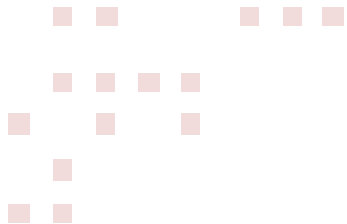




MICROFINANCE POLICY AND REGULATION IN BANKING SECTOR

BRINGING INDONESIA'S MICROFINANCE AND FINANCIAL INCLUSION TO THE WORLD, 15 MARET 2016



MULYA E. SIREGAR
Deputy Commissioner of Banking Supervision I

Presentation Outline

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Indonesia Economy Overview

2

The Role of MSME in Indonesia

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Financial Inclusion

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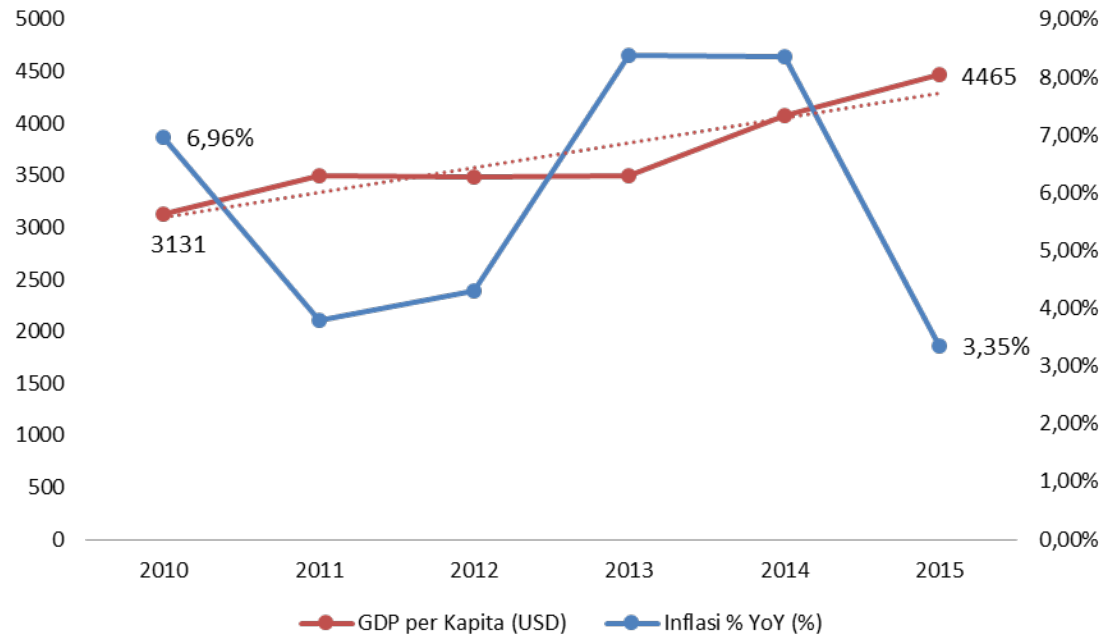
Policy Responses

6

Key Challenges

From an economic perspective, growth of Indonesia's economy continues to be promising ...

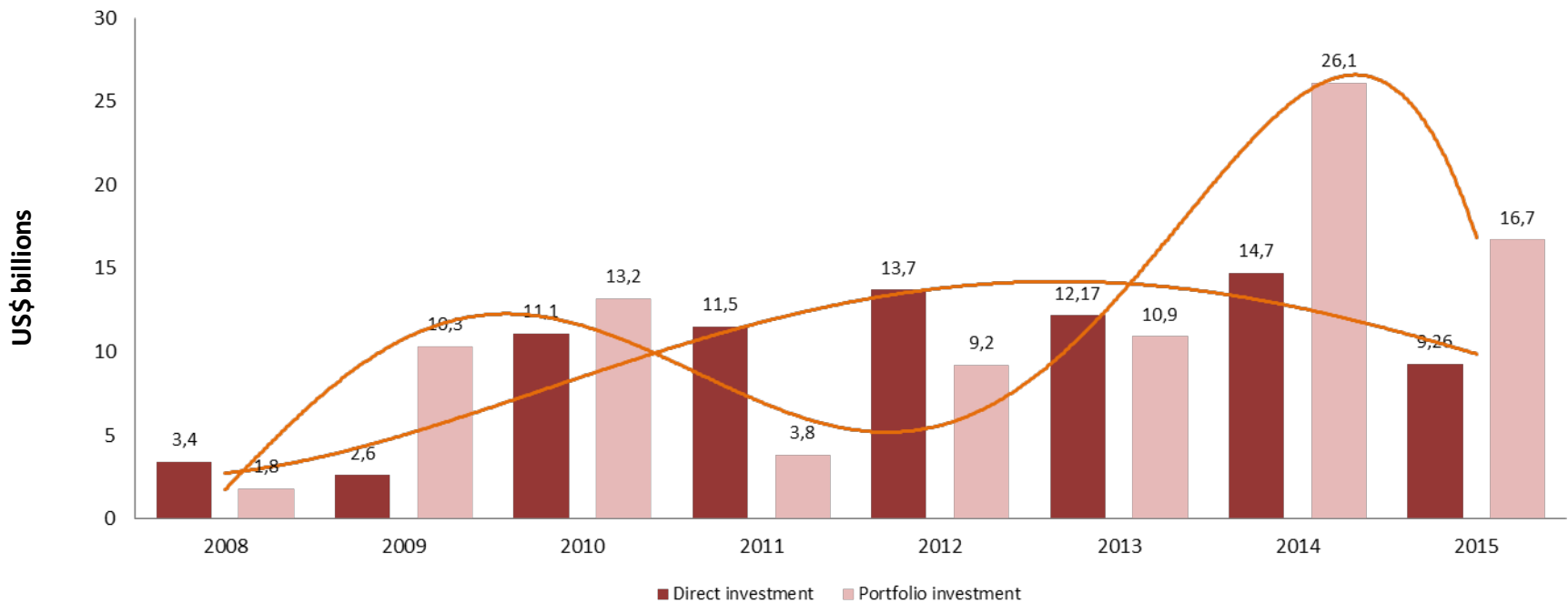
Inflation and GDP per capita



The economic growth of Indonesia remains to be promising with stable inflation. GDP per capita will also continue to rise along with the development of middle class in Indonesia.

- ❑ GDP per capita increase from USD 3,131 to USD 4,465 in 5 years
- ❑ Inflation rate relatively stable and under two digits during 2010 - 2015

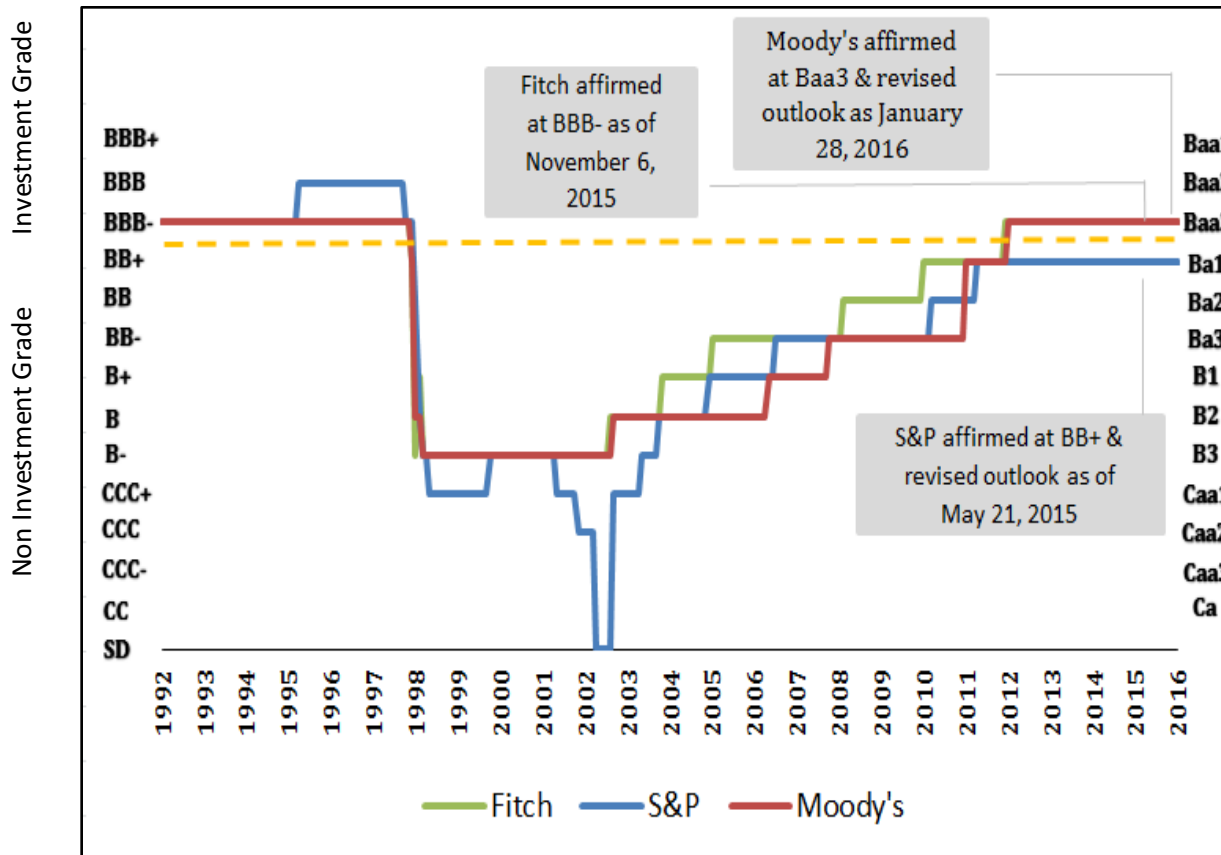
Still attractive even during unstable global economic conditions



- Foreign direct investment CAGR at 15,4% during 2008-2015 and
- **Portfolio investment** though more volatile but still have 37,5% CAGR

*CAGR = Compound Annual Growth Rate

... while in terms of investment, Indonesia still has ample opportunity to develop



Indonesia has taken over India as the #2 investment destination in Asia – The Economist, Asia Business Outlook Survey 2015.

