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Policies to Support MSMEs Amidst COVID-19 Pandemic

Asian Impact Webinar: How Smaller Firms in Indonesia Survive One Year into the Pandemic?

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OUTLINE



1. POLICIES TO HANDLE COVID-19 AND ACCELERATE ECONOMIC RECOVERY

2. SUPPORT FOR MSMEs DURING COVID-19 PANDEMIC

3. STRUCTURAL REFORM INITIATIVES



1. POLICIES TO HANDLE COVID-19 AND ACCELERATE ECONOMIC RECOVERY

THE STATE BUDGET HAS BEEN SUCCESSFULLY LIMITING THE IMPACT OF THE COVID-19 PANDEMIC



Implementing a countercyclical policy prevents a deeper contraction in the economy



State Budget Continue To Strive in 2021

	2020 Audited Realization (US\$ billion)	2021 Allocation (US\$ billion)	Growth (%)
State Budget	178,05	188.65	6.2
National Economic Recovery Program (PEN)	39.51	47.98	20.6
Health	4.30	11.85	177.6
Social Protection	14.86	10.17	-28.6
MSMEs Support & Corporation Financing	11.87	13.29	6.7
Business Incentives	4.00	3.89	4.2
Priority Program	4.47	8.77	83.8
Deficit (% to GDP)	6.14%	5.70%	

Note: 1 US\$ = IDR 14,577

- The economic growth has started to show an indication of improvement. The government plays a role as the center of recovery, being the only component that grows positively. Other expenditures components shows the direction of improvement.
- The state budget has succeeded to prevent a deeper economic contraction due to the pressure of the COVID-19 pandemic. Without The state budget & National Economic Recovery Program (PEN), the 2020 economic contraction would be deeper.
- In 2021, State Budget and fiscal policy will continue to play their role in driving the recovery of Indonesian economy.

ECONOMIC RECOVERY POLICY FRAMEWORK 2021



1 HEALTH INTERVENTION

- Free Vaccination → for 181.5 million people to achieve herd immunity
- Encouraging 3M 3T
- Other intervention → Health facilities, Health Protective Equipment

Social Protection Programme

For bottom 40 and the vulnerable group: PKH, Sembako card, BST, BLT DD, Pre employment, electricity discount, internet subsidy

SURVIVAL AND

RECOVERY KIT











STRUCTURAL REFORM

Through the Job Creation Law

to address various challenges of national development (providing employment opportunities, empowering MSMEs, regulatory reform, SWF development, Ease of Doing Business, etc.)

Maintaining Business Continuity

- Support for SMEs and cooperation
- Priority programs to support job creation



THE PEN 2021 PROGRAM AS THE KEY INSTRUMENTS FOR COVID-19 HANDLING

Government's commitment to accelerate the economic recovery



Projected Allocation for PEN 2021 US\$ 51.09 billion (29% higher than 2020 PEN Realization at US\$ 39.51 billion)



US\$ 14.75 bil

2020 : US\$ 4.30 bil

- 1. The COVID-19 vaccine
- 2. Medical Facilities and Infrastructure
- 3. Health Care Claim Costs
- 4. Medical Personnel Incentives and death compensation
- 5. Reserve BPJS
 Contribution Assistance
 for PBPU / BP
- 6. Health tax incentives (including VAT and import duty incentives for vaccine purchases)



SOCIAL PROTECTION

US\$ 12.89 bil

2020 : US\$ 14.86 bil

- 1. PKH 10 million beneficiaries (KPM)
- Basic Food/SEMBAKO Card
- 3. Pre-Employment Card
- 4. Cash Transfer Village Fund
- 5. Cash Social Assistance 10 million KPM
- 6. Internet Subsidy
- 7. Electricity Discount



PRIORITY PROGRAMS

US\$ 8.09 bil

2020: US\$ 4.47 bil

- 1. Tourism Supports
- 2. Food Security/Food Estate
- 3. ICT Development
- 4. Loan to Regions
- 5. Labor Intensive Program
- 6. Industrial Area
- 7. Other Priority Programs



MSMEs & CORPORATION SUPPORT US\$ 11.06 bil

2020: US\$ 11.87 bil

- 1. KUR and non- KUR interest subsidy
- 2. Loss Limit Guarantee for MSMEs& Corporation
- 3. Guarantee services (IJP) of MSMEs and cooperatives
- 4. Electrical Assistance
- 5. Other PEN Programs
- 6. Placement of Funds
- 7. PMN to SOEs carrying out assignments (HK, ITDC, Pelindo III, KIW)



BUSINESS INCENTIVES

US\$ 4.31 bil

2020: US\$ 4.01 bil

- 1. Government-Borne Income Tax
- 2. Income Tax Exemption on Import
- 8. VAT Refund
- 4. Government-Borne Income Tax for MSMEs
- 5. Reduction of Tax Installment
- 6. Corporate income tax tariff reduction
- 7. VAT notcollected/exempted (Bonded Zone/KITE)
- 8. Import duty incentives

Note: 1 US\$ = IDR 14,577

^{*)} The 2021 figure includes additional proposals.

