Poverty Reduction Through Financial Inclusion

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Background

• Indonesia has famously known as one success story in poverty reduction: cut more than halved poverty during period 1976-1996.
• The crisis 1997/98 deviate the declining trend, but since early 2000, Indonesia was back on the trend until now
• Post 2000 trend in poverty reduction effort however has been characterized by slowing down of the reduction and increase in inequality
• While many ways can be done to address the two, financial inclusion is one of the main effort
  • Access to finance for the poor will arguably improve productivity
  • Financial inclusion targeting the poor and vulnerable associates with more inclusive growth and development
• This will explain the situation on access to finance among the poor and general society, what has been done, and what the remaining challenges.
Trend in Electronic/Digital Transactions

Source: Bank Indonesia, 2015
Access to Formal Financial Services
Among the Poor, and Micro/Small Enterprises

All Society and the Poor
- General Society: 50%
- Poor: 20%

Small and Micro Enterprises
- Small Ent.: 20%
- Micro Ent.: 12%
Using Cashless Services for Distribution of Social Assistance Benefits.
## Main Social Assistance Program and its Size

<table>
<thead>
<tr>
<th>Program</th>
<th>Size</th>
<th>Responsible Ministry</th>
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</thead>
<tbody>
<tr>
<td>Raskin</td>
<td>15.5 million households (HHs); Allocated budget IDR 21 trillion (T); under Kemenko PMK dan Kementerian Sosial</td>
<td>Kemenko PMK dan Kementerian Sosial</td>
</tr>
<tr>
<td>Program Keluarga Harapan (PKH)</td>
<td>3.5 million families; Allocated budget IDR 12 trillion (T); under Kementerian Sosial</td>
<td>Kementerian Sosial</td>
</tr>
<tr>
<td>Program Simpanan Keluarga Sejahtera (PSKS)</td>
<td>15.5 million HHs; Allocated budget IDR 9.3 trillion (T); under Kementerian Sosial</td>
<td>Kementerian Sosial</td>
</tr>
<tr>
<td>Program Indonesia Pintar (PIP)</td>
<td>20.3 thousand school age children; Allocated budget IDR 12.8 trillion (T); under Kementerian Pendidikan &amp; Kebudayaan, Kementerian Agama</td>
<td>Kementerian Pendidikan &amp; Kebudayaan, Kementerian Agama</td>
</tr>
<tr>
<td>Program Indonesia Sehat (PIS)</td>
<td>86.4 million individuals; Allocated budget IDR 25.5 trillion (T); under Kementerian Kesehatan dan BPJS Kesehatan</td>
<td>Kementerian Kesehatan dan BPJS Kesehatan</td>
</tr>
<tr>
<td>Kredit Usaha Rakyat (KUR)</td>
<td>12.48 million enterprises (11.4 million KUR Mikro); Disbursed about 161.66 trillion (T); under Kemenko Ekonomi</td>
<td>Kemenko Ekonomi</td>
</tr>
<tr>
<td>Lainnya</td>
<td>Electricity subsidy, LPG Subsidy, Fertilizer Subsidy</td>
<td></td>
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</table>
# Financial Services Network

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telco</strong></td>
<td>Use of cellular services has reached 95%, 3 Telco have been granted permission to operate e-money</td>
</tr>
<tr>
<td><strong>Bank</strong></td>
<td>118 Banks, 39,770 branches, 90,683 ATM</td>
</tr>
<tr>
<td><strong>Industri Keuangan Non Bank (IKNB)</strong></td>
<td>979 Non-Bank Financial Institutions</td>
</tr>
<tr>
<td><strong>Lembaga Keuangan Syariah</strong></td>
<td>12 Bank Syariah, 22 conventional banks that own Syariah unit, 2,501 branches, 49 IKNB syariah,</td>
</tr>
</tbody>
</table>
INITIATIVES TO PUSH CASHLESS DISTRIBUTION OF SOCIAL ASSISTANCE

• **Branchless banking**
  - Pilot project on branchless banking with 5 banks dan 2 telcos during June-November 2013

• **Gerakan Nasional Non Tunai (GNNT)**
  - Officially launched on 14 Agustus 2014

• **Layanan Keuangan Digital (LKD)/Digital Money Services**
  - BI Regulation on LKD was released on April 2014
  - LKD agent has reached 54,817 (Februari 2016)

• **Layanan Keuangan Tanpa Kantor dalam Rangka Keuangan Inklusif (Laku Pandai)/Branchless Banking**
  - Regulation was released on November 2014

• **Pre-Pilot Telko Operator**
  - With Telkomsel pre-piloting NFC to channel ‘unrestricted and restricted’ cash to 1,989 beneficiaries of PSKS during Desember 2015 dan Januari 2016
FINANCIAL INCLUSION RELATED INITIATIVES ON EXISTING PROGRAM

• Program Keluarga Harapan (PKH)
  • Pilot on distribution of PKH benefits using LKD through individual agents on Oktober 2014
  • 1,860 beneficiaries in Cirebon, Pasuruan, Jakarta, and Kupang
  • BRI and Bank Mandiri as implementing banks

• Program Simpanan Keluarga Sejahtera (PSKS)
  • Pilot on distribution of PSKS benefit using LKD through PT Pos Indonesia during November 2014-Maret 2015
  • 1,023,553 beneficiaries PSKS in 19 Kabupaten/Kota
  • Bank Mandiri as implementing bank

• Program Indonesia Pintar (PIP)
  • Pushing the use of virtual account, TabunganKu dan SimPel, as a way to distribute PIP benefits
  • BRI and BNI as implementing banks
Improving Access to Credit for Micro and Small Enterprises
# Potential of Micro and Small Enterprise

