

## SOUTH KALIMANTAN'S BADAN KREDIT KECAMATAN (BKK) PROGRAM

### Program Description

South Kalimantan's *Badan Kredit Kecamatan* (BKK) program began in 1985. It was modeled on the BKK system of Central Java but has always functioned independently of it. BKKs are semi-formal financial institutions owned by the South Kalimantan provincial government. Each unit is endowed with modest facilities and low-interest loans/capital endowment grants of approximately US\$5,000.<sup>17</sup> USAID financed the first 16 of these facilities, and South Kalimantan's provincial government financed the 94 additional units. The provincial government is hoping to convert 10 BKKs to rural banks (BPRs). These 10 units have each received an additional capital endowment of Rp. 5 million (US\$2,200). After the promulgation of the 1992 Banking Law and supporting Presidential Regulation, the provincial government stopped creating BKK units and instead began to found units called *Lembaga Pembiayaan Usaha Kecil* (LPUK). The only difference between BKKs and LPUKs is that the former accept deposits, and the latter do not. There are currently 34 BKKs and 76 LPUKs - one unit in each of the province's 109 sub-districts (*kecamatan*s) and one additional unit.

BKKs and LPUKs (hereafter referred to collectively as BKKs) are similar in structure and function to NTB's LKPs discussed in Annex 2. Units are owned by the Province, and supervised by the provincial development bank (BPD). Each unit is located in a sub-district capital and serves most of the villages in that sub-district. Field staff make frequent visits to surrounding villages, and customers must come to the facilities for some transactions. The units do not receive fixed or regular subsidies. However, units were founded with an initial, low-interest capital loan/grant, and most receive their buildings and furniture free of charge from the Province or a district. The Province provides subsidized training, guidance, and supervision; and the provincial or district governments often furnish units with office equipment, motorcycles, and bicycles. Finally, units rarely pay taxes, and are not subject to the reserve requirements with which commercial banks must comply.<sup>18</sup>

Unit profits are divided among stakeholders as follows: 70 percent remain with the units in the form of retained earnings; 10 percent are divided among employees as a performance bonus; 5 percent are given to an employee welfare fund; 5 percent are given to a local government development fund; and 5 percent are given to the BPD as a fee for supervision and training.

*Supervision.* The units are supervised by the district branch of the BPD. In theory, the BPD makes all policy decisions for the BKKs units, including the types of savings and lending products units can offer, the terms they can charge on these instruments, how they should provision for bad

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<sup>17</sup> Units are required to repay only the interest owed on the loan. Further, this interest is used to partially cover costs of supervising units and training unit staff. In practice, this initial loan functions as a capital endowment grant, and the annual interest serves as a partial annual fee for supervision and training.

<sup>18</sup> Rural banks (BPRs) are also exempt from this reserve requirement.

debt, when they should write off loans, what their underwriting and loan servicing procedures should be, whom they should hire, how they should train staff, etc. In practice, individual unit managers frequently assume at least minor levels of discretion with regard to many of these policies. The BPD has one full-time supervisor for every 8.5 BKK units. Supervisors visit units from 1 to 4 times per month.

### **Loan Products**

Loan terms vary by unit, but none offers a loan for less than 10 weeks or more than 18 months. Officially, the interest rate on loans varies based on the loan's size and repayment frequency. In practice, the rate that an individual borrower pays depends on the options allowed to him or her by the branch manager. Interest rates range from a low of 3.5 percent per month on a declining balance basis with no savings requirement (an annualized rate of 51 percent), to a high of 1 percent per week on the initial loan balance with a 10 percent savings requirement (an annualized rate of about 196 percent). The most frequently quoted rate is 2.5 percent flat per month, with a 10 percent forced savings requirement for the 34 original BKKs and no forced savings requirement for new units. For a four month loan, these terms are equal to an interest rate of about 3.9 percent monthly or 59 percent per year on an annualized, declining balance basis assuming no forced savings requirement. For the units that require forced savings, the terms translate into an effective interest rate of 4.5 percent per month, or 70 percent per year. There is no fee charged on loans. Loans over Rp. 200,000 or 250,000 (US\$86- \$ 107) require land or a vehicle as collateral. Repayment frequencies range from weekly to monthly, depending on manager discretion and borrower preference.

