Indonesia Blue Finance Landscape
National blue finance landscape analysis follows this flow

Sources and Intermediaries:
- Central government budget
- Local government budget
- State-owned Enterprises
- Public service agencies
- Foreign government
- Private Foundations
- Corporate Actors
- Commercial Financial Institutions

Instruments:
- Government Expenditure
- Equity
- Grant
- Loan

Uses:
- Mitigation
- Adaptation
- Dual benefits

Sectors (Blue):
- Marine fisheries and aquaculture
- Marine plastics and waste management
- Marine tourism and conservation

Recipients:
- Central government ministries
- Local government agencies
- State-owned Enterprises
- Corporate Actors
- Civic society organizations
- Research institutions/universities
- MSME e.g., Co-ops and community group
Public international finance invigorates Indonesia’s blue finance, while commercial banks dominate the private sources.

<table>
<thead>
<tr>
<th>Source</th>
<th>Value (in million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral Development Bank</td>
<td>941.3</td>
</tr>
<tr>
<td>Foreign government budget</td>
<td>469.6</td>
</tr>
<tr>
<td>Public service agency</td>
<td>22.7</td>
</tr>
<tr>
<td>Development Bank</td>
<td>5.0</td>
</tr>
<tr>
<td>State-owned enterprise (Non-bank)</td>
<td>1.2</td>
</tr>
<tr>
<td>Central government budget</td>
<td>0.8</td>
</tr>
<tr>
<td>Commercial bank (regional)</td>
<td>0.5</td>
</tr>
<tr>
<td>Corporate actors</td>
<td>210.4</td>
</tr>
<tr>
<td>Commercial bank (SOE)</td>
<td>168.0</td>
</tr>
<tr>
<td>Unknown</td>
<td>82.9</td>
</tr>
<tr>
<td>Private foundation</td>
<td>22.6</td>
</tr>
</tbody>
</table>

2015-2019 data
Project-level, financial disbursement data

NATIONAL BLUE FINANCE LANDSCAPE

590+ Project-level, financial disbursement data

In million USD
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

2015-2019 data
In million USD

- Bank Negara Indonesia (BNI)
  - 133.1 million USD
- Bank Mandiri
  - 17.3 million USD
- Bank Rakyat Indonesia (BRI)
  - 8.2 million USD
- Bank Tabungan Negara
  - 1.1 million USD
- Bank Central Asia (BCA)
  - 152.8 million USD
- Bank Artha Graha
  - 10.2 million USD
- Bank Muamalat
  - 3.9 million USD
- Bank CIMB Niaga
  - 1.2 million USD

Other commercial banks:
- Commercial bank (SOE)
- Marine fisheries and aquaculture
- Marine plastics and waste management
- Marine tourism and conservation
Commercial loan dominates blue finance instrument, targeting water and waste infrastructure projects.

2015-2019 data

In million USD

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 Finance Received

<table>
<thead>
<tr>
<th>Type</th>
<th>Public</th>
<th>Private</th>
<th>Public/private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1348</td>
<td>579</td>
<td>159</td>
</tr>
</tbody>
</table>

2015-2019 data
In million USD

NATIONAL BLUE FINANCE LANDSCAPE

- **Government agencies**
- **Unknown**
- **State-owned enterprises**
- **Co-ops and/or community groups**
- **Universities/research institutions**
- **Corporate actors**
- **Co-ops and/or community groups**
- **Unknown**
- **Civic society organizations/Non-Government Organizations**
- **Multiple recipients**

- **Marine fisheries and aquaculture**
- **Marine plastics and waste management**
- **Marine tourism and conservation**
Blue MSMEs financing landscape
Micro enterprises makes up the most of Indonesia’s MSMEs

<table>
<thead>
<tr>
<th>Definition</th>
<th>Asset (in IDR)*</th>
<th>Annual Turnover (in IDR)</th>
<th>2019 MSME Data</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt;50 M</td>
<td>&lt;300 M</td>
<td>64,601,352</td>
<td>1.98%</td>
</tr>
<tr>
<td>Small</td>
<td>50 M – 500 M</td>
<td>300 Mn – 2.5 B</td>
<td>798,679</td>
<td>1.99%</td>
</tr>
<tr>
<td>Medium</td>
<td>500 M – 10 B</td>
<td>2.5 B – 50 B</td>
<td>65,465</td>
<td>7.85%</td>
</tr>
</tbody>
</table>

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

Non-banks finance for MSME only at 7-8%

...with small proportion from microfinance*

*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.