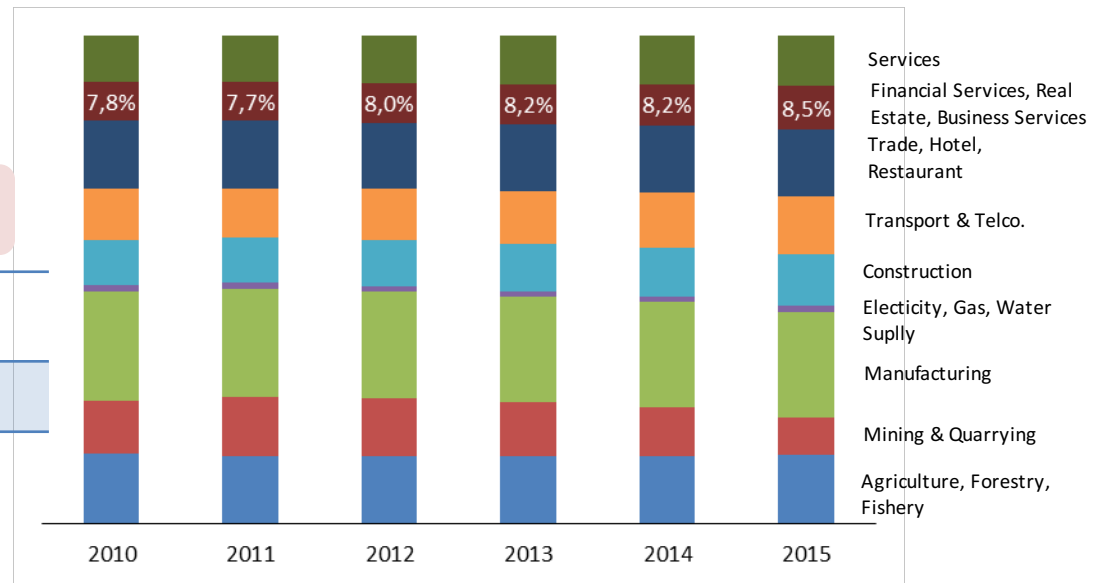
Projection of Indonesian Economy

Projection 2015 – 2020

Projection 2020 – 2025

Economic growth	6 - 8% p.a	
GDP/capita	2019 : >USD 6.000	> USD 12.000

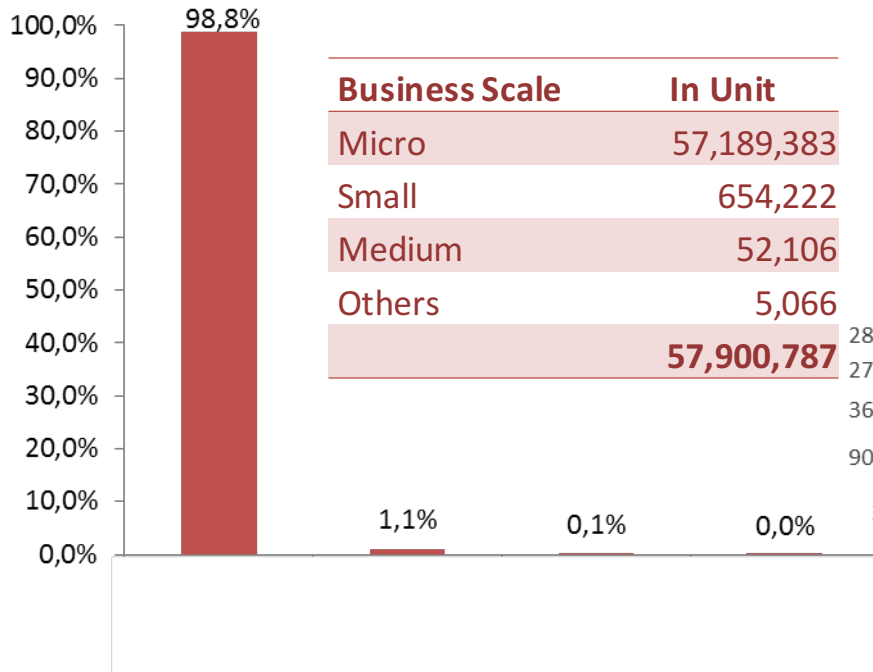
Gross Domestic Product



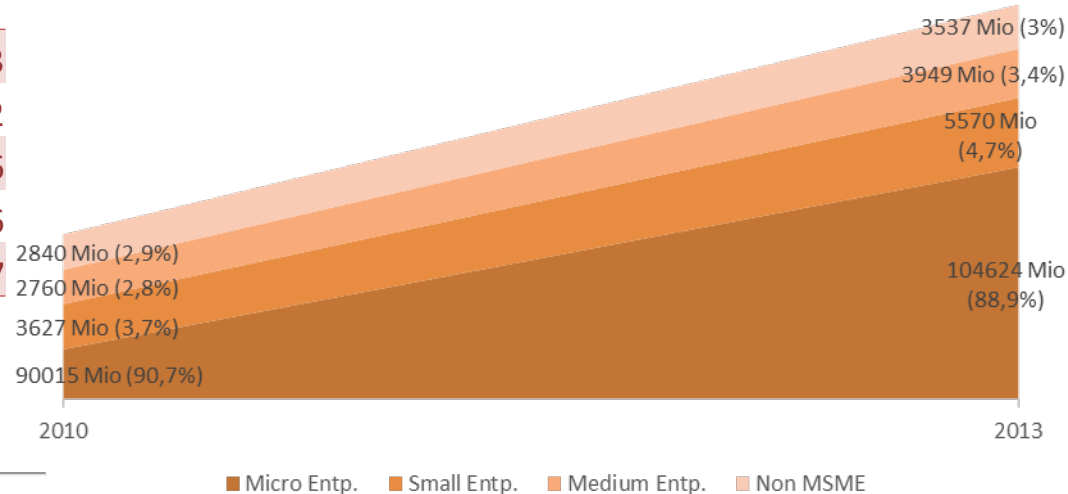
- ❖ Economic growth at 6 - 8% during 2015 – 2020 and projected to continue grow even further to create > USD 6.000 in 2019 and > USD 12.000 during 2020-2025

The Role of MSME on Indonesia economy

Business entity



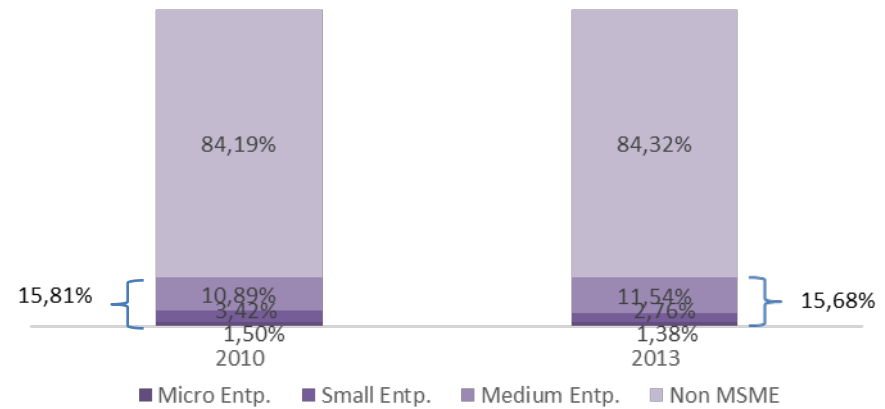
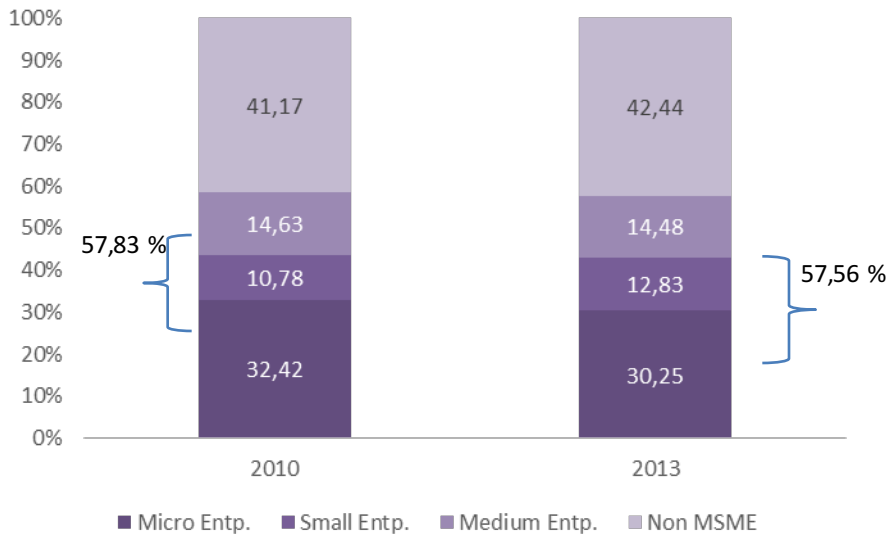
MSME contribution to employment



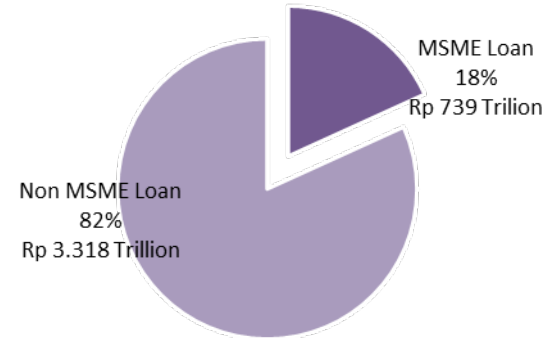
Source: Ministry of Cooperatives and SMEs, 2013

Micro business entity covers more than 98,8% of all businesses entity and it is support the employment of more than 104 million of Indonesian people

MSME Proportion contribution to Non oil export value to GDP



Share of MSME Loan To Total Loan...