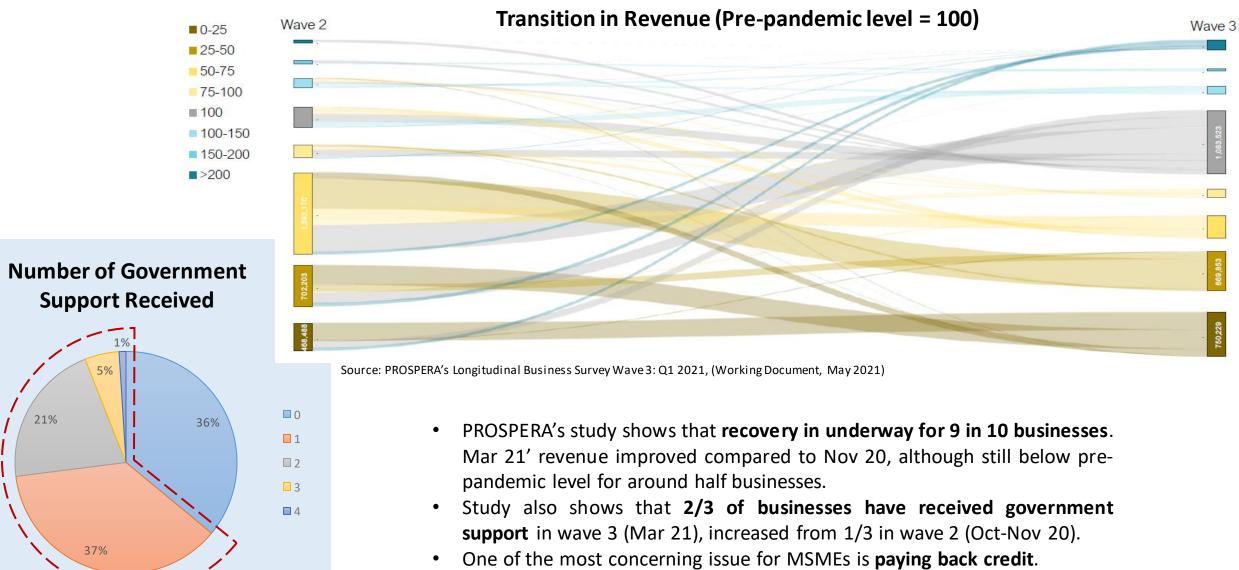


2. SUPPORT FOR MSMEs DURING COVID-19 PANDEMIC

CONDITION IS IMPROVING FOR MSMES



Nonetheless, businesses have become more anxious about cash flow due to slower revenue growth



SUPPORT FOR MSMEs TO ACCELERATE NATIONAL ECONOMIC RECOVERY





FUND PLACEMENT IN BANKS

Stimulating the channeling of new working capital loans to MSMEs through the provision of liquidity support to banks

Beneficiaries

2020: 4.7 million debtors 2021: 5.26 million debtors

(accumulative; a.o. Jul)



ULTRA MICRO FINANCING

Providing financing facilities for ultra-micro businesses that have not been able to access financing from banks

Beneficiaries

2020: 1.7 million debtors

2021: 0.8 million debtors (a.o Apr)



LOAN INTEREST SUBSIDY

Providing support for MSMEs affected by liquidity and solvency problems

Beneficiaries

2020: 25.4 million debtors

2021: 3.8 million debtors (a.o. Jul)



WORKING CAPITAL GUARANTEE

Supporting the distribution of new working capital loans to MSMEs through guarantee scheme

Beneficieries

2020: 0.9 million debtors

2021: 1.8 million debtors (a.o. Jul)



INVESTMENT FINANCING THROUGH COOPERATIVES

Providing investment financing to cooperatives through the MSMEs Revolving Fund

Beneficieries

2020: 63 cooperatives & 101,011 MSMEs



MICRO BUSINESSES GRANT

Providing productive assistance for micro businesses in the form of grants

Beneficieries

2020: 12 million micro businesses

2021: 9.8 million micro businesses (a.o. Jul)