Source: MSMEs financing landscape from OJK data, ADB SME Finance monitor, data in 2020
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 (%)**

<table>
<thead>
<tr>
<th>Country</th>
<th>MSME Loan to Total Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>TH</td>
<td>31%</td>
</tr>
<tr>
<td>ID</td>
<td>20%</td>
</tr>
<tr>
<td>PH</td>
<td>6%</td>
</tr>
<tr>
<td>SG*</td>
<td>6%</td>
</tr>
<tr>
<td>MY</td>
<td>5%</td>
</tr>
</tbody>
</table>

**MSME NPLs to total MSME loans, 2019 (%)**

<table>
<thead>
<tr>
<th>Country</th>
<th>MSME NPLs to total MSME loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>PH</td>
<td>5.8%</td>
</tr>
<tr>
<td>TH</td>
<td>4.7%</td>
</tr>
<tr>
<td>SG*</td>
<td>4.2%</td>
</tr>
<tr>
<td>MY</td>
<td>3.7%</td>
</tr>
<tr>
<td>ID</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

*2018 data

Considering 99.99% of enterprises in Indonesia are MSMEs, like Thailand, this % can go higher.

Source: ADB SME Finance monitor, data in 2020

But the amount of MSME loans is still lower than its potential, because …
... commercial banks still require physical collateral for MSME Loans, which hinders many MSMEs from accessing finance

<table>
<thead>
<tr>
<th>Loan name</th>
<th>Collateral required</th>
<th>Collateral amount</th>
<th>Credit history</th>
<th>Interest rates</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kredit Usaha Rakyat BRI, Kredit Mikro BRI</td>
<td>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)</td>
<td>Can be less than loan amount</td>
<td>Use BI checking(^2), expect perfect payment history for 2 years and minimum 6 months of profitable business</td>
<td>12-14% p.a. for micro credit, 6% for KUR(^3),</td>
<td>IDR 10 Mn – 500 M</td>
</tr>
<tr>
<td>Kredit Usaha Rakyat BNI</td>
<td></td>
<td>Value of collateral has to match loan amount(^1)</td>
<td></td>
<td></td>
<td>Max IDR 500 M</td>
</tr>
<tr>
<td>Kredit usaha Rakyat Mandiri</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Max IDR 500 M</td>
</tr>
<tr>
<td>Kredit usaha Rakyat BCA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>IDR 10 M – 500 M</td>
</tr>
</tbody>
</table>

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)

Source: OJK Indonesia Banking Statistics, September 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 (%)
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:
- Individual: 64.5%
- Business group: 25%
- Private company: 9.8%
- Foreign investment: 0.8%
- Cooperative: 0.4%

Share of fisheries MSME Loans (%):
- 2017: 0.67%
- 2018: 0.74%
- 2019: 0.83%
- 2020: 0.99%
- 2021: 1.06%

Source: OJK Indonesia Banking Statistics, September 2021
Barriers and opportunities
General barriers of MSME financing could be addressed...