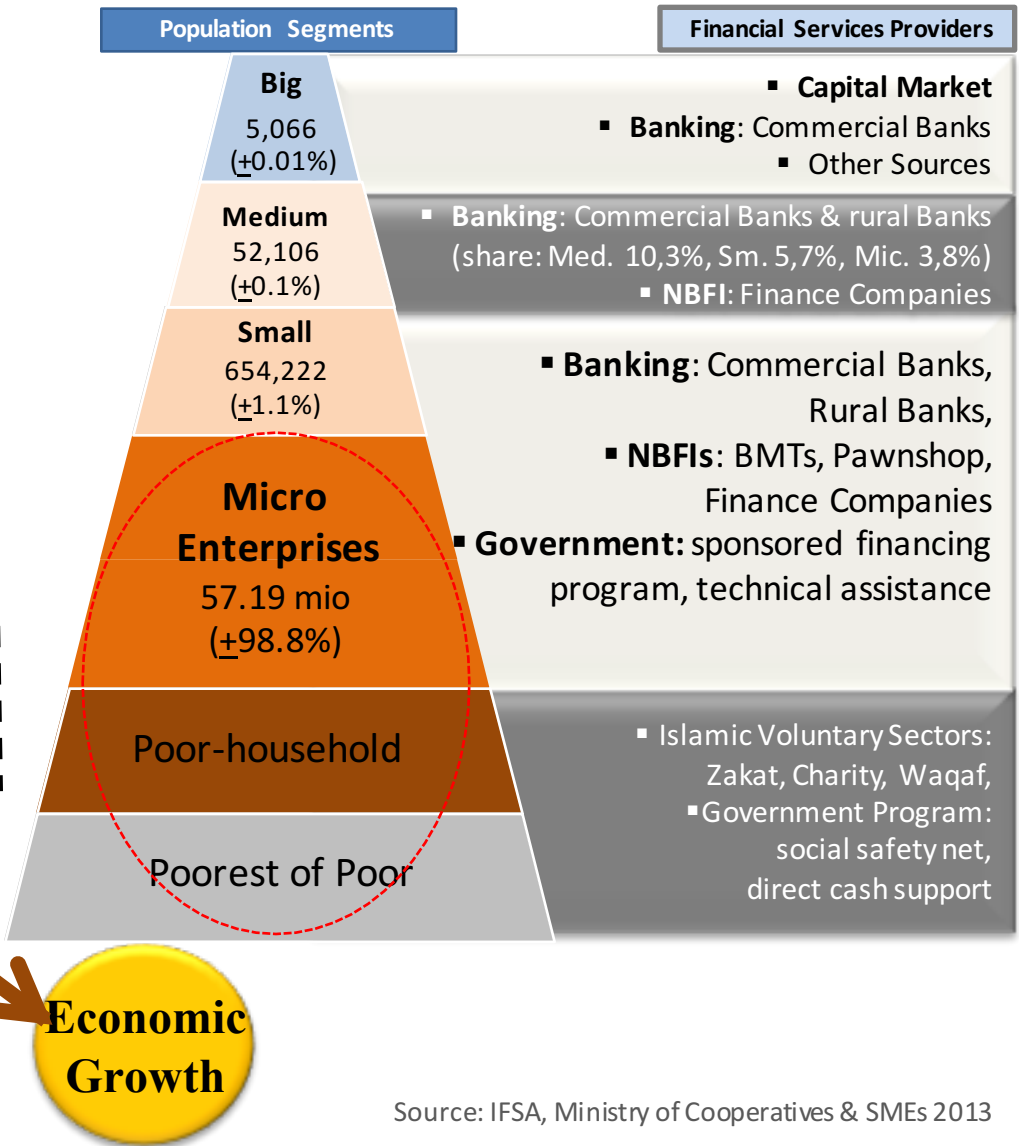
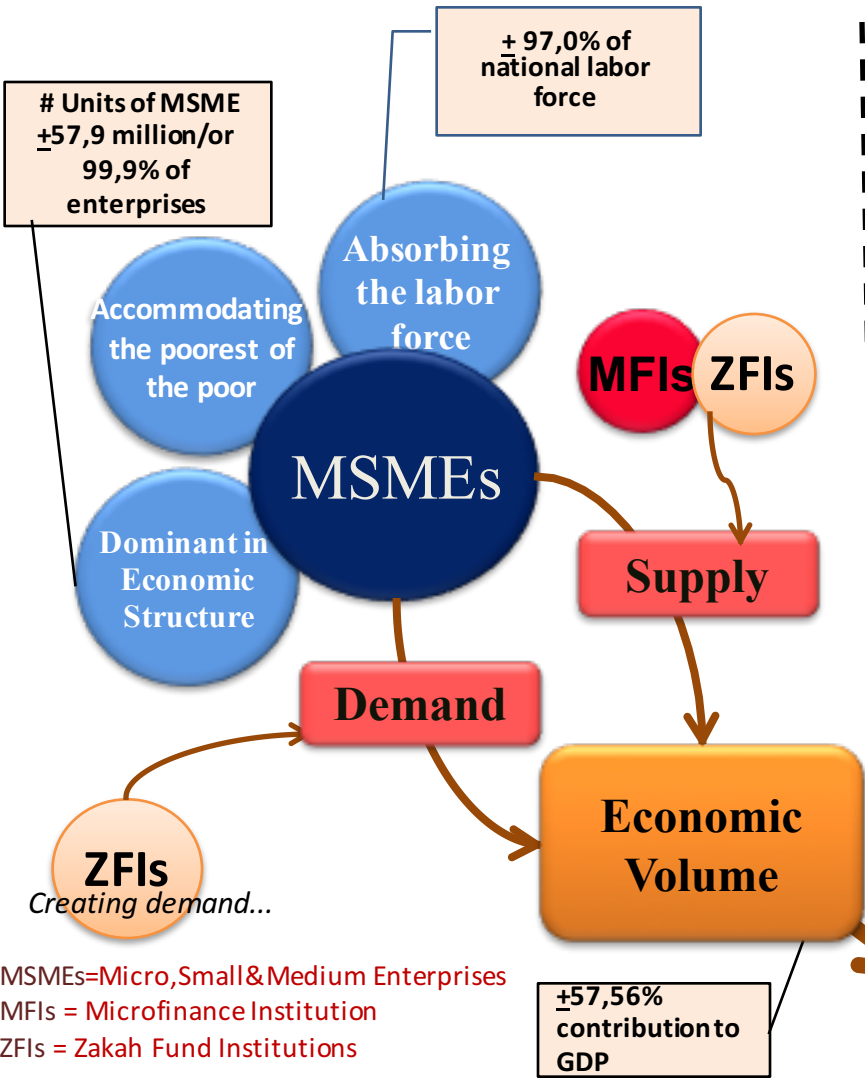


Source: Ministry of Cooperatives and SMEs, 2013

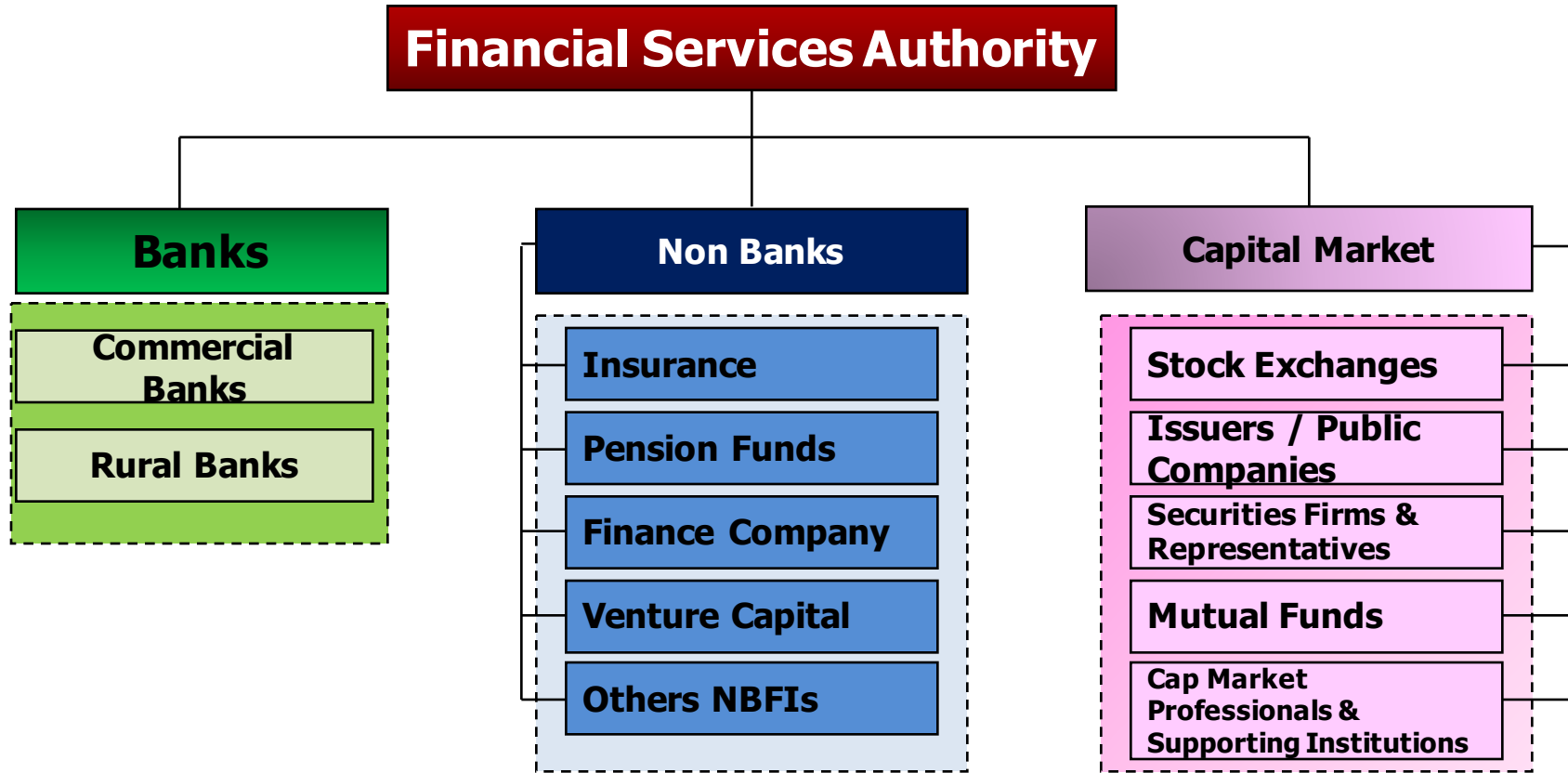
- MSME contribution to GDP amounted to 57,56% while 0,1% of big businesses entity contribution amounted to 42,44% of Indonesia GDP.
- Although the MSME excel in terms of amount which is around 99% of total business entity, however they only cover around 15,68% of Non-oil export value.
- Loan granted to MSME segment is only 18% of Total Loan granted by Banks.

The Role of MSME in Indonesia Cont'd

The Significance of Micro-Small & Medium Enterprises: *case of Indonesia*



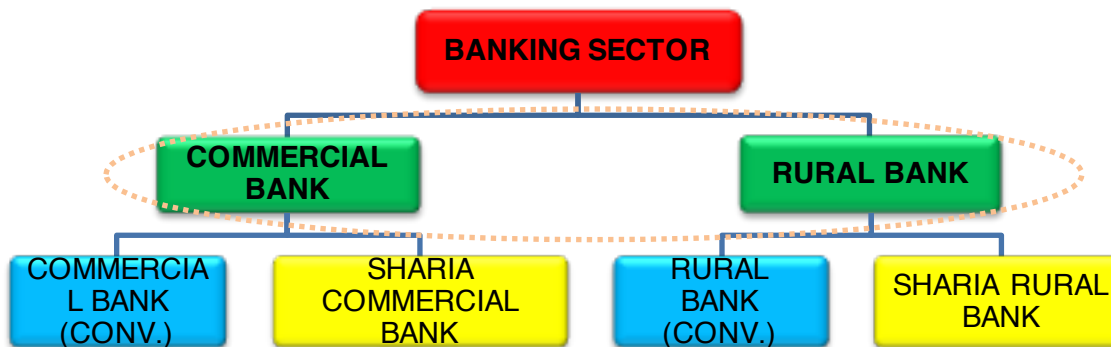
Source: IFSA, Ministry of Cooperatives & SMEs 2013



- ❖ The main function of OJK is to promote and organize a system of regulations and supervisions that is integrated into the overall activities in the financial services sector.
- ❖ OJK performs its regulatory and supervisory duties over financial services activities in banking, capital markets, and non-bank financial industries sectors.

