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# APCP

## CHEMONICS

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April 18, 1996

Memorandum for:

PBDAC: Dr. Hassan Khedr, Chairman  
Eng. Zeinab Salem, Advisor  
Mr. Mahmoud Nour, Advisor  
Ms. Ebtisam Kabil, BIP Coordinator

USAID: Mr. Clemence Weber, AD/AGR  
Mr. David Alverson, OD/AGR/ACE  
Mr. Ali Kamel, PO/AGR/ACE

Others: Dr. Dale Adams, Ohio State University  
Dr. Richard Patten, Harvard University

From: *Wilmot Averill*  
Wilmot Averill, COP/Team Leader APCP-Chemonics

Subject: Report by NEO about her visit to Bank Rakayat  
Indonesia and Bank Pertanian Malaysia.



I am attaching for you herewith a copy of Nivine El Oraby's excellent visit report.

In addition to translating it to Arabic, Nivine plans to make a brief executive analysis emphasizing what these two banks systems are doing and their possible applicability to the PBDAC bank system. When this is ready we will send this to you also.

(WA/mb Disk 13 - NEORPT)

**To : Bill Averill**  
**From : Nivine El Oraby**  
**Date : April 18, 1996**  
**Subject: VISIT REPORT**

Please find attached report on study visits to Bank Rakayat Indonesia and Bank Pertanian Malaysia.

Thank you

*Nivine El Oraby*

# STUDY VISIT REPORT

## **First: BANK RAKYAT INDONESIA**

### **I. BRIEF BACKGROUND ON INDONESIA**

Total population is 196 million, growing at 1.6% per annum. This is about 36 million households, of which 80% live in villages.

Gross Domestic Product is \$709 billion, growing at 7.4% per annum. Small enterprises constitute more than 65%. Inflation rate is 9.6%.

### **II. GENERAL INFORMATION ON BRI**

State-owned commercial bank established in 1895. Total assets in December 1995 were US\$13.5 billion, and total number of employees 43,000.

The following data is extracted from their annual report for December 1994:

- total assets	\$ 11,800	million
- net worth	\$ 621	million
- total loans	\$8,784	million (1% higher than 1993)
- total deposits	\$6,803	million (2% higher than 1993)
- net income for 1994	\$38	million (15% higher than 1993)

N.B. Even though the above figures show an excess in outstanding loans over deposits on hand, we were told that this is the case for the bank as a whole; yet for village banks alone (BRI Units) there's a large surplus in deposits over loans, Rp. 6 billion and Rp. 3.2 billion respectively at Dec. 1995, (\$ = Rp. 2,200).

### **III. BRI'S NETWORK**

Besides the Head Office, the bank has:

- 15 Regional Offices in provinces; (total provinces 27)
- 325 Branch Offices in the districts
- 3535 BRI Unit Offices in the sub-districts, (these units compare to PBDAC's VBs)
- 414 Service-posts, in some villages

#### IV. THREE STRATEGIC BUSINESS UNITS

(A) Corporate & International : at Head Office Level

e.g. Loans to large corporations.

(B) Commercial & Retail Banking : at Branch Level

There are both commercial banking, and “government programmed loans (GPL)”. Main GPL are for rice production, cooperatives, national rice stock .... etc.

While lending interest rates at Branch Office start from 18% and can reach 25%, yet for programmed loans interest is subsidized as follows:

- 12% for rice production, funded at 6% by the Central Bank.
- 14% for other programmed loans, of which 75% is funded by the Central Bank at 6%, and 25% funded by deposits, i.e. at average rate of 16%.

(C) Unit Retail Banking : at BRI Unit Level (i.e. VBs)

Any activity in the village can be financed. No programmed loans here, or subsidized interest rates.

Details on BRI Units are given herebelow

#### V. BRI UNITS (VBs)

(A) History & Development

Established in 1970 as windows of Branch Offices, with transactions reposted into Branch books, and cash returned to the Branch. Their initial function was to channel government program credit.

A pilot project started then in the region of Yogyakarta linking “mass-guidance” (agricultural extension) to credit, but crops were specified, and interest was subsidized. In 1983 they started to liberalize credit through introducing the “Kupedes” program for general rural credit, with no targeted lending and no subsidized interest.

