

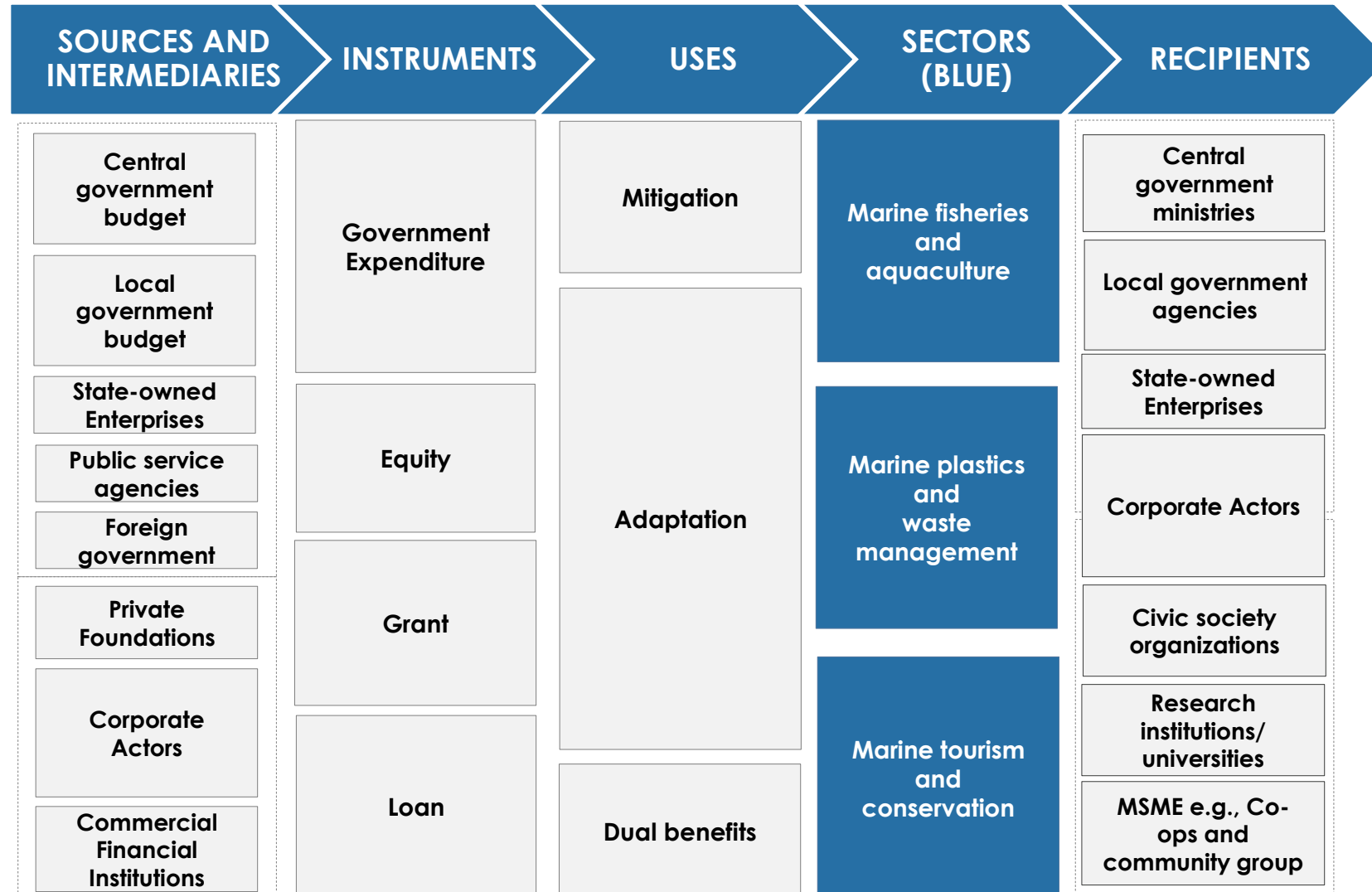


CLIMATE
POLICY
INITIATIVE

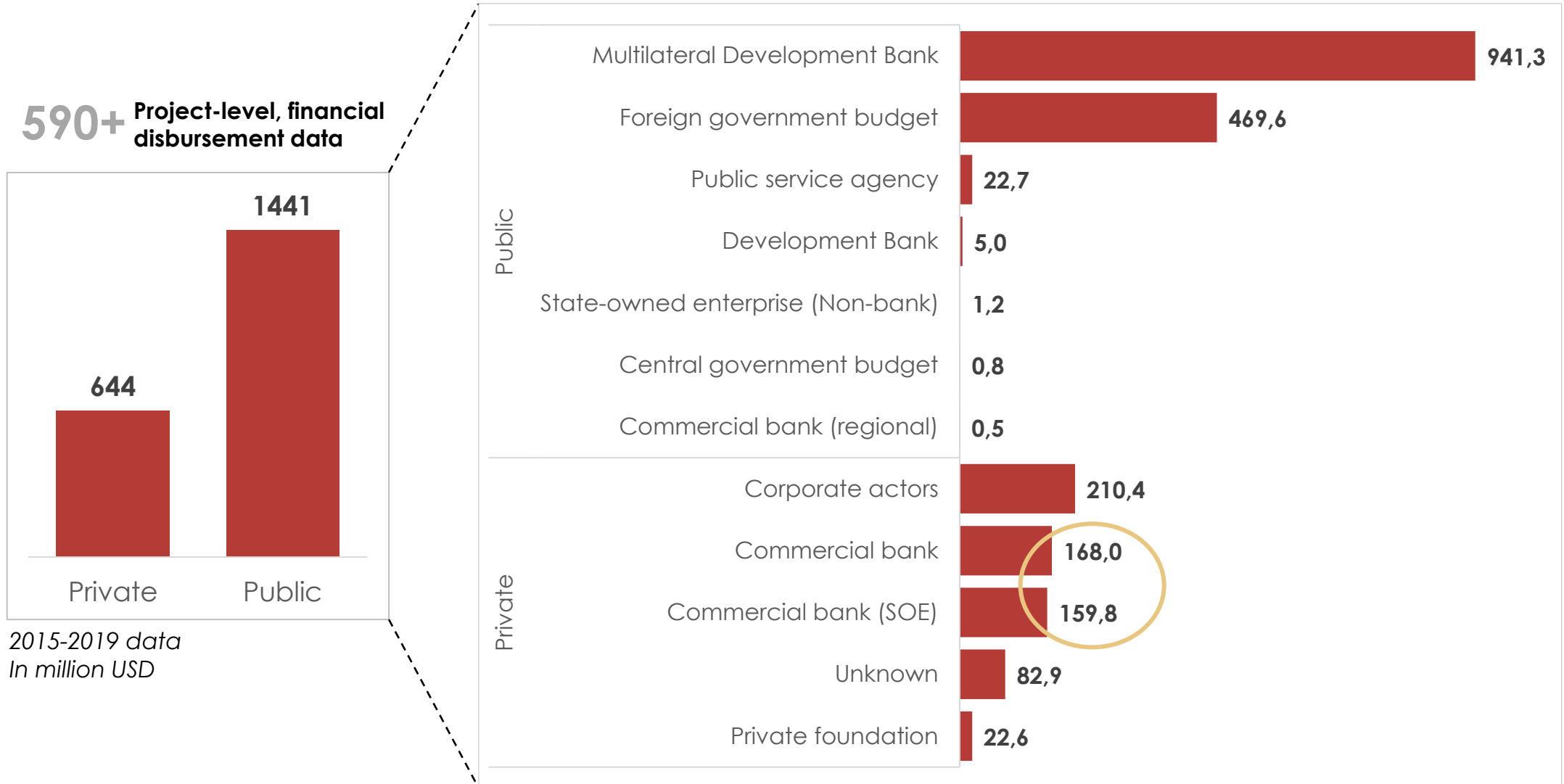
Indonesia Blue Finance Landscape

June 2022

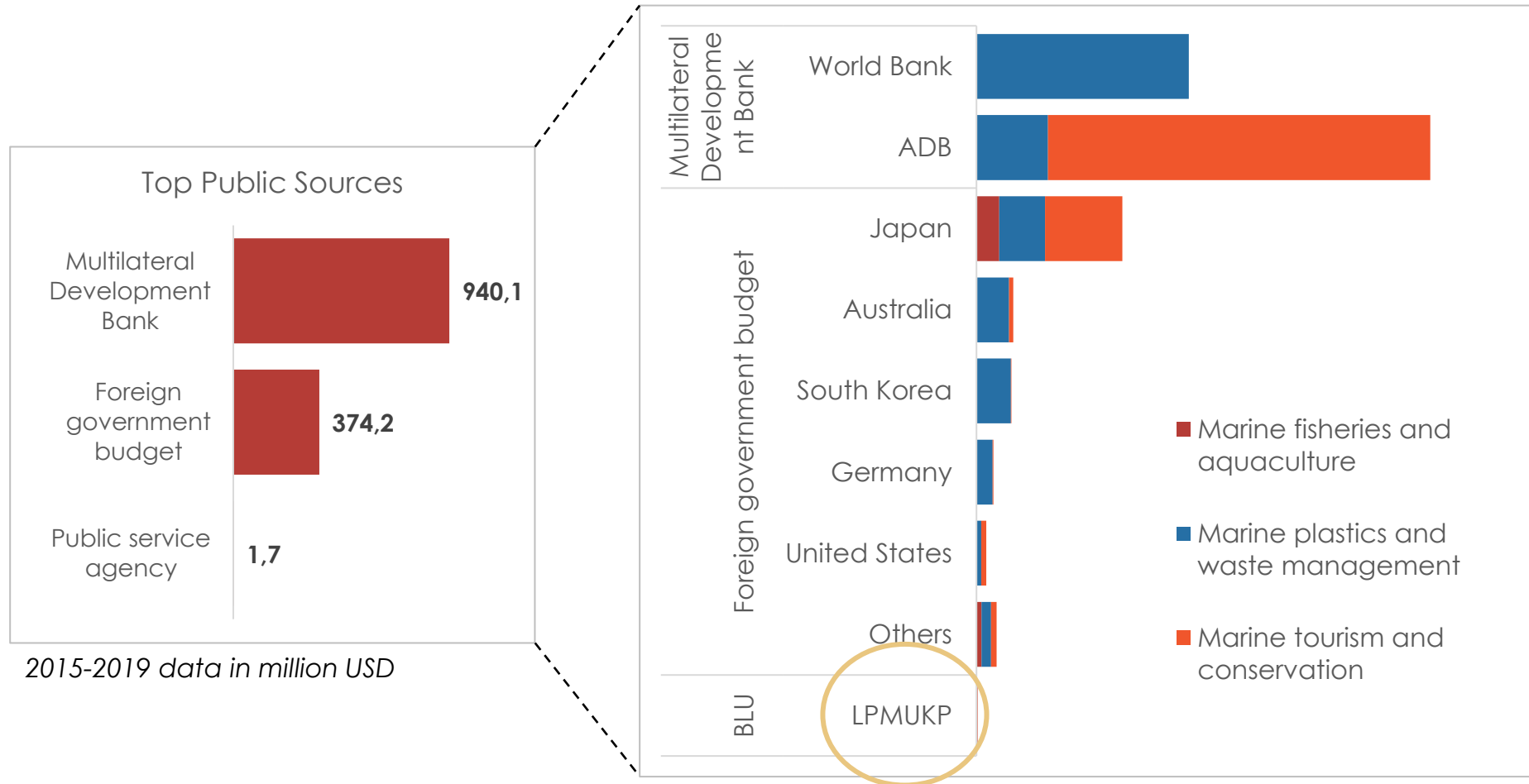
National blue finance landscape analysis follows this flow



