The Role of Bank Indonesia in Development of Micro, Small, and Medium Enterprises (MSMEs) and Customer Due Diligence (CDD)

By: Endang Sedyadi
Banking Research and Regulation Directorate
Bank Indonesia

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Definitions...

- **Micro enterprise**:
  - Annual turn over of IDR100 million (eq. USD10,000)
  - Net worth (excl. land & building) of max IDR25 million (eq. USD2500)
  - Max. employees of 5 persons

- **Small enterprise**:
  - Max. annual sales of IDR1 billion (eq. USD100,000)
  - Max. net assets of IDR200 million (eq. USD20,000)

- **Medium enterprise**:
  - Max. annual sales of IDR1 billion (eq. USD100,000)
  - Net assets range between IDR 200 million (eq. USD20,000) up to IDR10 billion (eq.USD1.000,000).
Strategic Role of MSMEs in Indonesian Economy, 2006

Number of Entity: 48.9 million unit

- Large Corp: 1%
- MSMEs: 99%

GDP: IDR3,338.2 billion

- Large Corp: 47%
- MSMEs: 53%

Employment: 88.8 million person

- Large Corp: 4%
- MSMEs: 96%

Non oil export: IDR778,3 billion

- Large Corp: 20%
- MSMEs: 80%

Investment: IDR800.1 billion

- Large Corp: 54%
- MSMEs: 46%

Sources: Ministry of Cooperation & MSMEs and Statistic Bureau, 2006
Contribution to GDP by Sector Economy, 2006

Sources: Ministry of Cooperation & MSMEs and Statistic Bureau, 2006
BANKING PERSPECTIVE
- MSMEs image is high risk credit sector;
- Limited capital resources;
- Inadequate human capacity.

MSMEs PERSPECTIVE
- Limited capital resources
- Limited access to bank credit
- Inadequate human capacity
- Product marketing (competitive pressure on domestic and export markets)
- Less guarantee Bank requirement
To Create Sound and Sustainable Banking System,

BI’s Financing MSMEs

1968

- Central Bank Act No. 13/1968
  - Providing liquidity credits (financial assistance) to SMEs through the banks;
  - Technical Assistance.

1999

- Central Bank Act No. 23/1999;
  - Technical Assistance;
  - Provision of Information;
  - Bank Persuasive Policy

Since 1999-2008

- Technical Assistance;
- Institutional Support;
- Bank Credit Policy; and
- Cooperation with the Government and Other Relevant Agencies.

Since 2004 -2008

- The Indonesian Banking Architecture (API) Program
BI’s Policy in Financing MSMEs

  - Training for Banks, MSMEs Financial Institutions, and Business Development Services Provider (BDSP) as well as Bank Partner Financial Consultant (KKMB); Training topic cover: MSMEs Development Strategy, Survey of Micro and Small Enterprises using Rapid Rural Appraisal Method, MSMEs Credit Analysis, MSMEs Non Performing Credit Handling and Credit by Group with Pola Hubungan Bank and Non Governmental Organization (PHBK)
  - Research Activities; fostering the decisions on direction and policy of BI in facilitating technical assistance and providing information.
  - Facilitation for Banking Intermediation Bazaar; provide:
    - Information and communication forum between Banks and business community and the public.
    - The intermediation bazaar took place alternately in several BI Regional Offices (KBI).
1. Technical Assistance

- Provision of Information → Indonesian Business Information and Data (DIBI) consisting among others, Small Business Development Information System (SIPUK) accessible to the public through BI:
  - Internet based → website (www.bi.go.id);
  - Designed to support Banks and Financial Institutions in providing loan for MSMEs;
  - Integrated and user friendly, consisting of the following sub information:
    - Baseline Economic Survey Information System (SIB);
    - Export-oriented Agro Industry Information System (SIABE);
    - Lending Model Information System (SILM);
    - Decision Support Investment Information System (SPKUI);
    - Loan Application Procedures Information System (SIPMK).
BI’s Policy in Financing MSMEs

- **Institutional Support for MSMEs**
  a. Recommendation for Banks to establish MSMEs Centers along with provision of information on MSMEs and more intensive communication between Banks and these enterprises by establishing:
    - Special Unit Extending Services to MSMEs
    - Information Center for MSMEs clients
  - **MSMEs Development and Advisory Center in Bandung**
    - Promoting Enterprise Access to Credit (PEAC) and MSMEs Advisory Development
      - This Pilot project aims to enhance productivity and quality of advisory services provided by BDSP and thus improves the access of MSMEs to financial services offered by financial and banking institutions.
BI’s Policy in Financing MSMEs

- **Bank Credit Policy → Regulation on MSMEs Credit**

  - Recommend Banks to allocate part of its **lending to MSMEs** and Banks should publish the quarterly report on realization of **business plan**.

