



OFFICE OF THE VICE PRESIDENT
THE REPUBLIC OF INDONESIA

National Strategy for Financial Inclusion: Fostering Economic Growth and Accelerating Poverty Reduction

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June 2012

INTRODUCTION - THE NATIONAL STRATEGY FOR FINANCIAL INCLUSION

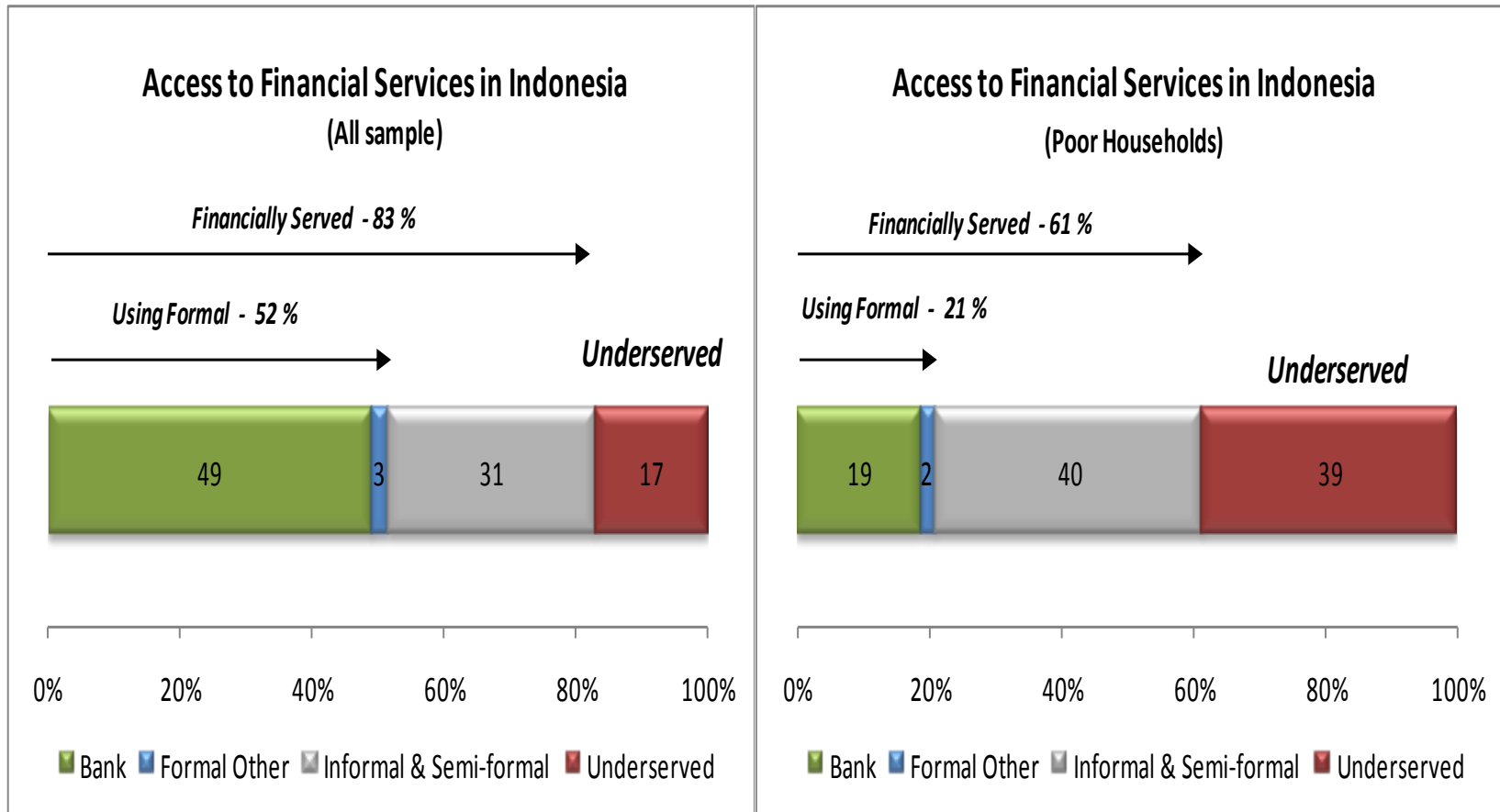
- ▶ The National Strategy for Financial Inclusion is part of Indonesia's broader strategy for poverty reduction and economic growth
- ▶ It builds on the efforts of individual Ministries to create greater synergy and reap the benefits of coordination
- ▶ The Strategy takes as its starting point, and works within, the existing legal framework
- ▶ The Strategy has been developed with close cooperation with Bank Indonesia and Government Ministries
- ▶ Multilateral and bi-lateral development partners have supported the government effort in developing the Strategy

