

Second BRI / KUPEDES small credit project

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Indonesia: Second BRI/KUPEDES Small Credit Project (Loan 3249-IND)

The Implementation Completion Report (ICR) for the Indonesia Second BRI/KUPEDES Small Credit Project (Loan 3249- IND in the amount of US\$125 million equivalent, approved in FY90 and closed in FY95), was prepared by the East Asia and Pacific Regional Office. The Borrower contributed to the preparation of the ICR by providing project-and-sectorspecific data. An evaluation report was received from the Borrower after the completion of the ICR. This is a follow-up to the first BRI/KUPEDES Small Credit Project, which was audited by the Operations Evaluation Department (OED), under Performance Audit Report (No. 14511, dated May 19, 1995).

The project continued to help state-owned Bank Rakyat Indonesia (BRI) to develop and strengthen its network of subbranch units to provide credit to small borrowers and to mobilize deposits. The BRI is a commercial bank of long standing, which has provided banking services for small and large borrowers. Its network of village banks became a basis for extending credit for small borrowers in towns and villages when the KUPEDES program was adopted in 1984. The project had three components: (a) general credit support amounting to US\$120 million; (b) capital expenditure for regional training centers (US\$2.7 million); and (c) technical assistance to strengthen BRI's institutional training capacity (US\$2.3 million).

The project objectives were attained. The KUPEDES small credit program has become established as a profitable program and complemented by an equally successful savings mobilization program. The success of the project depended on a number of critical factors: market rates for lending and saving; sound institutional innovations which provided rewards for good performance for bank managers and employees; high priority to personnel training; an extensive monitoring of financial performance of the village banks; and effective use of technical assistance. Moreover, given the financial liberalization adopted in Indonesia during the same period and the entry of new financial institutions in the rural lending market, KUPEDES now faces competition, thus improving the supply of credit to small borrowers in the country.

The program demonstrates that market based lending schemes for small borrowers can be viable and successful, especially when a vigorous program to mobilize savings is also attempted. Other lessons learned from the project are: successful credit programs are facilitated by sound growth performance; simplicity in design and highly focused objectives are essential for success; and a monitoring system is essential for tracking financial developments in the village banks, to provide an early warning system and to initiate timely corrective actions.

The ICR rates the project's outcome as highly satisfactory, institutional development impact as substantial, and sustainability as likely. OED agrees with these ratings. OED also rates Bank performance as highly satisfactory.

The ICR is of satisfactory quality. No audit is planned.