The Role of MSME Finance in Financial Inclusion Initiative

Prepared for “Workshop on Enhancing Access to Formal Financial Services in Indonesia”
Jakarta, December 9 – 10th, 2009
INDONESIA

- Total area: 1,910,931.32 km²
- Population (2009): 231,370,000 people
- GDP (2008): USD495,029 billion
- Inflation rate (yoy - November 2009): 2.41%
- BI rate (December 2009): 6.5%

Data source: Statistics Indonesia (BPS), 2009 & Bank Indonesia 2009
MSMEs in Indonesia

**Definition**

- Net assets: more than IDR10 billion (USD1 million), or
- Annual sales: more than IDR50 billion (USD 5 million)

- Net assets: more than IDR500 million (USD50,000) up to IDR10 billion (USD1 million), or
- Annual sales: more than IDR2.5 billion (USD250,000) up to IDR50 billion (USD5 million)

- Net assets: more than IDR50 million (USD5,000) up to IDR500 million (USD50,000), or
- Annual sales: more than IDR300 million (USD30,000) up to IDR2.5 billion (USD250,000)

- Max net worth (excl. land & building) : IDR 50 million (USD 5,000)
- Max. annual sales : IDR 300 million (USD 30,000)

**MSMEs’ Roles in Indonesia Economy**

- Number of entity: ±4,372 unit or 0.01%
  - Share to:
    - total employment : 2.96%
    - GDP: 44.44%
    - non oil export: 79.83%
    - total Investment : 47.11%

- Number of entity: ±39,657 unit or 0.08%
  - Share to:
    - total employment: 3.48%
    - GDP: 13.43%
    - non oil export : 13.10%
    - total Investment : 23.81%

- Number of entity: ±520,221 unit or 1.01%
  - Share to:
    - total employment: 4.26%
    - GDP: 10.08%
    - non oil export : 4.85%
    - total Investment : 20.69%

- Number of entity : ± 50,697,659 unit or 98.90%
  - Share to:
    - total employment : 89.30%
    - GDP : 32.05%
    - non oil export : 2.22%
    - total Investment : 8.39%

**Data source:** Statistics Indonesia, 2009 (data as of 2008)

MSME definition refers to MSME Act No. 20/2008
Gap in Real Sector

1. Access to Capital/Finance
2. Feasibility and Bankability
Financial Service Providers Of MSMEs

MSMEs
(51.26 million business unit)*

Bank
- Rural Bank
- Commercial Bank

Non Bank
- Saving and Loan Cooperative
- Pawnshop
- Multi finance/Leasing Company
- Non Bank/Cooperative/Microfinance Institution (BMT/LDKP/LPD/BKK/LPK)
- Money Lender (Angels)

*) Statistics Indonesia, 2009 (data as of 2008)
Indonesian Banking Sector Overview

Number of Banks (as of October 2009):

<table>
<thead>
<tr>
<th>No.</th>
<th>Category</th>
<th>Total Banks</th>
<th>Total Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commercial Banks (conventional)</td>
<td>122</td>
<td>12.616</td>
</tr>
<tr>
<td>2</td>
<td>Rural Banks (conventional)</td>
<td>1.744</td>
<td>3.465</td>
</tr>
<tr>
<td>3</td>
<td>Sharia Commercial Banks:</td>
<td>138</td>
<td>223</td>
</tr>
<tr>
<td></td>
<td>- Sharia Commercial Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Sharia Business Unit of Commercial Banks</td>
<td>6</td>
<td>688</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25</td>
<td>275</td>
</tr>
<tr>
<td></td>
<td>Sharia Rural Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sharia Rural Banks</td>
<td>138</td>
<td>223</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td>2.035</td>
<td>17.267</td>
</tr>
</tbody>
</table>
Financing Scheme in Indonesia

Existing Clients

- “go public”
- Proper to industry & “Bankable”
- Proper to industry & not Bankable
- Not proper to industry & not bankable
- Poor

Financing Scheme

- Big scale industry
- Medium scale industry
- Small scale industry
- Micro scale industry
- Poor
- The Poorest