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of enterprises</th>
<th>% of enterprise</th>
<th>Number of employees</th>
<th>% of workers employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro and Small</td>
<td>22,515,794</td>
<td>99.03</td>
<td>41,656,198</td>
<td>83.87</td>
</tr>
<tr>
<td>Medium and Large</td>
<td>208,887</td>
<td>0.92</td>
<td>7,811,843</td>
<td>15.73</td>
</tr>
<tr>
<td>Not yet classified</td>
<td>12,107</td>
<td>0.05</td>
<td>202,126</td>
<td>0.41</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>22,736,788</strong></td>
<td><strong>100.00</strong></td>
<td><strong>49,670,167</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Economic Census 2006 (BPS)
SOURCE OF CAPITAL AMONG MICRO AND SMALL ENTERPRISES

### Mikro
- Perorangan: 31%
- Lainnya: 24%
- Keluarga: 12%
- Modal Ventura: 1%
- Lembaga Keuangan bukan Bank: 4%
- Koperasi: 6%

### Kecil
- Perorangan: 28%
- Lainnya: 19%
- Keluarga: 14%
- Modal Ventura: 0%
- Lembaga Keuangan bukan Bank: 1%
- Koperasi: 2%

#### Source of Capital

Sumber: BPS, Survei Industri Mikro dan Kecil (VIMK), 2014
REASONS WHY MICRO AND SMALL ENTERPRISES DO NOT ACCESS CREDIT FROM BANKS

Sumber: BPS, Survei Industri Mikro dan Kecil (VIMK), 2014
Almost 60% of micro enterprises and about 40% of small enterprises do not have business development plan.
% of HHs have Access to Credit

Source: Susenas 2015

Desil Pengeluaran

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<th>9</th>
<th>10</th>
</tr>
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<tbody>
<tr>
<td>9.65</td>
<td>11.43</td>
<td>12.27</td>
<td>13.08</td>
<td>13.84</td>
<td>13.97</td>
<td>13.64</td>
<td>14.35</td>
<td>13.02</td>
<td>11.34</td>
<td></td>
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</table>

Kredit Usaha, 12.66
Tidak menerima kredit usaha, 87.34
INISIATIF YANG SUDAH DILAKUKAN KREDIT

• Credit Rating
  • Telah dilakukan Pilot Project, penelitian dan serangkaian sosialisasi terkait dengan pemeringkatan UKM.

• Perusahaan Penjamin Kredit Daerah (PPKD)/Regional Credit Guarantee Agency
  • Telah dilakukan fasilitasi dalam rangka pembentukan PPKD di beberapa daerah yang memungkinkan.
  • Terdapat 16 PPKD yang didirikan di beberapa daerah.

• Kredit Usaha Rakyat (KUR)
  • Penyaluran KUR dengan sasaran unbankable UMKM
  • 12,48 Juta Debitur (11,4 Juta KUR Mikro);
  • 178,838 Triliun sudah tersalurkan (2007 – 2014)

• KUR TKI
  • 2011 – 2014: Penyaluran sebesar 52,437 miliar rupiah, sebanyak 3.629 debitur
PROGRAM KREDIT USAHA RAKYAT (KUR)
Disbursement of KUR 2007 s/d 2016 (Rp Miliar)

Source: Kemenko Perekonomian, 2016
Access to KUR among the poor and vulnerable increased during period 2011-2015, but there are still big room to improve.
Does KUR Help? A Survey of KUR Beneficiaries

% of KUR Beneficiaries Reporting in Assets and Employment Improvement

Sumber: Damayanti dan Adam (2015)
Does KUR Help? A Survey of KUR Beneficiaries

% of KUR Beneficiaries Reporting Additional Benefits of KUR

Sumber: Damayanti dan Adam (2015)
In 2015 and 2016, GoI changed KUR scheme from credit guarantee to interest rate subsidy (with implicit guarantee).

<table>
<thead>
<tr>
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<th>2007-2014</th>
<th>2015</th>
<th>2016 (s/d 12 Februari 2016)</th>
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<tbody>
<tr>
<td>Rata-rata plafon per nasabah</td>
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</tr>
<tr>
<td>- KUR MIKRO</td>
<td>Rp 8,4 juta</td>
<td>Rp 14,87 juta</td>
<td>Rp 15,63 juta</td>
</tr>
<tr>
<td>- KUR RETAIL</td>
<td>Rp 79,1 juta</td>
<td>Rp 146,29 juta</td>
<td>Rp 181,98 juta</td>
</tr>
<tr>
<td>Rata-rata jumlah debitur / bulan</td>
<td>212.841 orang</td>
<td>205.426 orang</td>
<td>255.077 orang</td>
</tr>
</tbody>
</table>

Its immediate impact is that in 2016, we observe expanding access to KUR due to lower cost of fund.
Challenges 1: Wider Expansion Access to KUR

% Villages with enterprise receiving KUR in a Province

% Subdistricts with presence of Banks in a province

Sources: Podes 2014, TNP2K Calculation
Challenge 2: “Mismatched Demand and Supply” of KUR

Sources: Susenas 2014 and Podes 2014, TNP2K Calculation
Some Remaining Questions to Explore

• Does new KUR policy help to wider access – toward outer islands and non-existing beneficiaries?
• Does involve non-bank as KUR participating agencies help to reach the poor and vulnerable?
• Does current policy lead to crowding out of non-KUR credits –both within the same implementing bank or inter-credit agencies?
Terima Kasih