WHY A NATIONAL STRATEGY IS NEEDED IN INDONESIA?

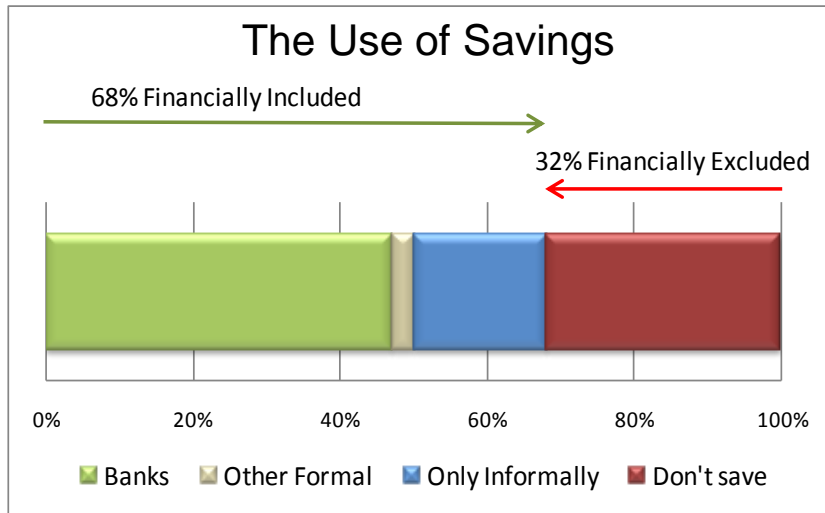
- ▶ **Better coordination will benefit existing initiatives and projects**
 - ▶ Multiple initiatives by Gol & Central Bank: Credit scheme for MSMEs , Financial Education
- ▶ **It's an opportunity to coordinate with clear KPI's and responsibility**
- ▶ **To continue and expand current initiatives**
 - ▶ E.g. Increase MSMEs access to finance, Increase access for underserved groups
- ▶ **To identify ways of overcoming bottlenecks**
 - ▶ Legal issues on non-bank & non-cooperative MFIs
- ▶ **To propose possible/necessary breakthrough**
 - ▶ Provide enabling regulatory environment for non-bank & non-cooperative MFIs to have regulatory basis.

POPULATION'S ACCESS TO FINANCIAL SERVICES

Approximately 80 per cent of Indonesia's poor have no access to formal financial services

