Luncheon Address
IMPLEMENTING FINANCIAL INCLUSION PROGRAM IN DEVELOPING COUNTRY
S. Budi Rochadi
Deputy Governor of Bank Indonesia
Denpasar-Bali, 27 September 2010

Good afternoon Ladies and Gentlemen,

Please allow me to welcome you once again to Bali and to our welcome lunch here in the Ayana hotel.

Before we enjoy the tasty meal in front of us, allow me to share the implementation of the financial inclusion program in our country and some lessons to be learned.

Financial inclusion should be seen as an effort to enable all segments of society to have access to financial services as offered by financial institutions and this in order to give the public to opportunity to have a better life in the future. However, let me highlights some issues.

Among larger segments of the public we see obstacles for interacting with financial institutions, such as the lack of knowledge on how to develop a relationship with financial institutions, the inability to satisfy banking requirements, or merely lack of interest to bank. Limitations in terms of network characteristics, product and service features are obstacles coming from the institutions themselves. Research conducted by the World Bank in 2008 also confirms the above problems as well as geographic aspects, eligibility, and affordability factors.

We, Indonesia, have so many programs on financial inclusion. I would like to share two of them; first, linking banks with self-help groups (PHBK) in 1989 until 1999 and the micro credit project (PKM) in 1995 until 1999.

Linking banks with self-help groups was the financial linkage model between bank and micro enterprises through the group approach, to minimize costs and risk of providing banks' financial services to micro enterprises. This model also encouraged the group member to generate savings, which will be used by the financial institution as a track record of the group member on capacity to save.

It was achieved by organizing the micro enterprises in unity or self help groups (SHG) to reduce transaction costs; and the groups guaranteed each member so that the risk of credit default was reduced substantially. The whole approaches have contributed to the good perfomance of the loan as reflected by the low Non Performing Loan (NPL).

The Micro Credit Project was another success story of credit extension to the micro enterprises by strengthening the Micro Finance Institutions (MFI) and Non-Governmental Organizations (NGO). Strengthening the micro finance institution has enabled them to provide financial services and also training for the development and sustainable operation of micro-enterprises. Strengthening the NGO's through the provision of credit and training, has enabled them to organize and provide self help groups with appropriate skills training and other services necessary for income generating activities.

To support economic development, problems of financial access and usage have therefore become a priority.

One solution to overcome the problem has been to promote **Microfinance.** Microfinance institutions and rural banks, which are established in many remote areas, are the best instrument to broaden the wider public's access to finance. These institutions are there to serve and be dedicated to the communities among which they grow their business. Indonesia has a large number and variety of microfinance institutions, yet one common problem persists: limited capital which hinders most of these MFIs in growing their capacity to lend. Our solution to overcome this problem has been by introducing a linkage program between commercial banks and the rural banks or MFIs. And it works well. We have today more than 30 commercial banks linked with some 900 MFIs. So, there we solved the problem on the financial side.

However, another challenge comes from the society's side. The limited assets owned by the microentrepreneurs restrains them from accessing the rural bank loans, due to a lack of sufficient collateral. It has been a common problem for most microentrepreneurs in Indonesia and also in the other countries, I guess, which hinders them to promote their economy capacity. Recognizing this problem, we introduced the policy of collateral subtitutes for rural banks. By this policy the not so ordinary assets became acceptable to the banks, such as a motor boat, warehouse receipts, or even the domicile permit owned by the street vendor. We do hope that this breakthrough policy can promote the access of micro entrepreneurs to the more formal financial sources offered by banks.

Another solution to overcome this collateral challenge, we think, is promoting the establishment of regional credit guarantees. Regional credit guarantees will dedicate to the small and micro entrepreneurs in the region, and by providing this guarantee, they offer the borrowers the chance to tap into commercial banks loan. At the moment we have only one regional credit guarantee, but hand in hand with other government agencies and the regional government, we believe there are more institutions to be set up, soon.

The establishment of regional credit guarantees has illustrated the strong need for one important requirement for the succesfull implementation of financial inclusion, **i.e. the Strategic Cooperation among Related Institutions and Authorities.** All stakeholders must play their role in an integrated way to obtain a proper synergy. In conclusion, I would say that the financial inclusion program cannot stand for itself. It will require other programs, to make it effective, and I would recommend to start integrating financial inclusion programs with other basic programs which directly affect the lower classes of society, especially in developing countries.

I do not want to keep you longer as we still have some more speakers following this lunch. I hope you can enjoy the program as much as you enjoy your stay here in Bali. Thank you.