Source: Bank Indonesia, December 2007
BI’s Policy in Financing MSMEs

• Bank Credit Policy ➔ Easing Banking Regulation within prudential banking framework

• Bank Indonesia Regulation:
  ▪ No. 7/2/PBI/2005 concerning Assessment of Asset Quality for Commercial Bank
    “Credit performance up to IDR500 million is based only on prompt repayment of principal and/or interest”; 
  ▪ No. 8/3/PBI/2006 concerning Risk Weighed Average Calculation 
    “Risk weighted Asset for Small Business Loan is calculated of 85%”
BI’s Policy in Financing MSMEs

• Bank Credit Policy → Debtor Information System
  a. Bank Indonesia Regulation No. 7/8/PBI/2005 concerning Debtor Information System (SID)
     ▪ To assist reporting entities in expediting the process of provision of fund, facilitated the application of risk management, and assist Banks in identification of debtor quality for purposes of legal compliance;
     ▪ Since December 2005, Banks should report all of Bank debtors >IDR1 to Bank Indonesia
BI’s Policy in Financing MSMEs prior 2004

• Cooperation between Bank Indonesia and Government and Relevant Agencies
  
  • Cooperation with Government on poverty alleviation
    Bank Indonesia signed a MoU with the Coordinating Minister of Social Welfare on poverty alleviation through the promotion and development of MSMEs
  
  • Cooperation with Ministry of Cooperatives and Small and Medium Enterprises
    In collaboration with the Ministry of Cooperatives and MSME, Bank Indonesia signed an MoU with the goal of improving MSMEs access to banking system through training programs for BDSP.
BI’s Policy in Financing MSMEs

• **Cooperation between Bank Indonesia and Government and Relevant Agencies**
  
  • Cooperation with the Ministry of Environment—Bank Indonesia facilitates socialization and trainings for banking employees in cooperation with the Ministry of Environment in improving their knowledge in the management of environment particularly in relation with banking credit disbursement.

  • Cooperation with the Ministry of Marine Affairs and Fisheries—trainings for Bank Partners Financial Consultant in improving knowledge, capability and skills of Bank Partners Financial Consultants (KKMB) in preparing feasibility studies and loan proposal for MSMEs in marine sector and fisheries in order to obtain access to banking services. Collaboration was also conducted in 2007 in preparing lending model of 10 commodities in marine affairs and fishery sector.
The Indonesia Banking Architecture (API) is a comprehensive basic framework for Indonesian banking system, outlining the direction, outline, and structure of the banking industry for next five to ten years; It launching on January 9, 2004 as crisis recovery program.

- The vision: “building a sound, strong, and efficient banking industry in order to create financial system stability for promotion of national economic growth”;

- The programs: set out a more concrete direction and strategy for the consolidation of banking system, longterm development of sharia banking, expansion in financing MSMEs and institutional strengthening of Rural Banks (BPRs)
“Building a sound, strong, and efficient banking industry in order to create financial system stability for promotion of national economic growth”.

6 Pillars of API

- Healthy Banking Structure
- Effective & Independent Supervisory System
- Adequate Infrastructure
- Effective Regulation System
- Strong Banking Industry
- Robust Consumer Protection
The API’s Program for supporting MSMEs

Pillar I: Reinforcing the Structure of National Banking System

1. Building the Competitiveness of Rural Banks Program
   - **Strengthen the linkage program** cooperation of Conventional Banks and Rural Banks and other Financial Institutions (MFIs) in credit disbursement to MSMEs;
     - The program has 3 schema: executing, channeling and joint financing;
     - On Dec 2007, Bank Indonesia has facilitate MoU linkage program from 33 Commercial Banks to 1,175 BPRs and total outstanding loan amounted IDR4.97 trillions.
   - Simplify processess for opening of Rural Banks Branch Offices;
   - Facilitate establish APEX institution for joint services facilities for Rural Banks (conventional & sharia).
The API’s Program for supporting MSMEs

Pillar I: Reinforcing the Structure of National Banking System

1. Improve Access to Credit Program
   Promotion of the Role of Credit Guarantee Institution → to overcome constraints in accessing Bank credit to fulfill an additional collateral, BI is facilitating the development of a credit guarantee scheme involving Regional Government, Regional Banks and the guaranteeing company (PT Askrindo and PT. Sarana Pengembangan Usaha) → Dec 2007, BI has facilitate 5 Regional Government, 12 Government Regency and 6 Government Municipal has participate in credit guarantee program with total value IDR61 miliar.

