rapid growth demonstrates once again that borrowers are willing to pay higher interest rates, if that means that they will have convenient access to loans on a regular basis.

There are numerous advantages to repaying loans daily at one’s place of business. First, it enables clients to repay small amounts that can be financed out of cash flow without having to save money for a weekly or monthly lump-sum payment. Second, making a payment does not require leaving one’s place of business—an important point for micro and small enterprises who may not have additional staff to serve customers. Third, daily interaction enables DSP staff to quickly identify borrowers who have problems repaying. Fourth, daily contact promotes the development of good personal relationships between DSP staff and clients. Thus, DSP staff can both solve problems more quickly, and also garner informal feedback regarding improved ways of providing services, attracting new clients, and/or new lending products that DSP could consider offering.

### Are DSP’s Staff Incentives Better Than Other Banks?

While DSP offers incentives up to 70% of base salary for some staff members, it is not clear that incentives offered to staff dramatically differentiate DSP from other banks. Every competitor bank offers incentives to staff as well. There are, however, two notable differences—first, while competitors offer collective incentives to branch staff based upon performance, DSP offers both collective incentives for staff, as well as an individual incentive for sales officers who are charged with identifying new clients. Second, DSP staff receive incentives each month, while other bank staff members are only rewarded on an annual basis.

Still, it is too early to say if these differences are enough to fundamentally drive staff to consistently work harder.

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branches to complete transactions such as loan applications, payments or deposits which requires them to leave their place of work and possibly incur transportation costs to reach the branch.

Investment in IT

“We viewed IT as a tool to reach our value proposition of speed, convenience and simplicity.” – Pak Loefy (Business Development Head, DSP Head Office)

Investments in and effective use of information technology is a key means through which DSP is differentiating itself from its competition. DSP uses information technology in four specific ways:

1. The Electronic Data Capture (EDC) system enables rapid and accurate collection of loans from clients;
2. The EDC data can then be downloaded to branch computers at the end of the day, giving the branch manager an exact accounting of repayments made that day.\(^\text{17}\)
3. Clients use thumbprint recognition when they make transactions at a branch office. This prevents fraud and enables clients to make repayments at any DSP branch in the country.
4. Branch data is downloaded to headquarters each day, enabling DSP senior managers to have a clear snapshot of banking activity each day throughout the system.

DSP managers feel that tight control is necessary for such a large-scale operation and they depend heavily on their IT systems to maintain the lines of communication between the head offices and the branches. Daily monitoring of branch activity focuses on the performance of each branch but also on the performance of individual employees within the branches. The unit manager receives a daily evaluation of the branch performance from the regional office and it is in turn his responsibility to share this information with the local staff. As a result, DSP employees get daily feedback regarding their performance. This also helps DSP managers prevent fraud by having real-time information regarding unusual financial statements or errors.\(^\text{18}\)

BRI is the only other national branch that BRI competes with, and it still uses paper summaries that are sent to regional headquarters monthly. BKK-BPR and Kospin Jaya are still offline, and accounts are done by hand (though they have computers for entering storing information, all information is entered manually, and computers are not networked) while BMT-An Najah is still in the early phases of going online, with plans to link branches electronically next year.

DSP is thus using its investment in IT to: a) improve customer convenience, b) reduce fraud and/or mistakes, c) enable more rapid feedback between branches and headquarters, and d) enable it to expand rapidly while maintaining quality control.

\(^{17}\) This is true at many DSP branches, but at Wiradesa the data still has to be manually re-entered from the EDC, because the computers have not been upgraded.