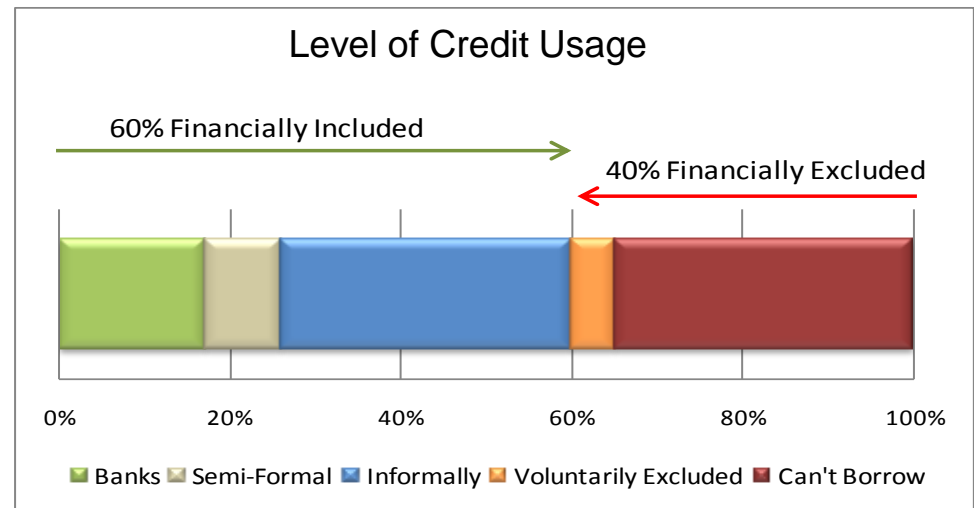


POPULATION'S ACCESS TO SAVINGS AND CREDIT



Approximately a third of the population do not have savings of any type

Bank credit only covers 17 per cent of the population, while the micro finance institutions account for only 10 per cent