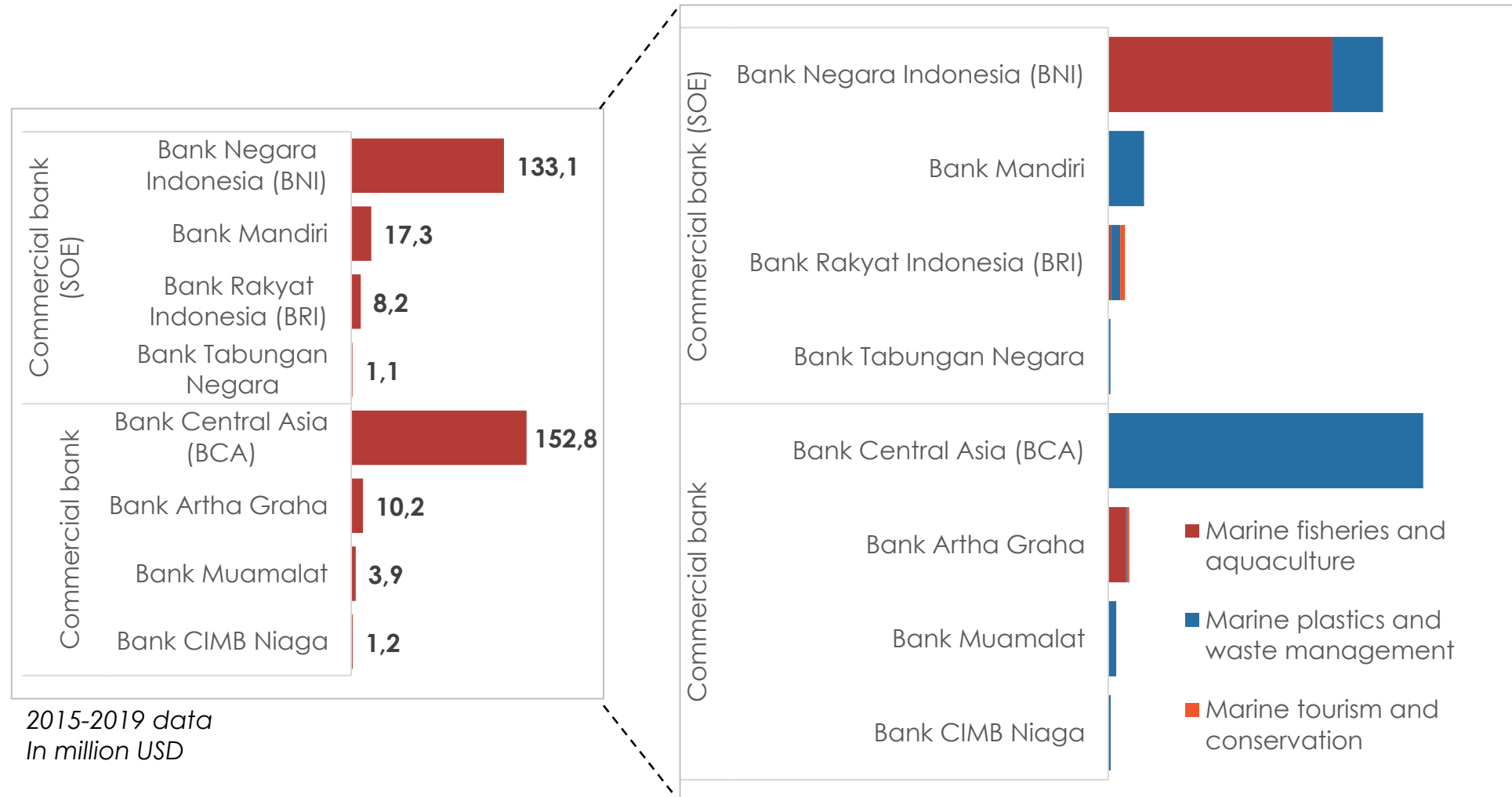
Public international finance dominates Indonesia's blue finance, while commercial banks are the majority of private sources



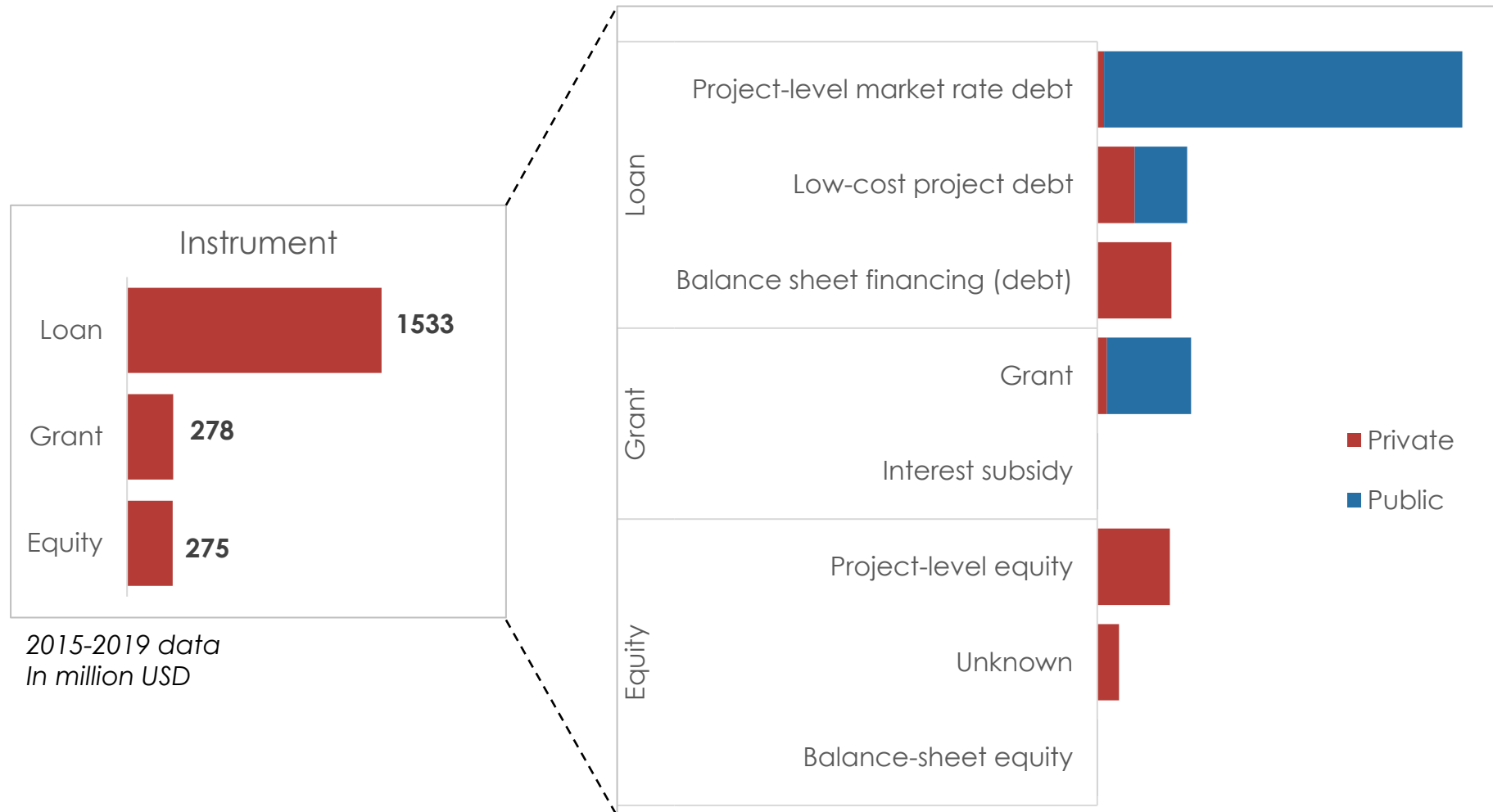
Tracked public finance mostly goes to support disaster risk management, water, and wastewater, while the Marine and Fisheries Capital Fund Agency (LPMUKP) improves access to capital for marine and fishery communities.



Tracked private finance dominated by commercial banks, both state-owned and private