Since 1984, each BRI unit became a full financial intermediary operating as a profit center and having its own individual financial statements. They offered various saving instruments, and Kupedes credit program was spread nationwide since 1984.

**(B) BRI Unit Standard Organization**

A BRI Unit basically consists of 4 people:

- The Unit Manager
- One Credit-man: responsible for marketing of loans, conducting the credit analysis, and mobilization of deposits. His schedule is divided such as 35% of his time is for deposit mobilization. This doesn't necessarily take the form of 2 days a week because of seasonality; e.g. at harvest seasons all his time could be devoted to mobilization of deposits, 5/8 visits per day to customers.

An additional credit-man is hired when number of borrowers exceed 400.

- One Book-keeper: An additional book-keeper is hired when daily cash transactions in 6 months period is over 100 transactions in a manual BRI unit, or over 150 transactions in a computerized BRI unit.

We note that number of needed book-keepers is not dependant on number of customers per se, but number of transactions because this is what reflects work load for book-keeping.

- One Teller: Here too an additional teller can be hired if number of daily cash transactions exceeds 150 in a manual BRI unit, or 200 in a computerized unit.

BRIs are supervised by Unit Business Managers (UBMs) working in the Branch, about 4 BRI units per VBM. His job involves mainly auditing, but also business development, for BRIs. Every 4 UBMs are in turn supervised by a Unit Desa Officer (UDO) directly reporting to the Branch Manager.

N.B. At a lower level down the hierarchy, there are the Village Service Posts (VSP), which could be initially a BRI unit that had a deteriorating volume of business and was thus closed and demoted to a VSP reporting to the nearest BRI Unit. A VSP has a two-person team: a book-keeper and a teller. They collect savings and loan repayments. They receive loan applications but do not make loans. Can open one or two days a week in each village.

(C) **BRI Units Credit Program “Kupedes”**

Borrower's creditworthiness is the main criterion for loan approval. Kupedes loans are generally intended for directly productive activities. Borrowers are to provide evidence of income sources and/or certification of their business activities. Loan applications require a co-signer, (normally the borrower's spouse). Value of the loan to be adequately covered by **collateral**, (usually through notary public rather than official mortgage).

**Loans for investment purposes** can have a maximum term of 3 years, as opposed to 5 years for investment loans in Branches. **Loans for working capital** can be up to 2 years, as opposed to one year in Branches.

**Loan size** is Rp. 25,000 minimum, and Rp. 25 million maximum; i.e. LE 37 and LE 37,000 respectively. The upper limit is available for repeat customers who have been prompt.

**Interest rate** is 2% flat for loans above Rp. 3 million (LE4,500), 1.6% flat for loans above Rp. 5 million (LE7,500), and 1.6% to 2% for loans in between the two limits. This is 'flat' i.e. calculated on principal amount upfront, which results in annual interest rate of above 32%, rather than 24% p.a. We note here that while average deposit rate is 16%, overheads in BRI Units (VBs) are as high as 10% due to small size loans. This is compared to a general overheads level of 4 - 5% bankwide.

Most loan instalments are monthly. In case of prompt repayment for 6 consecutive months, there's a refund of 0.5% interest for each month, i.e. interest will be 1.5% monthly only. Also for early payment there's a rebate. In case of changes in interest rates, it applies retroactively.

**Kupedes loans outstandings developed** from Rp. 111 billion in 1984 to Rp. 3,191 billion in 1995.

Rate of **recovery** is about 98%.

(D) **Deposits**

There are 3 savings instruments: rural, urban, and national, with minimum balances of Rp. 5,000 (LE7.5), Rp. 10,000, and Rp. 2,500 respectively. Lottery is offered semi-annually.

BRI Units deposits on hand are mainly under the first saving instrument above, but they also have some balances under the other 2 instruments, and some under time-deposits and checking accounts.

Deposit mobilization activity started in 1987. The bank gathers information regarding the community's income level for each BRI Unit, so as to assess the mobilization bank officer's performance.

Total deposits were Rp. 287 billion in 1987, and reached Rp. 6,015 billion in 1995.

## VI. LENDING AUTHORITIES, AND BRI UNITS LIQUIDITY LIMIT

In a medium-level Branch Office, lending authority is Rp. 400 million (LE 600,000). For a BRI Unit (VB) the range is Rp. 2 - 5 million (LE 3,000 - 7,500).