INDONESIA BANKING SECTOR BASED ON THE BANKING ACT

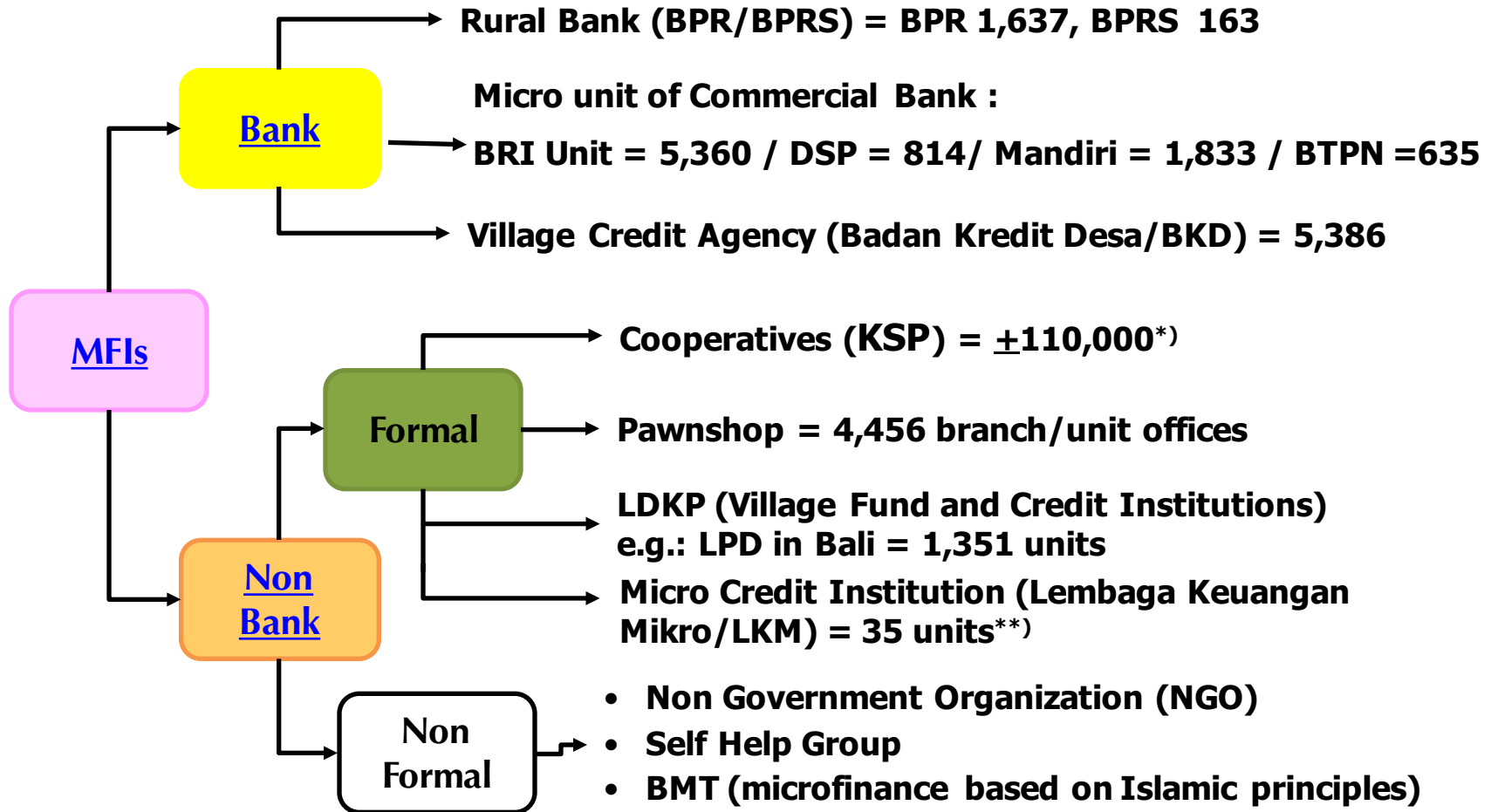
Regarding the Banking Act No.7 of 1992 as amended by Act No.10 of 1998 :



No.	Category	No. of Banks	No. of Offices	Asset (bio IDR)	Market Share (%)
1	Commercial Banks (conventional)	118	32,963	5,836,321	93,50
2	Rural Banks (conventional)	1,637	5,100	101,713	1,63
3	Sharia Commercial Banks (BUS&UUS)	34	2,301	296,262	4,75
4	Sharia Rural Banks*)	163	446	7,739	0,12
Grand Total		1,952	40,810	6,242,035	100

- As of December 2015, there are more than 40,000 bank offices and branches around Indonesia to serve the society. However, still it's not enough to cover Indonesia archipelago which are more than 13,000 islands
- Commercial Banks and Rural Banks (both conventional and sharia) provide MSME loan

Microfinance Institutions in Indonesia



Indonesia Financial Sector Overview Cont'd

Indonesian Islamic financial system may provides wide spectrum of services, yet enhancing financial inclusion requires more integration of services, as well as infrastructure & regulatory improvement.

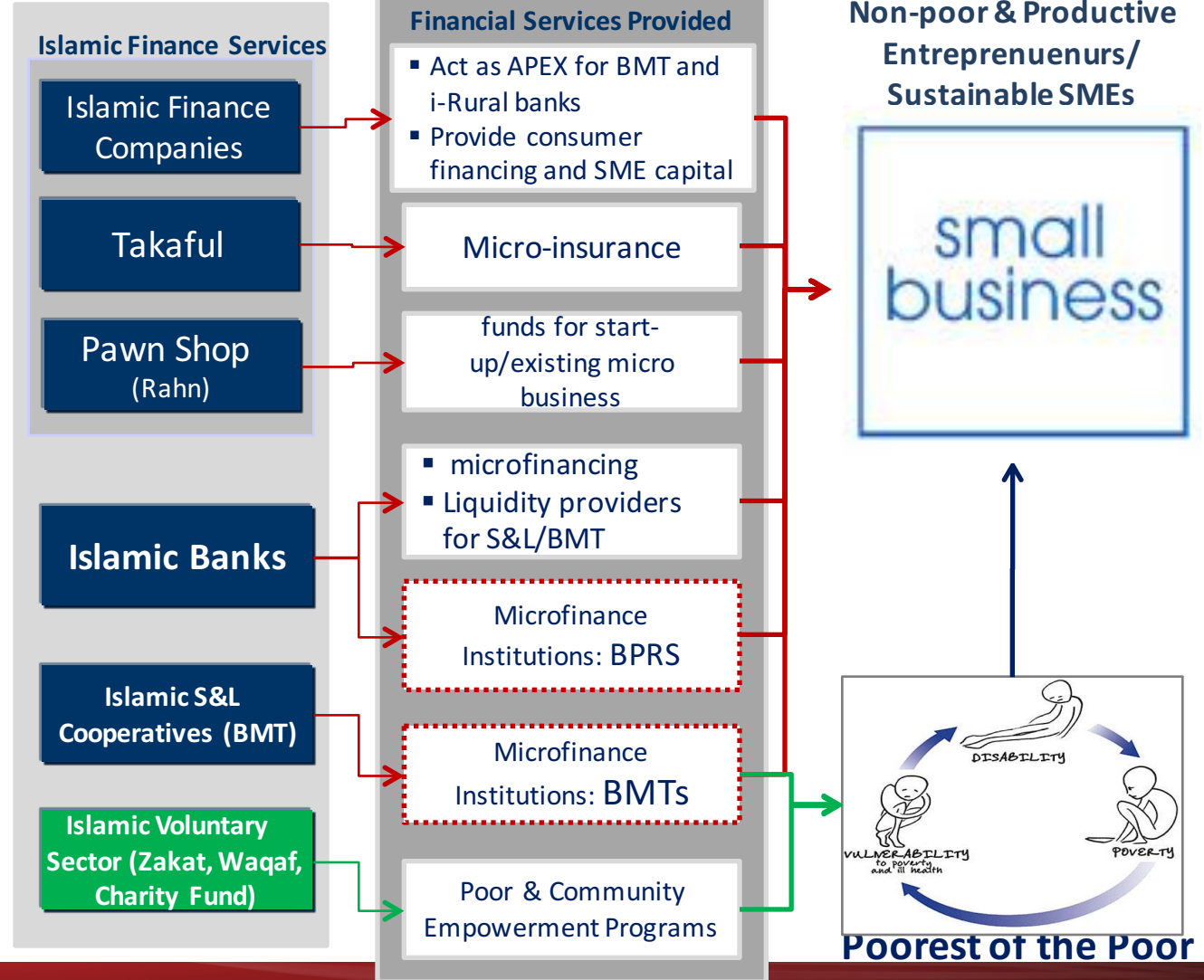
Islamic Finance Co.	3
Sharia Unit of Finance Co.	41
Islamic Venture Co.	4
TOTAL	48

Islamic Life Takaful	3
Islamic Non Life Takaful	2
Sharia Unit of Life Takaful	18
Sharia Unit of Non Life Takaful	23
Sharia Unit of Re-Takaful	3
TOTAL	49

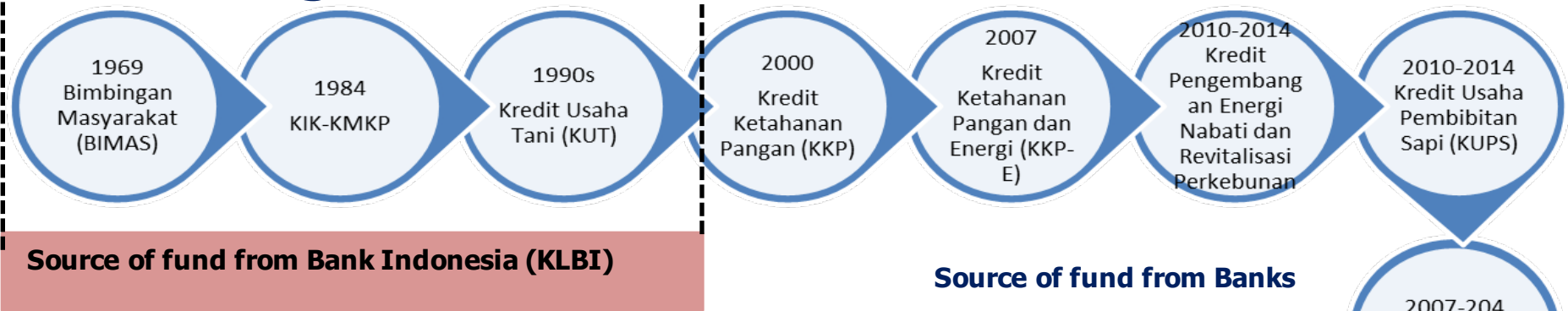
Islamic Bank	12
Sharia Unit of Conventional Banks	22
Islamic Rural Banks	163
TOTAL	187

Islamic S&L Cooperatives (BMT)	> 5,500
S&L Cooperatives (Financial Sector)	71,365
Conventional Cooperatives (Total)	187.598

Formal Zakat, Infaq and Charity Fund Institutions	>500
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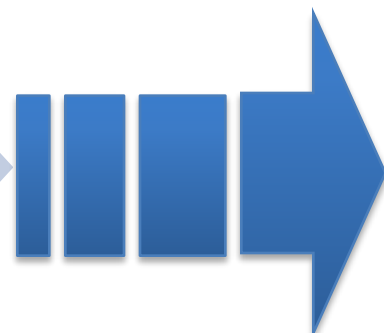
Credit Program....