Minimum and maximum loan sizes vary by unit. However the widest range appears to be Rp. 50,000 (about US\$21) to Rp. 1 million (about US\$428). For most units, loans above Rp. 200,000 to Rp. 250,000 (US\$86- \$ 107) must be approved by the head of the sub-district.

Until recently BKKs did not engaged in group lending. However, program supervisors familiar with Bank of Indonesia's PHBK program recognized the potential for group lending to reduce transactions costs. They introduced the concept on a pilot basis to one BKK unit in 1995.<sup>19</sup> Before the official trial period had ended, other units had spontaneously begun to copy the idea. Currently 59 groups have outstanding loans with BKK units. The BKKs are exclusively using PHBK's "Model 3" in which the units make loans to "channeling groups" that simply pass loan funds down to their members and pass up repayments. The groups do not attempt to act as financial intermediaries, and there are no NGOs involved in the process.

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<sup>19</sup> The BKKs' adoption of the PHBK group lending system preceded PHBK's introduction to South Kalimantan.

## **Savings Products**

As mentioned above, only the 34 original BKK units accept voluntary savings or require forced savings. Voluntary and compulsory savings earn an annual interest rate of 9 percent. This rate is currently slightly negative in real terms and is about equal to the rate paid by most of the other programs reviewed in this report. All BKKs are desperate for additional liquidity. Program organizers feel, however, that the supply of savings is very price inelastic and that increasing the interest rate paid on deposits will not significantly increase the volume of funds mobilized.

## **Staffing**

The provincial BPD is responsible for staffing the BKK units, and staffing norms may be slightly high given that many units have limited field activities. However, staffing for BKKs is clearly more in line with unit needs than staffing for the LKPs in Sumbawa. The total number of staff per BKK unit ranges from 3 to 6. Staffing varies depending on unit volume and the time required for staff to reach the villages they serve. In most units, managers also serve as field agents, thereby using their time more productively than the managers of LKPs who do not leave the office. All staff must have at least a high school degree and pass a test to be eligible for employment. Most managers have only a high school degree. All staff are trained before they begin their jobs. Unit managers receive additional training one to two times per year. Other staff members receive additional training approximately once every other year.

Staff salaries are based on a complicated system and depend on the employee's position, tenure within the BKK system, and performance. Salaries range from a low of Rp. 123,000 (US\$53) to a high of Rp. 418,500 (US\$179) per month. On an annual basis, salaries range from 67 to 227 percent of per-capita GDP. Even the lowest possible salary for a BKK worker is almost as high as the highest salary paid to LKP staff in Sumbawa.

Also, all BKK employees of a given unit share a total of about 18.2 percent of nominal unit profits in the form of bonuses and a welfare fund.<sup>20</sup> For the average unit, this bonus and welfare fund would have amounted to approximately Rp. 669,000 per employee - equivalent to 1.6 to 5.4 months of salary. Thus, for most employees, their bonus will account for a significant share of their income. The small number of staff per unit - from 3 to 6 people - combined with the relatively large size of the potential bonus per worker should act as a significant motivator for employee performance.

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<sup>20</sup> The actual formula to calculate this is somewhat complicated and includes a quarterly bonus equal to 5 percent of quarterly profits for the first three quarters, an end-of-year bonus equal to 10 percent of annual profits, and an employee welfare fund equal to 5 percent of annual profits. However, to calculate the unit's end-of-year profit, the quarterly bonuses are treated as an expense. Thus, the quarterly bonuses reduce slightly the value of the end-of-year bonus and welfare fund.

## Underwriting and Loan Servicing

Prospective borrowers must have a business or employment to be considered for a loan. Unit personnel visit the work site of each prospective borrower before issuing the loan. At the same time, the loan officer checks on the prospective borrower's character by talking to the local village chief and/or neighbors. Most BKK managers have found that neighbors provide more accurate character references than village chiefs. If the borrower is married, his or her spouse must also sign the promissory note. Loans are disbursed 1 day to 2 weeks after the loan application is received. Borrowers must come to the unit twice to obtain a loan - once to complete the application and once to collect the funds.

Collections procedures vary across BKK units. Units serving villages a considerable distance from their facility send out field staff to collect installments. Units serving villages that have relatively easy access to their facility require that borrowers make payments at the unit. However, even these latter units send staff to visit borrowers' villages if payments are more than 2 to 7 days late. There is no penalty for late payments. Nevertheless, previous repayment performance is taken into account when determining whether to issue additional loans. Units give new borrowers small loans and allow subsequent loans to rise in value as the borrower proves repayment reliability.

