TALKING POINTS

Mr. Erwin Rijanto, Deputy Governor of Bank Indonesia

"FINANCIAL INCLUSION FOR SME IN INDONESIA"

Kathmandu, 9 November 2016

I. INTRODUCTION

1. A very good afternoon and warm greetings to:
   a. Mr. Shitangshu Kumar Sur Chowdhury, Chairman of APRACA;
   b. Mr. Shiba Raj Shrestha, Vice Chairman of APRACA;
   c. The member of APRACA;
   d. Ladies and gentlemen.

Distinguished guests,

2. We are all aware that financial inclusion has become a priority in the world, but it has now also been considered as national agenda for Indonesia.

3. In this honorable meeting, I would like to share Indonesian's experience regarding the financial inclusion in Indonesia, and its relation to SME.

Ladies and gentlemen,

II. CURRENT CONDITION IN INDONESIA

4. Considering the current condition, Indonesia with its population of almost 250 million people which 28 million people living in poverty line remains to be unbanked. Taking a closer look these large portion of the unbanked clustered around poverty line remains vulnerable. Geographic condition adds the challenge in providing access to this target group as Indonesia consist of almost 17.000 island and most of poor people live in a very remote area with

different culture. On the supply side, there are several factors inhibiting services to the community such as limited communication network and electricity infrastructure.

5. Based on our survey, banked people reached **39% in 2015**. It is still in a long journey to reach the target of 75% banked people at the end of 2019. The percentage of 39% in our survey means they have a savings or credit account, insurance or formal means of low-cost payments. Outside of 39% still use financial services but rely on the age-old informal mechanisms: family and friends, the rotating savings club, the moneylender, the pawnbroker, cash under the mattress and long-term savings in the form of livestock. These mechanisms are incomplete, and can be very unreliable, risky and expensive.
6. Interestingly, Indonesia is one of **the fastest-growing** user smartphone in the world: Nearly **60 million** of the country's citizens will have smartphones in 2016. Continuously, Indonesia's smartphone users are expected to grow at a compound annual growth rate (CAGR) of **11.2% between 2016 and 2020**, to reach more than 100 million and become the **fourth-largest global market.**
7. On the other hand, Indonesia faces some challenges regarding the implementation of digital financial inclusion such as cash based mindset, lack of information of non-cash instrument, limited interconnection, coordination amongst stakeholders, and lack of infrastructure.
8. Regarding the challenges as mentioned, Indonesia has high concern to increase financial access, especially for unbanked and underbanked, through the financial inclusion policy. Financial

inclusion policy will eliminate the barriers for people to reach financial access.

Ladies and gentlemen,

III. PRESIDENTIAL DECREE NO. 82 YEAR 2016 REGARDING NATIONAL STRATEGY OF FINANCIAL INCLUSION ON SEPTEMBER 1ST 2016

9. Financial Inclusion has been considered as national priority for Indonesia; therefore in 2012, Indonesia launched its National strategy for Financial Inclusion (NSFI)[1]. With the vision to improve the coordination between ministries, Bank Indonesia, related institutions and bodies in implementing this strategy, NSFI has been amended and formulated as legal entities in Presidential Decree No. 82 Years 2016 regarding National Strategy for Financial Inclusion.

10. NSFI has 5 Pillars and 3 enablers as follow :
    a. **Pillar 1**: Financial Education, aims to improve public knowledge and awareness about the formal financial institutions, financial products and services, as well as to improve public's skills in financial planning and management.
    b. **Pillar 2**: Public Property Rights, aims to expand the guarantee thus people could access credit from formal financial services.
    c. **Pillar 3**: Financial Intermediation Facility and Distribution Channels aims to expand the range of financial services to meet the needs of the different groups of people.
    d. **Pillar 4**: Financial Service in Government Sector, aims to improve the governance and transparency of public services in

---

[1] In NSFI, Financial Inclusion is defined as: a condition when every individual has access to a wide range of quality formal financial services in a timely, clear, and secure with affordable price according to the needs and capabilities in order to improve their welfare

the distribution of government funds. This can be achieved by distribution of aid through non cash which is expected to increase targeting accuracy, quantity, price, time, quality, and administrative.

e. **Pillar 5**: Consumer Protection, aims to provide a sense of security to the community to interact with financial institutions, and take advantage of the products as well as financial services and payment systems offered. Principle of consumer protection are transparency, equal treatment, reliability, confidentiality and security of data / consumer information, and complaint handling, as well as consumer dispute resolution in a simple, fast, and affordable cost.