Regulation related to Microfinancing

SK Dir BI No 26/24/Kep/Dir Tahun 1993

Banks should grant loan to small segment (KUK) no less than 20% of total loan portfolio (exclude loan sourced from KLBI) and it would affect soundness level assessment of the bank



PBI 14/22/2012

Bank should grant loan to MSME sector no less than 20% of total loan portfolio in 2018. The achievement ratio of MSME loan increase gradually, 5% in 2015, 10% in 2016, 15% in 2017, and 20% in 2018.

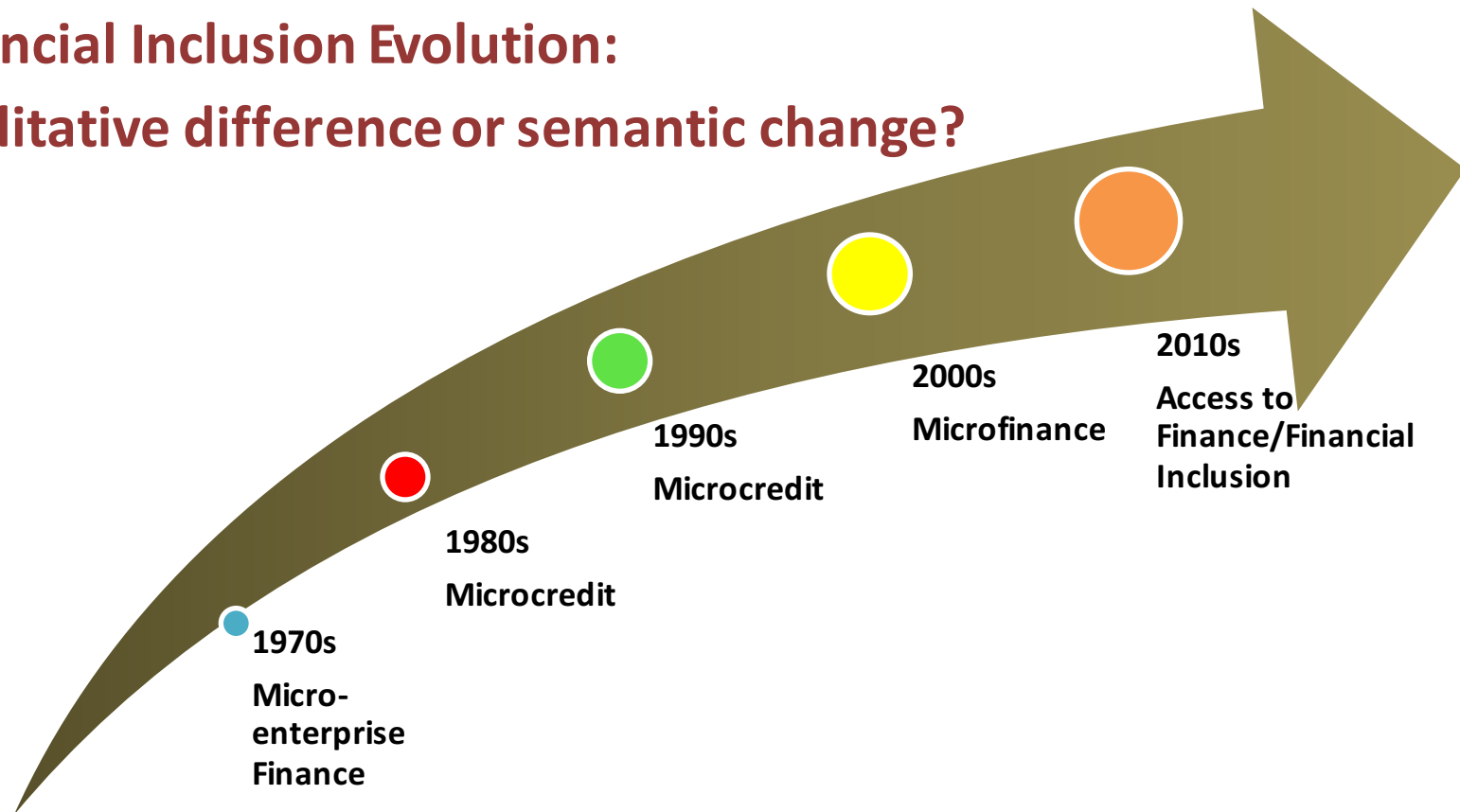
Bank Indonesia may give technical assistance in form of research, training, providing of information, and facilitation

PBI 17/12/2015

Additional incentives and disincentives of preceding regulation :

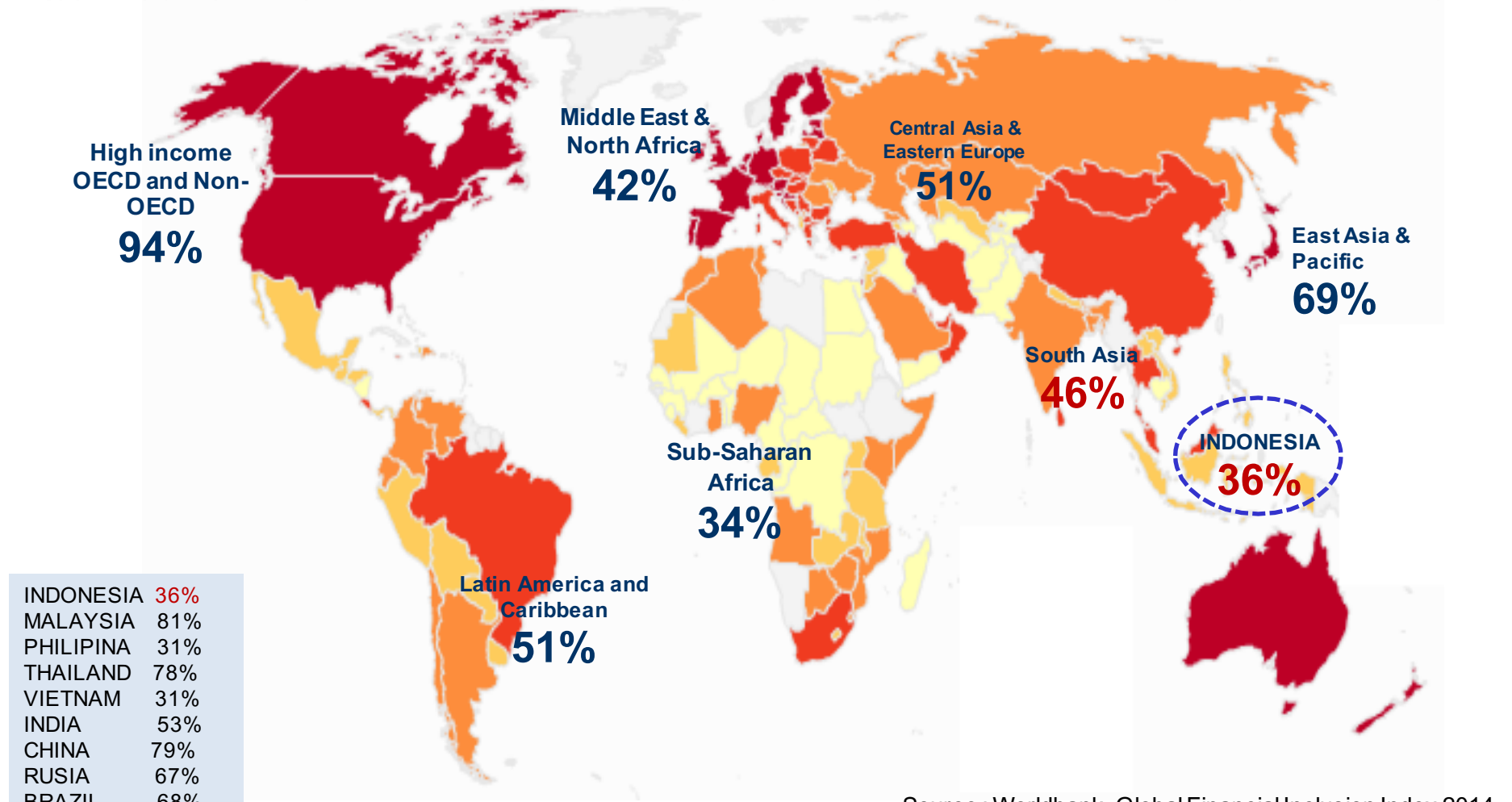
1. Relaxation on upper-bound of LFR (92% to 94%) in case of bank could achieve Ratio of MSME Loan earlier than targeted timeline
2. Reduction on return of minimum reserve requirement in case of bank could not meet the target of MSME Loan

Financial Inclusion Evolution: Qualitative difference or semantic change?



- Financial inclusion have started to become the common term around 2010 and have quite long history behind
- At the initial stage during 1970-1980, world economy familiar with Microcredit which is specifically to provide loans to the poor or unemployed individuals.
- The changes not merely on terms but also the paradigm of Microfinance to Financial Inclusion are now more universal concept. It is also to improve living conditions for the poor and to deliver financial access to the unbanked.

- **FI Index** → Adult with an account at a formal financial institution (saving or credit)
- Although banking industry growth satisfactorily, still It can't meet the demand and cover all the Indonesia island



Source : Worldbank, Global Financial Inclusion Index 2014



Green	Overbanked 1
Yellow	Underbanked
Red	Low Equilibrium Banked
Purple	Medium Equilibrium Banked
Orange	Overbanked 2 (Jawa+Bali)
Blue	Overbanked 3 (DKI Jakarta)

Still Low access to the financial services at the area outside Java and Bali.
Over access to the financial services in Java and Bali.