## Program Performance

This section reviews program performance as measured by sustainability and outreach. Sustainability is measured by the program's arrears rate, profitability, and the size of the subsidy required to sustain operations. Outreach is measured by the volume of annual lending and savings activities (scope), and the population it serves (depth of market penetration).

*Sustainability.* According to data supplied by the BPD, for the 34 BKKs in existence before 1993, the volume of loans in arrears by more than 3 months was equal to 26 percent of the volume of outstanding loans in 1995. Because units do not write off loans, it is probably more meaningful to simulate arrears and default rates if the institution wrote off 100 percent of its loans in default each year. If the arrears rate

is recalculated in this way and all loans more than 90 days overdue are considered to be in default, then the volume of loans in arrears was 6 percent of net outstanding loans in 1995. Loans in default were equal to 3.5 (Table 12). Arrears and defaults were also relatively low in 1994. For

**Table 12**  
**Adjusted Annual Arrears and Default Rates<sup>a</sup> for the**  
**34 Original BKKs (Percent)**

	1993	1994	1995
Arrears	27.0	6.2	5.9
Default	23.0 <sup>b</sup>	3.0	3.5

a/ The volume of loans in arrears and in default divided by the volume of outstanding loans. Loans in default from previous years that have not yet been written off are subtracted from the annual volume of loans in default and from annual outstanding loans.

b/ This figures includes an adjustment to correct for previously unrecorded defaults. However, the actual default rate in 1993 was high compared to that of previous and subsequent years.

the last two years, the program's arrears rate and default rate are very sound by international microcredit standards.<sup>21</sup>

However, loans in default were 23 percent of total loan volume in 1993. The high default rate in 1993 is partially an artifact of an audit in that year which required a one-time correction for previously unrecorded defaults. Thus, to some extent, the 1993 figure represents the stock of defaults up to that date, and not simply the annual incremental defaults occurring in that year. In addition however, it appears likely that political pressures on lending policy in 1992 (caused by the election in that year) led to unprecedented arrears in 1993.

It is very difficult to estimate true unit profitability given the diverse, ad hoc, and often unrecorded in-kind subsidies received by the 110 units from the province, the BPD, and districts. Further, the way in which provisioning for bad debt is undertaken differs sharply from accepted best practice. If all of these factors are ignored, the 34 original BKKs had a real (above inflation) return on assets of from 6 to 10 percent over the last three years. This analysis made rough estimates for expenses for depreciation of fixed assets, adequate loan loss provisioning, taxes, reserve requirements, full supervision costs, and market returns to liability holders.<sup>22</sup> In addition, it revised the units' average outstanding assets to take into account adequate loan loss provisioning.<sup>23</sup> After these adjustments, the units' inflation adjusted return on average assets was -20.9 percent in 1993; 0.5 percent in 1994; and 1.5 percent in 1995 (Table 13).<sup>24</sup>

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<sup>21</sup> For example, the Committee of Donor Agencies for Small Enterprise Development (1995) set as an acceptable standard for microenterprise lending, that 10 percent or less of total loans should have late payments of 30 days or more, and lenders should have annual losses from defaults of 4 percent or less of outstanding loan volume. For the last two years, BKK's arrears rate are below the 10 percent level even though it includes loans in arrears by one day or more. The program's default rate over the last two years is below 4 percent.

<sup>22</sup> The BKK system funds part of its portfolio from savings accounts required from borrowers. These required savings accounts earn an interest rate below that which the program would have to pay to obtain marginal additional resources from another source. For the purposes of this analysis, this practice is considered to be equivalent to generating additional fee income from loans and is not counted as a subsidy.

<sup>23</sup> This analysis did not have information concerning when gifts of assets and equipment were received. Thus, it was not possible to adjust equity and assets to reflect owners' initial contributions and to then depreciate these assets over their life. Thus the estimated depreciation expense is subtracted from annual profits, but its value is not deducted from assets or from equity.

<sup>24</sup> ROA figures are higher and lower than those typically seen for financial institutions because BKKs (like most microfinance institutions in Indonesia) have relatively high equity to assets ratios.

