



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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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

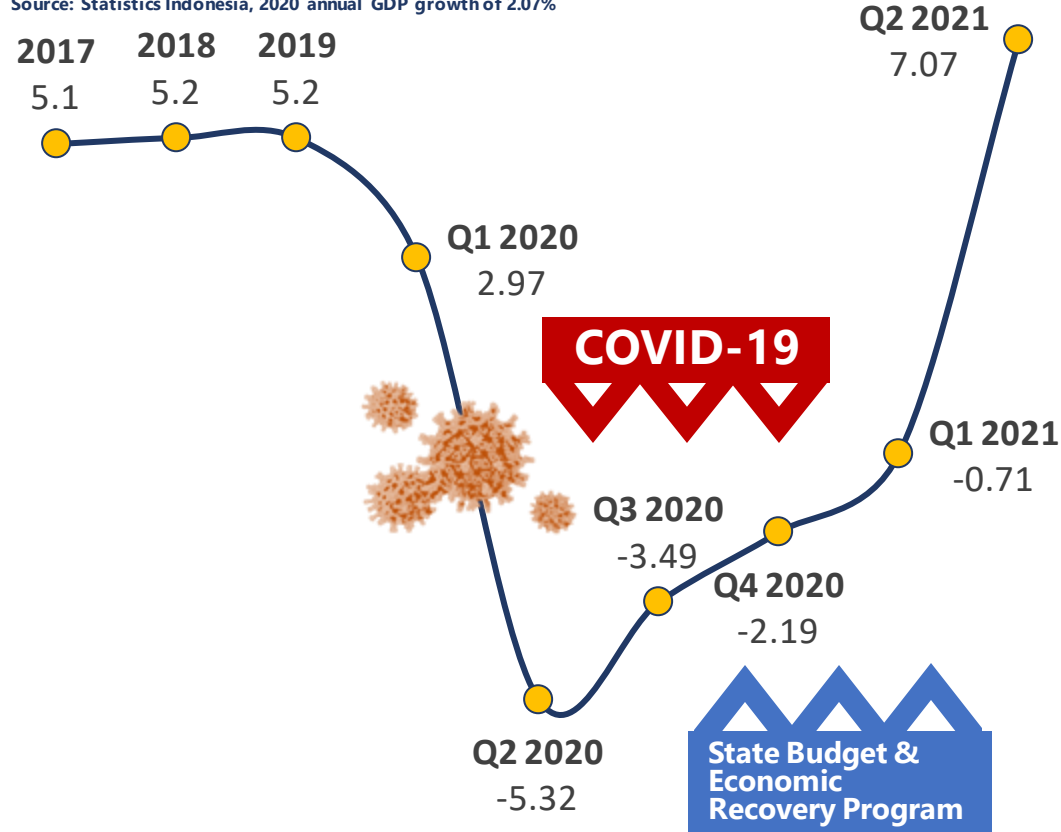
THE STATE BUDGET HAS BEEN SUCCESSFULLY LIMITING THE IMPACT OF THE COVID-19 PANDEMIC



Implementing a countercyclical policy prevents a deeper contraction in the economy

Indonesian economic growth (% yoy)

Source: Statistics Indonesia, 2020 annual GDP growth of 2.07%



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.



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

2

SURVIVAL AND RECOVERY KIT

Maintaining Business Continuity

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

3

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.)

GAME CHANGER

2021

NATIONAL ECONOMIC RECOVERY

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)



HEALTH

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)
2. 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
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
3. VAT Refund
4. Government-Borne Income Tax for MSMEs
5. Reduction of Tax Installment
6. Corporate income tax tariff reduction
7. VAT not-collected/exempted (Bonded Zone/KITE)
8. Import duty incentives

*) The 2021 figure includes additional proposals.