As to the "cash" that each BRI Unit (VB) can maintain in its vault, the daily balance permissible is equivalent to 4% of deposits on hand. At month-end, the balance is only Rp. 0.5 - 1.5 million (LE 750 - 2250).

## VII. TRAINING, EMPLOYEE INCENTIVES & PROMOTIONS, TRANSPORTATION

The training center we visited is highly developed. The Bank has 5 of those centers nation-wide, all for BRI Units staff. As to Branch staff they get their training at Head Office.

Significant facilities are provided in the center to trainees for learning and accomodation, (auditoriums, computer labs, library, sports courts ...). Trainers are highly qualified. Their performance is evaluated by the Personnel and Training Department in Head Office. Full accomodation facilities are provided to the trainers and their families.

The budget for training is US \$16 per trainee per day.

As to the incentive system, BRI Units that achieved the targeted volume of business gets incentives semi-annually. Staff are paid in different proportions. There's also the 'Unit Achievement Contest' where the best Unit gets a certificate and additional bonus.

Employees who join the bank without having a university degree usually have "clerical" jobs (e.g. book-keeping), but can upgrade by additional education while on the job. University graduates join the bank under "staff" career, and in case of 8 years of good performance, they can obtain extensive training to be candidates for the job of branch manager. Promotion is mainly linked to performance.

Employees use motorcycles owned by the Bank. They get Rp. 50,000 monthly (LE75) to cover cost of operating the motorcycle.

## VIII. EXAMPLES OF BRANCH OFFICES & BRI UNITS VISITED

(A) We visited Yogyakarta Regional Office, i.e. analogous to a BDAC. It has the following:

- 21 Branch Offices
- 336 BRI Units (VBs)
- Outstanding Loans at Dec. '95 : LE 1 billion ( @ Rp. 1000 = LE 1.5)
- Deposits at Dec. '95 : LE 2.3 billion
- Net profit for 1995 : LE 56.8 million
- Number of Borrowers in Dec. '95: 225,228
- Number of Borrowers in Dec. '94: 213,138

(B) We also visited 2 of Yogyakarta Branches; their main figures are as follows at end of Dec. 1995, in millions of LE (@ : Rp. 1,000 = LE 1.5) :

	<b>Bantul Branch</b>	<b>Wates Branch</b>
Loans in the Branch alone	20.4	19.5
Arrears in the Branch alone (percentage)	4.4%	10.4%
Loans in all subsidiary BRI Units (VBs)	22.5	17.5
Arrears in all subsidiary BRI Units	0.6%	3.6%
Deposits in the Branch alone	16.7	14.3
Deposits in all subsidiary BRI Units	74.1	44.3
Profit/(loss) in the Branch alone	N/A	(0.514)
Profit/(loss) in all subsidiary BRI Units	N/A	2.5

(C) We also visited Imogiri BRI Unit, subsidiary of Bantul Branch, it is operated by 6 people only including the Manager, main data at end of Dec. '95 was:

- Loans : LE 1.6 million, (arrears 2.9%)
- Number of borrowers : 933, i.e. average loan size LE 1,678.
- Deposits : LE 4.7 million
- Number of depositors : 8421, i.e. average deposit size LE 556

## IX. BRI'S KEY SUCCESS FACTORS FROM THEIR VIEWPOINT

(A) Internal Aspects are:

Simplified procedures so as to ensure prompt customer service. Borrowers' commitment. Also incentive system to employees, and to borrowers through partial interest refund in case of timely repayment, and to savers through lottery prizes and 'positive' interest rates (i.e. higher than inflation rates) and widespread network.

**(B) External Aspects are:**

Banking Deregulation: Removal of Lending Ceilings, and allowing banks to set their own debit and credit interest rates.

Economic growth and political stability.

\* \* \*

## SECOND: BANK PERTANIAN MALAYSIA (BPM)

### I. GENERAL INFORMATION ON MALAYSIA

Total population 19 million. It has 13 states. They rank first in terms of world production of palm oil, rubber, tin, and fifth in world production of coconut.

The financial system in Malaysia is divided into:

- a. Banking Sector: 37 commercial banks and 40 finance companies, all reporting to the Central Bank.
- b. Non-Banking Sector: 10 development financial institutions (BPM is among these), cooperatives (under the Ministry of Rural Development), unit trusts, pilgrimage boards...etc.
- c. Capital Markets: Under Kuala Lumpur Stock Exchange.

