



Supervision and Regulation of Microfinance Institutions in Indonesia

OJK International Seminar on Microfinance & Financial Inclusion, March 2016





Contents





Indonesia Financial Services Authority (Otoritas Jasa Keuangan – OJK)





Establishment of OJK





OJK Vision & Mission

To protect the interests of consumers and public. To realize the convening of all activities in financial sector so that they are managed regularly, fairly, transparently, and accountably.

OJK has a vision to become a trustworthy monitoring institution that oversees financial services industry, in order to protect the interests of consumers and public, and to be able to bring about the financial services industry into becoming a pillar of national economy with global competitiveness as well as capability to promote public prosperity.

To realize a sustainable and stable financial system.



Financial Services Supervised by OJK





Microfinance Institutions in Indonesia





MSMEs & Big Enterprises

	2011	2012	2013
Micro	54,559,969	55,856,176	57,189,393
Small	602,195	629,418	654,222
Medium	44,280	48,997	52,106
Big	4,952	4,968	5,066

Source: Ministry of Cooperatives & SMEs



Informal MFIs

	National Team	OJK*	
	Government	Parliament	(Dec 2015)
Initiated by community /NGO	1,250	24,392	
Unable to transform into rural banks in 1997	6,241	6,971	24,649
Government programs	90,659	606,475	
Total	98,150	637,838	

Sources: ProFI GTZ, National Team of MFI Bill, OJK

* Based on MFI Act, OJK must conduct survey and collect data of informal MFIs until Jan 2017. The survey is in coordination with Ministry of Home Affairs and Ministry of Cooperatives & SMEs, and supported by Regional Governments (Province/City) and Bank Rakyat Indonesia.



Example of Informal MFIs



Sources: National Team for the Acceleration of Poverty Alleviation, Ministry of Development Planning



Subdistrict Credit Agency (BKK) in Central Java

Established by the Provincial Government of Central Java

In 1992-1997 few of them were transformed into rural banks, but the majority failed

After being merged in 2014, there were 29 BKK and 131 branch offices, with total assets IDR 1.88 trillion. Now they are in the process of becoming rural banks

Source: Provincial Government of Central Java



(Nonbank) MFIs Regulations





MFI Regulation Timeline

1992	2 1	L 997	20	009	20	13 2015
 Amendment of Banking Act: Any parties conducting funds from the public in the previously obtain an or Commercial Bank or a Chairmen of Bank Inconcerned activities of compublic is stipulated in a set Informal MFIs shall be gras Bank pursuant to this Act and procedures to be stip Regulation are fulfilled. Gov't Regulation: Deadling apply for licensing of rurat 1997. 	he form of Deposits shall perating license as a Rural Bank from the indonesia, except the pollecting funds from the parate act. Anted the status of Rural t after the requirements pulated in a Government		Joint Decree of Ministry of Fina Home Affairs, Cooperatives & of Empowering M • Survey and of MFIs • Transform inforural banks, village-owned I • Provide capa those rural banks and village-or entities.	ance, Minist and Minist SME: Strat AFIs educate inf cormal MFIs cooperative business en city buildin nks, cooper	try of try of egies formal s into s, or tities. g for	MFIAct has been effective since Jan 2015.
	Only a fraction of informal MFIs met the requirements of becoming rural bank. Many others continued to operate under Cooperative Act, Provincial Regulation, local customary law or even without proper regulation/licensing.			(FSA esia) nent of		



Regulation Framework





Business Activities of (Nonbank) MFIs



Besides operating business as explained above, (nonbank) MFIs may also conduct fee-based activities, as long as they are not contradictory to the prevailing laws and regulations in the financial sector. Sharia MFIs may manage social funds in the form of *zakat, infaq, shodaqoh,* and *waqaf* according to the provision of laws and regulations.



Cooperative

Legal Entity*

Limited Liability Company:

The share of the company at least of 60% shall be owned by City/County Governments or village-owned business entities.

The remaining share may be owned by Indonesian citizen and/or cooperatives.

* (Nonbank) MFI is prohibited being owned, either directly or indirectly, by foreign nationals and/or business entities whether in part or in whole owned by foreign citizens or foreign corporations.

Coverage Area	Minimum Paid Capital
Village	IDR 50 million
Subdistrict	IDR 100 million
City/County/District	IDR 500 million



Licensing Mechanism of (Nonbank) MFIs





MFI Deposit Insurance





Supervision of (Nonbank) MFIs





Supervisory Regulations





Transformation of (Nonbank) MFIs



Criteria:

- MFI conducts business activities in excess of 1 (one) county/city in which MFI is located; or
- Equity is at least 5x of minimum capital requirement of rural bank and total deposits is at least 25x of minimum capital requirement of rural bank.



Challenges





Work Plan of MFI Policies

Policies	Status		
Survey and educate the informal MFIs*	On going		
Transform the informal MFIs into (nonbank) MFIs, cooperatives, or village-owned business entities*	On going		
Assist, regulate, and supervise (nonbank) MFIs	Gradually implemented		
Empower (nonbank) MFIs:			
 Linkage program with other financial institutions 	Will be implemented (medium term)		
 APEX of MFIs 	Will be implemented (long term)		
 MFIs deposit insurance 	Will be implemented (long term)		

* In coordination with Ministry of Home Affairs; Ministry of Cooperatives & SMEs; Ministry of Villages, Underdeveloped Regions & Transmigration; and Regional Governments (Province/City).



Why do MFIs have to be formalized & supervised?

- To legalize deposit taking activities
- To protect depositors
- To ensure sustainability of MFIs
- To raise credibility of MFIs
- To enable synergy between MFIs, other formal institutions, and MSMEs development programs



Challenges

Transform the informal MFIs into formal entities

- a. Internal factors
 - Lack of skilled human resources
 - Reluctant to be licensed & supervised

Key strategy: clear guidance & intensive assistance



Challenges

b. External factors

- Many related laws & regulations (MSMEs Act, Cooperatives Act, Limited Liability Company Act, Village Act, Regional Government Act, etc). Example: legal issue on ownership of revolving fund
- Many stakeholders

Key strategy:

consultation, coordination & harmonization



Thank You

