Innovative Approaches to MSMEs’ Digital Financing

Teguh Yudo Wicaksono
Mandiri Institute

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Impressive Progress in Financial Inclusion, yet a significant portion of the population remain unbanked

By 2020, 40% of adult population have an account at any financial institution, doubled from 2014.

One of four households in Indonesia ever had credits/loans at any formal financial institutions

Source: Survei Strategi Nasional Keuangan Inklusif 2019, Survei Sosial Ekonomi Nasional 2019-2020

Source: Survei Sosial Ekonomi Nasional 2020
Loans to MSMEs across Asian Countries

MSME Bank Loans to Total (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>19.6</td>
<td>19.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>19.8</td>
<td>19.7</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>17.1</td>
<td>17.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15.2</td>
<td>15.1</td>
</tr>
<tr>
<td>Myanmar</td>
<td>6.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.3</td>
<td>7.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>22.4</td>
<td>30.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>21.5</td>
<td>20.1</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>20.2</td>
<td>20.2</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>17.4</td>
<td>17.6</td>
</tr>
<tr>
<td>India</td>
<td>7.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

MSME Bank Loans to GDP (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>30.3</td>
<td>30.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>8.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Philippines</td>
<td>18.5</td>
<td>21.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>30.3</td>
<td>30.3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>India</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>5.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: ADB
Understanding the problem of (digital) credit services

Supply & Demand

Limited provision of credit services

Costly intermediation

Limited demand for credit services

Low domestic savings and/or limited access to international finance

Low social returns from investment

Low digital literacy

Perceived low benefits

Low trust in providers

Low income, geography

Market Structure

Insufficient or poor digital private infrastructure

Poor data

Low appropriability of returns

Source: Stijn Claessens and Liliana Rojas-Suarez 2020
Market structure: Competitive Industry but relatively high overhead cost. Why?

Bank concentration: percent of bank assets held by top three banks (%)

1. Myanmar: 100.00
2. Malaysia: 78.38
3. Lao PDR: 72.62
4. Thailand: 69.56
5. Viet Nam: 66.25
6. Philippines: 59.65
7. India: 55.07
8. Cambodia: 39.62
9. Indonesia: 26.71

Bank overhead costs, percent of total assets (%)

1. Indonesia: 2.70
2. Philippines: 2.21
3. Cambodia: 1.91
4. India: 1.62
5. Lao PDR: 1.49
6. Viet Nam: 1.46
7. Thailand: 1.23
8. Malaysia: 0.79

Source: Bankscope
Geographic challenges prevent access, and increase the cost of financial services.

Bank branches are concentrated in Jawa-Bali

- Pct village with bank branch (%)
  - Maluku-Papua: 4%
  - Sulawesi: 9%
  - Sumatera: 9%
  - Nusa Tenggara: 9%
  - Kalimantan: 11%
  - Nasional: 13%
  - Jawa-Bali: 24%

Long distances increase cost and prevent access to finance

- Average distance to bank branch (KM)
  - Jawa-Bali: 7.7
  - Sumatera: 26.9
  - Nasional: 29.2
  - Sulawesi: 33.3
  - Nusa Tenggara: 40.7
  - Kalimantan: 47.6
  - Maluku-Papua: 67.9

Source: Potensi Desa 2020, BPS
Poor data: Strong MSME loan growth but high NPL, suggesting high risk

Loan growth by segments (% yoy)

NPL by segments (% to total loans)

Source: OJK, Bank Mandiri Calculation
Digital transformation would provide extensive financial access to the unbanked groups

On the other hand, critical digital infrastructure is evenly distributed in Indonesia

With the expanded and reliable digital infrastructure, the digitization of banking services will open services to remote areas

Smartphone ownership continues to increase. By 2021, 7 out of 10 Indonesians own a smartphone

and the number of active internet users in Indonesia is estimated to reach more than 200 million people by 2021