11. The five pillars of National Strategy of Financial Inclusion must be supported by three enablers as follows:
    a. Conducive Policies and Regulations: The implementation of inclusive financial programs needs policies and regulations of the government and authorities/regulators.
    b. Supportive Infrastructure and Information Technology: It is necessary to minimize information asymmetry that is obstacles or bottlenecks in accessing financial services.
    c. Effective Organization and Implementation Mechanism: The diversity of financial inclusion actors and organizations leads to a need of mechanism to encourage the implementation of various activities together and integrated.

Distinguished guests,

IV. ROBUST, SOUND, EFFICIENT AND SECURE PAYMENT SYSTEM TO SUPPORT FINANCIAL INCLUSION INITIATIVES

12. Bank Indonesia as the payment system regulator also put high concern in financial inclusion. By bringing people to financial

system, we believe it will support financial stability. First, it will increase the resilience of financial system through the increase of financial buffer from the retail deposits. Second, with expanding financial access to retail sector, for both saving and borrowing side, it will diversify liquidity and credit risk. Meanwhile, financial inclusion combined with electronification[2] will increase the efficiency of financial transaction. For the benefit of the economy, financial inclusion will bring positive impact in minimizing the gap, reducing the poverty level, and increasing asset accumulation of people.

13. To support access to finance, Bank Indonesia implements a dual policy approach, which include financial inclusion and electronification. Currently, 64% of the unbanked people in Indonesia are subject to financial inclusion through electronification via e-money and Digital Financial Services agents. Once these unbanked people are accustomed to perform cashless transactions and able to maintain the amount in their electronic money (registered with maximum amount Rp 5 million), they will be asked to open a savings account at a bank through the Laku Pandai program. Thus, overtime, these unbanked people will become bankable and are subsequently expected to utilize other financial service products through Banks and Insurance.
14. In the mean time, the 36% banked people are also encouraged to utilize electronic payments. This is carried out through the National Non Cash Movement initiative that is supported by G to P (Government to Person), P to G (Person to Government), and P to P (Person to Person) programs.
15. Payment technology in terms of financial inclusion implementation is perceived as enabler because it creates more efficient usage of

[2] Electronification is a change mechanism from cash to non-cash and from manual to electronic.

financial services and plays an important role to enhance financial access for the society. To increase the effectiveness and efficiency of transaction, Indonesia supports the interoperability and inter-connectivity among payment infrastructure.

16. In order to increase financial access, Bank Indonesia implement financial inclusion program. Most of our financial inclusion programs are developed based on digital technology. As a main access is Digital Financial Services (DFS) and develop ecosystem through electronification. Both programs are implemented through sectoral approach, such as electronic Government to People (G2P) assistance, People to Government payment, especially public services, electronification for migrant worker and fisher community, and electronic payment in smart city.

17. Implementing the financial inclusion strategy will promote the financial access of SME as well because it is fundamental for enabling SME, as the engine of economic growth and employment, to expand their business.

Distinguished guests,

V. SME FINANCING

18. Indonesian SME dominates the number of business units with the percentage of 99%. They also create employment opportunity for 97% of the total workforce and contribute to 60% of Indonesia's GDP. In contrast with the number and contribution of SME, their financing is still relatively low. The SME loans share on August 2016 is 19.7%. Most of them are disbursed to trade sector for about 53%. Some issues trigger the low percentage of SME financing are

    a. Banks encountered difficulties in assessing the financial viability of SMEs.

b. There is asymmetric information where Banks require the information on the potential SMEs and the eligibility of SMEs.
c. Banks looked at SMEs as high risk business.
d. The limited public access to finances, especially in remote areas.

Ladies and gentlemen,

VI. CONCLUSION

19. Despite the limitation in telecommunications network in Indonesia and lack of socialization and assistance for end user, Bank Indonesia continuously perform our best efforts to improve SME access to finance through the means of information technology (IT) since IT will broaden the range of SME access to finance facilities/infrastructure in an easier, cheaper, and reach out to broader and remote region. Then, it could also facilitate change of SME behavior in recording and conducting financial transactions of its business. Finally, information technology is also expected to encourage SME to utilize the development/innovation of technology in conducting its business

Distinguished guest, ladies and gentlemen,

I would like to conclude my presentation by quoting the statement from Christine Lagarde, Managing Director of the IMF: "Greater financial inclusion has tangible economic benefits, such as higher GDP growth and lower income inequality. By providing access to accounts, credit, infrastructure, women and low income users, financial inclusion helps make growth more inclusive". Thank you.

Kathmandu, 9 November 2016
Mr. Erwin Rijanto
Deputy Governor of Bank Indonesia