Note: 1 US\$ = IDR 14,577



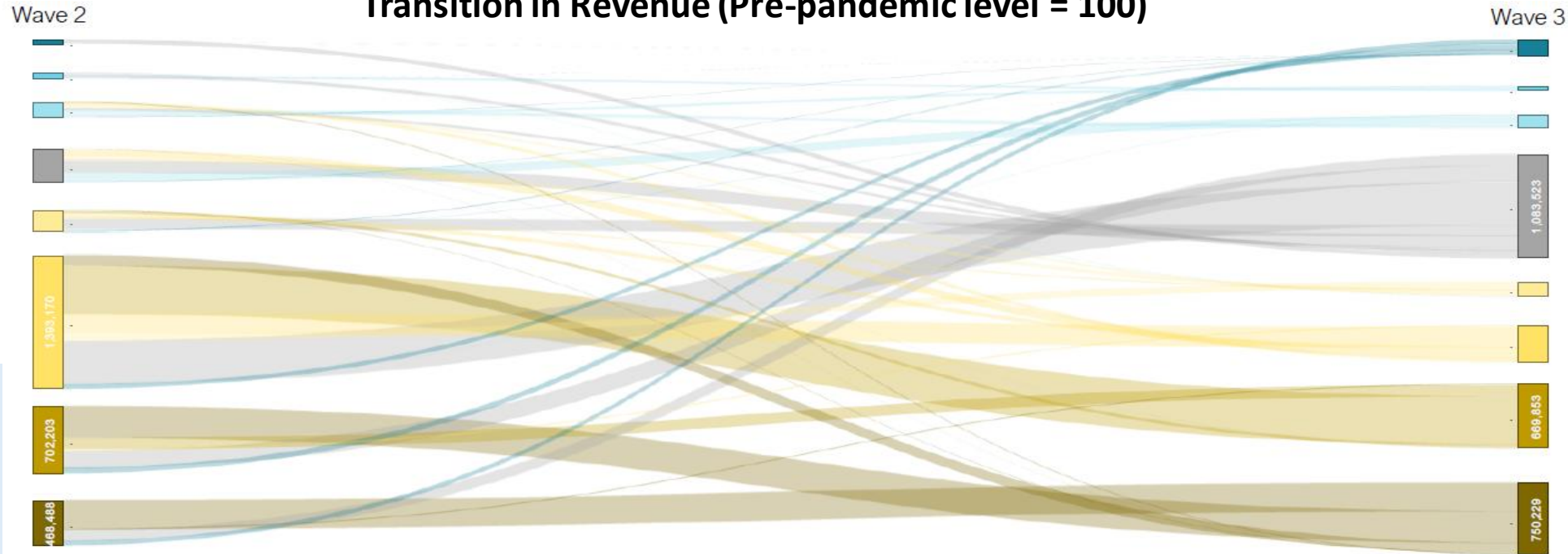
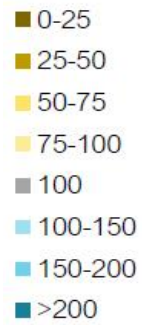
2. SUPPORT FOR MSMEs DURING COVID-19 PANDEMIC

CONDITION IS IMPROVING FOR MSMEs

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

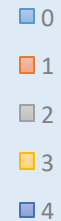
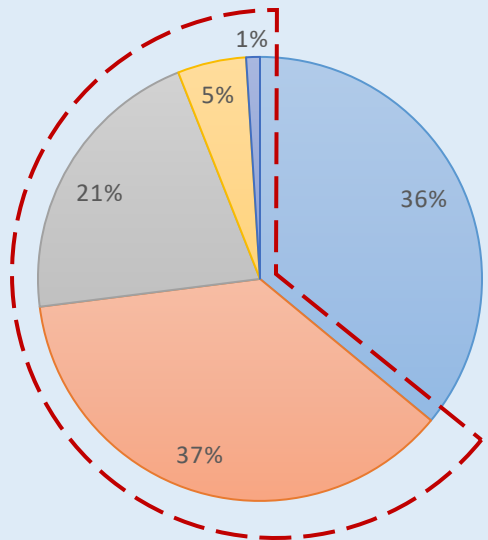


Transition in Revenue (Pre-pandemic level = 100)



Source: PROSPERA's Longitudinal Business Survey Wave 3: Q1 2021, (Working Document, May 2021)

Number of Government Support Received



- PROSPERA's study shows that **recovery is underway for 9 in 10 businesses**. Mar 21' revenue improved compared to Nov 20, although still below pre-pandemic level for around half businesses.
- Study also shows that **2/3 of businesses have received government support** in wave 3 (Mar 21), increased from 1/3 in wave 2 (Oct-Nov 20).
- One of the most concerning issue for MSMEs is **paying back credit**.



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

Beneficiaries

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

Beneficiaries

2020: 63 cooperatives & 101,011 MSMEs



MICRO BUSINESSES GRANT

Providing productive assistance for micro businesses in the form of grants

Beneficiaries

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

Beneficiaries

2020: 245 thousand MSME taxpayers

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



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

3

Financial literacy and digital literacy

4

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 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