Source: Potensi Desa 2020, BPS
The Digital Transformation of Bank Mandiri

Leveled Up Digital Readiness
- Core banking capacity upgrades
- Business Process Reengineering
- Cloud computing models
- High performance infrastructure
- Reliable, fast, secure, flexible

Widen Digital Ecosystem
>400 digital ecosystem partners for account opening, transaction and digital lending; up next MSME merchant QR payment (3Q21)

Develop Digital-Native Products
- Online deposit account opening
- Digital lending
- Up next Mandiri Paylater (4Q21)

Data driven decision making
- AI Capabilities as value enabler
- Customer Centric approach
- Visual analytics
- Robust data management & governance

Modernize Distribution Channels
- Feature-rich mobile/physical channels
- Livin’ 1.0 – Banking made easy
- Up next Livin’ 2.0 – Leapfrogging the race to becoming Super App (4Q21)

Develop Digital-Native Products
- Online deposit account opening
- Digital lending
- Up next Mandiri Paylater (4Q21)
Bank Mandiri Encourages MSMEs through Process and Channel Digitization (1/2)

Bank Mandiri has also adjusted its integrated business process and developed a digital lending platform...

“End to end business process adjustments starting from sales marketing, acquisitions, underwriting, disbursement, to collections which are carried out in stages by taking into account the speed of the process, the ability to fulfill the budget, the level of risk and suitability with the bank's appetite”
Bank Mandiri Encourages MSMEs through Process and Channel Digitization (2/2)
as well as in the form of collaboration with fintech and e-commerce platforms to expand the penetration of lending
One solution that can help SMEs is collaboration with start-ups.

Many fintech start-ups, business operational start-ups, and e-commerce start-ups, including Business-to-Business/B2B, Business-to-Consumer/B2C, and Consumer-to-Consumer/C2C in Indonesia provide many features that can empower SMEs.
Retail Segment growth is supported by MSME loans driven by *Kredit Usaha Rakyat* (microlending)

By 2Q21 MSME loans grew double digit

<table>
<thead>
<tr>
<th>Growth (YoY)</th>
<th>Bade (IDR Tn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.92%</td>
<td>81.9</td>
</tr>
<tr>
<td>-5.61%</td>
<td>83.2</td>
</tr>
<tr>
<td>-2.37%</td>
<td>90.0</td>
</tr>
<tr>
<td>3.22%</td>
<td>92.1</td>
</tr>
<tr>
<td>20.08%</td>
<td>98.3</td>
</tr>
</tbody>
</table>

KUR distribution reaches **200.339 debtors** throughout Indonesia¹...

Notes: 1) Total cumulative KUR debtors until Jun 2021 reached 2.04 Million debtors; 2) Position of Outstanding Cumulative KUR Jun 2021: IDR 50.6 T; Total Limit until Jun 2021: IDR 117.2 T; 3) Including Mining

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**103 Fintech P2P in Indonesia**

Total disbursed loan reached Rp295.86 trillion as of Dec 2021

### Number of fintech P2P

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional</td>
<td>96</td>
</tr>
<tr>
<td>Shariah</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
</tr>
</tbody>
</table>

### Total Borrower Accounts (million)

<table>
<thead>
<tr>
<th>Unit of Account</th>
<th>Java</th>
<th>Non-Java</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec, 18</td>
<td>19.62</td>
<td>6.98</td>
</tr>
<tr>
<td>Dec, 19</td>
<td>38</td>
<td>235.2</td>
</tr>
<tr>
<td>Dec, 20</td>
<td>211</td>
<td>446</td>
</tr>
<tr>
<td>Dec, 21</td>
<td>87</td>
<td></td>
</tr>
</tbody>
</table>

### Total disbursed loan (Trillion IDR)

<table>
<thead>
<tr>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec, 18</td>
</tr>
<tr>
<td>Dec, 19</td>
</tr>
<tr>
<td>Dec, 20</td>
</tr>
<tr>
<td>Dec, 21</td>
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**Source:** OJK, Fintech Statistics
Thank you