In 1994 total savings were Ringgit 149.6 billion (i.e. approx. US\$ 60 billion @ \$1=R2.5) divided as follows:

	<u>R</u>	<u>%</u>
37 commercial banks	100.8	67.9
40 financial companies	30.1	20.1
BPM alone	2.34	1.56
Others	16.37	10.94
Total	<u>149.6</u>	<u>100%</u>

A recent market survey concluded that the competition is fierce. Clients are becoming selective and sophisticated. Banks have to be innovative and to constantly review their operations.

### II. GENERAL INFORMATION ON BPM

It is a state-owned "development financial institution" established in 1969 by a special Act of Parliament. This relates to a World Bank's recommendation made in 1967 to establish an institution for providing credit to small farmers. Such credit is costly because of small land ownerships (1-2 acres) which does not attract commercial banks.

BPM does not report to the Central Bank but to the Ministry of Agriculture. It's a small bank with total number of employees of 2500.

BPM's financial highlights were as follows at Dec. 1994:

	<u>Ringgit million</u>	<u>US\$ million</u>
- Total Assets	2,918	1,167
- Total customer Deposits	2,275	910
- Total loans	869	348
- Investments and deposit with financial institutions	1,891	756
- Net Income for 1994	33	13.2

N.B. At present, BPM's deposits have doubled, almost R4 billion.

### III. BPM'S NETWORK

- Head Office
- 12 Regional Banks
- 94 Main Branches
- 47 Sub-district branches: Patriot Centers "Pusa"; about 5 employees
- 107 Patriot Corners "Sudut", 3 employees

N.B. Both patriot centers and patriot corners do not process loans. They collect deposits, & they accept loan applications and send them to the main branch.

- 4000 mobile counters, 2 employees each. They collect deposits. They also provide payment services for utilities' bills (e.g. electricity, telephone...). But they do not collect loan installments.

### IV. CREDIT

All loans have to be related to agriculture, including packing, processing and marketing. There's a list of about 34 items to which lending is confined, examples are: rice cultivation (R3,000 max.); tobacco; livestock; fruit; cocoa; vegetables; palm oil; rubber; fishery; other commodities: maize, pepper...; small traders; land purchase & development loans; equipment loans: purchase of tractors, or vehicles for a project; agricultural hobbies: e.g. planting flowers at home (R50,000 max.); gratitude loans with a maximum of R50,000: Son obtains loan on behalf of father if the former is more eligible because of young age & being a wage earner, (here 2 guarantors are needed with minimum monthly income of R500); preservation, redemption & development of Malay land; contractor loans: the government awards tenders, so loans for executing the contract are guaranteed by the government.

- \* In terms of loan structure, there are fixed loans; revolving credit for working capital finance; and other facilities such as letters of guarantee (100% cash covered), and letters of credit (but local only because the bank does not deal in foreign exchange).
- \* In terms of tenor, loans are either short: up to one year; medium: 1-5 years; or long: over 5 years.

\* While **Cost of funds**, including administrative costs and risk margin, is about 8.3%, borrowers are charged 8.3% plus maximum 4%, with lower rates to borrowers having stronger collateral.

(N.B. Administrative costs are rather limited, around 1% only)

\* **Otherwise, there are 3 specific types of funding for targeted lending:**

1. "Fund for Food" obtained from the Ministry of Finance at 1% interest to be lent at 4% for areas directly related to food: poultry, livestock, fruit...
2. Funds from the Ministry of Agriculture:
  - a) At zero interest to be also lent at zero interest to the lowest income families. This is on a limited scale.
  - b) At 4% interest to be lent at 5 or 6% to Farmers' Association. The latter is to obtain the Ministry of Agriculture's approval to borrow.
3. Finance from the Japanese Asian Development Fund at 3% to be lent by the Bank at 6.5% to all except purchase of land.

\* **Collateral** is usually land or buildings. The bank obtains seniority rights over the real estate, after ensuring that it's not already pledged.

In some cases a guarantor is adequate after obtaining evidence about his income level.

If the borrower is a salary-earner, there's no need for collateral because in case of default, the bank can easily get a court order.

In financing vehicles (related to agriculture business) title deeds are marked with bank's ownership.