\(^{18}\) Robinson includes in her key factors for a strong and effective organizational design must include simple and effective measurement and management of delinquency.
<table>
<thead>
<tr>
<th>Bank</th>
<th>IT Systems Employed</th>
<th>Uses of IT</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>Electronic Data Capture (EDC)</td>
<td>Each borrower has a card similar to an ATM card that is inserted into the EDC. The amount paid is manually punched in and a receipt prints from the machine.</td>
</tr>
<tr>
<td></td>
<td>Biometric recognition</td>
<td>Clients give proof of their identity through thumbprint recognition, and can thus perform transactions at any branch around the country.</td>
</tr>
<tr>
<td></td>
<td>Link between EDC and bank branch computers</td>
<td>EDC data is entered into the branch computer at the end of each day.</td>
</tr>
<tr>
<td></td>
<td>Link between branches and DSP headquarters</td>
<td>IT is also used to input data on each transaction and to open accounts. These systems are connected by a central online system which allows the central offices to view the activities of each branch every day.</td>
</tr>
<tr>
<td>BRI Unit</td>
<td>-Online for savings and loan deposits</td>
<td>Wiradesa BRI Unit customers can make deposits on loans and to their savings accounts at any branch in the country, and the transaction will be credited to their local BRI account. No transfer fee is charged.</td>
</tr>
<tr>
<td></td>
<td>-No online connection between branches and headquarters</td>
<td>-Branches still send paper summaries of their monthly activity to regional headquarters. Plan to put first group of Unit Desas online in 2006.</td>
</tr>
<tr>
<td>Kospin Jasa</td>
<td>Off Line</td>
<td>Withdrawals and loan payments can only be made at the location where the account was opened and the specimen is on file. If a customer is at another location and wants to withdraw funds, an inter-branch account debit can be done.</td>
</tr>
<tr>
<td>BMT An-Najah</td>
<td>Online integrated for all sections</td>
<td>As per the needs of each section, like savings and loans Can produce financial reports directly</td>
</tr>
<tr>
<td></td>
<td>On line only at each unit. Planned to be on line between units in 2007</td>
<td></td>
</tr>
<tr>
<td>BKK-BPR</td>
<td>Off Line</td>
<td>Deposits and withdrawals (fund and loans) can only be done at the BKK-BPR office</td>
</tr>
</tbody>
</table>

In the Wiradesa branch, the most salient IT feature was the Electronic Data Capture (EDC). Wireless and compact, the EDC is one of the key assets to achieving DSP's daily target of 80 customer payment collections per day by each DSP teller (accompanied by the security guard) in the Wiradesa and Banjarsari marketplaces. Each borrower using the cash pick-up service is given a card that looks similar to an ATM card that can be directly inserted into the EDC. The amount paid is manually punched in and within seconds a receipt of the transaction prints from the machine.

Inside the branch, IT plays an important role for the customers and the management team. Each time a customer comes in to make a payment or to make a savings account transaction, they are required to give proof of their identity. This is done through thumbprint recognition that not only protects the customer against
fraud, but also enables mobile customers to make payments at any branch around the country. IT is also used to input data on each transaction and to open accounts. These systems are connected by a central online system that allows the central offices to view the activities of each branch every day. Therefore, even for those customers who do not benefit from the cash pick up service, the IT systems in the branch means that most transactions take less than 15 minutes.

**Deep Pockets Enable DSP to Focus on its Lending Business**

Because DSP is a subsidiary of Bank Danamon, it is in the enviable position of being able to focus on lending money without having to mobilize large amounts of savings. Danamon can on-lend some of its accumulated deposits through DSP, enabling DSP to focus on its core business of building a lending market, while potentially generating more profits for Danamon, this strategy builds a large client base, some of whom may come to bank with Danamon in the future.

While DSP savings mobilization is tiny compared to BRI and Kospin Jaya, for the moment this offers DSP a significant advantage as it can focus its efforts towards its lending product only and save money on promoting savings products. As a point of comparison, BRI’s overhead costs are in the range of 10%, and half or more of these overhead costs are related to promoting savings products. Thus, it is a fair guess that DSP’s overhead costs may be only about 5% of its portfolio (excluding up-front IT investments), potentially giving it a significant cost advantage over BRI.19

**LOOKING FORWARD**

Retaining good staff and preventing internal fraud will be two key factors in promoting continued rapid growth of DSP. According to headquarters staff, turnover is approximately 8 percent per year, mainly due to underperformance and an inability to pass the three month probationary period. DSP’s ability both to retain its good staff, and equally importantly, get rid of underperforming staff, will play a big role in its future success.20

DSP’s rapidly expanding customer base in Wiradesa over the last 16 months has started to put additional strain on its staff members. Initially, staff were able to achieve a 2-3 day loan processing time, but with the rapid growth in borrowers, clients now wait an average of one to four weeks for their loans to be processed. This has also increased the workload of the tellers who are responsible for the daily cash pick up. The ideal staff to customer ratio is 1:2 for sales officers, but in the Wiradesa Branch there are three customers for every sales officer. Thus, increased strain on staff could lead to higher turnover.