GOVERNMENT BORNE INCOME TAX FOR MSMEs

Alleviating MSMEs' burden through provision of MSMEs income tax incentive

Beneficieries

2020: 245 thousand MSME taxpayers

2021: 129 thousand MSME taxpayers (a.o Jul)

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DIGITALIZATION AS PART OF THE MSMEs DEVELOPMENT STRATEGIES



Challenges of Digital Ecosystem Development in Indonesia

1

Consumer protection (i.e: cyber crime, consumer data)

2

A balance of innovation and regulation to enable a conducive digital ecosystem

Financial literacy and digital literacy

Financial infrastructure

Supports for Digital MSMEs Ecosystem in Indonesia

Policy and Regulation

Promoting policies and regulations that support innovation, while paying attention to consumer protection

Infrastructure

Building a strong, robust and integrated basic infrastructures, and financial infrastructures

Financing Support

Providing financial assistance, such as credit programs, to increase access to finance for SMEs in developing their businesses



Digitalized SMEs (On Boarding)

There are 12 million MSMEs currently onboarding (target: to reach 30 million SMEs by 2024)

Consumer Protection

Improving and enforcing consumer protection, including data protection and cybersecurity

HR Development and Capacity building

Organizing financial education through school curricula, training, campaigns, etc



3. STRUCTURAL REFORM INITIATIVES

OMNIBUS LAWS AS INSTRUMENTS FOR POST PANDEMIC STRUCTURAL REFORM



Omnibus Law on Job Creation

- 1. Promoting Job Creation
- 2. Easing the Opening of New Job Fields
- 3. Supporting Corruption Eradication by streamlining regulation

Development Sustainability Regulations HR Simplification Development Infrastructure Development Bureaucratic **Economic** Reform Transformation

Omnibus Law on Financial Sector Development

- **1. Deep and stable** financial market
- **2. Easily accessible** financial market
- **3. Efficient and competitive** Financial system
- 4. Improving investor trust and consumer protection

Fiscal Policy Support

Improving quality of spending through effective spending on education, health, and social media to encourage the quality of human resources

Continuing infrastructure acceleration through strengthening digital infrastructure and encouraging logistic's efficiency and connectivity

FINANCIAL SECTOR DEVELOPMENT STILL FACES CHALLENGES

Omnibus law for financial sector will significantly support the holistic financial sector reform



THE STATUS QUO

Banking

- Suboptimal size Ratio of asset to GDP: 59.46% (2020); 55.02% (2019)
- Excess number of banks
- Low credit disbursement
- Imbalanced deposit holding (concentrated to the rich)

Capital Market

- Suboptimal size Ratio of market capitalization to GDP: 45.15% (2020); 45.88% (2019)
- High dependency on foreign investors
- Government, bonds' yield are getting competitive, yet, still higher than peers

Insurance

- Low size Ratio of asset to GDP:
 6.21% (2020); 5.53% (2019)
- Increasing size of assets
- Low penetrations

Pension Funds

- Low size Ratio of asset to GDP: 6.37% (2020); 6.07% (2019)
- Lack of public understanding on the urgency of pension funds
- Overlapping regulations and programs



Limited contribution of financial sector to Indonesian economy

- Some groups or economic sectors have not been optimally covered by financial sector services and products.
- Low financial sector inclusivity.



Some financial institutions do not have a robust regulatory framework

- Some laws are old and could not accommodate recent market needs.
- Overlapping issues in existing regulations has to be addressed.
- Investors and consumers protection.



Complexity of financial sector development

- The increase of technology and digital based, as well as hybrid financial products.
- Those products could boost competitiveness and efficiency; but they need to be regulated to minimize the risk in the future.

REFORM FOR A DEEP, INNOVATIVE, EFFICIENT, INCLUSIVE, STRONG, AND STABLE FINANCIAL SECTOR



Including to accelerate the inclusion of MSMEs to the financial sector



INEQUAL ACCESS TO
AFFORDABLE FINANCIAL
SERVICES

HIGH TRANSACTION
COSTS
IN THE FINANCIAL SECTOR

2

LIMITED FINANCIAL INSTRUMENTS FOR THE MIDDLE-UPPER CLASS

3

LOW INVESTOR AND CONSUMER'S TRUST AND PROTECTION





VISION:

A FINANCIAL SECTOR that is DEEP, INNOVATIVE, EFFICIENT, INCLUSIVE, and RELIABLE, as well as STRONG and STABLE

THEME AND PILLAR OF INDONESIA'S 2022 G20 PRESIDENCY

SME's development becomes one of the main issue



"RECOVER TOGETHER, RECOVER STRONGER"