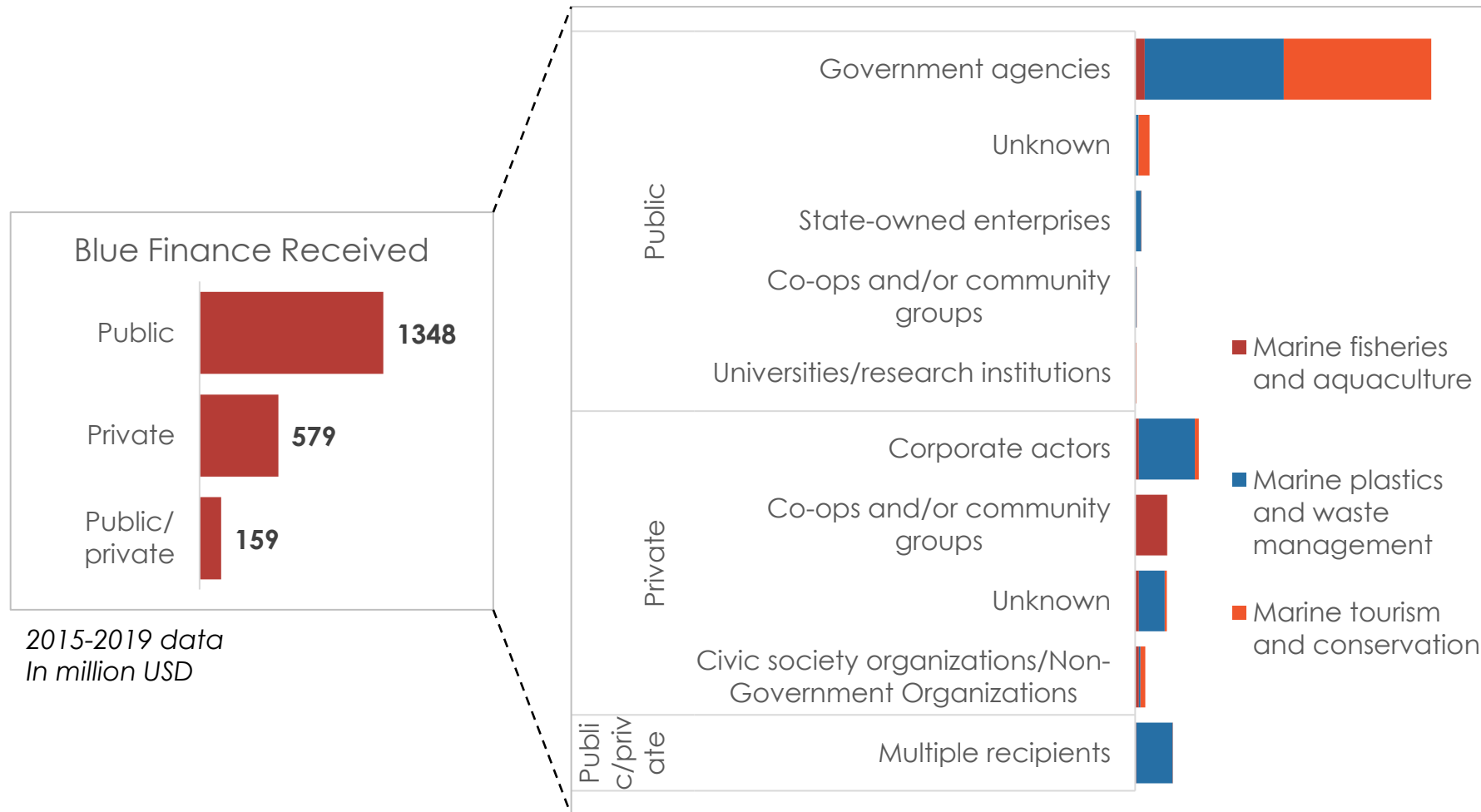


Commercial loan dominates blue finance instrument, targeting water and waste infrastructure projects



Otherwise, the amount of grants, low-cost project debts (concessional loans), and equity are relatively similar

Government agencies are the highest recipient as most blue finance tracked are ODAs



Blue MSMEs financing landscape

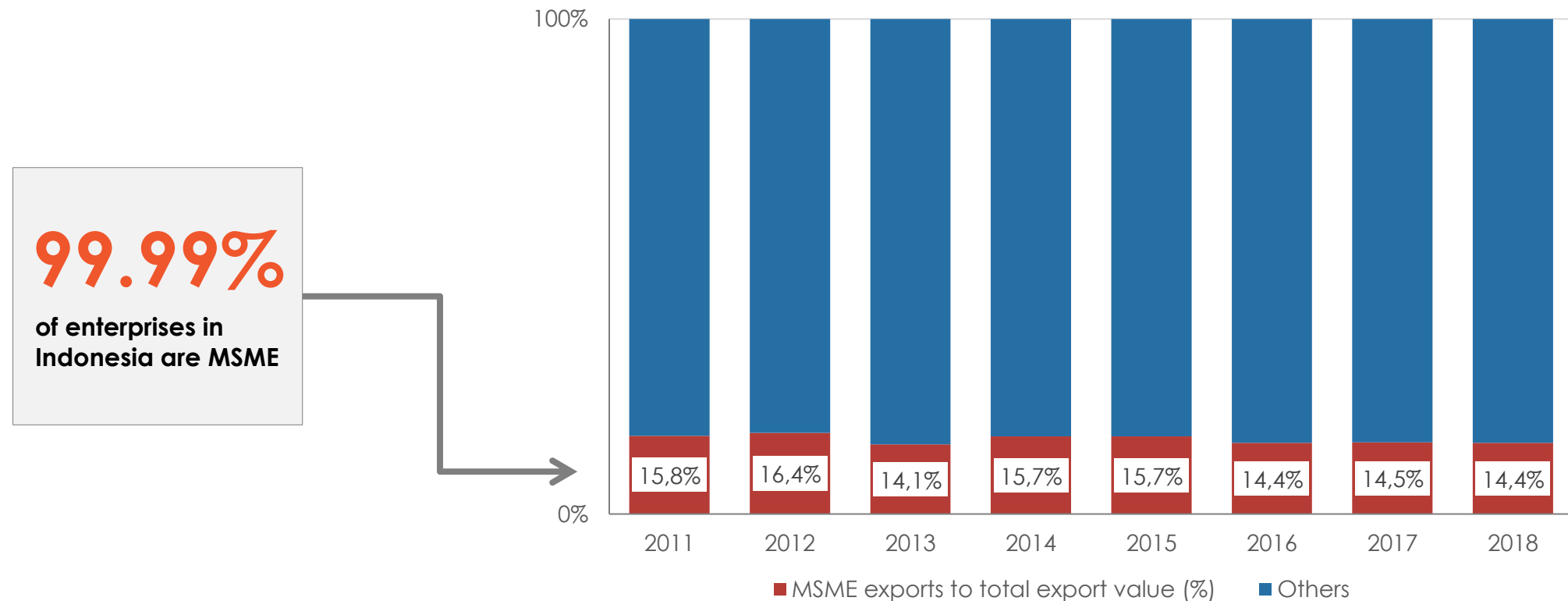
Micro enterprises makes up the most of Indonesia's MSMEs

	Definition		2019 MSME Data	
	Asset (in IDR)*	Annual Turnover (in IDR)	Total Unit	Growth
Medium	500 M – 10 B	2.5 B – 50 B	65,465	7.85%
Small	50 M – 500 M	300 Mn– 2.5 B	798,679	1.99%
Micro	<50 M	<300 M	64,601,352	1.98%

Source : Law 20/2008; Indonesian Ministry of Cooperative and SME,

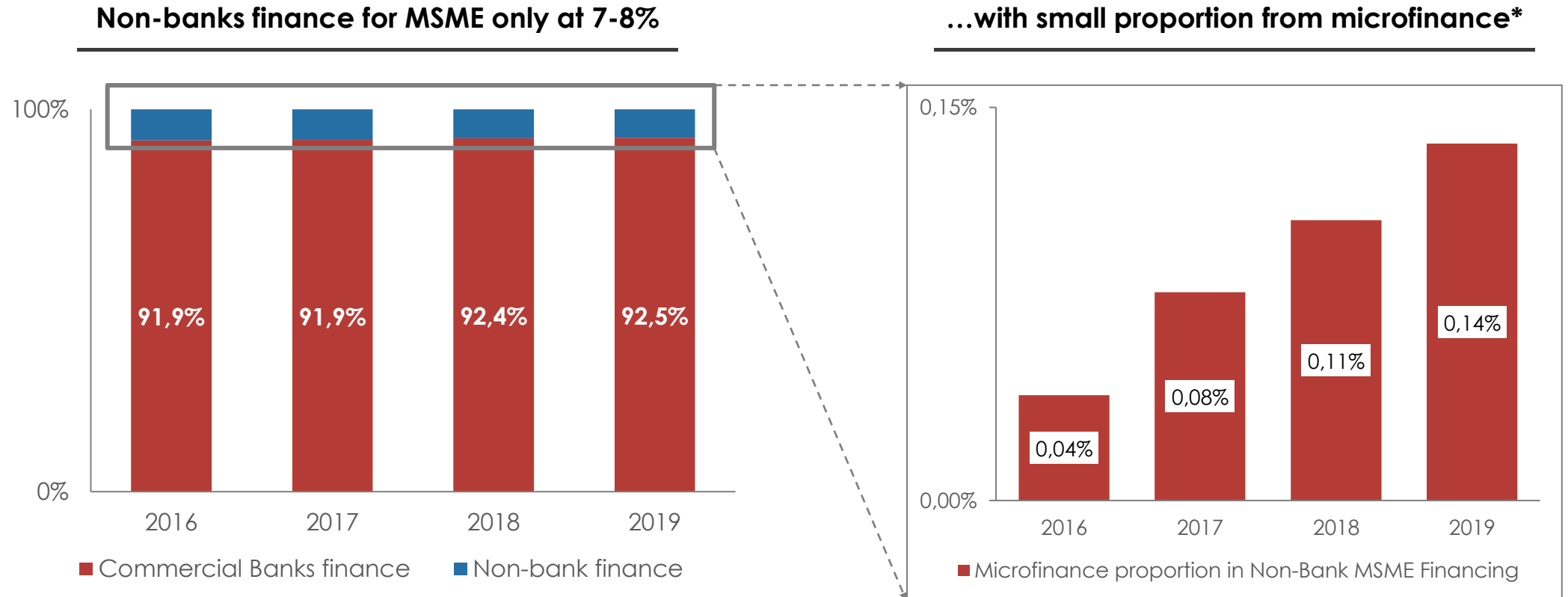
*excluding land and building

MSMEs constitute the largest majority of enterprises category, while contributing 14-16% of total exports



Source: ADB SME Finance monitor, data in 2020

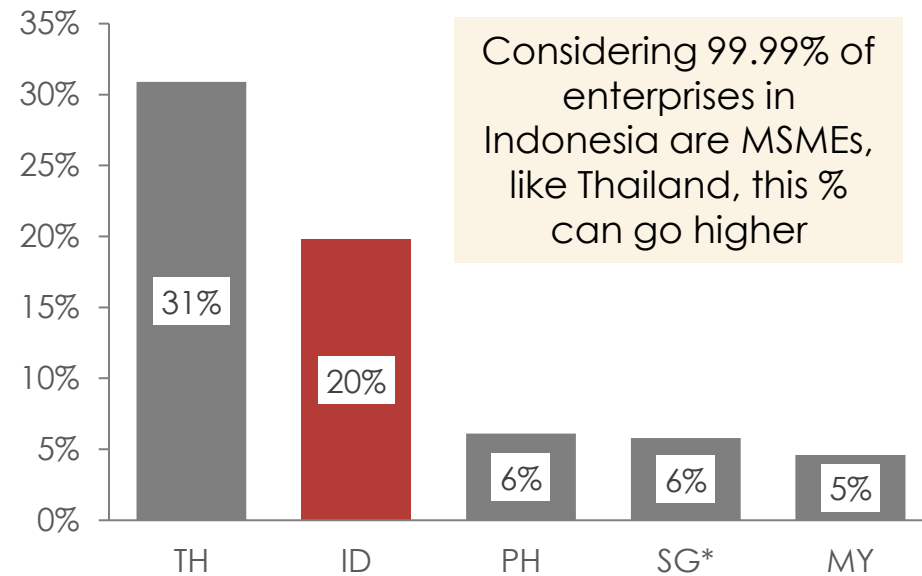
There is greater opportunity for non-bank institutions to mobilize more finance to MSMEs



*Data limitation: Data is sourced from OJK financing statistics of banks and non-bank institutions. For the microfinance category, OJK has listed 27 Microfinance Institutions (MFIs) in 2021. This is in stark contrast with information from MICRA, one of Indonesia's non-governmental organizations specialized in empowering MFIs, that it has helped more than 2110 MFIs since they began their operation in 2006. Such difference indicates a significant gap between the number of MFIs operating in Indonesia versus OJK's microfinance data. Moreover, most of the MFIs are also co-op, which is under the authority of the Ministry of Cooperative and SME, not OJK.