Fraud prevention is a top priority for any bank. There are two positions designed specifically for auditing and fraud prevention. The first position, CRCO (Credit Risk Control Officer), does a bi-monthly audit of the credit process from application to approval. The second, CICO (Operational Credit Officer), audits the legality of the transaction on a monthly basis. If they discover something

19 Estimates of Don Johnston.
20 According to Don Johnston, one challenge that many microfinance banks, including BRI, have faced is their inability to discipline or fire systematically low-performing staff.
they deem suspicious, they send a memo to the unit manager and, if it was an administrative mistake, steps are taken to fix it. If there are confirmed suspicions of fraud, higher management becomes involved.

Most of the problems identified so far by the CRCO have been incomplete loan application documents, especially those related to proving the existence of collateral. There have also been cases of fictitious debtors. The CICO has found transaction receipts that have not been signed or a discrepancy in the amount of money in the safety box. For example, in one of the branches a unit manager and a sales officer were caught stealing 9 million IDR of the client’s savings. This was discovered by the CRCO and both employees were subsequently fired. Another case involved 2 tellers who shared their password, which also resulted in dismissal.

The Wiradesa unit manager refers to fraud as the “boom factor”—the most realistic threat to DSP’s future growth. He does not consider external factors such as market instability or competition to be major threats. DSP has utilized IT to aggressively monitor branch operations and auditors to prevent fraud. If their customer base to staff ratio continues to grow, it may become more difficult to monitor staff closely.

**How is DSP Similar to its Competition in Wiradesa?**

While DSP is undertaking a number of efforts to differentiate itself from the competition, a number of factors appear not to be terribly important, including:

1. **Local recruitment of staff** is undertaken by all banks, and though DSP staff state that local knowledge is important, all 5 competing banks in Wiradesa are staffed almost exclusively by people from the district.
2. **Salaries** for DSP staff are in the middle range of salaries offered by competing banks.
3. **Training** for DSP staff does not appear to differ noticeably in length or content from that of BRI. All the competing banks offer training programs, with some of them training staff periodically during weekends.
4. **Location of offices.** Though DSP trumpets the fact that it most of its clients are within 2 km of its office, in Wiradesa all of the competing banks are geographically close to local markets.
5. It remains unclear if DSP’s incentives motivate staff more strongly than those of other banks. While DSP evaluates staff more frequently, and offers individual incentives to sales officers, all banks offer some sort of monetary incentives to their staff for good performance.
6. It is unclear if DSP has **shorter waiting periods** to disburse loans than other banks.

**Future Savings Mobilization?**

Most micro-finance experts argue that savings mobilization is key for sustainable financing. At this juncture in DSP’s development, their savings rates remain relatively low at approximately 2.75% of total loans outstanding and savings has grown by 57% between December 2004 and August 2005. BRI, for example, took six years to implement a successful national savings program. DSP managers say that their principal focus remains on lending, and argue that the mentality of the small traders is not to save, but to invest excess cash into their businesses. Currently, DSP only generates 10% of its lending capital internally from savings, while the other 90% is financed by Bank Danamon and other financial sources. This financial support has been sufficient to fund this initial phase of operations.

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22 DSP has just entered into a loan agreement with the World Bank International Financial Cooperation. There are also other private investors.
**Future Growth**

As DSP is still so young, it is difficult to evaluate its profitability. For 2005, DSP managers report that it will add approximately five percent to Danamon’s profit, and in 2006, it is predicted that DSP will account for as much as 20% of Danamon’s profits.\(^{23}\) In the future, the main threat to profitability may be that DSP will find it more difficult to bring its comparative advantages to bear in identifying and quickly dominating new target markets. The inherent advantages in working with traders (daily cash flow and concentrated physical location) may well not exist with a new target market.

It is clear that there are significant opportunities for future growth, both in “mining” the current market of market traders more completely, and then in targeting similar types of clients. First, DSP could target similar types of traders who are located outside of large markets. While the markets are a nice compact target zone, there are of course small traders on virtually all roads, and significant concentrations in certain places. DSP could then target the agricultural sector, focusing on those with steady cash flow. Some types of commercial livestock owners who have relatively rapid turnover, and/or some types of tree crop farmers, again who have relatively rapid turnover and thus good cash flow.