Pillar II: Improved Quality of Banking Regulation

Formalizing the Syndication Process in Policy Making Program → BI has facilitate establishment of 4 Regional Banking Research Institution (LRPD)
The API’s Program for supporting MSMEs

Pillar V: Development of Banking Infrastructure

Establish of Indonesian Credit Information Bureau (BIK) → Center of data base on all Bank borrowers.

The advantage for the government and public:
- Assisting in minimizing problem on asymmetric information between creditor and debtor;
- Assistance in management and supervision of national credit system;
- Enhancing the growth of MSMEs sector through a wider financing system;
- To reduce of a credit provider on conventional collateral (credit record of a prospect debtor as a complement collateral).
- Fostering market discipline in order to establish sound credit culture and efficient credit system.
PILAR VI : Improvement of Consumer Protection

1. Prepare Standards for Customer Complaint Mechanism
   - Bank Indonesia Regulation (PBI) No 7/7/PBI/2005 concerning Resolution of Customer Complaints:
     - Bank should resolve the customer complaint, especially related with potential financial losses.

2. Establish Independent Mediation Agency
   - Bank Indonesia Regulation (PBI) No. 8/5/PBI/2006 concerning Banking Mediation: As alternative dispute resolution (by way of Mediation);
     - The objectives are:
       - Help customers and Banks to settled in fair, efficient and speedy manner;
       - Financial claim no more than IDR500 million;
       - Voluntary resolve customers complaint.
Pillar VI: Improvement of Consumer Protection

1. Prepare Regulation on Transparency of Product Information
   

2. Promote Consumer Education
   
   - Establish “Banking Education Working Group”
   - Launching “Blue Print Financial Consumer Education”
   - etc
Customer Due Diligence (CDD)/
Know Your Customer

- To prevent the banking industry from becoming a vehicle or objective of criminal activities directly or indirectly conducted by criminal, as an international initiative recommendation of:
  ✓ Basel Committee on Banking Supervision ➔ Core Principles for Effective Banking Supervision;
  ✓ Financial Action Task force (FATF) ➔ 40 recommendation and 9 special recommendation (SR).

- To implement the international initiative of prudential principles, Bank Indonesia regulate the application of Know Your Customer’s Principles (KYC) for commercial banks and rural banks;
Know Your Customer Principles (KYC) are principles should implemented by bank in order to know and recognize the customer’s identity, monitor its customer’s transaction including to report suspicious transaction (STR)

- **Bank Indonesia as supervisor should ensure:**
  - banks have adequate controls and procedures to know the customers with whom they are has a dealing;
  - evade banks become subject to reputational, operational, legal and concentration risk, which can result in significant cost;
Bank Should Implement the KYC

Bank shall establish:
- policy on customer acceptance;
- Policy and procedure for customer’s identification;
- Policy and procedure for monitoring customer’s account and transaction;
- Policy and procedure of risk management in line with the implementation of KYC principles.

- The Board of Director is responsible for implementation of KYC;
- Bank shall establish a special unit or appoint an officer who is responsible for the implementation of KYC;
- The special unit or officer shall be directly responsible to the Compliance Director.
Policy on Customer Acceptance and Identification

- **Identification document;**
- **Purposes and objectives of business relationship the prospective customer intends to have with the banks;**
- **Prospective customer’s profile;**
- **Beneficial owner identification, in case the prospective customer acts for and on behalf of other party.**

**Bank**

- **Verify the authenticity of supporting documents;**
- **If bank provide electronic banking service shall meet the prospective customer at least at the time of account opening;**
- **If necessary, bank may conduct an interview with the prospective customer.**
Policy on Customer Acceptance and Identification

Customer Acceptance Procedure

Individual Customer:
- Description: name, permanent residential address, date and place of birth & nationality;
- Occupation;
- Speciment of signature;
- Source of fund & purpose of fund.