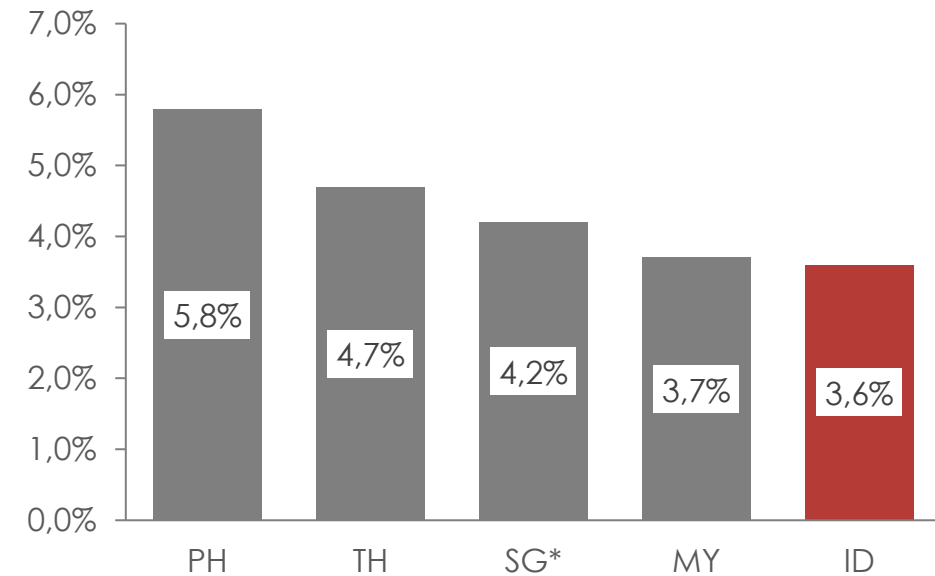
Indonesia records high volume of loans for MSME, with one of the lowest non-performing loans compared to other ASEAN countries

MSME Loan to Total Loan, 2019 (%)



*2018 data

MSME NPLs to total MSME loans, 2019 (%)







*2018 data

But the amount of MSME loans is still lower than its potential, because ...

Source: ADB SME Finance monitor, data in 2020

... commercial banks still require physical collateral for MSME Loans, which hinders many MSMEs from accessing finance

				
Loan name	Kredit Usaha Rakyat BRI, Kredit Mikro BRI	Kredit Usaha Rakyat BNI	Kredit usaha Rakyat Mandiri	Kredit usaha Rakyat BCA
Collateral required	<ul style="list-style-type: none">• The business receivable used as collateral, although other collaterals (land/building or kiosk/car or motorbikes/machinery) might be used• Guarantors are sometime needed (guarantors need to have collaterals themselves)			
Collateral amount	Can be less than loan amount	Value of collateral has to match loan amount ¹		
Credit history	Use BI checking ² , expect perfect payment history for 2 years and minimum 6 months of profitable business			
Interest rates	12-14 % p.a. for micro credit, 6% for KUR ³ ,			
Loan amount	IDR 10 Mn – 500 M	Max IDR 500 M	Max IDR 500 M	IDR 10 M – 500 M

1. <50 M no collateral

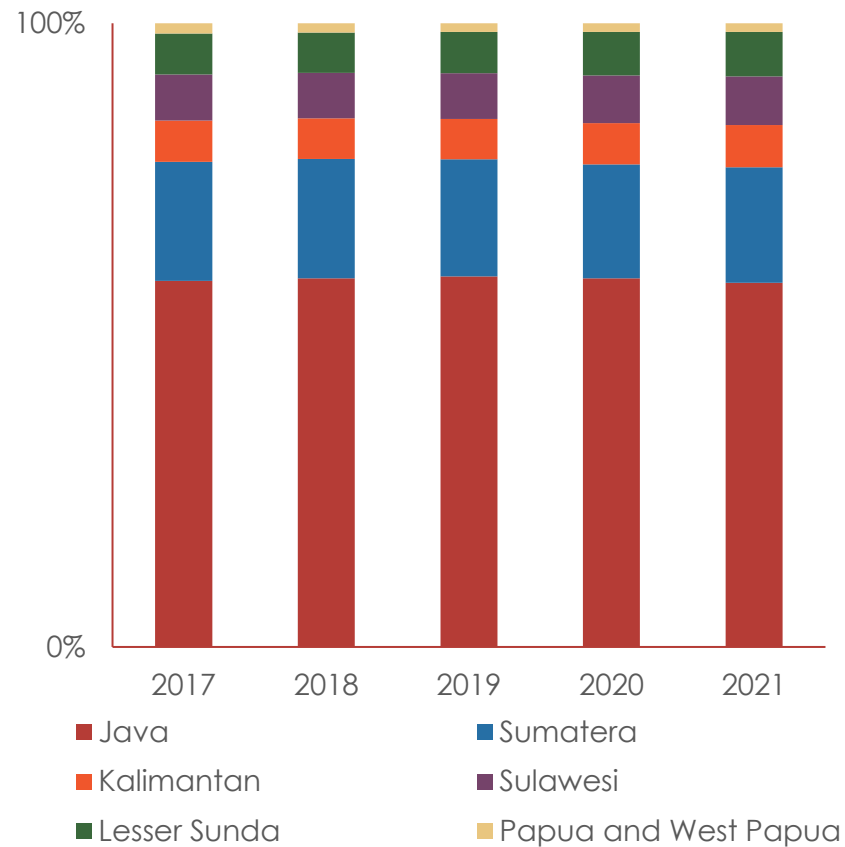
2. BI Checking is credit information system by the central bank that track individual/group credit history for the past 24 months

3. Max IDR 50M

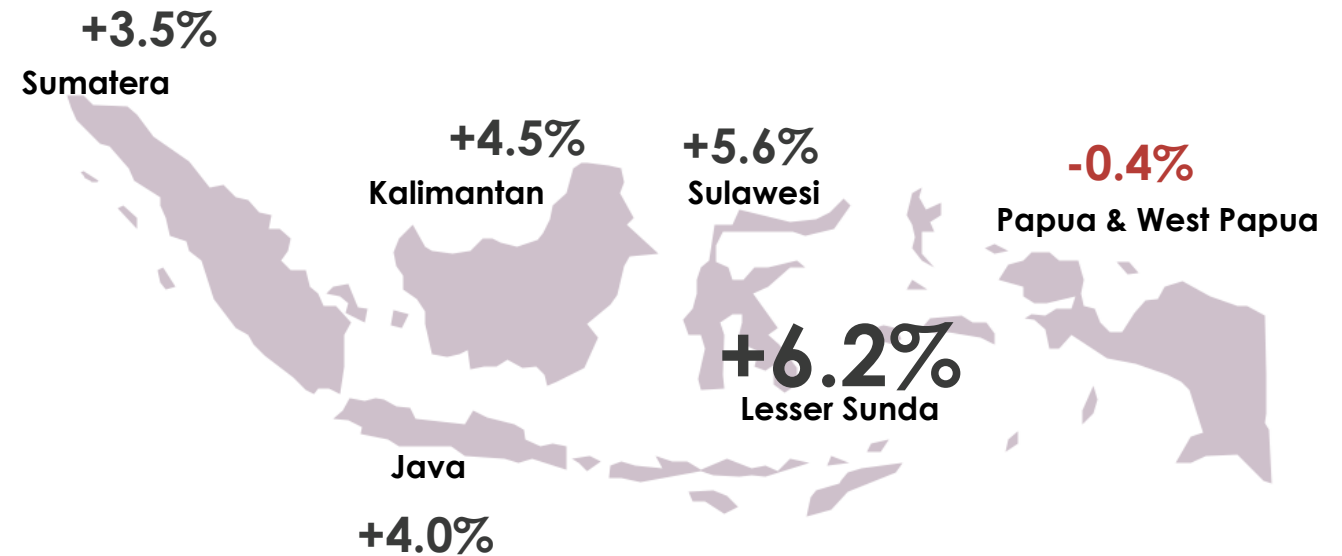
Source: BRI, BNI, Bank Mandiri, Bank BCA

Most of MSME loans are concentrated in Java, while the highest growth occurs in the Lesser Sunda Islands

Around 59% of MSME loans are concentrated in Java



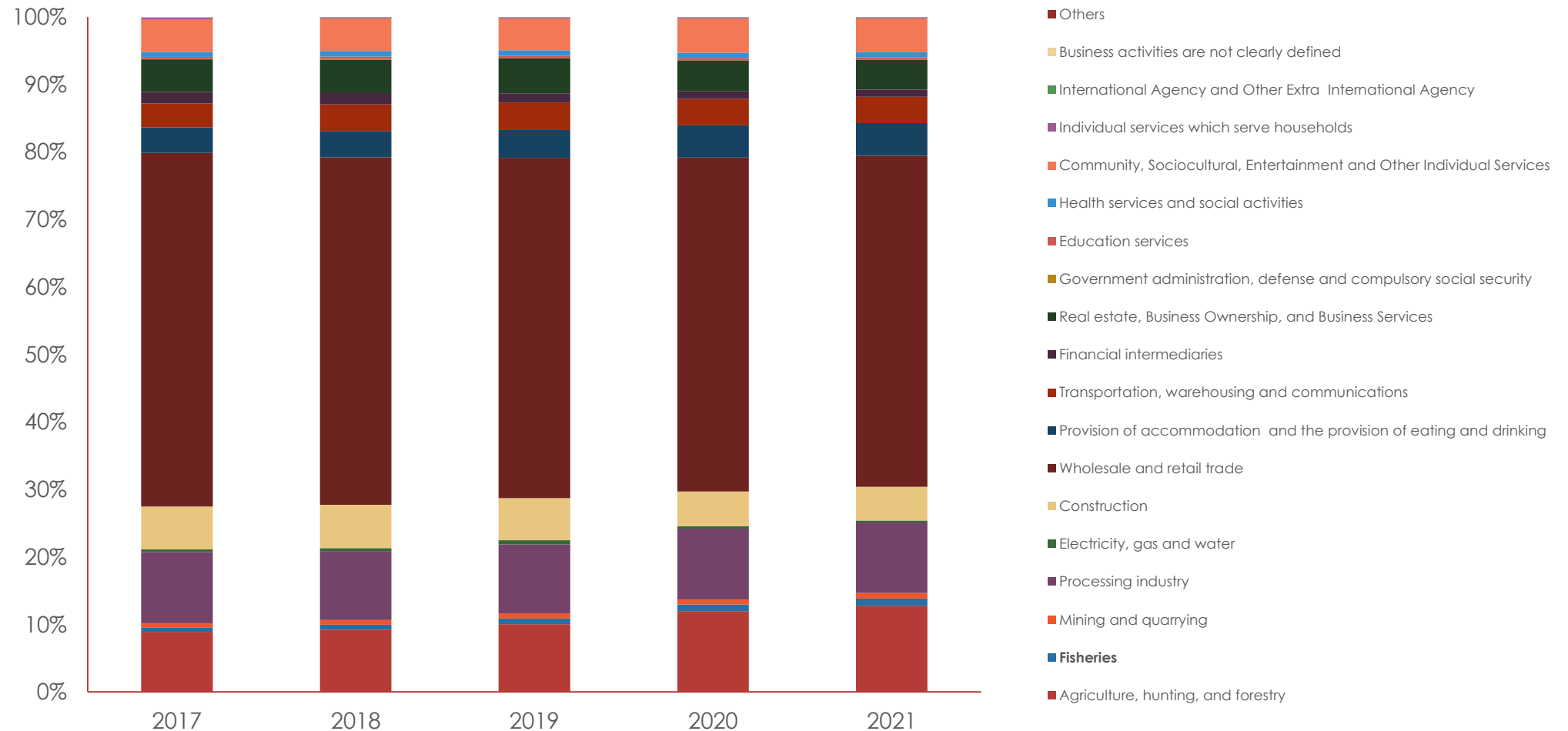
While the average annual growth* of MSME loans are the highest in the Lesser Sunda Islands



*based on the 5-year data period (2017-mid-2021)

Wholesale and retail dominate MSME, while fisheries are very small in proportion (IDR 6T – 11T in total loan)..