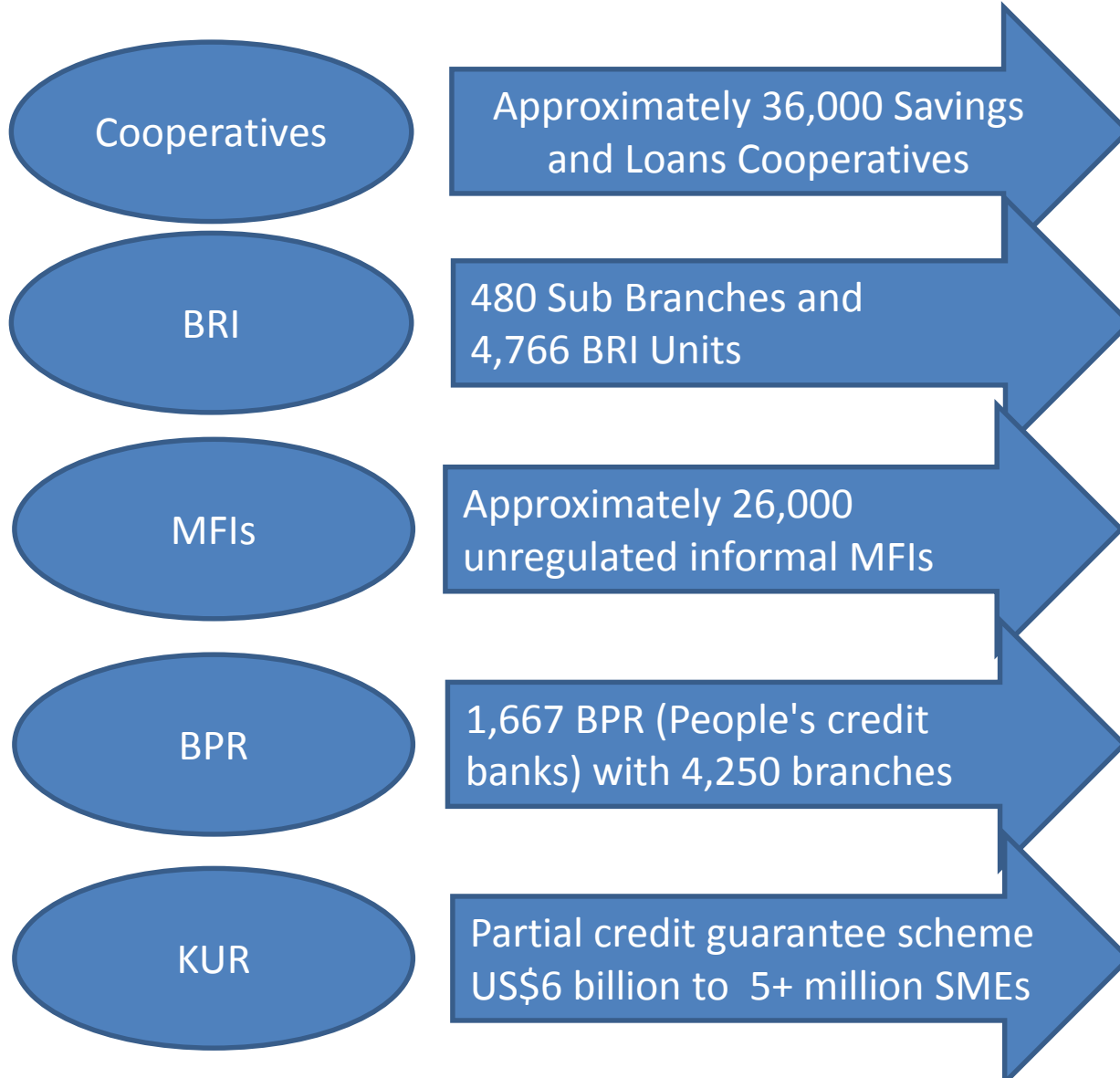
IMPORTANCE OF MICRO AND SMALL ENTERPRISES

Micro & Small Enterprises employ over 41 million workers

Category	No. of Enterprises	Per cent (%) Enterprises	No. of workers	Per cent (%) Workers
Micro & Small	22,515,794	99.03	41,656,198	83.87
Medium & Large	208,887	0.92	7,811,843	15.73
Unclassified	12,107	0.05	202,126	0.41
TOTAL	22,736,788	100.00	49,670,167	100.00

Source: Economic Census 2006 (BPS)

SAVINGS & CREDIT OUTREACH FOR THE POOR & MSMES



INDONESIA'S POVERTY REDUCTION STRATEGY

Cluster 1
Poverty
Programs
Targeted at
Households

Examples:

- Conditional & Unconditional Cash Transfers (CCT & UCT)
- Health Insurance for the poor (Jamkesmas)
- Scholarships for the poor
- Rice for poor families (Raskin)

Cluster 2
Poverty
Programs
Targeted at
Communities

Examples:

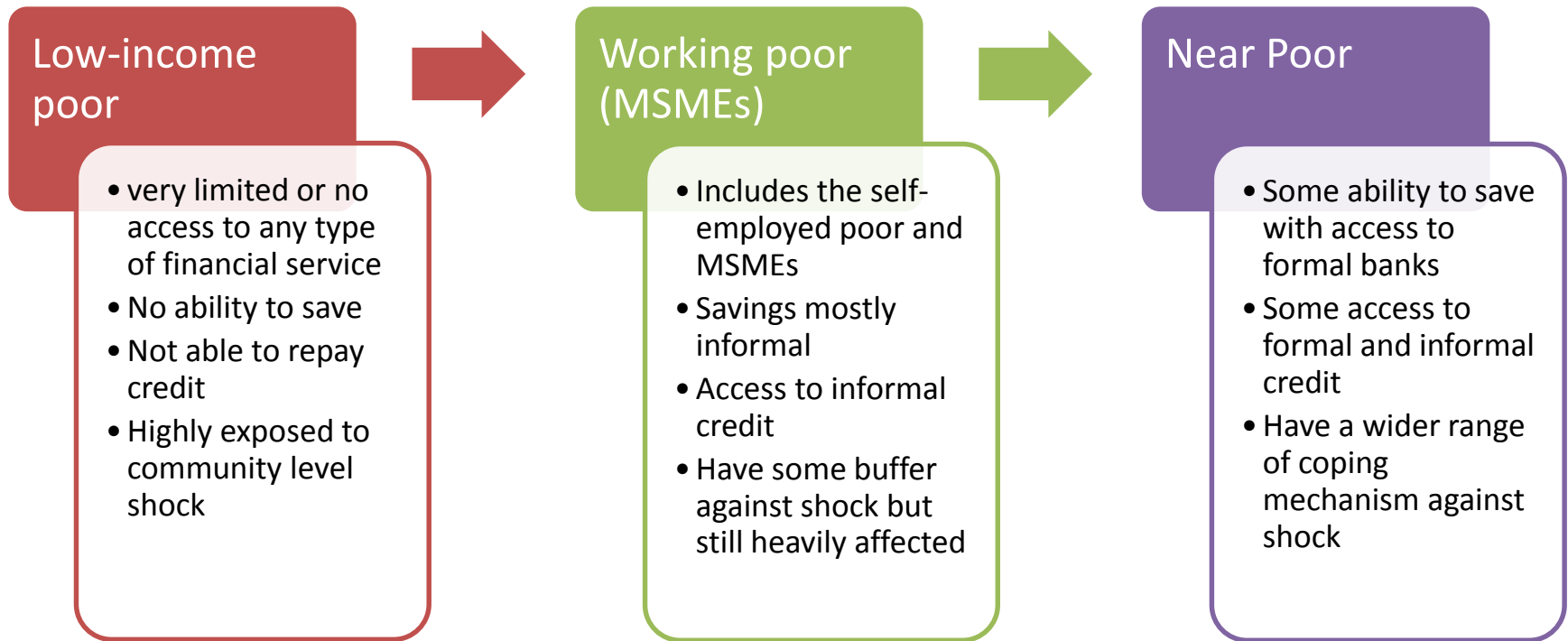
- National Program for community empowerment (PNPM)
 - Channelling Revolving Fund