New Era

More productive and balanced global economy

Promoting Productivity

- Promoting even recovery
 - Ensuring equitable Vaccine rollout
 - Strengthening policy coordination
- Enhancing efficiency in the economy
 - Boosting productivity through digitalization and addressing the digital divide (incl. improving Cross Border payment)
 - Improving quality of human capital post covid (education, health & social protection)
 - Developing the financial market.
 - Addressing infrastructure financing
 - Addressing digital taxation challenges

Greater financial and monetary system stability

Increasing Resilience and Stability

- Enhancing financial system stability
 - Improving pandemic preparedness.
 - Protecting countries against policy spillover due to exit policy.
 - Enhancing global resilience (Risk monitoring, Strengthening GFSN)
 - Addressing risk of excessive capital volatility.
 - Addressing debt sustainability issues (debt relief).
 - Mitigating risk of digitalisation (GSC, shadow banking, etc)
 - Enhancing resilience in financial sector/financial sector regulation

Broader equality and sustainability

Ensuring Sustainable and Inclusive Growth

- Ensuring sustainable growth
 - Promoting sustainable finance.
 - Assesing impact of environment (ESG factor) on financing access
- Improving economic inclusion
 - Promoting financial inclusion (including fintech role in SME financing, innovative financing for SME, & digital literacy for SME).
 - Enhancing role of SME

Main Pillar

Digitalization

SMEs DEVELOPMENT IS ALSO A PRIORITY IN THE G20 GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (GPFI)



In accordance with the G20 2020 Financial Inclusion Action Plan, 4 action areas have been identified as a guide for GPFI 3 years into the future (2021-2023) under two financial priorities:

Digital Financial Inclusion and SMEs.



Strongly endeavors an effective implementation of the 2016 G20 High-Level Principles for Digital Financial Inclusion both in G20 and non-G20 countries, particularly with regards to marginalised and vulnerable communities, vis-à-vis each nation's circumstances



Identifies and promotes national and global policy options (and supports following implementations) which could facilitate the expansion and diversification of financial services, including the use of digital financial services, to SMEs in both G20 and non-G20 countries, while taking into consideration future industrial trends.



Promote responsible development of innovative payment systems that provide affordable, secure, easily operable, transparent and inclusive payment solutions to support progress in reducing remittance costs and safeguarding consumer protection



Identify and promote good practice at the institutional level, in both G20 and non-G20 countries, specifically targeted at improving the range of financial services for SMEs (including those managed by marginalised and vulnerable communities).

CASCADING THE PILLARS INTO THE FINANCIAL INCLUSION AGENDA



In the post Covid-19 era, recovery not only need to promote productivity but also inclusivity, while at the same time enhance stability and promote sustainability. The recovery from Covid-19 need to be equitable and perceived by all group of society especially for the vulnerable groups that often left behind and the MSMEs.

Pillars of G20 Presidency 2022

Pillar 1: Promoting Productivity

- Enhancing role of MSME as source of growth through
 MSME digital transformation to boost financial inclusion
 and economic opportunity that contribute to sustainable
 and inclusive growth.
- Increase participation of SMEs in global/local value chain and better access to market opportunity using digital ecosystem.

Pillar 3: Ensuring Sustainable and Inclusive Growth

- Promote sustainable and affordable access to digital financial products and services to increase productivity and resiliency against economic shocks and to mitigate risks.
- Promote a balance between enabling financial innovation and addressing risks: insufficient consumer protection, lack of financial and digital literacy, unequal access to digital infrastructure, and data biases.
- Promote **data utilization** to build creditworthiness assessments and minimize asymmetric information.

The 2020 G20 Financial Inclusion Action Plan (FIAP) for the year of 2022

Priority 1: Digital Financial Inclusion* (1 deliverable)

Implementation framework for High Level Principal on Digital Financial Inclusion with a primary focus on underserved and vulnerable groups and MSMEs.

*Cross cutting issues: (1) financial inclusion for underserved and vulnerable groups as well as advancement of Women's Economic Empowerment; (2) financial consumer protection and financial literacy

Priority 2: SMEs Finance*

(4 deliverables)

- A regular progress report and a set of **best practices and innovative instruments** to overcome common constraints in SME financing
- A stocktaking report on the financial products and services for SME to decrease possible financial fragility of SMEs
- An SME DFS Regulatory Diagnostic Toolkit to promote SMEs access to innovative digital financial services
- SMEs' data harmonization and improve the availability of disaggregated data for SMEs led by women, youth and other groups



Thank You