**CONCLUSIONS**

**Could Other Banks Replicate DSP?**

Other banks are also trying to target the microfinance market, but are using different methods than DSP. BNI and Bank Mandiri are both trying to target this market by exploiting linkages with existing rural banks. Even Danamon has made previous attempts to crack this market— in the early 1990s they recruited at BRI to staff a new division, but they recruited among those who focused on BRI’s subsidized credit work (not the right people), and they eventually gave up. If there is one lesson in all of this, it is that bringing microfinance business models to scale is no simple thing—this is one reason that BRI’s success features so prominently in the international literature.

**Other Attempts by Formal Banks to Expand Microfinance Coverage**

Bank Mandiri established Mandiri Micro Banking in 2005, and by the end of the year, 190 Mandiri Micro Banking units had been opened, with plans to add 100 more in 2006. Mandiri uses a different model than DSP. It has an existing linkage program with some rural banks, and does not open a branch unless a locality is not covered by one of the rural banks that it works with. Although Danamon also has a linkage program, it continues to open branches rapidly, even in areas where it has local banks that work with it. This is why there was not much negative reaction from rural banks when Bank Mandiri established Mandiri Micro banking, compared to the reaction when Bank Danamon established DSP. By the end of 2005, Mandiri Micro Banking and its affiliated rural banks had 1,300 billion rupiah in outstanding loans. Mandiri Micro Banking also uses employees who previously worked for Bank BNI’s ULM and does not hijack employees from rural banks.

Bank BNI also wants to penetrate the microfinance market, relying largely upon a linking strategy. The CEO, Mr. Sigit Pramono, wants to optimize linkages between BNI and rural banks as its main strategy to deliver micro credit, rather than using Bank BNI’s ULM (Micro Service Units) to deliver credit directly to micro, small, and medium enterprises. The main reason is that he used a similar scheme when he was CEO of BII and expanded BII’s micro credit through such a linkage program.

*Sources: CESS and IFC PENSA, 2005*

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\(^{23}\) These numbers were given in an interview by Executive Vice President, Bapak Djemi.
All of DSP’s practices could be replicated by other commercial banks. Together, though, they constitute a larger management vision and organizational culture, both of which are not easy to copy. DSP’s Executive Vice-President cited vision as one of the most important aspects of its success. Their organizational culture is a result of this vision, leading to a set of values and practices that appear to be remarkably consistent across the organization.

Thus, the key ingredients to emulating DSP’s current success (or BRI’s past success in proving microfinance a profitable business in Indonesia) would include:

1. Recruiting a strong senior management team,
2. Developing a profitable, flexible business model that enables the bank to target both a defined clientele with an appropriate set of financial products,
3. Recruiting, motivating, and retaining the best staff (and concurrently, getting rid of low performers),
4. Maintaining vigilance against internal corruption, and e) continually adapting to and refining business models and financial products.

Policy Implications?

Microfinance has often been the victim of myths that have led to bad policy: first, that the poor cannot pay market rate interest has led to government imposed controls on interest rates in some countries; and second, that microfinance cannot be profitable has led many governments to form parastatal banks to provide (unprofitable) microfinance services, and/or restrict the operations of private sector banks, with the express purpose of protecting market incumbents.

There is no reason at present to be unduly alarmed that the government will impose interest rate caps, but one potential area of concern for DSP is its ability to expand rapidly. Their dispute with BPR in Central Java in 2004 was an indication that other banks may try to use disputes with the Bank of Indonesia to prevent DSP from opening branches in some areas. If in the future other banks are able to slow or stop DSP’s expansion by issuing complaints to the Bank of Indonesia, this would have a chilling effect upon competition in microfinance in Indonesia.
## ANNEX 1: SUMMARY OF FINANCIAL PRODUCTS, INTEREST RATES, SHARE OF PORTFOLIO, AND COLLATERAL REQUIREMENTS