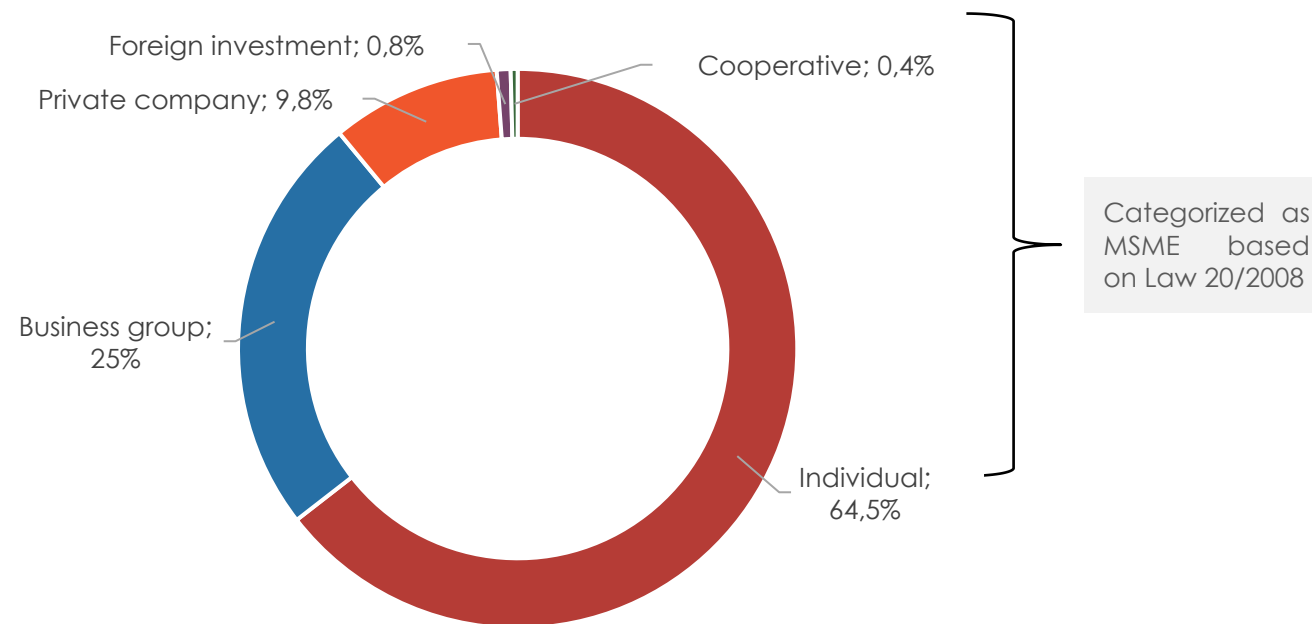
Shares of MSME Bank Loans by Sector (%)



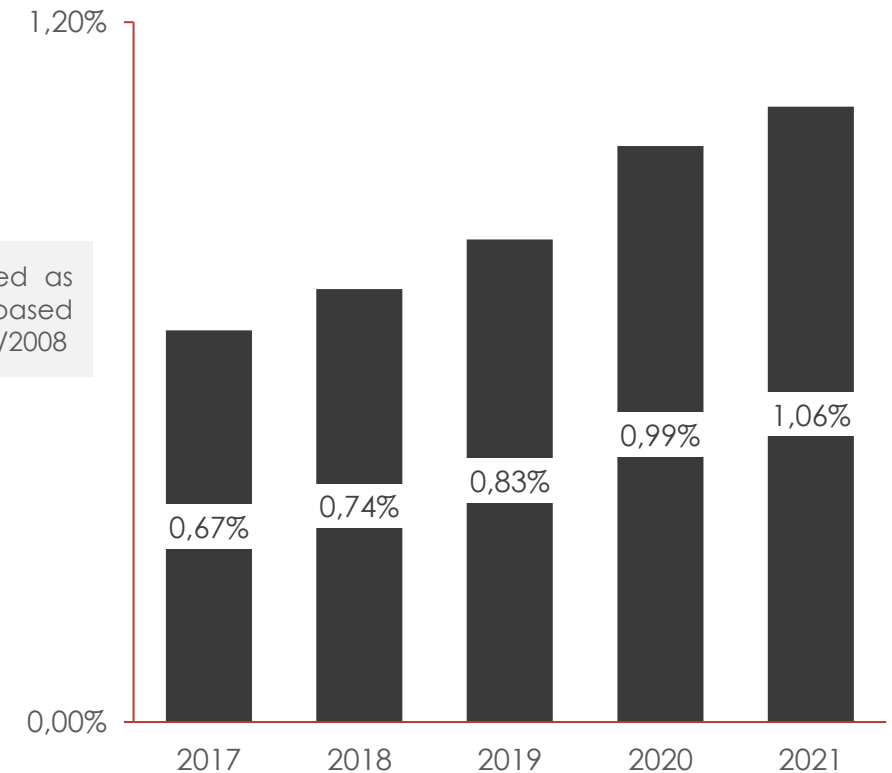
Source: OJK Indonesia Banking Statistics, September 2021

Yet, share of loans for fisheries sector, driven by MSMEs, has consistently shown an upward trend with potential for further growth

Ratio of fishing licenses ownership in Indonesia





















Share of fisheries MSME Loans (%)














Barriers and opportunities

General barriers of MSME financing could be addressed...

Key barriers		Potential solutions	Benchmark		
General barriers	Access to finance	Lack of credit history and no ownership of collateral, which limit MSMEs' access to bank credit	Enhance credit and risk assessment mechanism	Domestic	International
		Lack of dataset to assess MSMEs' risk level			
		Lack of access to bank credit in specific region/geographies		  	
		Lack of flexibility to cater to specific needs of MSME sectors		  	
	Human capacity	Suboptimal skills to grow business	Technical assistance, capacity building for local MSMEs	 	
		Shortage of skilled labor with business acumen	Improve partnerships with local training institutions/schools	 	
Lack of innovative/ entrepreneurial culture		Combine technical assistance with wider recognition of MSMEs	 		

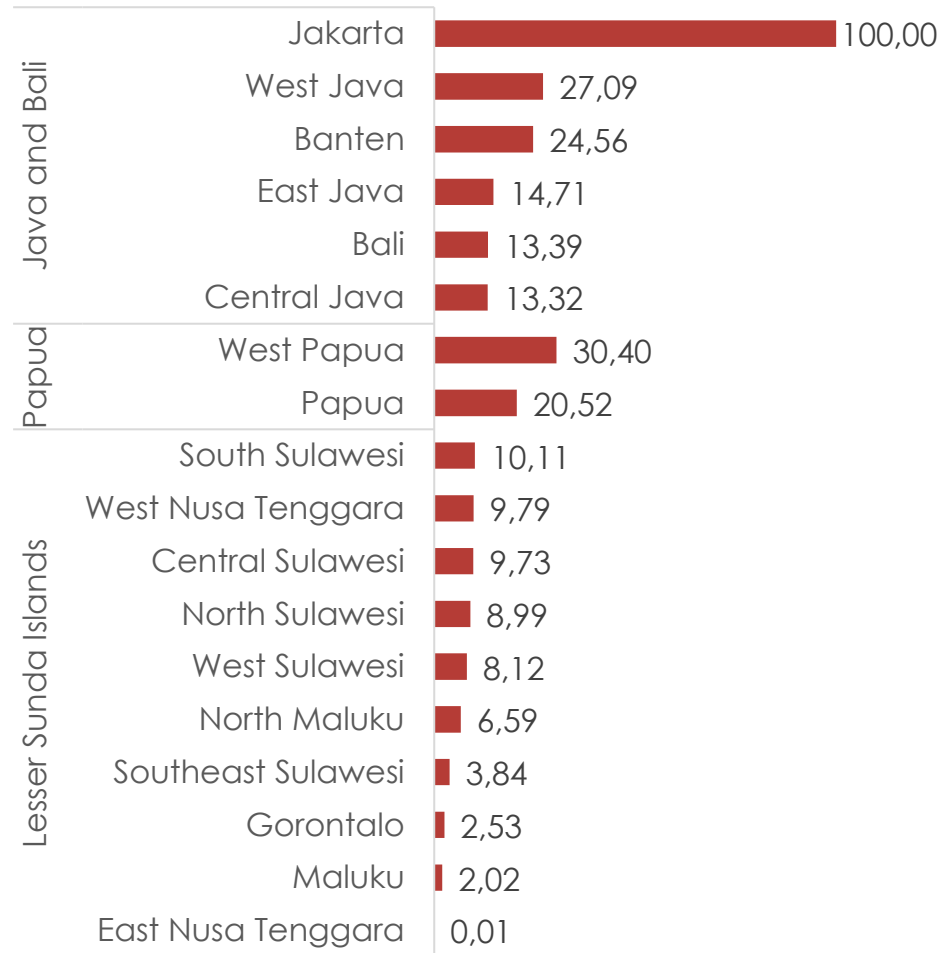
... but there are also several location and blue sector-specific barriers

Key barriers			Potential solutions	Benchmark	
Location-specific	Low Productivity	Lack of infrastructure, access to finance, and human capacity	Financing instruments – grant, debt Risk-sharing financial instrument/ investment platform to funding needs of fishery projects & mobilize private capital	Domestic	International
		Niche products with suboptimal marketing strategy			
Sector-specific	Lack of infrastructure	Lack of integrated ports, road, and distribution channel	Boating/ Fisheries Infrastructure Grant Program		
		Lack of basic infr., i.e., water, electricity, freezers, fuel (SPDN)			
	High barriers to entry	Low boat ownership among fishers due to high cost	Sustainable fisheries management		
		Traditional fishers usually have low literacy and economic status			
	Governance issues	Miscoordination on integrated management and plans	Capacity building program – Advisory support		
		Lengthy consultation process for conservation areas (>5 years)			
	Inherent market bottleneck	Low demand on fish protein, most consumed locally	Insurance mechanism to mediate economic risk		
		High uncertainty of harvest, leading to financial loss			

