ADB’s Support for MSME’s Digital Financing in Indonesia: Promoting Innovative Financial Inclusion Program (PIFIP)

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I. ADB’s Engagement in Financial Inclusion in Indonesia

II. PIFIP Program Design

III. Support for Innovative Approaches to Digital Financing for MSMEs
I. ADB’s Engagement in Financial Inclusion in Indonesia

ADB’s Holistic Approach

Responsible Financial/Digital Financial inclusion:

- Access to financial services
- Financial literacy
- Financial consumer protection

Financial technology and innovation
II. PIFIP Program Design

Reform Area 1
• Improve the government's capabilities to better target and track financial inclusion efforts and enhance supporting infrastructure

Reform Area 2
• Increase access to finance for micro, small, and medium-sized enterprises (MSMEs) and the underserved using innovative technology

Reform Area 3
• Strengthen the regulatory framework for digital financial services, data privacy, and consumer protection.
III. Support for Innovative Approaches to Digital Financing for MSMEs
Reform Area 1: Tools and Infrastructure for Financial Inclusion

- Indonesia’s Payment System Blueprint 2025
- National biometric ID (e-KTP) and e-KYC pilot
- Indonesia Financial Access Map
- Geospatial financial services mobile application ‘Lokasiku’
Reform Area 2: Access to Finance by MSMEs and Marginalized Groups

- Alternative Credit Scoring Regulatory Framework
- Fintech Lending Data Center (PUSDAFIL)
Reform Area 3: Supervision and Consumer Protection Measures

- Strategic framework on Regtech and Suptech
- Appointing AFTECH as SRO
- Smart Digital Indonesia financial & digital financial literacy series, and Y-Bank pilot
Proactive Approach to Women and Youth Financial Inclusion

- National Women’s Financial Inclusion Strategy
- National Youth Financial Inclusion Strategy
- Including actions for digital financial inclusion
Facilitate greater financial inclusion in Eastern Indonesia of MSMEs in agriculture and tourism sectors; in particular youth and women owned businesses.

Enable Regional Development Banks (BPDs) starting with the 4 provinces: Maluku, East & West Nusa Tenggara and Sulawesi to innovate more rapidly and develop new processes and new financial services/products through partnerships with financial technology companies (e.g. agricultural credit/insurance).

Build capacity of the BPDs through intra ASBANDA knowledge sharing

Enable BPDs to be more pro active financial inclusion actors and instruments of govt. financial inclusion policies (e.g. distribution of KUR, LakuPandai agents and QRIS proponents).
60% MSMEs contribution towards country's GDP

97% domestic employment
(Jakarta Post, 2020)

Impacted by the COVID-19 pandemic
77% of MSMEs expect lower revenue in 2020 due to the pandemic. (UNDP & LPEM FEB UI, 2020)

Access to financial services
are still limited in Eastern Indonesia – especially amongst the poor and near-poor, those in rural areas, smallholder farmers, and those who operate MSMEs. (SOFIA, 2017)

Putting a magnifying lens on Eastern Indonesia
MSMEs are essential part of economic activity, and there needs equal and high quality financial access for more disadvantaged population or area, through joint efforts to improve financial access to alleviate poverty in the eastern Indonesia region especially those hard-hit by the pandemic.
Digital Banking

- 45.8% have access to digital banking services; catering and restaurants (60%), trade and retail (46.5%) have used the service.

Coping Mechanisms

- Pivoting their products or strategies, e.g. marketing online, reduce production cost with cheaper raw materials.

- 81.5% of the MSMEs started/increased use internet platforms during the pandemic (only 64.2% used the platform before March 2020). (Whatsapp (86.4%), Facebook (66.7%), and Instagram (56.1%))

- Catering and restaurant sectors are supported by food delivery services offered by ride-hailing applications, such as Gofood and Grabfood. 31% of Eastern Indonesia youth have used the services.

- Some MSME owners ventured into a new business or alternative activities to earn money, including part-time job.

- Others changed financial management and behavior to prioritize loan repayment. Some resorted to selling asset, emergency funds.
THANK YOU!

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