\* **Lending Authorities are:**

B.O. Directores	:	R 2 million & above
Head Office Loans Committee:		R 250,000 - R 2 million
Regional Manager	:	R 100,000 - R 250,000
Branch: Level A	:	Up to R 100,000
Level B	:	Up to R 50,000
Level C	:	Up to R 30,000

BRI Units (VBs) have no lending authority.

\* **Total number of borrowers approximately 200,000.**

In 1990 many of the programmed loans were written off because farmers could not repay and the government did not compensate the bank. This explains the bank's negative figure for "general reserve fund" shown on their Balance Sheets for 1993 and 1994. Since then the bank has been struggling for liberty to select borrowers, otherwise the government should guarantee repayment.

## V. DEPOSITS

Up till 1990 there was no mobilization of customers' deposits as reliance was on government funding. Starting 1991, the government advised BPM that they had to collect their own funding. BPM had to be very aggressive in view of their late entry to this market. They introduced fixed (time) deposits, GIRO A/Cs, as well as six saving instruments; other banks have only one or two saving instruments.

**To mobilize deposits**, BPM's approach is to have their staff go to customers wherever they are: at marketplace, fish markets, houses, schools, health units...etc. Their slogan is "BPM at your Doorstep". Constant visits to customers are not only for marketing & promotion, but also for all banking procedures from an "operational" point of view: they have with them the receipt - books (in serial numbers for control purposes), signature cards, account-opening forms...etc. They collect money from customers (new & existing customers) and deliver it to the bank on the same day. They have to be at least 2 employees together, to avoid delinquency. Previously reported delinquents were fired and/or put to jail. Dishonesty is not forgiven.

They go either by car or motorcycle. They even take boats to reach some markets. If the employee uses his own motorcycle, the bank pays him cost of gas.

Present number of depositors is about one million. In a typical "patriot-center" for example, i.e. sub-district branch, there are 5 employees of which the manager and the teller stay in the office for internal customer servicing, while 3 go out for deposit mobilization. Small loans of R 10,000, to wage-earners only, can be processed in those centers.

### A) **Fixed - Deposits (F.D)**: about 7% interest rate

1. **Conventional FD**: minimum amount R300. There are various maturities (one month, 3 months, 6 months...)
2. **Patriot Deposit Certificate "Sijil"**: interest is paid every year, and to encourage long-term deposits, a premium of 0.5% is offered on 5 years certificates, over 5 annual tranches: .15%, .12%, .10%, .08% and .05% respectively. Amounts are R1,000, R5,000 or R10,000.
3. **"Ummah" FD**: Islamic instrument, for customers who do not accept bank interest. Every year after the government announces the inflation rate in the economy, the bank adds an equivalent rate to the customer's A/C. Also there's a bonus associated with BPM's realized profit:
  - 1% bonus if the profit is below R10 million
  - 2% bonus if the profit is between R10-20 million
  - 3% bonus if the profit is over R20 million

N.B. so far they pay 3% bonus.

Amounts of the deposit are R500 or R2,500.

Fixed Deposits are currently not promoted by the bank, being too costly compared to other products.

**B) “Giro” Accounts: also called Patriot Perdana (prime)**

This is similar to “demand” accounts but with no issuing of cheques. The bank is not allowed to issue cheques by virtue of its law. But customers who have GIRO A/cs can issue GIRO orders to pay a sum of money to someone. They do not have to come to the bank to hand such orders, they mail them to the bank in special envelopes with mail cost pre-paid by the bank. The bank contacts the beneficiary to ask whether he prefers to have the money sent to his address or to come to the bank to collect it.

This A/C is for clients of 18 years old and above. Opening balance R20 and R100 for individuals and non-individuals respectively. The client can request payment of various bills: telephone, electricity... He can also request standing payment of regular amounts e.g. monthly rent. On optional basis he can have an ATM card.

For withdrawal, clients have a “green card” for identification. They have a monthly statement of A/C. On balances of R1,000 and above, interest of 3% is calculated on daily basis. Otherwise no interest.

**C) Saving Instruments:**

1. Patriot Muda (Constitutes about 30% of their A/Cs):

For children starting from one-day-old uptill 7 years old as trust under parent’s custody. Then from 7 to 12 years old the child operates the A/C on his own. He can withdraw, upto R50 at a time.