HR Development



Regulations Simplification



Infrastructure



Development



Bureaucratic Reform



Economic 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

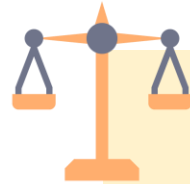
Pension Funds

- 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

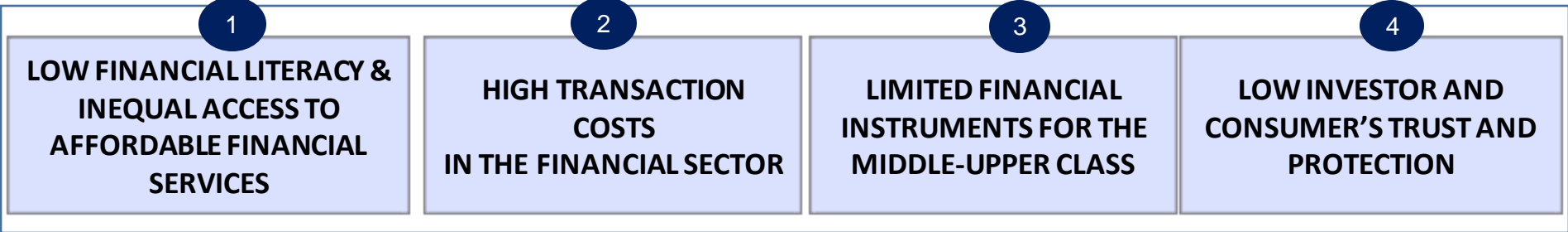
- The increase of technology and digital based, as well as hybrid financial products.
- Those products could boost competitiveness and efficiency; but they need to be regulated to minimize the risk in the future.

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

Including to accelerate the inclusion of MSMEs to the financial sector



CHALLENGES:



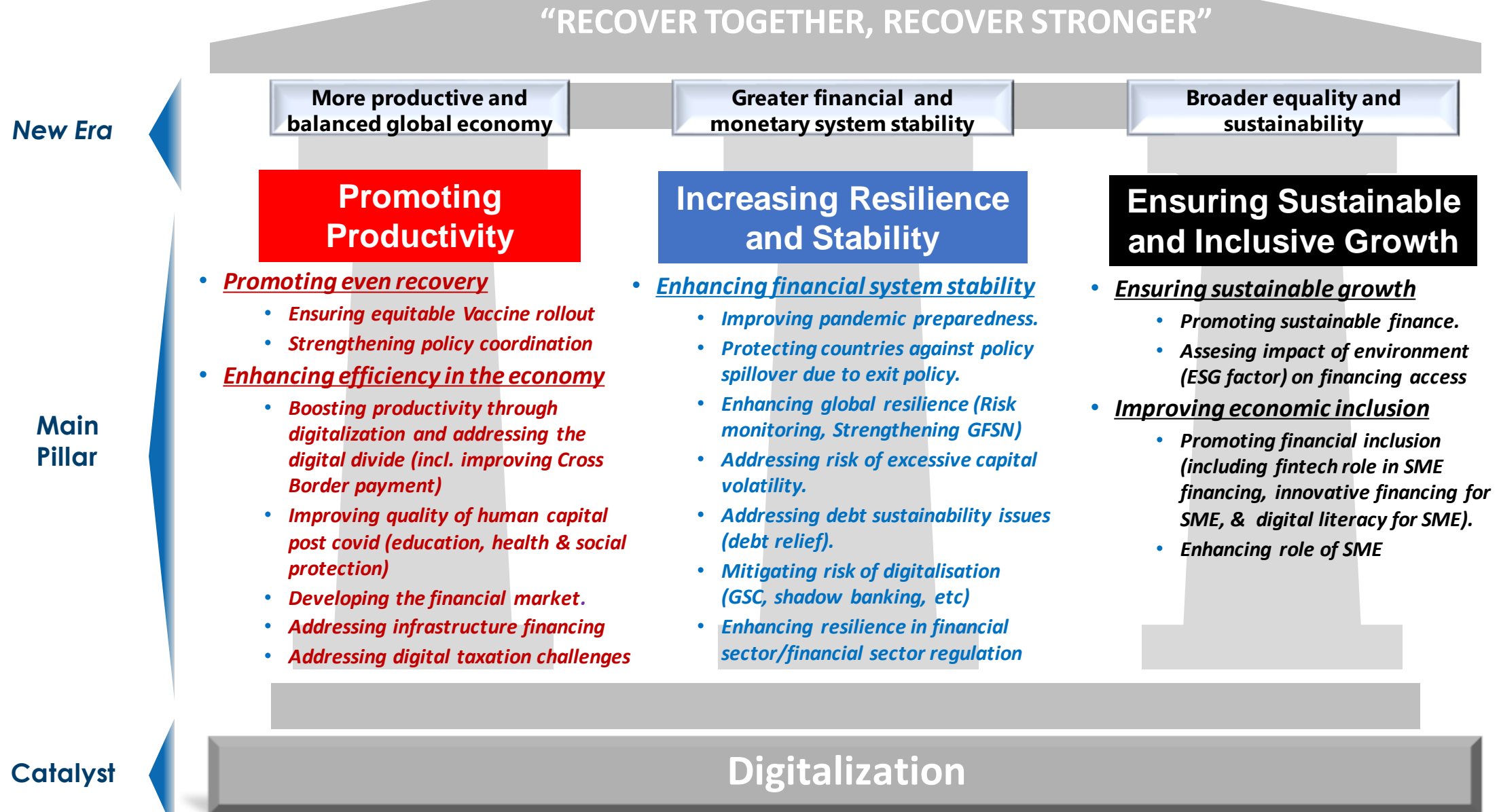
VISION:

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





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

Digital Financial Inclusion and SMEs.

1

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

3

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.

2

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

4

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**.

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**

*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



Thank You