Source : BRANCHLESS BANKING SARANA DISTRIBUSI FINANCIAL INCLUSION, Bank Indonesia October 2012

Banking Strategic Direction
to support the national economy

Solid

- Strong bank capitalization
- Good banking sector governance
- Solid risk management

Inclusive

- Accessible banking for all society through commercial, rural, and Islamic banks
- Nationwide banking network

Progressive

- Pro-growth, pro-job, pro-poor, and pro-environment banking
- Banking products that adapt the needs and growth of the society
- Balanced portfolio, especially to support the 8 priority sector: agriculture, mining, energy, manufacturing, marine, tourism, telematics, strategic area

Capital Market and Non Bank Financial Industry Strategic Direction

Easily accessible,
Efficient and
Competitive Source of
Funds

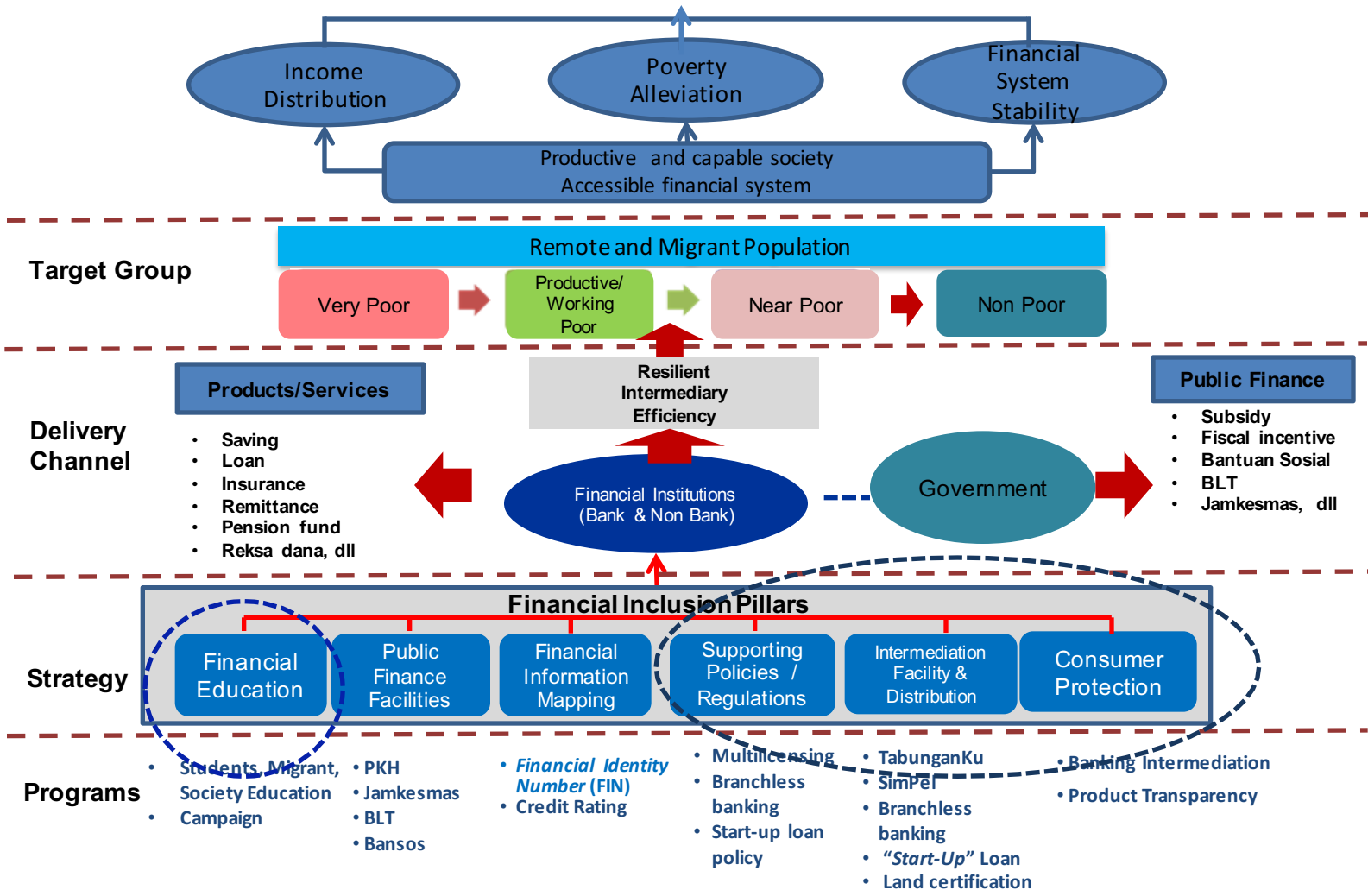
Conducive and
Attractive Investment
Climate as well as
Reliable Risk
Management

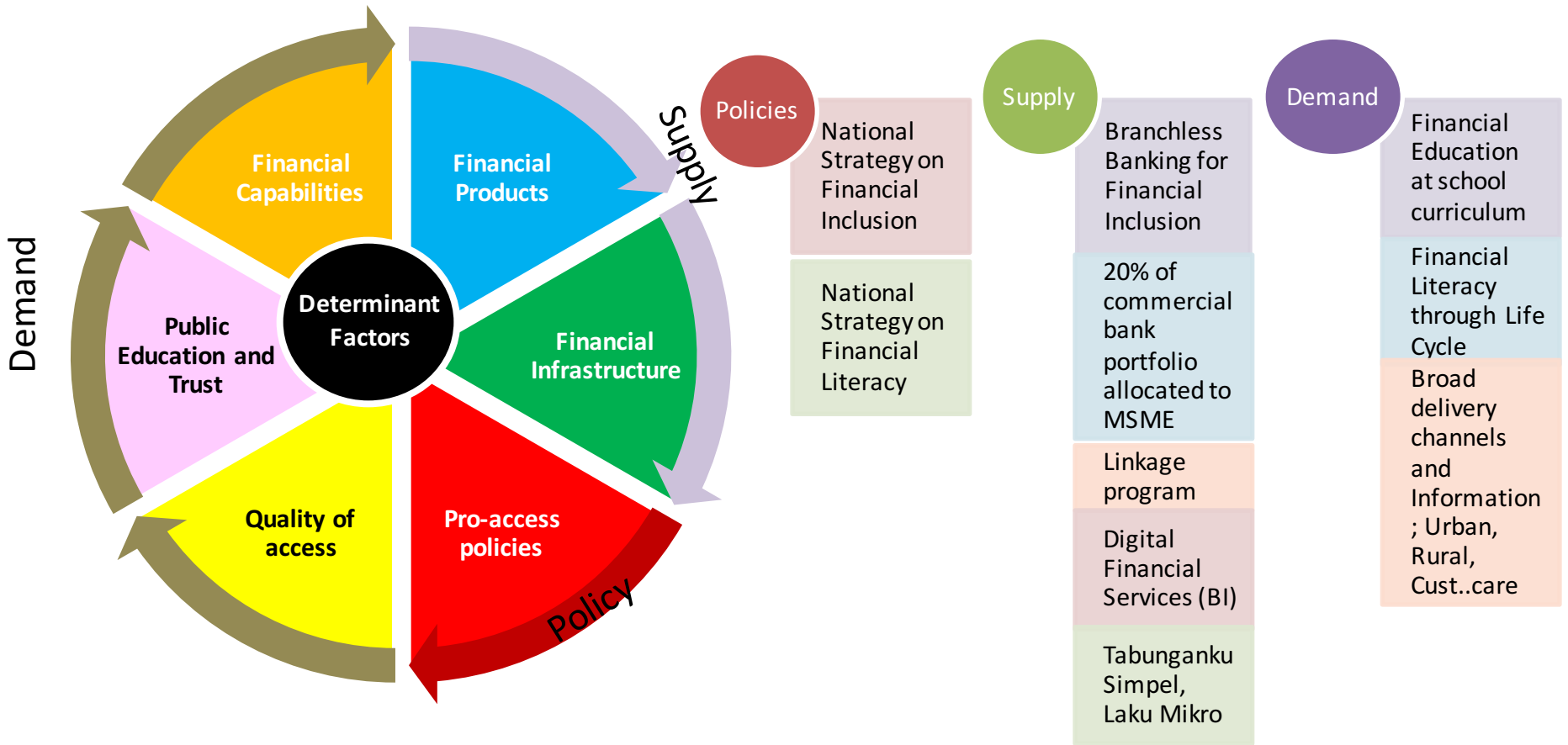
A Stable, Resilient, and
Liquid Industry