Interest is 4.5% p.a. for balances over R 1,000, otherwise it is 4.25%. For bank staff 5%. Interest is computed on lowest balance during the month, then credited to client’s A/C semi-annually. In case of more than 4 withdrawals in one month, no interest is paid for the month.

Minimum opening balance is R5; (compared to R400 or 500 in commercial banks). The passbook has no charges. There is no lottery, but once a year the account with highest balance and longest period with the bank gets a prize.

\* To attract the children, the bank offers a coconut-shaped piggy bank as a gift for those who open their A/C with R50. If the amount is smaller, the client has the option to buy it for R5, (it costs the bank R3.7).

\* Sometimes with the school’s permission the bank staff offers piggy-banks free of charge to all students. They tell them they would come in 2 months’ time to open them and place the money in saving A/Cs in name of the kids. This was very successful because even the parents helped the children to save.

**N.B.** To make the A/C opening more flexible, BPM would use the child's birth-certificate's number as a temporary identification, because birth-certificates are available in the school. Later the parent would go to the bank at his convenience to complete the A/C opening procedures.

\* Another incentive for balances of R500 and above is the personal accident insurance coverage for R10,000 in case of death or total disability, and R500 for medical treatment per single accident. Every month, the banks counts number of customers whose balances were at least R500 at month-end, then they advise the insurance company of this number and pay to the insurance company R4.5 for each.

BPM was the first bank to provide insurance together with the saving products, other banks emulated, with insurance coverages upto R30,000 and R50,000.

\* The bank also launched a 'newly-born baby program' by opening a bank unit in the 'vaccination center' and convincing the mothers to place all money received as gifts for delivery in new accounts for the babies. This was extremely successful, they opened 300 new accounts in one month. If done in all the bank's units and branches, and multiplied by 12 months a year, the number of new accounts will exceed 700,000

**N.B.** What is interesting about banks in Malaysia is their constant adptation to the market. We were advised by Mr. Uthman, the Head of the Customer Services Dept. (i.e. the Deposits Marketing & Operations Dept.) that he just read in the morning newspaper that a competitor bank will be paying interest on time-deposits upfront. So he intends to present a proposal to his senior management in a week's time recommending that BPM follows track.

**2. Patriot Ramada** : for adolescents, 13 to 25 years old.

Opening balance R10. Same insurance coverage but on a minimum balance of R1,000 rather than R500, because adolescents are more exposed to accidents than children.

There's also the 'best student award'; and 'award to the school that has largest number of accounts opened with the bank'. This also attracts the school itself to deal with the bank, the teachers, as well as the parents.

**3. Patriot 'Tani'** : This term is the root for 'agriculture'.

This instrument is for all : individuals (13 years and above), societies, corporations etc.. Opening balance R10. Insurance coverage is also available.

4. **Patriot 'Ummah'** : Islamic instrument.

Opening balance R10. Return is equivalent to the economy's inflation rate. This latter is now rather low in Malaysia, 3.4%.

There's an annual prize award with 2 criteria together : highest balance and longest duration A/C. Three customers in each Regional Office are offered 'Umrah' (pilgrimage) trips, at bank's expense, per this award.

Also some religious customers do not accept insurance. Instead, this instrument offers funeral expenses upto the A/C's balance in case of customer's death, with a maximum of R500.

5. **Patriot '2020'**

They introduced this instrument starting 1992. Also initiated by BPM then emulated by several other banks.

For age 18 and above. Minimum opening balance R50. Here the client sets a 'target' amount of savings that he wants to reach after a certain number of years (could be 10 years e.g., but at least 2 years). The bank calculates the needed monthly instalments, R50 at least.

The A/C earns interest as usual semi-annually, that the customer can draw if he wants. But the advantage that this instrument offers is similar to insurance: if the client has been regular in payment of monthly instalments, then in case of death his family gets all the 'targeted' sum of money initially determined, provided the A/C has been there for 6 months at least.

Also if the client was not regular for 3 consecutive months, he then has the option to shift his money to another saving instrument so as not to lose all previously deposited instalments, (which is a privilege compared to insurance companies).

