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The National Strategy for Financial Inclusion in Indonesia

Submitted by: Indonesia



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THE NATIONAL STRATEGY FOR FINANCIAL INCLUSION IN INDONESIA

Establishment of Financial System Which Can Be Accessed by All of People to Develop Economic Growth and Poverty Alleviation



Vision

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Establish A Financial System Which Can Be Accessed by All of People to Develop Economic Growth and Poverty Alleviation

Mision

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- ▶ Financial Inclusion Strategy is a part of economic development and poverty alleviation
- ▶ Build awareness and readiness of financial behaviour of society
- ▶ Ease of access and financial services to people
- ▶ Strengthen a synergy between bank and non banking institution
- ▶ Develop ICT to cover financial services more optimum
- ▶ Provide diversified services and product which fit to the need of people

Current Situation

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- ▶ Formal financial services only can be accessed by half of Indonesian residence (World Bank 2010).
 - About 20% of residence have no access to financial system, mostly poor people.
- ▶ Commercial bank which dominate financial sector in Indonesia (80%) only cover relatively small part of total population.
 - Micro finance institution actually have a role in financial service for rural and microenterprises but in small scale.
- ▶ The strategy to improve saving and credit access and strategy of economic development and poverty alleviation should be collaborated.

Obstacles of Financial Service Access

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Supply Side :

- ▶ Asymmetric information about risk level for consumer
- ▶ Transaction cost is not efficient compared to potential profit
- ▶ Design of services and product do not meet the financial need of people
E.g. : microentrepreneur need a credit scheme which the installment is daily or weekly basis rather than monthly basis

Demand Side :

- ▶ Education, experience in doing business, psychological factors dealing with financial services.
- ▶ Socio-cultural background
- ▶ Legal aspect problem, collateral, licenses to do business etc.

Why a National Strategy?

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- ▶ To make a financial inclusion is a national commitment among stakeholders
 - ▶ Need a coordination among stakeholders including government, private sectors and all of society.
 - ▶ “Buy in” from related institution and ministries related to financial inclusion.
- ▶ To improve financial services access in order to support economic development and poverty alleviation
- ▶ A better coordination and collaboration of policies, programs, initiatives among stakeholders

The National Strategy

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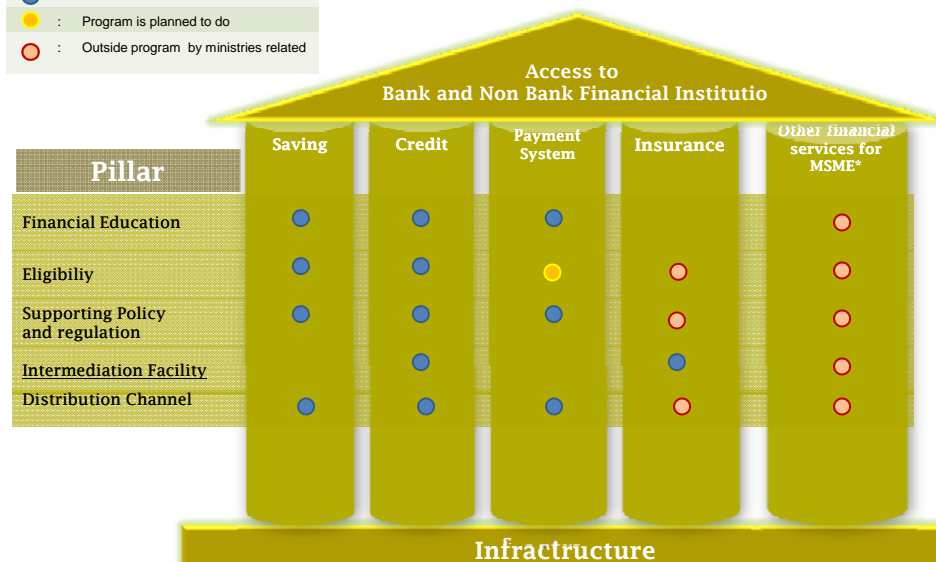
- ▶ **Banking as the backbone**
 - ▶ Banks dominate financial services
 - ▶ To strengthen and widen the bank branch
 - ▶ The framework and regulation to support financial inclusion
- ▶ **Synergy among bank, non bank financial institution and civil society (association, certain community)**
 - ▶ Linkage between bank and non bank financial institution including MicroFinance Institution (MFI)
 - ▶ Strengthen and support MFI to obtain legal entity (license)
- ▶ **Innovation in distribution channel**
 - ▶ Agent Banking through post office, pawnshop or retail
 - ▶ Mobile banking, branchless banking

5 Pillars of Financial Inclusion

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Keterangan:

- : Program have been doing by BI
- : Program is planned to do
- : Outside program by ministries related



*) Examples : commercial paper, mutual fund etc

5 Pillars of FI

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Education

Improvement of people's awareness and knowledge of financial services and product, customer protection and financial management.

Eligibility

Development of unbankable people through capacity building in order to meet banks's requirement (bankable)

Policy and regulation

To make policy and regulation which support financial inclusion and abolish unfriendly regulation for MSME

Fasilitasi intermediasi

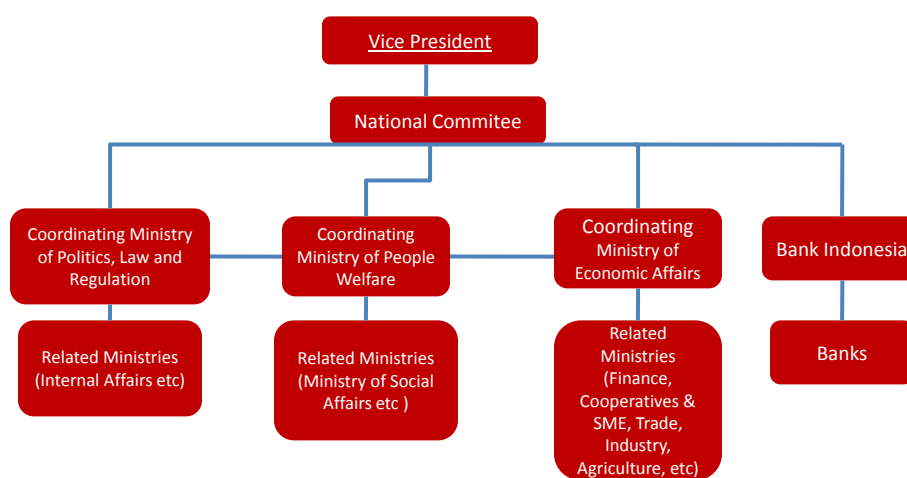
Facilitating unfinanced or unbanked people to reach formal financial services

Distribution Channel

Connecting unreachable people to financial services and product through implementation of agent banking, mobile banking and branchless banking using technology.

Proposed Organisation of FI in National Level

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Thank you