**Table 13**  
**Estimated Earnings Adjusted for Subsidies and Bad Debt Expenses for 34 Original BKKs**

Earnings Measure	1993	1994	1995
Adjusted real ROA (percent)	-20.9	0.5	1.5
Adjusted real ROE (percent)	-29.7	7.5	12.0
Estimated Subsidy Dependency Index (percent) <sup>a</sup>	118	0	0
Average interest rate charged (percent) <sup>b</sup>	64	64	64
Required annual interest rate to cover all costs including market return on equity (percent)	139	64	64

a/ The percent increase in the interest rate that is required if the units were to be fully self-supporting including paying a market rate of return to equity holders.

b/ BKK interest rates vary by loan size and repayment frequency. This interest rate is for one of BKKs most common loans - a four month loan with a 2.5 percent per month flat interest rate, payable in monthly installments, with a 5 percent forced savings requirement. Five percent was selected for the savings requirement because some BKKs require a 10 percent savings component while others require none.

Taking into account the above additional expenses, the units would have earned a real, adjusted return on equity (ROE) of -29.7 percent in 1993; 7.5 percent in 1994; and 12.0 percent in 1995.

Finally, assuming equity holders earned an interest rate equivalent to the average 3 month time deposit rate plus a 4 percentage point spread, the units' estimated Subsidy Dependency Index (the percent increase in the interest rate that is required if the units are to be fully self-supporting including paying a market rate of return to equity holders) would have improved sharply from 118 percent in 1993 to 0 percent in 1995 (Table 13).<sup>25</sup>

As these figures indicate, 1993 was a very troubled year for the BKK system. However, if only figures for the last two years are considered, the BKKs are functioning a sound basis. The units did not require subsidies to operate on a sustainable basis in 1994 and 1995, and could have paid equity holders a satisfactory return.

The program's real adjusted ROA and ROE improved from 1994 to 1995 while its Subsidy Dependency Index (SDI) was constant. This occurred because Indonesia's real (inflation adjusted) interest rates increased dramatically in 1995. The program's ROA and ROE increased from 1994 to 1995 due primarily to the fact that loan volume increased very significantly over the period but many expenses remained fixed. Like the program's ROE and ROA, the SDI benefited from the improvements in business performance. However, the SDI was hurt by the increase in real market interest rates because the SDI is calculated assuming a market interest rate return to equity holders, not a fixed real return. The damage that the SDI sustained from the increase in market interest rates was approximately equal to the benefit of improved business performance.

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<sup>25</sup> This analysis is based on a Subsidy Dependency Index (SDI) for each program. See Annex 7 for a description of how the SDI is calculated.

*Outreach Scope.* As indicated above, BKK units are now located in all 109 sub-districts in South Kalimantan. Information on the percent of total villages served by these facilities was not available. However, program managers estimate that units reach over 50 percent of all villages in the province.

In 1995, total lending for the 110 units amounted to Rp. 7.8 billion (US\$3.4 million). This is equivalent to approximately Rp. 70.9 million (US\$31,000) per unit. Lending volume for the entire system increased by 60 percent in real terms in 1994, and 37 percent in real terms in 1995. The units made 34,518 loans in 1995, up from 18,080 in 1993 (Table 14). If figures exclude lending by the 76 units founded in 1994 and 1995, then total loan volume for the 34

**Table 14**  
**BKK Annual Lending**

	1993	1994	1995
Nominal loan volume (Rp. million)	2,962	5,008	7,800
Growth in real loan volume (percent)	NA	56	42
Nominal loan volume (US\$)	1,410,333	2,297,110	3,421,250
Pre-1994 unit volume percent of total volume	100	77	65
Number of loans for all units	18,080	31,870	34,518
Growth in number of loans (percent)	NA	76	8

existing BKKs increased by 20 percent in real terms in 1994 and 19 percent in real terms in 1995. Existing BKK units had an average volume of Rp. 148 million (US\$63,000) each in 1995. Existing units made approximately the same number of loans in 1995 as they did in 1993, indicating that their real lending growth was derived from an increase in real average loan sizes.

As indicated above, only the 34 original BKKs collect savings. In 1995, total savings for these 34 units stood at Rp. 974 million (about US\$427,000). The real volume of savings deposits grew by 77 percent in 1994 and 43 percent in 1995. By the end of 1995, savings represented 40 percent of outstanding loans net of bad debt for these 34 units.