- Capital market
  - Bank
  - Others
- Bank
- Financing program to SME’s
- Financing program for MSME’s
- Financing program for people
- Financing program for micro scale industry
- Financing program for people
- Social program for the poor (by government)
## Credit Outstanding and Its Growth

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Oct'09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rp. T</strong></td>
<td>271,10</td>
<td>369,90</td>
<td>428,00</td>
<td>524,20</td>
<td>660,73</td>
<td>742,63</td>
</tr>
<tr>
<td><strong>MSMs credit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non MSMs credit</strong></td>
<td>288,37</td>
<td>341,45</td>
<td>381,80</td>
<td>475,25</td>
<td>644,27</td>
<td>686,14</td>
</tr>
<tr>
<td><strong>Growth MSMs</strong></td>
<td>30,9%</td>
<td>36,4%</td>
<td>15,7%</td>
<td>22,5%</td>
<td>26,0%</td>
<td>12,4%</td>
</tr>
<tr>
<td><strong>Growth Non MSMs</strong></td>
<td>24,0%</td>
<td>18,4%</td>
<td>11,8%</td>
<td>24,5%</td>
<td>35,6%</td>
<td>6,5%</td>
</tr>
</tbody>
</table>
MSM Credit Outstanding

<table>
<thead>
<tr>
<th>Year</th>
<th>Micro (Rp.T)</th>
<th>Small (Rp.T)</th>
<th>Medium (Rp.T)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>116</td>
<td>72.4</td>
<td>82.7</td>
</tr>
<tr>
<td>2005</td>
<td>157.9</td>
<td>101.8</td>
<td>110.2</td>
</tr>
<tr>
<td>2006</td>
<td>181.9</td>
<td>116.2</td>
<td>129.9</td>
</tr>
<tr>
<td>2007</td>
<td>202.5</td>
<td>154.8</td>
<td>181.9</td>
</tr>
<tr>
<td>2008</td>
<td>234.2</td>
<td>221.5</td>
<td>202.5</td>
</tr>
<tr>
<td>Oct'09</td>
<td>251.3</td>
<td>273.8</td>
<td>251.3</td>
</tr>
</tbody>
</table>
MSM Credit Outstanding: share by group of Banks

![Graph showing credit outstanding share by group of banks from 2001 to Oct 09.](image)
MSM Credit Outstanding by Economic Sectors (as of October 2009)
**NPL of MSM Credit**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Oct'09</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME</td>
<td>3.23%</td>
<td>3.88%</td>
<td>4.38%</td>
<td>3.68%</td>
<td>3.22%</td>
<td>3.69%</td>
</tr>
<tr>
<td>Non MSME</td>
<td>5.68%</td>
<td>11.58%</td>
<td>8.10%</td>
<td>4.28%</td>
<td>3.08%</td>
<td>3.61%</td>
</tr>
<tr>
<td>Total</td>
<td>4.50%</td>
<td>7.57%</td>
<td>6.14%</td>
<td>4.15%</td>
<td>3.32%</td>
<td>3.77%</td>
</tr>
</tbody>
</table>
Banking Business Plan & Its Disbursement for SMEs

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Plan (Rp.T)</th>
<th>Disbursement (Rp.T)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>38,5</td>
<td>67,2</td>
<td>174,6%</td>
</tr>
<tr>
<td>2005</td>
<td>60,4</td>
<td>86,7</td>
<td>143,5%</td>
</tr>
<tr>
<td>2006</td>
<td>68,1</td>
<td>58,0</td>
<td>85,2%</td>
</tr>
<tr>
<td>2007</td>
<td>86,0</td>
<td>96,2</td>
<td>111,8%</td>
</tr>
<tr>
<td>2008</td>
<td>134,8</td>
<td>136,6</td>
<td>101,3%</td>
</tr>
<tr>
<td>Oct'09</td>
<td>137,2</td>
<td>82,2</td>
<td>59,9%</td>
</tr>
</tbody>
</table>

RP. T (Units) - Range: 0,0 - 200,0

0,0 20,0 40,0 60,0 80,0 100,0 120,0 140,0 160,0 200,0

2004 2005 2006 2007 2008 Oct'09

Business Plan (Rp.T) Disbursement (Rp.T) Percentage
BI's POLICY IN MSME DEVELOPMENT

Research

Training

Information Provision

Regulation

Capacity Building

Demand Side

Cooperation with Government & Other Institutions

SME's access to finance

Growth of SME/Real Sector

Supply Side

BANK INDONESIA

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1. Regulation on MSMEs credit:
   - Advised banks to allocate part of its lending to MSMEs
   - Advised banks to submit business plan to BI and publish the quarterly report on realization of the business plan.