Fair and Transparent
Regulatory Framework
which Guarantees Legal
Certainty

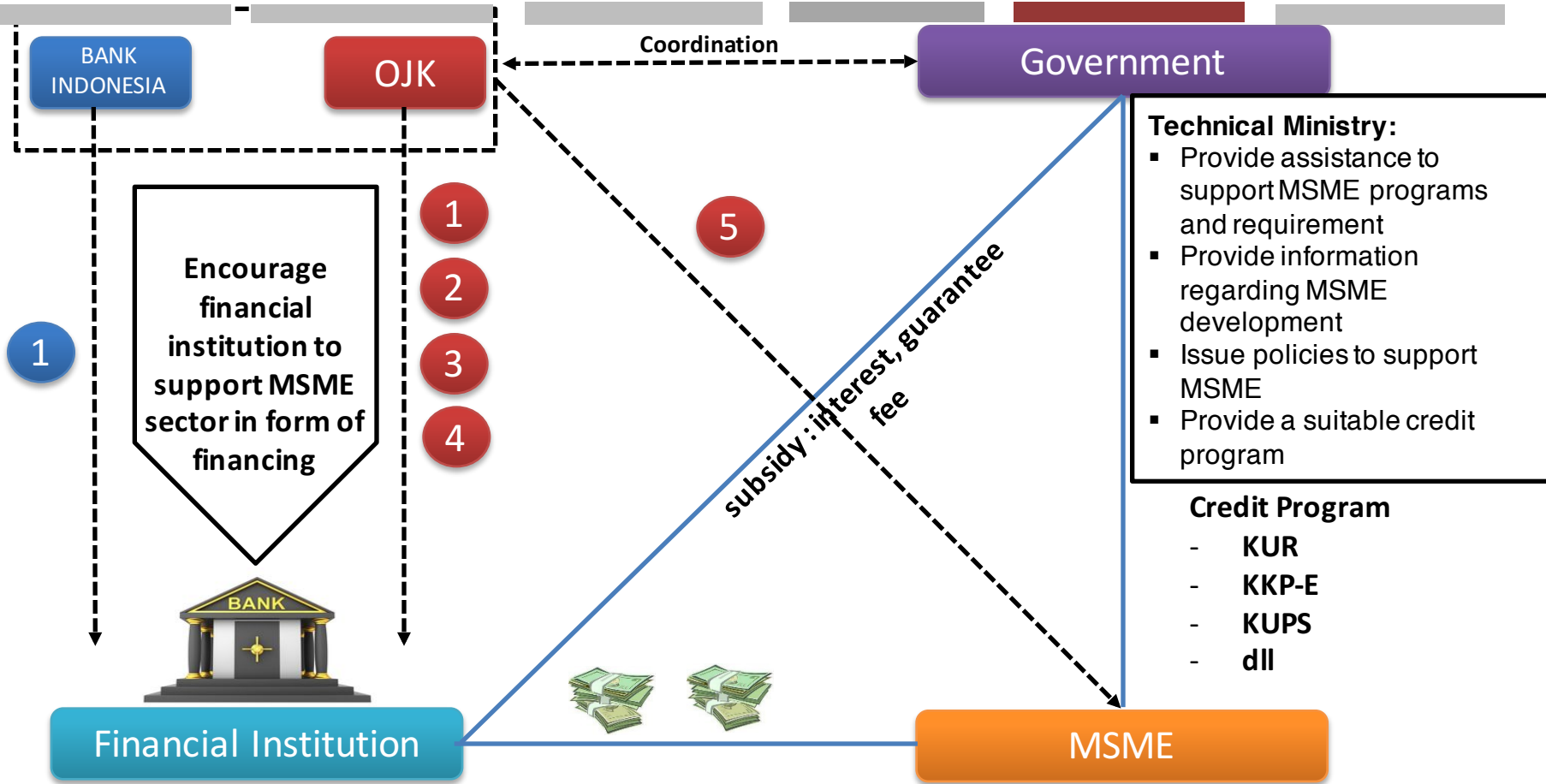
A Credible, Reliable
International Standard
Infrastructure

Main Objective *To achieve economic welfare with targets of poverty alleviation, income distribution & financial system stability delivered through accessible financial system for all groups of society*





Financial inclusion is an integrated and interrelated program involving; Demand, Supply and Policy.



- | | |
|---|--|
| 1 Relaxation on Credit Risk-Weighted Credit for MSM sector | 4 JARING Program |
| 2 Relaxation on Asset Quality Assessment | 5 Other OJK's Program (IKNB, EPK, dan Pasar Modal)* |
| 3 Laku Pandai | 1 20% bank portfolios should be lent to MSME sector in 2018 |

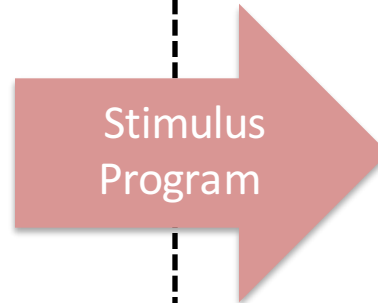
*) Such as OJK Proksi, Program PAKD, MSME Infrastructure Development for Go Public and Simplification of IPO Process of MSME

Bank Indonesia Circular Letter No. 13/6/DPNP Tahun 2011
Guidance for Risk-Weighted Asset Calculation



Risk-Weighted

- Credit Risk-Weighted for Government is 0%
- Credit Risk-Weighted for SMEs and Retail Portfolio is 75%.
- Credit Risk-Weighted for firms which guaranteed by State-Owned Guarantor is 20%
- Credit Risk-Weighted for firms which guaranteed by Non State-Owned Guarantor is 50% and 100%



OJK Regulation No. 11/POJK.03/2015 (BUK) & POJK No. 12/ POJK.03/2015 (BUS)

Policy

Lowering credit risk-weighted for MSMEs credit which guaranteed by Regional Insurance Company 50%

Policy Objectives

- 1 To encourage Regional Credit Insurance company in loan disbursement to MSME sector
- 2 To encourage banks to spur loan growth in MSME sector

Islamic Banking

OJK Circular Letter
No.34/OJK.03/2015
21 Decemberr 2015

Guidance for Risk-Weighted
Asset Calculation

Risk-Weighted

Reduction on risk-weighted to micro-small enterprise which has source of fund from *wadiah, qardh, paid in capital, mudharabah mutlaqah* based on revenue sharing, from **85%** to **75%**.

OJK Regulation
No.6/POJK.03/2016
21 December 2015

Business Activity and
Branch Networking

**Relaxation on Common
Equity Tier 1 Requirement**

Relaxation on common equity tier 1 requirement on opening branch office for islamic bank which has minimal 20% MSME portofolio to total loan or 10% MSE portfolio to total loan.

OJK Regulation No. 11/ OJK Regulation No.03/2015 (BUK) & POJK No. 12/ POJK.03/2015 (BUS)

Policy

Relaxation on asset quality determination based only on the **timeliness of principal and/or interest payment**

Policy Objective

To encourage banks to spur loan growth in MSME sector based only on the **timeliness of principal and/or interest payment**

Prior to Relaxation

MSME Credit Quality Assessment in the amount of \leq Rp 1 Bn

MSME Credit Quality Assessment in the amount of Rp 1 Bn - Rp 20 Bn

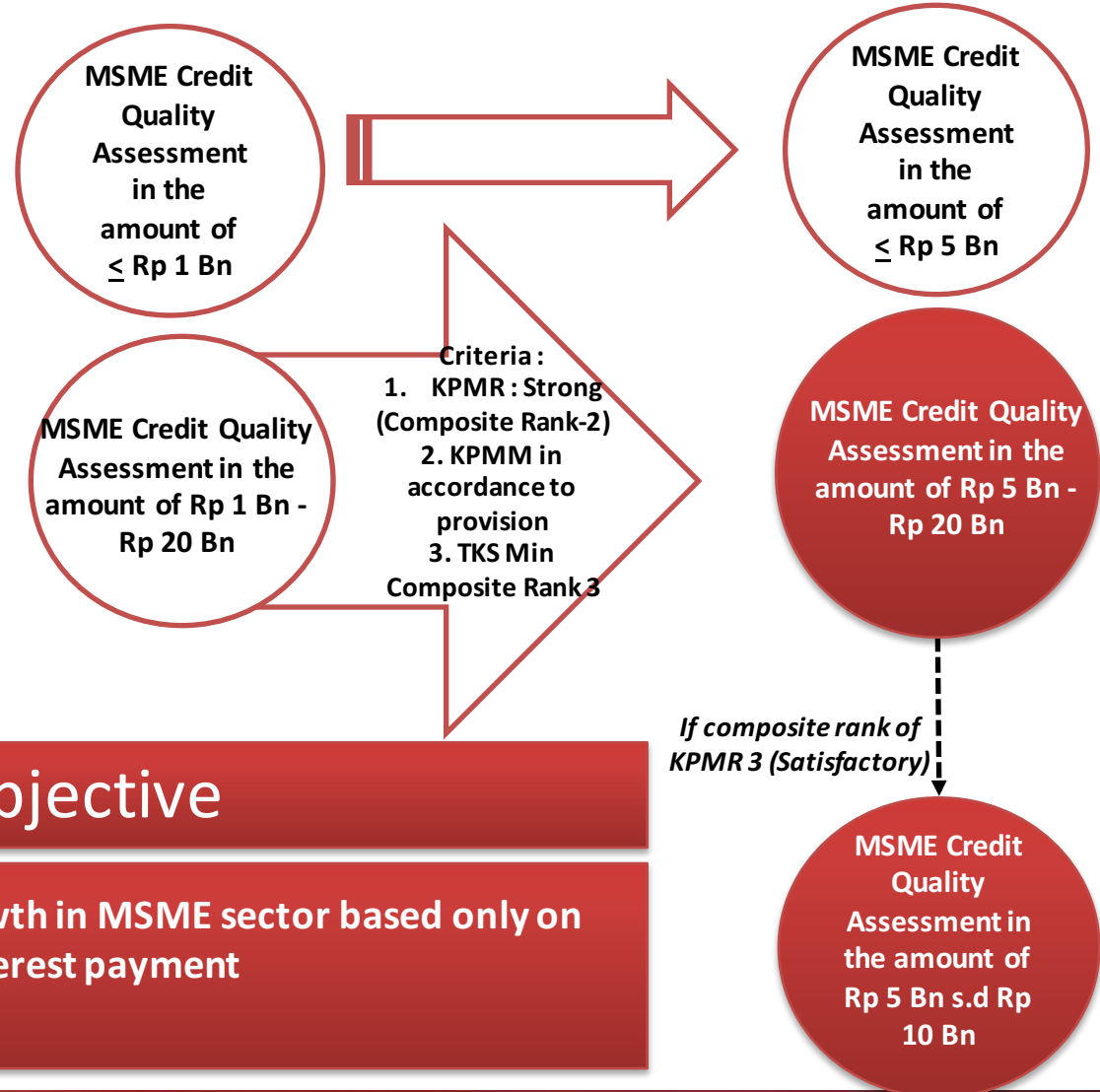
- Criteria :
1. KPMR : Strong (Composite Rank-2)
 2. KPMM in accordance to provision
 3. TKS Min Composite Rank 3

MSME Credit Quality Assessment in the amount of \leq Rp 5 Bn

MSME Credit Quality Assessment in the amount of Rp 5 Bn - Rp 20 Bn

If composite rank of KPMR 3 (Satisfactory)

MSME Credit Quality Assessment in the amount of Rp 5 Bn s.d Rp 10 Bn



Definition of KUR

KUR is credit/working capital and/or investment financing schemes specifically dedicated to micro, small and medium enterprises in the productive enterprise sector, where enterprises are unable to meet certain requirements set by banks (not yet bankable).

Objectives of KUR

- To increase and expand the distribution of KUR to productive sector.
- To increase the capacity of competitiveness on MSMEs.
- To support economy growth and employment absorption.

Interest Rate

- Interest rate to end-user 9%
- Interest rate subsidy:
 - ✓ KUR Mikro 10%
 - ✓ KUR Ritel 4,5%
 - ✓ KUR TKI 15%

The role of OJK on KUR Program

To increase the amount of KUR supplier in 2016 compared to 2015 with increasing the role of banking industry to supply KUR. At this time, private and foreign bank are involved in KUR distribution.