**Table 15**  
**Voluntary and Required Savings for the BKK Units that Accept Deposits**

	1993	1994	1995
Total nominal savings (Rp. million)	323.4	621.2	974.4
Real growth in savings (percent)	NA	77	43
Total nominal savings (US\$)	153,990	284,948	427,357
Total savings percent of total outstanding loans	30.0	37.6	40.3
Estimate of voluntary savings percent of net outstanding loans <sup>a</sup>	16.1	27.0	31.0
Real growth in voluntary savings (percent)		142	56

a/ The volume of voluntary savings is compared to that of outstanding loans net of required savings because in practice, savings required to obtain a loan can be viewed as equivalent to borrowers receiving a smaller loan. Comparing voluntary savings to loans net of required savings allows an analysis of the importance of voluntary savings in funding loans.

Information was not available to separate voluntary from required savings. However, at a minimum, voluntary savings would have accounted for 31 percent of outstanding loans net of bad debt and required savings in 1995,<sup>26</sup> up from 0 percent in 1992 when voluntary savings accounts were first introduced (Table 15).

*Outreach Depth.* The BKKs do not keep data on borrower income. Borrowers are primarily petty traders. Approximately 40 percent are women. The average loan size for the units in 1995 was about Rp. 226,000 (US\$99). This is probably lower than the average loan size for the PHBK program, but higher than the average loan size per individual under the LKP, P4K, and BKD programs. It is equivalent to about 10 percent of per capita GDP.

BKK units are located in all 109 sub-districts in South Kalimantan. However, the units' ability to penetrate into remote areas varies by region. The BPD claims that some units serve villages as far as 70 kilometers away. Interviewed unit managers reporting serving clients as far as 15 to 25 kilometers away from their facility. The unit serving clients 25 kilometers away reported that the

<sup>26</sup> As discussed above, units require mandatory savings from borrowers of from 0 to 10 percent of loan volume. The outstanding volume of mandatory savings is estimated by assuming that all loans are matched by the maximum level of required savings. Information on the initial loan sizes of all loans outstanding at the end of the year was not available in an aggregated format. The author multiplied the year end outstanding balances of loans by 10 percent to obtain an estimate of the program's volume of required savings at year end. This will underestimate required savings as the amount of required savings is based on the size of initial loans, not outstanding loan balances. However, it will overestimate required savings in that many loans have a required savings rate of less than 10 percent. The volume of voluntary savings is assumed to be equal to the total volume of savings minus the estimated volume of required savings.

trip took two hours each way by motorcycle due to the sub-district's difficult terrain. This unit was only able to serve 15 of the 27 villages in its sub-district due to the area's limited infrastructure.

*Productivity.* BKKs operate with fewer staff per unit than LKPs and make better use of the staff they employ.<sup>27</sup> The district branch of the BPD has one full-time supervisor for every 8.5 units, as compared to the LKPs' one supervisor for 4 units. Also, some BKK unit policies appear to be more streamlined than those in the LKP program. For example, LKP requires borrowers to visit the unit office at least three times to obtain a loan. The BKKs require only two visits.

However, it is likely that the BKKs could improve their operating procedures. Like LKPs, BKKs can be vulnerable to political considerations. For example, arrears jumped sharply in 1993 due partially to political pressures to relax underwriting procedures before the 1992 election. Also, profits are first calculated after subtracting bad debt expenses. However, for political reasons, these expenses are subsequently added back to income after the books have been closed. Thus, despite the fact that a large share of their portfolio is in default and that units record a heavy annual bad debt expense, they do not accumulate loan loss reserves.

Furthermore, BKKs offer relatively limited services at the village level. BKKs do not allow field staff to accept savings deposits. In contrast, LKP savers can make deposits through field staff. Many BKK units require borrowers to make their monthly repayments at sub-district units rather than allowing them to give field staff the funds. In general, the BPD deliberately limits the scope of BKK field activities to minimize the risk of malfeasance and because, managers claim, the units' lean staffing does not allow for lengthy visits to any single village. With the information available, it is not possible to evaluate whether the program's savings in personnel costs and improved security compensate for the loss of customer convenience. In all probability, the answer to this question varies by sub-district.

*Reasons for Evolution in Program Performance.* The BKK system performed very poorly in 1993. In part this was due to larger economic concerns that shook Indonesia's entire financial system. Also, the problem appears worse on paper than it actually was because records of arrears rates were corrected in that year. Finally, political interference negatively impacted units' lending decisions. Since that time however, units have performed relatively well as measured by the ROE and ROA they would have obtained in the absence of subsidies, and the fact that the program does not require these subsidies to operate sustainably. The strong growth in loan volume over the last few years for existing BKKs demonstrates that demand for their product is high.