<table>
<thead>
<tr>
<th>Key barriers</th>
<th>Potential solutions</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td><strong>Enhance credit and risk assessment mechanism</strong></td>
<td>Domestic</td>
</tr>
<tr>
<td>Lack of credit history and no ownership of collateral, which limit MSMEs’ access to bank credits</td>
<td><strong>Increase the coverage of MSME financing</strong></td>
<td>International</td>
</tr>
<tr>
<td>Lack of dataset to assess MSMEs’ risk level</td>
<td><strong>Provide customized assistance for specific MSME sectors</strong></td>
<td></td>
</tr>
<tr>
<td>Lack of access to bank credits in specific region/geographies</td>
<td><strong>Technical assistance, capacity building for local MSMEs</strong></td>
<td></td>
</tr>
<tr>
<td>Lack of flexibility to cater to specific needs of MSME sectors</td>
<td><strong>Improve partnerships with local training institutions/schools</strong></td>
<td></td>
</tr>
<tr>
<td>Suboptimal skills to grow business</td>
<td><strong>Combine technical assistance with wider recognition of MSMEs</strong></td>
<td></td>
</tr>
<tr>
<td>Shortage of skilled labor with business acumen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of innovative/entrepreneurial culture</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CPI, 2020; CPI analysis
... but there are also several location and blue sector-specific barriers

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

Source: BAPPENAS, Mongabay, Trenlaut, ANTARA
Geographic location as one of major barriers that affect MSMEs performance

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

<table>
<thead>
<tr>
<th></th>
<th>SME Productivity Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jakarta</td>
<td>100,00</td>
</tr>
<tr>
<td>West Java</td>
<td>27,09</td>
</tr>
<tr>
<td>Banten</td>
<td>24,56</td>
</tr>
<tr>
<td>East Java</td>
<td>14,71</td>
</tr>
<tr>
<td>Bali</td>
<td>13,39</td>
</tr>
<tr>
<td>Central Java</td>
<td>13,32</td>
</tr>
<tr>
<td>Papua</td>
<td></td>
</tr>
<tr>
<td>West Papua</td>
<td>30,40</td>
</tr>
<tr>
<td>Papua</td>
<td>20,52</td>
</tr>
<tr>
<td>South Sulawesi</td>
<td>10,11</td>
</tr>
<tr>
<td>West Nusa Tenggara</td>
<td>9,79</td>
</tr>
<tr>
<td>Central Sulawesi</td>
<td>9,73</td>
</tr>
<tr>
<td>North Sulawesi</td>
<td>8,99</td>
</tr>
<tr>
<td>West Sulawesi</td>
<td>8,12</td>
</tr>
<tr>
<td>North Maluku</td>
<td>6,59</td>
</tr>
<tr>
<td>Southeast Sulawesi</td>
<td>3,84</td>
</tr>
<tr>
<td>Gorontalo</td>
<td>2,53</td>
</tr>
<tr>
<td>Maluku</td>
<td>2,02</td>
</tr>
<tr>
<td>East Nusa Tenggara</td>
<td>0,01</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>SME Competitiveness Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Nusa Tenggara</td>
<td>73,49</td>
</tr>
<tr>
<td>West Nusa Tenggara</td>
<td>65,17</td>
</tr>
<tr>
<td>Maluku</td>
<td>62,44</td>
</tr>
<tr>
<td>Central Sulawesi</td>
<td>62,1</td>
</tr>
<tr>
<td>North Maluku</td>
<td>61,78</td>
</tr>
<tr>
<td>West Sulawesi</td>
<td>59,5</td>
</tr>
<tr>
<td>Southeast Sulawesi</td>
<td>39,04</td>
</tr>
<tr>
<td>South Sulawesi</td>
<td>27,72</td>
</tr>
<tr>
<td>Gorontalo</td>
<td>27,38</td>
</tr>
<tr>
<td>North Sulawesi</td>
<td>17,48</td>
</tr>
<tr>
<td>Papua</td>
<td>44,19</td>
</tr>
<tr>
<td>West Papua</td>
<td>33,09</td>
</tr>
<tr>
<td>Bali</td>
<td>58,6</td>
</tr>
<tr>
<td>Jakarta</td>
<td>29,1</td>
</tr>
<tr>
<td>Central Java</td>
<td>22,46</td>
</tr>
<tr>
<td>East Java</td>
<td>15,36</td>
</tr>
<tr>
<td>West Java</td>
<td>14,56</td>
</tr>
<tr>
<td>Banten</td>
<td>6,49</td>
</tr>
</tbody>
</table>

Source: BAPPENAS (2014)
Case study
Microfinance Innovation Center for Resources and Alternatives (MICRA) Indonesia

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.