Cluster 3
Poverty
Programs
Targeted at
MSMEs

Examples:

- People's Business Credit (KUR)

TARGET GROUPS



People living in remote areas

Domestic and international migrant workers

EXISTING GOVERNMENT PROGRAMS FOR FINANCIAL INCLUSION

- Coordinating Ministry of Economic Affairs – KUR**
- Ministry of Cooperatives and MSMEs** – Financing and development of Savings & Loans Cooperatives and MSMEs
- Ministry of State-Owned Enterprise** – Profits allocated for CSR
- Ministry of National Education** – Financial education programs
- Ministry of Finance: Bappepam-LK** – Responsibility for non-bank financial institutions
- Ministry of Home Affairs** – PNPM & MFIs that are Bumdes
- Ministry of Social Affairs** – PKH payments through Giro Pos and bank accounts
- Ministry of Manpower and Transmigration** – Migrant workers programs
- Ministry of Communication and Information** – ICT programs for MSMEs, mobile banking
- Ministry of Health** – Jamkesmas

BANK INDONESIA & FINANCIAL INCLUSION

Bank Indonesia Framework Focusses on:

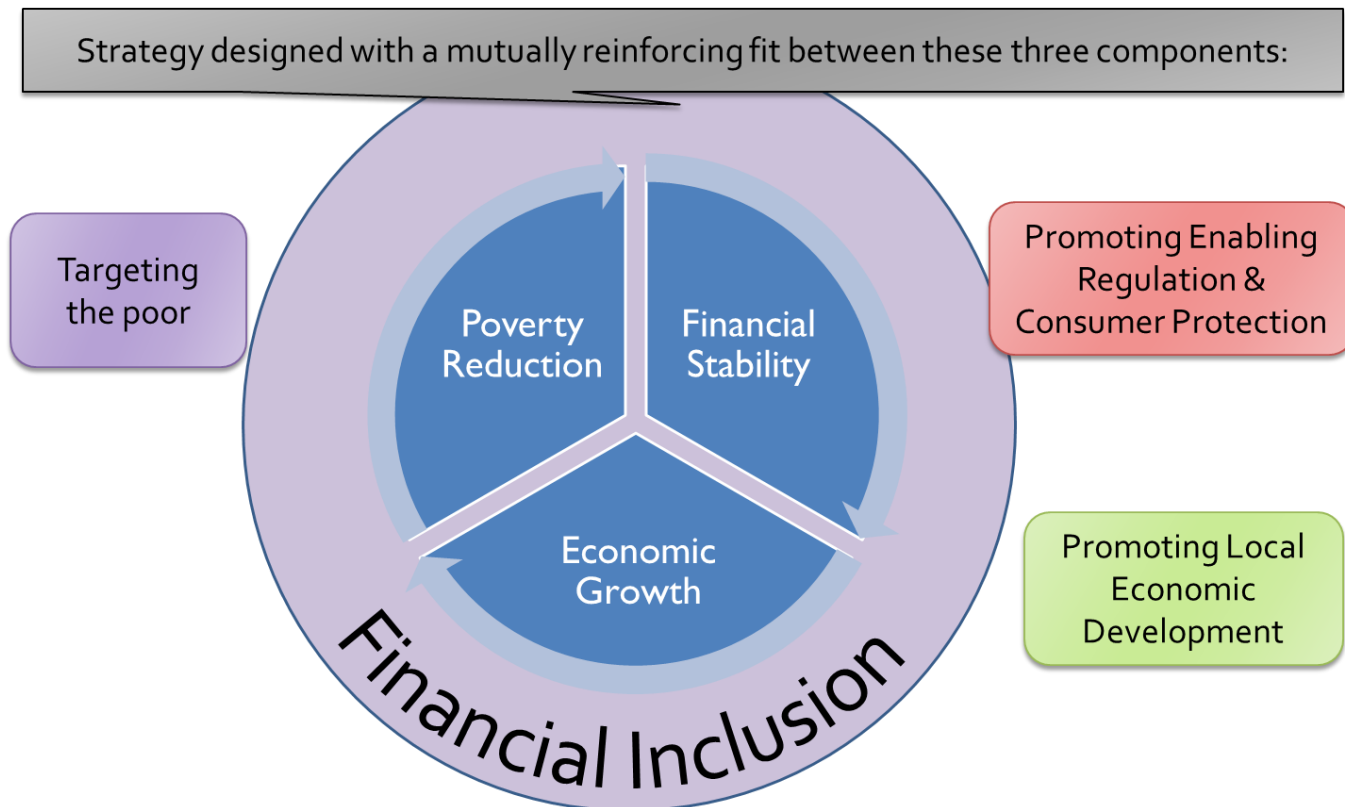
- ✓ Financial education
- ✓ Financial eligibility
- ✓ Supportive policies & regulations
- ✓ Facilitating intermediation
- ✓ Improving distribution channels