Program managers claim that for each new facility, arrears begin high and then decline over time. Borrowers initially assume that this is a subsidized government program, and it takes time to educate clients to the fact that the loans must be repaid. However, the BPD claims to have refined this education process over time. Thus, units opened in the last several years have much lower initial arrears rates than units opened in the 1980s and early 1990s. Older units often continue to have a large percent of their assets in default, but this is primarily due to the fact that

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<sup>27</sup> Although LKPs do make almost three times the number of loans per unit as the BKKs.

defaulted loans are not written off their books. However program supervisors fear that, as occurred in 1992, units will face political pressure to reduce underwriting standards before the 1997 election.

### **Response to Regulation No.71/1992 Supporting the 1992 Banking Law**

BKK units established before 1992 are exempt from the Regulation's stipulation that financial institutions that accept deposits must either meeting a minimum capital requirement or becoming cooperatives. The units established after 1992 (the LPUKs) must conform with the Regulation's guidelines. Thus, the BPD decided that the LPUKs would not accept deposits.

The fact that new units do not accept required or voluntary savings will clearly hurt the institutions and their clients. For the four units visited, managers cited a lack of funds to meet effective demand as their most critical or second most critical problem. For BKKs that are permitted to mobilize savings, voluntary savings were equal to at least 31 percent of outstanding loans net of required savings in 1995. Not only will an inability to mobilize savings retard lending growth for the new units, but it will also deny unit customers access to a very valuable service. Finally, it will deprive managers of a useful means of gauging the creditworthiness of potential loan clients.

While the BPDs in NTB and South Kalimantan supervise the same type of institution and face the same Banking Law and Regulation, they are interpreting compliance with the regulations in very different ways.<sup>28</sup>

### **Competition**

All of the units interviewed faced only limited competition for credit clients. Units reported that only two other lending programs operated in their areas - the BRI Unit Desa system and semi-formal lending by cooperative leaders. None of the units reported competition from rural banks (BPRs). If average loan size can serve as a proxy for income, then it is likely that BKKs serve a much poorer clientele than BRI, and one that may have very little access to BRI loans.<sup>29</sup> However, BKKs' underwriting requirements for loans over Rp. 250,000 (US\$110) do not differ significantly from BRI's. Thus, it is reasonable to assume that many of the BKKs' larger clients could access BRI loans. Furthermore, BRI loans carry a lower interest rate than loans from BKK.<sup>30</sup> Nevertheless, BKK managers claimed that they competed very effectively with BRI by

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<sup>28</sup> The BPD in NTB will convert some of its existing LKP units into BPRs and others into nominal cooperatives. Those converted to cooperatives will redefine voluntary savings as "mandatory members' contributions". BPD managers in NTB also said that they foresaw no difficulty in establishing new units which would accept deposits using the same nominal cooperative structure.

<sup>29</sup> The average ratio of loan-size-to-GDP-per-capita for BRI was 81 percent in 1993. This compares to a ratio of 10 percent for the BKK system in 1995.

<sup>30</sup> BRI KUPEDES loans carry a 32 percent effective annual interest rate if repayment is prompt. Interest rates on BKK loans vary from 51 to 81 percent.

providing loans more quickly, requiring less paperwork, and reducing transactions costs to clients through field staff visits to clients' businesses.

The only other major source of financing available to BKK clients is loans provided by cooperative leaders. These individuals use their position in the cooperatives to function as private moneylenders. The rate they charge (20 percent flat per month) is about 3 times as high as **the highest** rate BKK units charge. BKK unit managers claim that these individuals make loans only to people who do not qualify for BKK loans.<sup>31</sup>

BKK units compete with BRI for voluntary deposits. BKK offers an interest rate on deposits approximately equal to that of BRI's SIMPEDES program. Despite the fact that BRI has a very strong reputation for stability and offers various non-financial incentives to attract savers, the volume of BKK's voluntary savings has grown rapidly. Thus, it appears that BKK has been able to compete with BRI for voluntary savings.

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<sup>31</sup> Generally people who have a poor repayment history on previous loans or do not have their own business or farm, and are not steadily employed.