LAKU PANDAI (Branchless Banking for Financial Inclusion)



DEFINITION

Program of Banking Services and/or other Financial Services Providing through other parties partnership and support of IT infrastructure

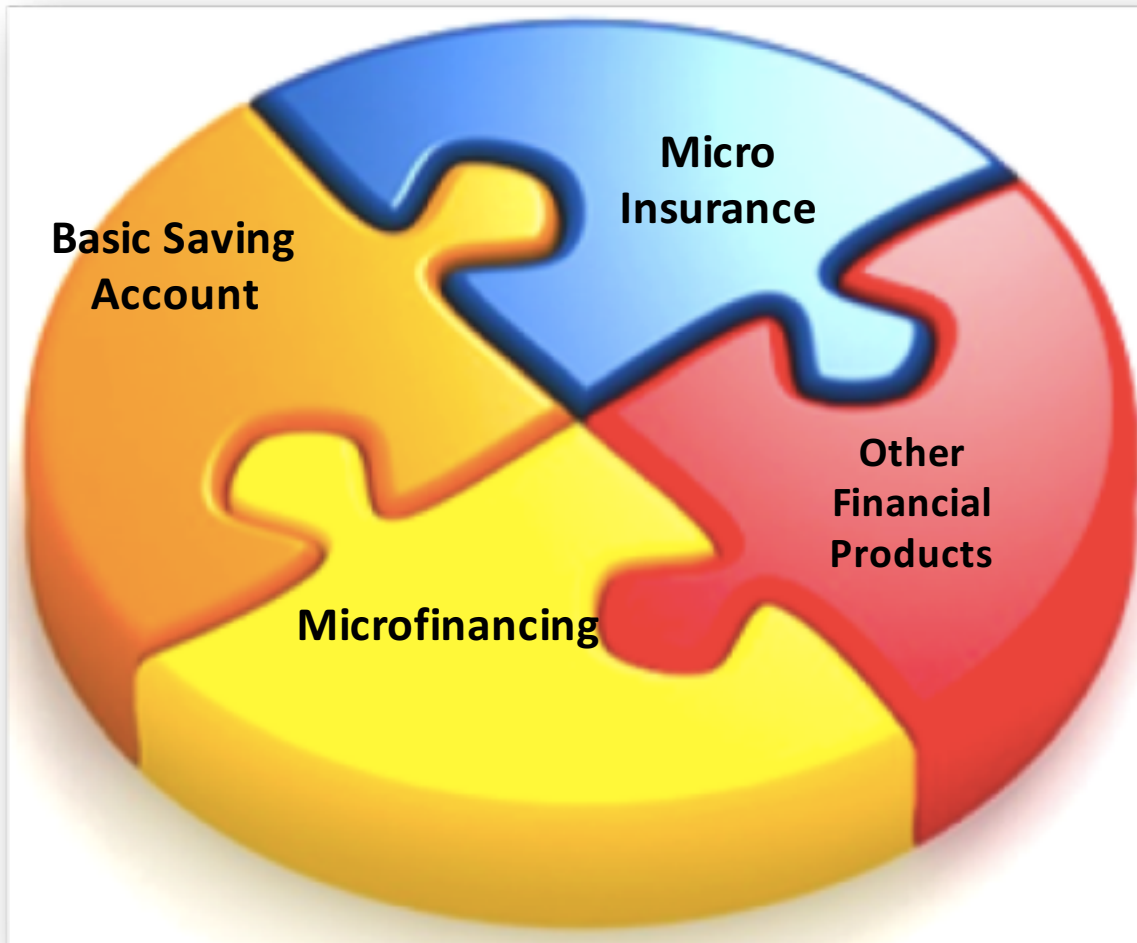
OBJECTIVES

- To provide plain financial products
- To encourage economy growth and to create equitable development through utilization of financial services

EXECUTANT

Banks that meet the Laku Pandai requirement and approved by OJK

Laku Pandai Products



- Characteristic BSA is regulated such as simplified CDD, free of charge for every credited transaction, free of administration fee limit of balance, limit of debited transaction
- Opening a BSA account and applying a loan through an agent of bank, and the approval process was done by the bank.
- Agent of a bank may sell micro insurance or other financial product such as eMoney of a DFS after getting the bank's permission and making an agreement with the issuer of the product.

Branchless Banking for Financial Inclusion ...

The scope of services of Laku Pandai Agent (depends on classification of bank's agent)

A. Transactions related to savings with BSA characteristics including account opening, cash deposits and withdrawals, transfers, billing payments, transfer of funds, check balances, and/or closing of accounts;

B. Transactions related to **credits or financing for micro customers** shall include receiving of application documents, distribution of disbursements, invoicing or receiving of payments of installment and/or the principal;

C. Transactions related to savings other than savings with BSA characteristics shall include cash deposits and withdrawals, transfers, payments, and/or transfer of funds;

D. Transactions related to other services or other financial services in accordance to the prevailing provisions.

Laku Pandai's Service may support KUR disbursement...



Laku Pandai Credit or Financing for Micro Customers

- Maximum periode is 1 (one) year or maybe longer as long as it is in accordance with the debtor's business cycle;
- The maximum nominal limit of Rp 20,000,000.00 at the most;
- Not prioritizing the existence of collateral as additional security

VS

Micro KUR

- Maximum periode for working capital financing is 3 years, maximum periode for investment financing is 5 years
- The maximum nominal limit is Rp 25,000,000.00
- Additional collateral is not required (optional)
- Interest rate to end-user : 9%
- Government subsidy : 10%

This program is unveiled to complete information either to banking or fishery sector to avoid asymmetric information in order to easy loan distribution.

VISION

Creating financial sector that give good contribution not only to increase welfare but also to tackle poverty in group of fishermen and supporting a competitive maritime.



With success of program “Jaring”, a cooperative approach between OJK and Ministry want to promote and simplify this program to obtain credit at certain sectors that will be continued by ministry and other sectors, such as agriculture which is to support food security program.

FRAMEWORK OF “JARING” PROGRAM

Through JARING Program, OJK encourage participation of financial industries (such as banking, NBF, Credit Insurance), KADIN, and other stakeholders. One of stakeholder involved in this program is PLN, committed to support electrical infrastructure on cold storage operational in fishery region.

Financial Inclusion enhancement in JARING Program is not applied through hard ways approach, however applied through soft ways approach by encouraging voluntary participation of industries. Nevertheless, enthusiasm of banking industries grows in line with enhancement of fishery and maritime disclosure information. The number of bank partner increase from 8 bank partners originally to 14 bank partners.

Key success on JARING Program is availability of sufficient sectoral information for financial industries to assess risk profile and to identify business characteristic on its sectoral value chain. Thereby, financial industries may measure sectoral risk profile and design suitable products for each business.

With complete information and measurable risk, financial industries would be encouraged to work on fishery and maritime sector either lending or funding activity.

OBJECTIVES OF “JARING” PROGRAM

To increase financing growth on fishery and maritime sector

To expand MSMEs financial access to financial services

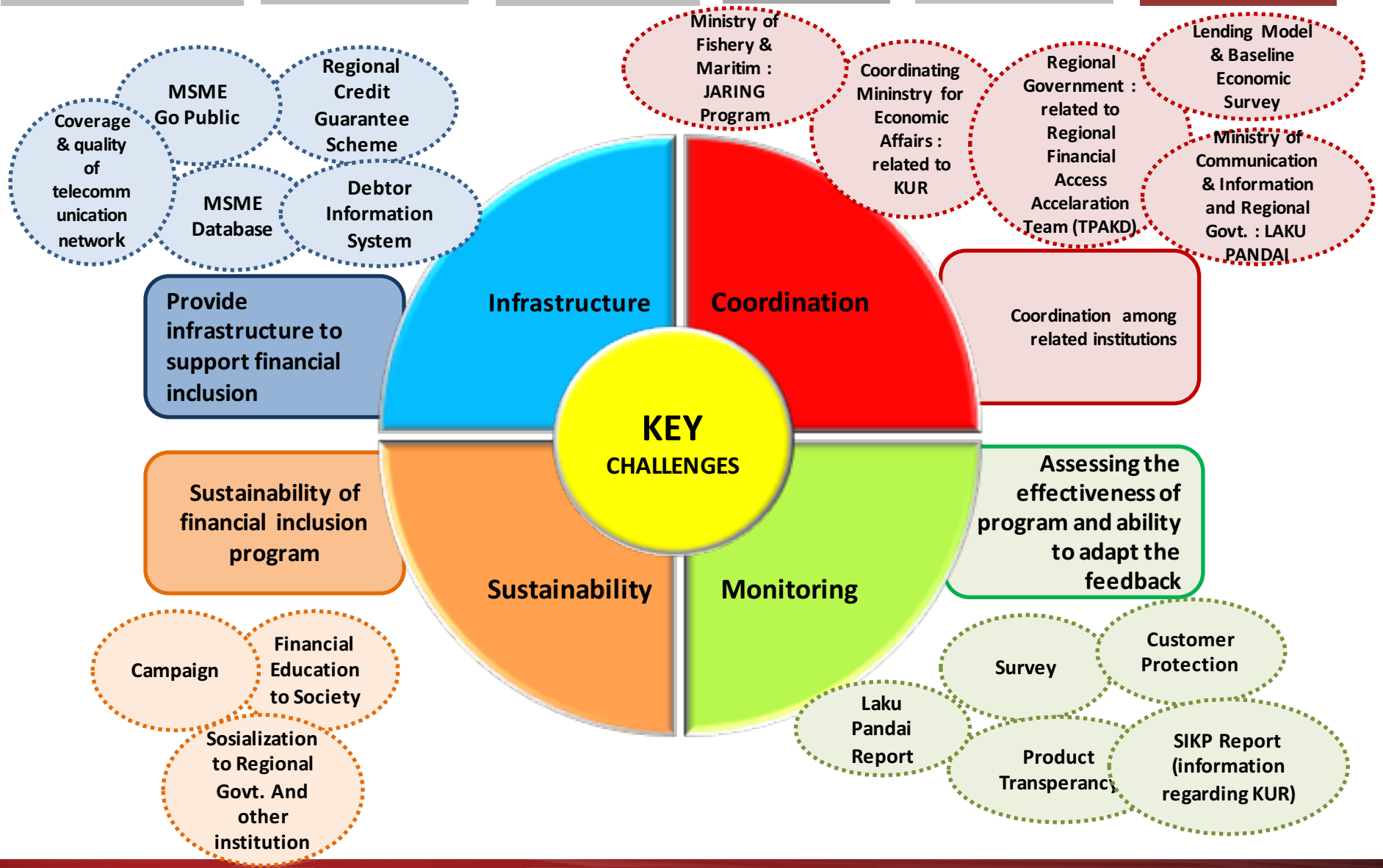
To encourage the understanding of financial service provider regarding business opportunity and risk mitigation strategy of fishery and maritime sector

To enhance fishermen’s welfare through financial inclusion activity

To create job opportunity through partnership program in fishery and maritime sector

To improve knowledge and technology for boosting quality and productivity

To educate and to train human resources in particular for fishermen and companion





END OF PRESENTATION