Geographic location as one of major barriers that affect MSMEs performance

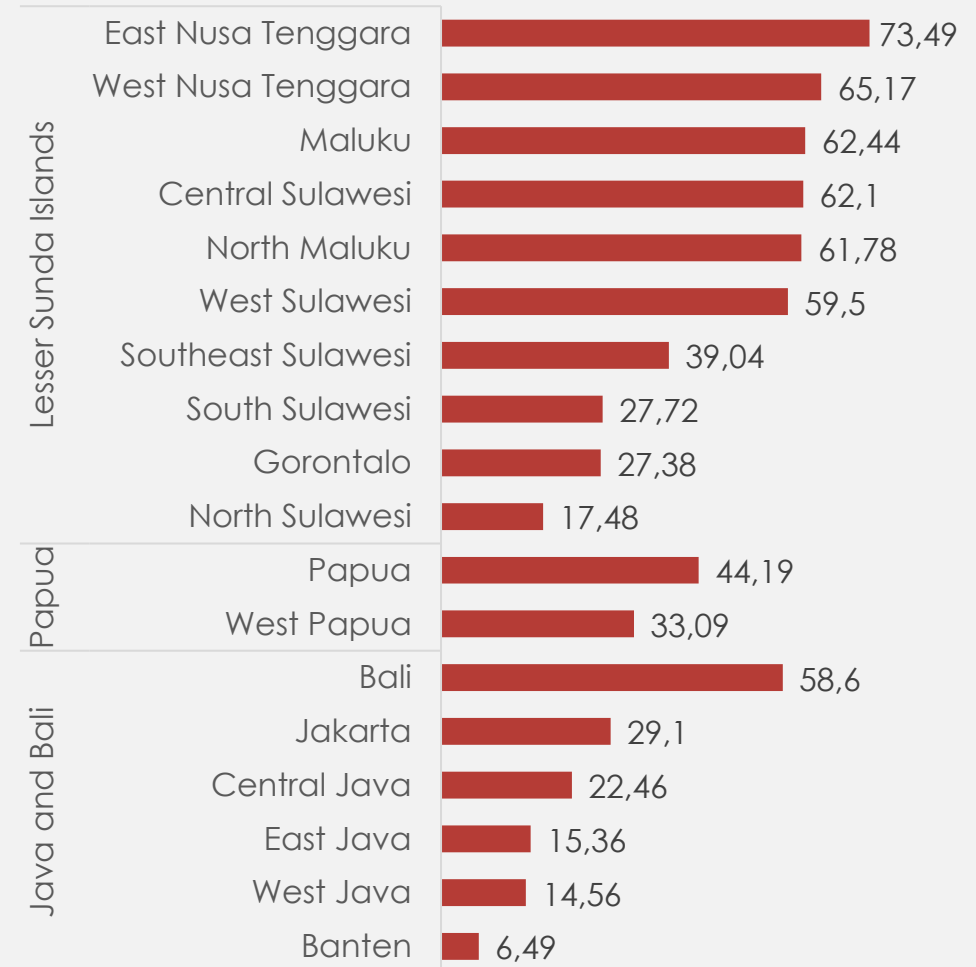
SMEs in Java on average has higher productivity index...

SME Productivity Index



...but are less competitive because islands SMEs usually have niche markets

SME Competitiveness Index



Case study

Microfinance Innovation Center for Resources and Alternatives (MICRA) Indonesia



Context

The microfinance sector in Indonesia is one of the largest in the world with over 120,000 microfinance institutions (MFIs). Founded in 2006, MICRA is a foundation which offers supports for the growth of MFIs. MICRA operates in three key areas, namely financial portal, digital education, and sustainable livelihoods.

Action

Thematic Area



Education



Disaster-risk
management



Sustainable
livelihoods

Services

Technical Assistance

MFI establishment

Ratings and appraisals

Interim management support

Research and innovation

Managing grant fund

Donors &
partners

syngenta

Asia Affinity

FORD
FOUNDATION

Hivos
people unlimited



IFC
International
Finance
Corporation
WORLD BANK GROUP

BANK INDONESIA

giz

MERCY
CORPS

BSR

Rabobank

Bank Andara

Results

117



Research and
innovation projects
delivered

603



Assessment programs
carried out with UPK-
PNPM Mandiri

574



Rating assessments
performed to validate credit
standing of MFIs in Indonesia

2110



MFI partners that
participated in technical
assistance programs

Case study

People's Credit Program (KUR) and Resilient Food and Energy Credit (KKPE)

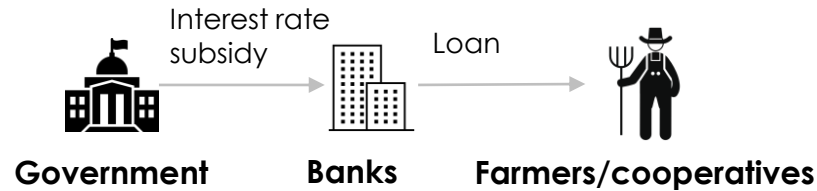


Domestic

Context

From 2007-2014, KUR worked by providing credit guarantee for co-ops and MSMEs. After 2014, KUR works by providing subsidies with commercial interest rates (up to 13%) for lending. Meanwhile, KKPE is slightly different from KUR in terms of interest rate and how it targets food farmers/fishers under a farmer groups and cooperative.

Action



No collateral required for ultra micro, micro, and small KUR credit amounting to IDR 100 M

KKPE

- ✓ Max IDR 25M for individual and IDR 500M for group
- ✓ Interest rate of 8% p.a
- ✓ May require collateral
- ✓ Government subsidizes the interest rate

KUR

- ✓ Max IDR 25 M for individual and IDR 500 M for group (clustered enterprises)
- ✓ Interest rate of 7% p.a.; tenor 3-5 years
- ✓ Often complemented by credit guarantee
- ✓ Government subsidizes the interest rate
- ✓ During COVID until Dec 2020, 0% interest rate

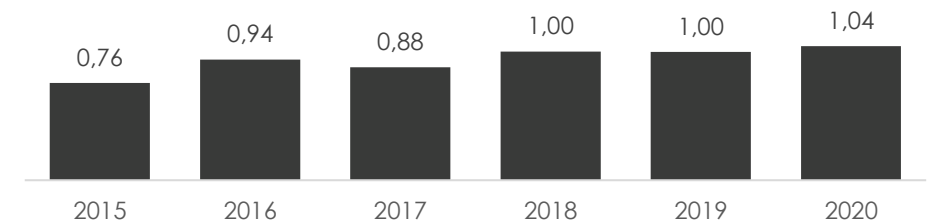
Results

46 

KUR intermediaries: State-owned banks, private banks, regional banks, financing companies, and cooperatives

Increasing loans disbursed, despite COVID-19

KUR disbursement/commitment ratio



Case study

Revolving Fund for Marine and Fisheries SMEs (LPMUKP)



Domestic

Context

Established by the Ministry of Marine Affairs and Fisheries in 2009 to improve access to capital for marine and fishery communities. LPMUKP became a Public Service Agency (BLU) in 2016 and since 2017, it has been receiving state fund allocations for BLU

Action

Providing loan facilities to marine and fisheries businesses through:

- Direct loan to cooperatives
- Indirect loan through intermediaries such as bank, microfinance, cooperative, and rural banks (BPR)
- Secured loans (need collateral)

4-7%

Maximum annual interest rate.



Beneficiaries can be individual, MSMEs, and co-ops



Beneficiaries must undergo training and provide proof of credibility

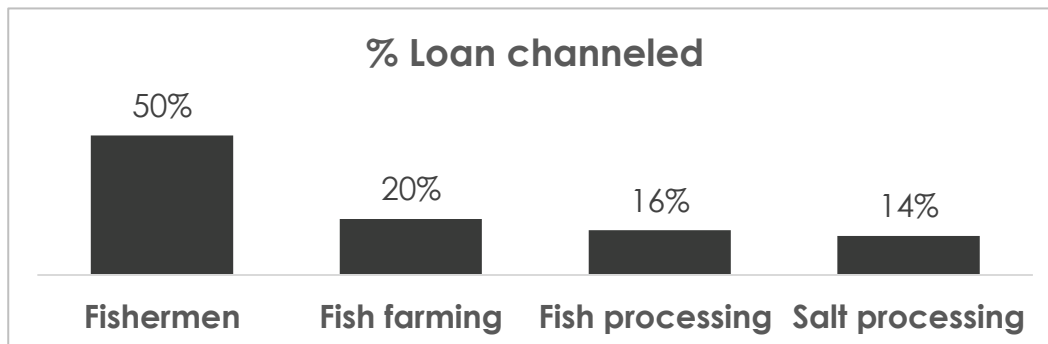
Results



IDR 1.35 T

Or USD 99M of loans has been channeled to beneficiaries in 2018

% Loan channeled



Case study

UKM Indonesia Platform

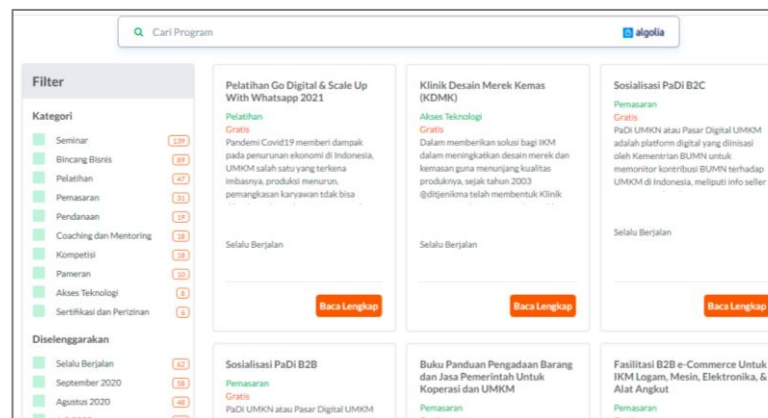


Context

Hosted by the Faculty of Economic and Business, University of Indonesia (FEB UI), UKM Indonesia is Indonesia's first web portal that aims to eliminate information asymmetry, especially on business licensing process as the website provides complete information on business licensing in Indonesia using a user-friendly design.