2. Easing Banking regulation within the prudential banking framework
   - Credit performance of loan up to IDR 500 million (USD 50,000) is based only on prompt repayment of principal and/or interest, and in period of crisis it has been raised up to IDR 1 billion.
   - Risk–weighted Assets for Small Business Loan is calculated of 85%.
   - The Risk-weighted Assets is calculated of ≤ 50 % for credit guaranteed by government’s guarantee firms.
Supporting institutions to overcome asymmetric information on SMEs

**SME**
- Not yet financially identified
- Do not have access to banking services
- Feasible

**FIN**
- Financially identified SME
- Financial identities could increase access to formal financial institutions
- Will be developed as basic bank account

**Credit Rating**
- Rating by a rating agency
- Producing opinion on SME capability in settling their financial liability
- The output will be useful for investor, as well as banks in assessing the SME credit worthiness

**Bank**
- Credit approval process
- The credit feasibility could be determined via credit
- Output from credit rating will be an input for credit scoring (internal Bank)

**DIBI – Data base**
- Information on potential SMEs which do not have financed from bank
- No rating
- Very limited

**Credit Bureau**
- Information of banking and non bank financial institution debtor
Information Provision (Small Enterprise Development Information System/SIPUK)

- Information provision by developing integrated Small Enterprise Development Information (SIPUK) in Indonesia Business Data and Information (DIBI) that can be accessed via BI’s website: www.bi.go.id
- Designed to support banks and financial institutions in providing loan for SMEs
- DIBI also provides database on Potential MSMEs. Up to 2008 total number potential MSMEs that have been registered are 3000 MSMEs, and target in 2009 is 2800 MSMEs
Information Provision (Small Enterprise Development Information System/SIPUK)

- Information system of Baseline economic survey (SIB)
- Information system of export-oriented agroindustry (SIABE)
- Information system of lending model for small enterprises (SI-LMUK)
- Decision support system for investment (SPKUI)
- Information system of loan obtaining procedure (SI-PMK)

Server SIPUK

Ethernet

SME

SME

SME
Information Provision – Database on Potential SME

PROFIL USAHA MIKRO, KECIL DAN MENENGAH YANG POTENSIAL DIBIAYAI OLEH PERBANKAN

Usaha yang sedang beralih menitikkan kredit dari bank namun merencanakan kredit untuk pengembangan usaha

Facilitas Pengurangan Data UMKM

Kategori Data
- Provinsi: [Select]
- Kab/Kota: [Select]

Kategori Kebutuhan Kredit
- s.d Rp 10 Juta
- Rp 10 s.d 50 Juta
- Rp 50 s.d 100 Juta
- > Rp 100 Juta

Industri Perdagangan
- Jumlah Perusahaan: 39
- Perdagangan, Restoran dan Hotel
  - Jumlah Perusahaan: 161

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kalua Jeruk</td>
<td>Pembuatan Kalua Jeruk - Kalua Jeruk</td>
<td>355.00</td>
<td>72.00</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Savarhu</td>
<td>Pembuatan Kalua Jeruk - Kolua Jeruk</td>
<td>75.00</td>
<td>60.00</td>
<td>4</td>
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<tr>
<td>3</td>
<td>Kalua Jeruk Pusaka</td>
<td>Pembuatan Kalua Jeruk - Kolua Jeruk</td>
<td>207.00</td>
<td>72.00</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Dea Rahma</td>
<td>Pembuatan Sarung golok - Sarung golok</td>
<td>11.00</td>
<td>48.00</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Pusaka II</td>
<td>Pembuatan Kalua Jeruk - Kolua Jeruk</td>
<td>341.00</td>
<td>65.00</td>
<td>4</td>
</tr>
</tbody>
</table>
End of presentation