<table>
<thead>
<tr>
<th>Bank/Coops</th>
<th>Lending Products</th>
<th>Interest rate*</th>
<th>Collateral requirements</th>
<th>Average Length of app. process</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>DP 50: &lt; Rp 50 million</td>
<td>2.5%</td>
<td>• Copy of ID Card/KTP&lt;br&gt;• Copy of Electricity &amp; telephone bills&lt;br&gt;• Certificate of Ownership(^{24}) or land &amp; building tax form(^{25})</td>
<td>2 – 3</td>
</tr>
<tr>
<td></td>
<td>DP 200: Rp 50 – 200 million</td>
<td>2%</td>
<td>• Same as DP 50, plus&lt;br&gt;• SIUP/NPWP (over 100 millions IDR)&lt;br&gt;• Certificate of Ownership(^{26}) (if use land certificate, plus building license)(^{27})&lt;br&gt;• Bank account</td>
<td>3 – 7</td>
</tr>
<tr>
<td>Dana talangan:</td>
<td>Rp 1 – 10 million</td>
<td>3%</td>
<td>• Same as DP 50&lt;br&gt;• Salary sheet (for employee)&lt;br&gt;• Presentation file: non collateral short term loan for working capital or personal purposes</td>
<td>2</td>
</tr>
<tr>
<td>BRI</td>
<td>&lt; Rp 25 million</td>
<td>1.4%</td>
<td>• Copy of KTP&lt;br&gt;• Land or vehicle ownership certificate&lt;br&gt;• Reference from head of village/Kepala Desa</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Rp 25 – 50 million</td>
<td>1.25%</td>
<td>• Same as above</td>
<td>7 – 14</td>
</tr>
<tr>
<td></td>
<td>&lt; Rp 3 million</td>
<td>1.45%</td>
<td>• Copy of KTP – note: mostly for pedagang pikulan (small trader i.e. baso seller) nearby BRI office</td>
<td>1 – 2</td>
</tr>
<tr>
<td>BKK(^{28})</td>
<td>Rp 300,000 – 40 million</td>
<td>2.5%</td>
<td>• Copy of KTP&lt;br&gt;• Car or motorcycle ownership letter&lt;br&gt;• Land certificate&lt;br&gt;• Kiosk license (to be presented during credit check)</td>
<td>4</td>
</tr>
<tr>
<td>Kospin Jasa</td>
<td>Rp 1 millions – unlimited ‘daily lending’</td>
<td>1.8% - (p.a = 21.9%)</td>
<td>• Copy of KTP&lt;br&gt;• &gt; Rp 10 millions, SIUP/NPWP&lt;br&gt;• Land certificate&lt;br&gt;• Building renting certificate&lt;br&gt;• Vehicle ownership (STNK)&lt;br&gt;• Has savings account in Kospin Jasa – interest is deducted from savings account directly.&lt;br&gt;• Amount of loans is depending on the amount of savings</td>
<td>3 – 7</td>
</tr>
<tr>
<td></td>
<td>Up to Rp 10 millions – namely Retail Credit</td>
<td>1.75% (p.a = 21%)</td>
<td>• No collateral&lt;br&gt;• &gt; Rp 10 millions, SIUP/NPWP</td>
<td>3 – 7</td>
</tr>
<tr>
<td>BMT Anajah(^{29})</td>
<td>&lt; 2 Rp 2 million</td>
<td>‘shared profit’(^{30})</td>
<td>• Savings account at Anajah&lt;br&gt;• No collateral</td>
<td>3 – 7</td>
</tr>
<tr>
<td></td>
<td>Rp 2 millions (maximum 5 million IDR)</td>
<td>‘shared profit’</td>
<td>• Kiosk operating license, or&lt;br&gt;• STNK (car or motorcycle ownership)</td>
<td>?</td>
</tr>
<tr>
<td>Alternative Money Lender</td>
<td>Rp 100,000 – 300,000 (majority)</td>
<td>10 – 17%</td>
<td>• No collateral</td>
<td>1-2</td>
</tr>
</tbody>
</table>

\(^*\) for small and micro credit (per month)

\(^{24}\) Certificate of ownership refers to motorcycle, car, land, and building, including kiosk usage licensing. Most of borrowers use kiosk usage licensing as the collateral.

\(^{25}\) Interview with Ery Sambowo, credit officer DSP Unit Wiradesa, September 30, 2005

\(^{26}\) Certificate of ownership refers to motorcycle, car, land, and building, including kiosk usage licensing. Most of borrowers use kiosk usage licensing as the collateral, but in some cases—the value of kiosk usage licensing is not enough—the borrowers also give land certificates as the collateral.