Action

Real time training information



600+

Of central government regulations, local regulations, and guidelines are documented

Results



8 Cities

Cities partners such as Bandung, Bekasi, Bogor, Denpasar, Depok, Sukabumi, Surabaya and Payakumbuh

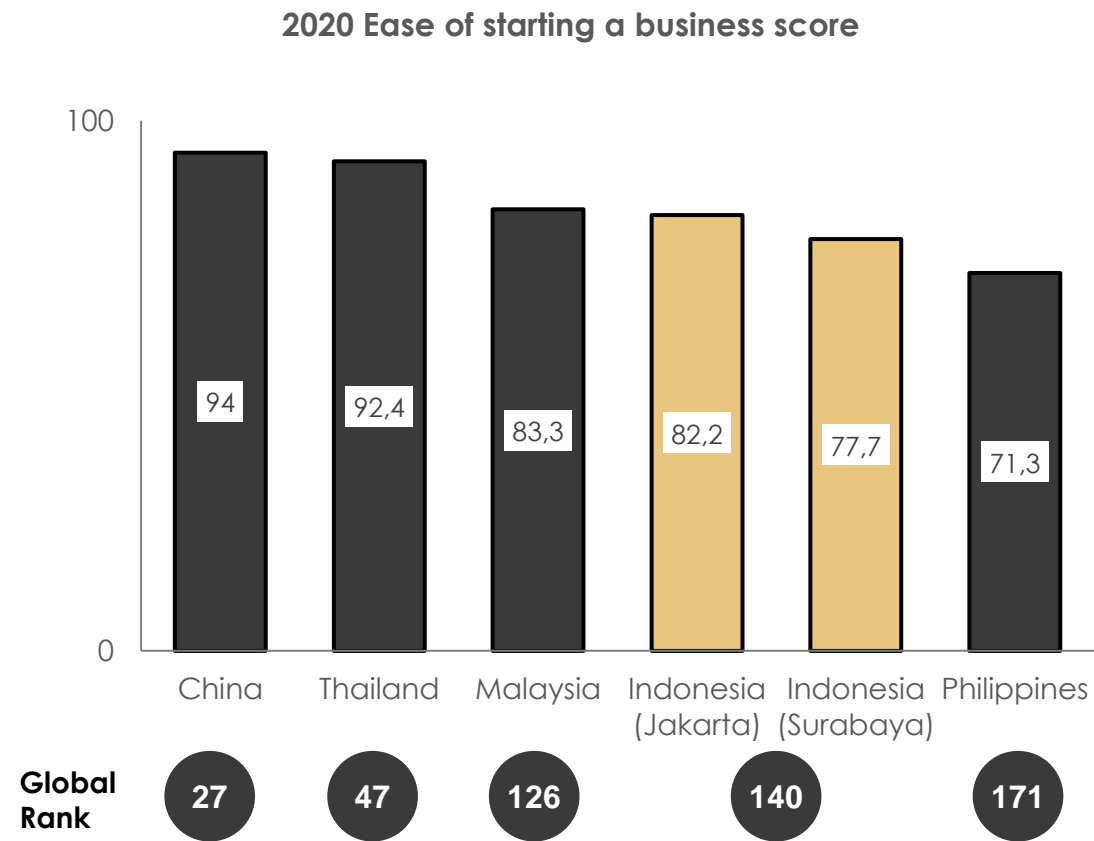


150+

MSMEs within the platform, spread across 6 different sectors such as food industry, textile, food and beverage services, retail, and tourism

Regulatory environment is still unfavorable towards MSME

Indonesia ranks #140 on the ease of starting businesses, using the samples from its two largest cities



Source: World Bank Ease of Doing Business (2021)

Key challenges faced by MSME and startups

Starting a business

- 11 procedures on average, compared to 6.5 in Asia Pacific
- Relatively quick time required, only 13 days (in major cities)

Registering property

- Require 31 days
- High cost (cost 8.3% of property value, compared to 4.5% in East Asia and Pacific)

Getting credit

- World's best on depth of credit information index (8/8) – high standards for MSME
- But low in legal rights index (6/12)

Enforcing contracts

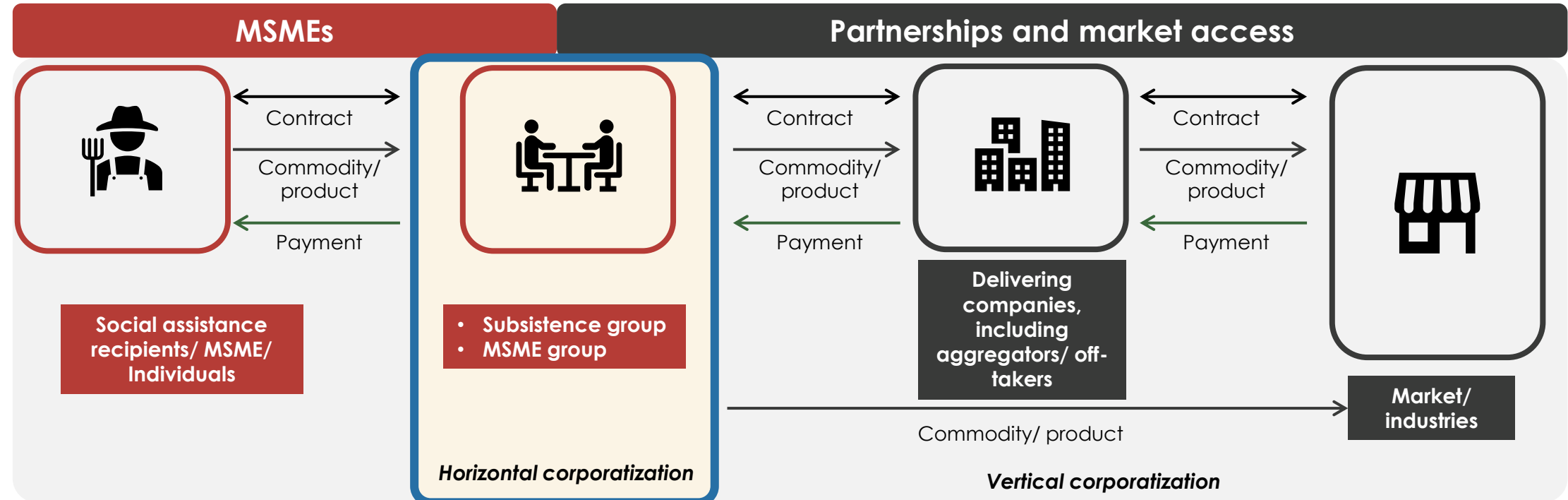
- Very high cost (70.3% of total claim value, compared to OECD at 21.5%)

Trading across borders

- 130-160 hours needed for exim documentary compliance, compared to 23.5 - 33.4 hours for OECD

Towards more favorable regulatory framework: Transforming MSME through corporatization, with fisheries as one of the prioritized sectors

Generic model for MSME corporatization



Top-priority sectors

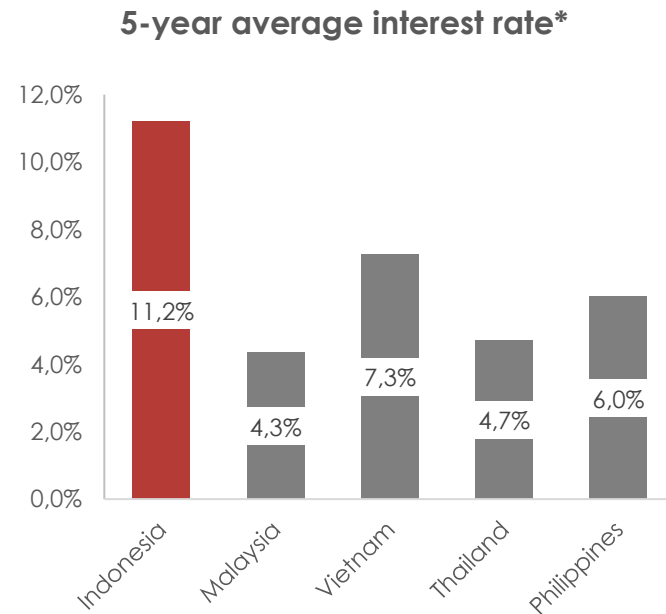
1. Agriculture
2. Manufacturing
3. **Fisheries**
4. Tourism

Integrated business models

1. Cluster formation
2. Halal value chain ecosystem
3. Capacity building and financing
4. Replication

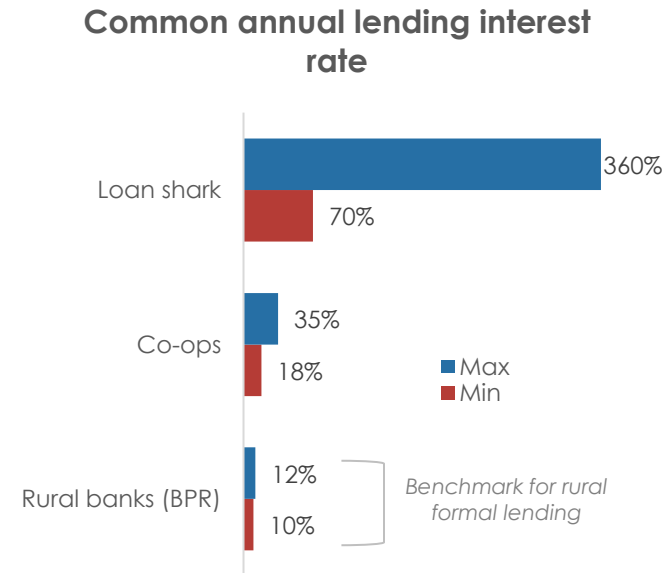
High interest lending rate is one of the major barriers for rural lending, exacerbated by the lack of access to formal lending

Indonesia has a high lending interest rate in ASEAN

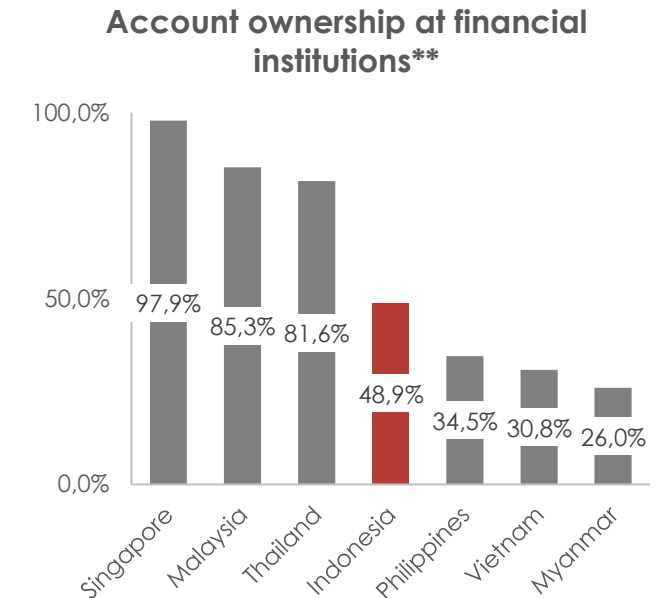


*for corporate lending, 2015 – 2019 data

Informal lending often has a significantly higher interest rate



Meanwhile, access to formal lending is still low



**percentage of population over 15 years old, 2018 data

Policy implementation: Indonesia has used several traditional approaches to mobilize MSME finance in addressing high lending rate