Corporate Customer

- Small company;
- Bigger company;
- Government institution;
- Bank.
Policy on Customer Acceptance and Identification

Bank would refuse to open an account and/or refuse to conduct transactions, if prospective customer:

- not complying with the provisions;
- using false identity and/or providing false information;
- incorporated as a shell bank or with any bank permitting its accounts to be used by shell banks.

Banks can refuse to conduct transactions and/or may terminate business dealings with existing customers in the event that:

- if the criteria customers acceptance aren’t met;
- an account is un-used in departure from the purpose of opening the account.
Bank shall:
• maintain the documents customer’s identity at least 5 years after the customer’s account has been closed;
• update the document (data base) in case of any changes

Bank required:
• to have information system effectively capable of identifying, analyzing, monitoring and providing report on the characteristics of transactions;
• to conduct monitoring of bank customer transactions, including identification of any occurrence of STR transaction instruments, dates, amount & denomination of transaction -

Bank shall maintain customer’s profile at least:
• Occupation or business sector;
• Total earning;
• Other customer’s account;
• Activity of normal transaction;
• Purpose of account opening
Assessment of risk management policy and procedure shall be based on the results of examination conducted by Bank Indonesia that covers risk management factors as follows:

- Bank’s management oversight;
- Policies and procedures;
- Internal Control and internal audit function;
- Management information system; and
- Human resources and training.
The rating on the implementation of KYC and the AML law shall be calculated into soundness rating of commercial banks under the management factor.

If the rating on the implementation of KYC and the AML is 5, the rating shall not only be calculated into soundness rating, but also tied to imposition of administrative sanctions in the form of downgrading of the soundness rating and order for dismissal of the management of the commercial bank under the mechanism of the fit and proper test.
Each amendment to Practical guideline for application of KYC shall be reported no later than 7 working days.

- STR Report no later than 3 working days after the bank becomes aware of any element of STR;
- CTR Report no later than 14 working days after the date of the transaction.
### Customer Due Diligence (CDD)

<table>
<thead>
<tr>
<th>Explaination</th>
<th>CDD for Commercial Banks (at least)</th>
<th>CDD for Rural Banks (at least)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers information (before executing a business relationship)</td>
<td>- Identify of the prospective customer (legal supporting document);</td>
<td>- Identity of the prospective customer;</td>
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<tr>
<td></td>
<td>- Purposes and objectives of business relationship the prospective customer intends to have with the Banks;</td>
<td>- The intention and objective of the customer for initiating a business with BPR;</td>
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<td>- other information related to prospective customer’s profile;</td>
<td>- Other identification that enables BPR to inquire the profile of the potential customer;</td>
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<td></td>
<td>- Beneficial owner identification, incase the prospective customer acts for and on behalf of other party.</td>
<td>- The other party’s identity, if potential customer acts for and on behalf of another party.</td>
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| Information individual | - Description: name, permanent residential address, date and place of birth & nationality;  
- Occupation;  
- Specimen of signature;  
- Source of fund & purpose of fund. | - Description: name, permanent address, date and place of birth & nationality;  
- Occupation;  
- Specimen of signature;  
- Source of fund & purpose of fund. |
# Customer Due Diligence (CDD)

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<td>Small company information</td>
<td><strong>Small company information</strong>&lt;br&gt;- Article of association/corporation;&lt;br&gt;- Business license or other license from authorized institution;&lt;br&gt;- Company description: name, specimen of signature, and power of attorney of any having authority to act on behalf of the company for conducting business relationship with the bank;&lt;br&gt;- Source and purpose of fund</td>
<td>Company customer information:&lt;br&gt;- Article of association/corporation;&lt;br&gt;- Business license or other license from authorized institution;&lt;br&gt;- Company description: name, specimen of signature, and power of attorney of any having authority to act on behalf of the company for conducting business relationship with the BPR;&lt;br&gt;- Source and purpose of fund;&lt;br&gt;- Tax number (NPWP);&lt;br&gt;- Identity of the manager who represents the company.</td>
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| Bigger company information     | - Article of association/corporation;  
                                | - Business license or licences for authorized institutions;  
                                | - Tax ID number or NPWP of the customer that must have one as required by the prevailing regulation;  
                                | - Financial statement or description of the company’s business activity;  
                                | - Structure of the company management;  
                                | - Identification document of the management authorized to act on behalf of the company;  
                                | - Name, specimen of signature, and power of attorney of any having authority to act on behalf of the company for conducting business with the bank;  
                                | - Source and purpose of fund.                                                                                                                                         | -                                                                                   |
Thank you

http://www.bi.go.id