\(^{27}\) Interview with Ery Sambowo, credit officer DSP Unit Wiradesa, September 30, 2005

\(^{28}\) BKK has two major lending products, consumptive (mainly for civil servants) and productive (traders)

\(^{29}\) Depending on availability of cash. One month before Lebaran, cash is not always available, it could take more than 2 weeks and sometimes is not available because it has lack of cash money due to high demand of credit

\(^{30}\) Following Syariah bank model, ‘shared profit’ consisting minimum 5% profit (from?), divided by 40% BMT and 60% for borrower. Plus ‘risk reserve’ charged to borrower Rp 400 per month and will be paid back when the loan is paid. (this is very unclear)
<table>
<thead>
<tr>
<th>Lending institutions</th>
<th>Lending Products</th>
<th>Types of clients</th>
<th>% of loan portfolio</th>
<th>% of borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>Dana pinjam 50</td>
<td>Small traders with maximum loan IDR 50 million</td>
<td>53.5</td>
<td>93.2</td>
</tr>
<tr>
<td>DSP</td>
<td>Dana pinjam 200</td>
<td>Small traders with maximum loan IDR 200 million</td>
<td>46.5</td>
<td>6.8</td>
</tr>
<tr>
<td>BRI Unit</td>
<td>KUPEDES</td>
<td>Handicraft, agriculture, fishery, and livestock industries/enterprises with maximum loan IDR 50 million</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small traders (pedagang bakulan) with maximum loan IDR 3 million/year (K3)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Civil servants with maximum loan IDR 40 million</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Kospin Jasa</td>
<td>Professional Loans</td>
<td>Members/prospective Members/members of other cooperatives with fixed incomes, with maximum loan IDR 50 million</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Daily Loans</td>
<td>Enterprises with maximum loan IDR 600 million</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Term Loans</td>
<td>Working capital for enterprises with maximum loan IDR 200 million in 12 months</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Incidental Loans</td>
<td>Only for existing borrowers with maximum loan IDR 75 million in 3 months</td>
<td>1,5</td>
<td>1,5</td>
</tr>
<tr>
<td></td>
<td>Fixed Installment Loans</td>
<td>Enterprises (most are traders) with maximum loan IDR 150 million</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td>Retail Loans</td>
<td>Enterprises (most are traders) with maximum loan IDR 150 million</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small Traders with maximum loan IDR 10 million in 2 years</td>
<td>0,5</td>
<td>0,5</td>
</tr>
<tr>
<td>BMT An-Najah</td>
<td>Loan with Mudharabah principles</td>
<td>Small traders with maximum loan IDR 5 million</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small traders with maximum loan IDR 10 – 20 million</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>BKK-BPR</td>
<td>Consumption Loan</td>
<td>Civil servants with maximum loan IDR 40 million</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Working Capital Loan</td>
<td>Micro and SME enterprises (90% are traders) with maximum loan IDR 25 million</td>
<td>40</td>
<td>50</td>
</tr>
</tbody>
</table>
## Annex 2: Base Salaries for DSP and Competitors

<table>
<thead>
<tr>
<th>Lending Institution</th>
<th>Position 1:</th>
<th>Base Salary</th>
<th>Position 2:</th>
<th>Base Salary</th>
<th>Position 3:</th>
<th>Base Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP</td>
<td>Unit Manager</td>
<td>4–5 million</td>
<td>Credit Officer</td>
<td>2.2–3.3 million</td>
<td>Sales Officer</td>
<td>1.5–2.25 million</td>
</tr>
<tr>
<td>BRI Unit</td>
<td>Head of Unit</td>
<td>4.3 million</td>
<td>Credit Officer</td>
<td>3.2 million</td>
<td>Teller</td>
<td>2.9 million</td>
</tr>
<tr>
<td>Kospin Jasa</td>
<td>Chief</td>
<td>4 million</td>
<td>Assistant</td>
<td>3 million</td>
<td>Credit Office</td>
<td>1.5–2 million</td>
</tr>
<tr>
<td>BMT An-Najah</td>
<td>Chief</td>
<td>1.5 million</td>
<td>Manager</td>
<td>1.1 million</td>
<td>Account Officer</td>
<td>1 million</td>
</tr>
<tr>
<td>BKK-BPR</td>
<td>Director</td>
<td>4 million</td>
<td>Division Head</td>
<td>2–3 million</td>
<td>Section Head</td>
<td>1.8–2.5 million</td>
</tr>
</tbody>
</table>
BIBLIOGRAPHY


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