D. **1996 Deposits Target**

For the 'Savings' A/Cs alone, balances have developed as follows:

- Since bank establishment in 1969 to 1989: R40 million
- 1989 to 1995: R300 million
- target for end 1996: R450 million

While Mr. Uthman considers this target as very ambitious (R150 million increase in one year), his strategy will be to look at:

- a) the existing 1,000,000 customers could cover this target if R150 is solicited from each, i.e. R12 monthly only, which is a humble amount in view of the standard of living in Malaysia.

b) new depositors: if we consider the 'newly born baby program' alone, previously referred to, if R10 are deposited only once by each new client, this makes about R7 million.

## VI. PROMOTIONS, INCENTIVES, TRAINING

There are 3 levels of salary grades, each divided to 24 boxes:

level 1 :	1 → 2	3 .....	24
	↓ ↘		
level 2 :	1 2	3 .....	24
level 3 :	1 2	3 .....	24

If the employee's appraisal is 'excellent' he moves diagonally from one box in a level to the next box in the next level. If the appraisal is 'very good', he moves vertically from a box in a certain level to the similar box in the next level. If his appraisal is 'good', he moves 'horizontally' to the next box in the same level. If his appraisal is 'poor' he remains where he is.

Appraisal depends on working knowledge and achievement of targets, and other qualitative measures and personal characteristics.

Promotions are mainly linked to performance, seniority, and the potential to bear additional responsibilities. Also they can go through some 'tests' before they get promoted.

There are various sorts of incentives and allowances, examples are:

- for managers: allowance for gas consumption, for car maintenance with a maximum, etc...
- allowance for working in East Malaysia if he's originally from the West, and vice-versa, plus airplane tickets for his family.
- tellers' allowance
- allowance for working in village banks, in view of bad working conditions and inadequate security in villages.
- allowance for book-keepers for taking the responsibility of customers' A/C's.
- incentives for night shifts.
- incentive for over 20-years employment with the bank.
- Annual award for excellent performance (10 employees every year). This is one month salary and one week vacation in a beach resort owned by the bank.
- Cost of living allowance.
- At various branch levels, every year, the best branch in each category gets a bonus and another car for branch use.

As to training, a survey is made on annual basis for "Training Needs Analysis". Each and every employee mentions his present job and the kind of training he would like to have. This is subject to recommendation of his supervisor in view of work needs and potential promotion.

The budget for training was R1.2 million last year. This year they'll be requesting R2.5 million. It is subject to B.O.D's approval.

Managers and executives can get overseas training. Costs are borne either by the bank, by the government, or by Japan under certain programs.

## VII. A VISIT TO PENANG STATE

Penang Regional Office has 5 Branches in 5 Districts, and it has only 4 suduts (VBs). We visited Georgetown Branch established in 1991. In addition to banking services, they collect utilities' bills against commissions.

The district doesn't have much agriculture, they finance purchase of fishing boats for members of the Fishermen's Association. The collateral is the boat itself, plus recommendation from the Fishing Dept. in Ministry of Agriculture. A third party guarantor is also preferable. The Branch can also deal with borrowers from other districts.

Balance of Loans R26 million.

Balance of Deposits R54 million.

The surplus in deposits is forwarded to the Regional Office against a gain of 1 - 2%.

Rate of loan recovery 90%.

(N.B. In this regard, Head Office advised that the bank-wide rate of recovery is much lower, could be 70%, in view of old bad debt extended per government's directives and not guaranteed by the government. This is partly written off, and partly under negotiations and gradual liquidation).

The Branch has the following staff:

- The Manager
- 2 Administrative
- 2 Credit: Officer and employee
- 4 Deposit Mobilization
- 1 For Borrowers' customers A/Cs
- 1 For Financial affairs and Depositors' customers A/Cs.

## VIII. A VISIT TO "BATU MAUNG" SUDUT (VB)

What was very impressive about this 'Sudut' is that while it's only one small room rented near the port and the fish trading market, with only 2 employees, a male and a female, they have now deposits of R3 million. The Sudut was established only 3 years ago. They managed to attract daily sale proceeds of fishermen, (mostly in savings A/Cs for easy deposit and withdrawal).

They stay in the office three days a week, and three days a week they go out for marketing 3 hours a day. Clients know their time schedule. While 'Suduts' do not grant loans as previously mentioned, they collect loan applications, especially from the fish-traders in the area, and send them to the Branch for processing.

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Their vault's permitted liquidity level is R50,000. This is quite reasonable compared to VBs in PBDAC where the usual level of LE 5 - 10 thousand is too small and causes lots of delays in servicing customers.

\* \* \*

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