Bank Indonesia initiatives include:

- ✓ Financial education activities ("Ayo ke Bank")
- ✓ Promoting no-frills saving under the "TabunganKu" label
- ✓ Providing capacity building for rural banks (BPR)
- ✓ Linkage programs
- ✓ Building an MSMEs database

INDONESIA'S FINANCIAL INCLUSION VISION

To Achieve a Financial System that is Accessible by all Layers of the Community to Promote Economic Growth, Poverty Reduction and Income Equality in Indonesia, and Insuring Financial Stability.



MATCHING SERVICES WITH THE NEEDS OF POPULATION SEGMENT

Low income poor

- No frills bank accounts “TabunganKu”
- Health insurance “Jamkesmas”

Working poor (MSMEs)

- Micro-credit “KUR”
- Improve rural MSMEs capacity to access finance

Near poor

- Financial education and Micro-insurance
- Financial identity number

People in remote areas

- Agent banking
- ICT innovation

Migrant workers

- Holistic product approach (savings, credit & insurance)
- Remittance services

Non-Poor

- Pensions
- Mutual funds, insurance etc.

FINANCIAL INCLUSION INITIATIVES

	Poor/Low Income	Productive poor/MSME	Special Needs		Non-poor
			MWs	Remote	
Savings	No frills account (TabunganKu)		TKI savings & remittance services		
	PKH through savings (BRI)				
Mandatory no frills type account (e.g. TabunganKu) to banks/ NEW Tabunganku					
Credit		Cluster program	KUR TKI		
		PNPM			
		KUR			
		Linkage program			
		Credit rating and establishment of private credit bureau			
Savings + Credit		Link of TabunganKu to start up loan			
	Agent banking				
Insurance	Jamkesmas		TKI insurance		
	Microinsurance development				
	Jamkesmas - microinsurance link				
Savings + Credit + Insurance	Bundle insurance program (Credit/savings + insurance)				
Transfer facilities	G2P - Branchless banking link				
	Mobile money				Mobile banking
Financial Education	Ayo ke Bank & 3P				
	Financial education by local government		Financial education training for MWs & families		
		Financial education for SME			
	Financial education through intra-extra curriculuer activity for students (start at elementary & junior high school) while senior high and university will be in the following stage				
Financial Identity		Financial Identity number			
	Financial Identity number				
	Single identity number (link between financial identity number and e-KTP)				
Regulation	Microinsurance regulation development				
	KYC Assessment to small value customer using outsourcing party				
	Regulation on Financial identity number				