Context

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  IFC
GIZ  Mercy Corps  BSR  Rabobank  Bank Andara
BANK INDONESIA

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

Source: MICRA website (Oct 2021)
Case study
People’s Credit Program (KUR) and Resilient Food and Energy Credit (KKPE)

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.

**KUR**
- Max IDR 25 M for individual and IDR 500 M for group
- 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

**KKPE**
- Max IDR 25 M for individual and IDR 500 M for group (clustered enterprises)
- Interest rate of 8% p.a
- May require collateral
- Government subsidizes the interest rate

**Context**
- **Government**
- **Banks**
- **Farmers/cooperatives**

**Action**
- **Interest rate subsidy**
- **Loan**

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

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

**46**
- Increasing loans disbursed, despite COVID-19

Source: Coordinating Ministry of Economic Affairs, BJBE kkpe
Case study
Revolving Fund for Marine and Fisheries SMEs (LPMUKP)

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)

Results
IDR 1.35 T
Or USD 99M of loans has been channeled to beneficiaries in 2018

Source: LPSE and LPMUKP
Case study

UKM Indonesia Platform

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.

Context

Source: UKM Indonesia website and report

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

Domestic
Regulatory environment is still unfavorable towards MSME

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

<table>
<thead>
<tr>
<th>Country</th>
<th>2020 Ease of starting a business score</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>94</td>
</tr>
<tr>
<td>Thailand</td>
<td>92.4</td>
</tr>
<tr>
<td>Malaysia (Jakarta)</td>
<td>83.3</td>
</tr>
<tr>
<td>Indonesia (Surabaya)</td>
<td>82.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>77.7</td>
</tr>
</tbody>
</table>

Global Rank

- China: 27
- Thailand: 47
- Malaysia: 126
- Indonesia (Jakarta): 140
- Philippines: 171

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

**Source:** Central Bank of Indonesia, 2021
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Max Interest Rate</th>
<th>Min Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>11.2%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>4.7%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Thailand</td>
<td>6.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Philippines</td>
<td>10.0%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

5-year average interest rate:

- Indonesia: 11.2%
- Malaysia: 4.3%
- Vietnam: 7.3%
- Thailand: 4.7%
- Philippines: 6.0%

*for corporate lending, 2015 – 2019 data

### Informal lending often has a significantly higher interest rate

- Loan shark: 70%
- Co-ops: 35%
- Rural banks (BPR): 12%

### Meanwhile, access to formal lending is still low

**Account ownership at financial institutions**

- Singapore: 97.9%
- Malaysia: 85.3%
- Thailand: 81.6%
- Indonesia: 48.9%
- Philippines: 34.5%
- Vietnam: 30.8%
- Myanmar: 26.0%

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

Source: CPI (2020), OECD, MICRA interview
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

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.

“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.

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

IDR 114 Mn required
Investment capital of IDR 108.4 Mn + working capital of 5.9 Mn

Source: Central Bank of Indonesia
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

- **Grant:** Boats & TA
- **Low-cost loan:** KKPE*
- **Commercial loan:** 14% p.a, 1-3 yrs tenor

Fishermens group

- **Middlemen/Agents**
- **Retailers**
- **Local customers**

Large aggregators

Wider customer base

Nation-wide replicated blue financing model

- 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

*KKPE* (Kredit Ketahanan Pangan dan Energi)

Source: Central Bank of Indonesia
Case study
Seaweed and milkfish polyculture in Bekasi, West Java

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.

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

Source: Central Bank of Indonesia

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

Loan size ('000 IDR)
31.194

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 credits, 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