- **Block grant:** to purchase infrastructure (i.e., boat, fish seeds, etc.) but usually without concrete follow-up on who will manage the grant and how to build their capacity
- **Formal financing from state-owned/ regional/ rural banks:** normally in collaboration with local co-op groups to push a formal financing, or by just simply encouraging banks to have higher proportion of MSME loans
- **Low-cost loans:** using KUR/KKPE, to attract MSME borrowers that can pass the banks' KYC, with low interest rate

"Government gave the communities some fish seedling and feed, but they did not equip them with the required skills to do so, hence the start-up we invest in must take the additional responsibility of training them," - Venture Capital

Case study

Shrimp paste processing in Cirebon, West Java

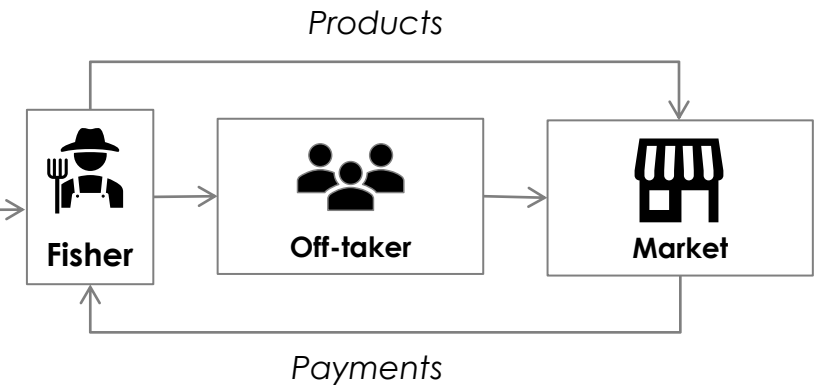
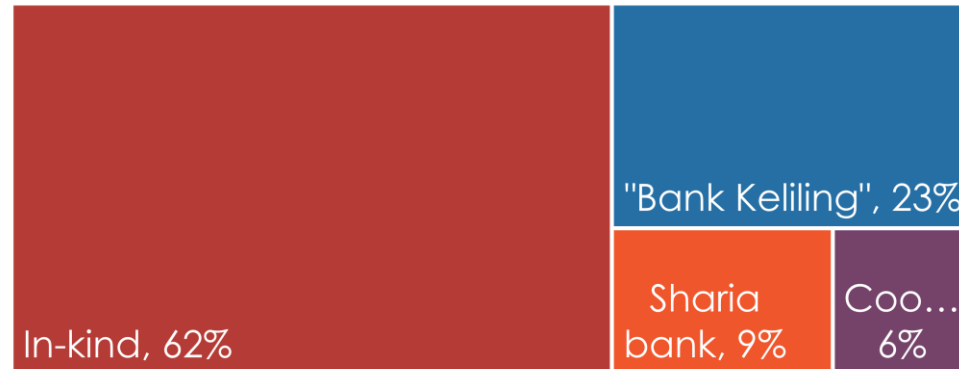


Context

In Cirebon's coastal areas, shrimp paste MSMEs often have low productivity and are based on household business. There is also an issue of low human capacity, lack of access to finance, and lack of access to information. "Bank keliling" and sharia bank financing dominate the source of loan for Cirebon's shrimp paste MSMEs.

Action

■ In-kind ■ "Bank Keliling" ■ Sharia bank ■ Cooperatives



"Bank Keliling" is an informal loan shark that is still popular among the low-middle income in Indonesia. They are not listed in the OJK. The interest rate may reach to double digit % per month. The lack of financial literacy and access to OJK-acknowledged institutions are the reasons why Bank Keliling still runs rampant.

Results

Sharia Financing

Is considered a better option than Bank Keliling because it is registered in the OJK and has clear rules. It is also less likely to be predatory and more acceptable culturally.

17.1% IRR

Economically viable

2.2 yrs PBP

Attractive for banking finance since PBP < 5 yrs

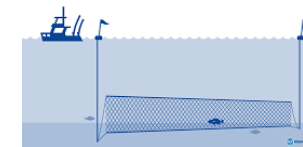
IDR 114 Mn required

investment capital of IDR 108.4 Mn+ working capital of 5.9 Mn



Case study

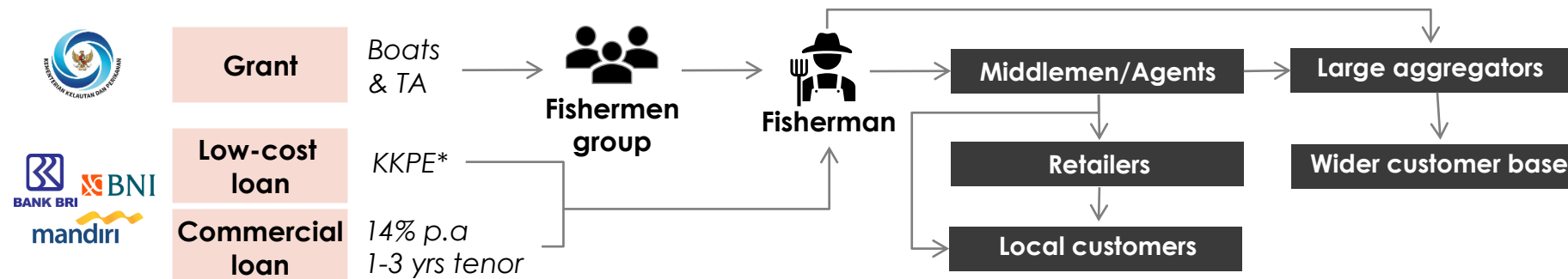
Captured gillnet-fisheries financing in Batam



Context

There are needs to expand gillnet fisheries in Batam, Riau Islands province. Gillnet fishers face difficulties on cashflows: during harvest time, they will have enough cash, so they do not need financial assistance. During low season, they need loans to finance their high-risk operations.

Action



Nation-wide replicated blue financing model

***Kredit Ketahanan Pangan dan Energi (KKPE)**

- ✓ Applicable to businesses in food security, fisheries included
- ✓ Govt-subsidized interest : Interest rate of 8% p.a, 3-5 years of tenor
- ✓ Maximum size of IDR 25 M for individual and IDR 500 M for group
- ✓ Must prove Batamese residency and fishermen ID, collateral needed 1.2x of the loan ticket

Results



28.04% IRR

Economically viable

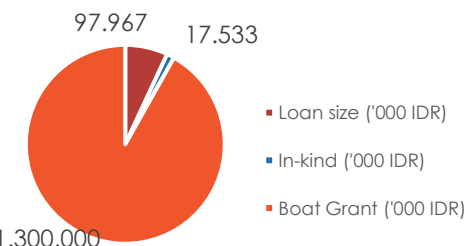


3.6 yrs PBP

Attractive for banking finance since PBP < 5 yrs

IDR 1.42 Bn required

investment capital of IDR 1.42 Bn + working capital of 75 Mn



Case study

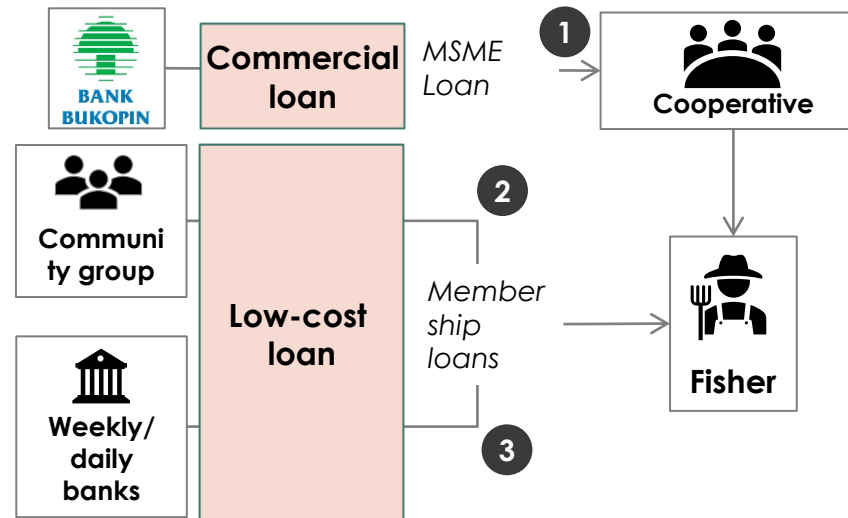
Seaweed and milkfish polyculture in Bekasi, West Java



Context

As seaweed and milkfish cultivators in, Muara Gembong, Bekasi, have never received financing from banks, they mainly obtain support from cooperation to fund their businesses.

Action



No	Source	Intermediary	Requirement level	Loan size (IDR)
1	Bank Bukopin	Swamitra Coop, Gembong Subdistrict	High, 16% p.a interest	2, - 5 Mn per individual; higher for group
2	Coastal community group	-	Low, 0% interest rate	1 – 1.5 Mn
3	Batak and Bugis "short-credit bank"	-	Low, 10% interest rate per transaction	< 5 Mn

Results



46% IRR

Economically viable



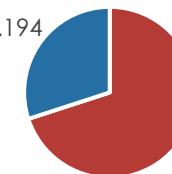
4 yrs PBP

Attractive for banking finance since PBP <5 yrs

IDR 104 Mn required

investment capital of IDR 99.1 Mn+ working capital of 4.9 Mn

31.194



■ Loan size ('000 IDR)
■ In-kind ('000 IDR)

72.786

Conclusion

- Public international finance flowing towards Indonesia's blue economy program still dominates the public financing side
- **Banks are still major private sector players in blue financing:** Commercial banks contribute over USD 327 million dollars to blue finance in Indonesia, according to CPI's finance tracking
- **SMEs still face obstacles in accessing finance from banks:** Commercial banks in Indonesia require physical collateral for loans, which poses a barrier for MSMEs in Indonesia as many of them do not own physical assets
- Meanwhile, **the size of blue MSMEs is still relatively small and concentrated:** Historically, the wholesale and retail sectors dominate MSME loans portfolio in Indonesia, while fisheries are very small in proportion. Furthermore, most SME loans are concentrated in the most developed Java Island, although the highest growth is happening in the less-developed Lesser Sunda Islands.

Recommendation

Focus on reducing the barriers to entry to increase blue finance mobilization

The government could tackle barriers to accessing finance, e.g., physical collateral, appropriate credit history, and access to bank credit, by pursuing **potential solutions such as:**

- enhancing credit and risk assessment mechanisms for blue MSMEs
- increasing the coverage of MSMEs financing, and
- providing customized assistance for blue MSMEs in accessing loans

Invest public finance in building human capacity and increasing productivity

As blue MSMEs are still faced with the suboptimal skills to grow their businesses and are lacking the access to skilled labor, policies should be able to provide the necessary technical assistance, partnerships, and advisory services

Spur private investments by allocating public finance to improve infrastructure, incentive mechanisms, and market access services

Several potential solutions are:

- risk-sharing financial instrument / investment platforms
- concessional loans, and
- comprehensive natural disaster fisheries insurance