	On going
	Will be implemented
	Potentially implemented

SUPPLY SIDE CHALLENGES

- Indonesia has a banking law and a law of cooperatives - but it does not have specific regulations for savings and loan cooperatives
 - ✓ Who will supervise S&L cooperatives?
 - ✓ What should be done about deposit guarantee for S&L cooperatives?
 - ✓ Promote self regulating organizations through APEX?
 - ✓ What should the role of the Ministry of Cooperatives & SMEs be in relation to S&L cooperatives?
 - ✓ What will the role of OJK be in relation to S&L cooperatives?
- Use of new technologies for improving delivery of services and products
 - ✓ Agent banking
 - ✓ Branchless banking
 - ✓ Mobile money
- Cost effective ways to service large number of MSMEs
 - ✓ Mobile money
- Appropriate services for remote communities
 - ✓ Support MFIs by Improving Regulations

DEMAND SIDE CHALLENGES

- Government programs for MSMEs to improve access to credit
 - ✓ Coordinate and consolidate existing programs
 - ✓ Greater involvement of the private sector through identifying needs and delivery
 - ✓ Better data collection, monitoring and evaluation for evidence based policy making
- How to make it easier for the poor to open savings accounts without exposing the banking system to greater risks
 - ✓ Improve access to financial identification
 - ✓ Review and adjust KYC
 - ✓ Adopt new technologies
- Improving financial education programs
 - ✓ Link to formal education system
 - ✓ Link to other government programs
- Social assistance delivery mechanism
 - ✓ Link financial inclusion with existing social assistance programs

STRUCTURE OF INDONESIA'S NATIONAL STRATEGY

Chapter 1 : Vision & Mission

- Focus on the rationale for a National Financial Inclusion Strategy (NSFI), the principles and approach it follows, vision, mission, and the definition

Chapter 2: Access to Financial System

- Provide the background condition of current access to financial system: access to financial services (savings, credit, insurance, and payment system); the structure of financial system (bank, Sharia, MFI, NBFi); existing government program related to FI; and some demand/supply side problem related to FI policy

Chapter 3: The National Strategy for Financial Inclusion

- Describe the core of the strategy: the general principle, the target groups, the strategy to address financial services to target groups, broad KPIs, institutional support for the implementation of the financial inclusion agenda

Chapter 4: Matrix with responsible agencies and clear targets

- Identify the role of leadership and coordination, list the commitment of each relevant government institution within the implementation matrix (quick wins, medium and long term targets)

Chp. 1 VISION AND MISSION FOR FINANCIAL INCLUSION

1. INTRODUCTION
2. RATIONAL FOR FINANCIAL INCLUSION
3. PRINCIPLES AND APPROACH TO FINANCIAL INCLUSION
4. THE VISION FOR FINANCIAL INCLUSION

Chp. 2 ACCESS TO THE FINANCIAL SYSTEM

1. INTRODUCTION
2. ACCESS TO FINANCE
3. THE FINANCIAL SYSTEM
4. REGULATORY FRAMEWORK
5. FINANCIAL INCLUSION POLICY ISSUES

Chp. 3 THE NATIONAL STRATEGY FOR FINANCIAL INCLUSION

1. INTRODUCTION
2. THE TARGET GROUPS
3. THE STRATEGY: FINANCIAL SERVICES FOR TARGETED GROUPS
4. IMPLEMENTING THE STRATEGY
5. KEY PERFORMANCE INDICATORS (KPIs)
6. LEADERSHIP AND COORDINATION

Chp. 4 THE ROAD MAP

1. INTRODUCTION
2. ON GOING PROGRAM
3. QUICK WIN
4. NEW PROPOSED ACTIVITIES
5. THE IMPLEMENTATION MATRIX
6. TIME LINE



National Strategy for Financial Inclusion Fostering Economic Growth and Accelerating Poverty Reduction

To Achieve a Financial System that is Accessible
by all Layers of the Community and to Promote Economic Growth,
Poverty Reduction and Income Equality



THE WAY FORWARD

The context

Indonesia as part of the G20 meeting at Los Cabos committed to financial inclusion and to formally inaugurate its Financial Inclusion Strategy this year

Indonesia, together with Mexico and Chile, signed a joint commitment for a reciprocal learning program on financial inclusion

The actions

Establish a National Committee or Council responsible for implementing the National Strategy for Financial Inclusion

The President formally launch the National Strategy for Financial Inclusion

THANK YOU

