



MILLENNIUM  
CHALLENGE CORPORATION  

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UNITED STATES OF AMERICA

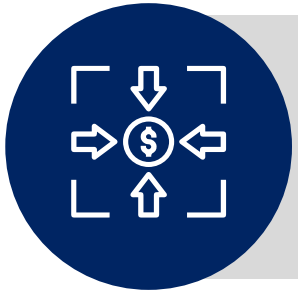
## Indonesia II

Presentation to the MCC Advisory Council

October 19, 2020

# Summary of Constraints to Growth Analysis

(December 2019)



## Binding constraints

- Barriers to export-oriented competitiveness (“Openness”)
- Barriers to domestic productivity & innovation (“Competition”)
- Costly and underdeveloped financial intermediation



Evidence suggests the constraint is binding



Mixed evidence on whether the constraint is binding



Evidence suggests the constraint is not binding

Micro Risks-  
Barriers to Export-  
oriented  
Competitiveness

Micro risks- Barriers  
to Domestic  
Productivity &  
Innovation

Cost of Finance –  
Financial  
intermediation

Macro Risks-  
Revenue Policy &  
Administration

Micro Risks - Labor  
Regulations

Infrastructure –  
Transport & logistics

Infrastructure –  
Electricity

Infrastructure –  
Water and  
Sanitation

Market Failures

Micro Risks -  
Operating formally  
(day-to-day  
regulations)

Macro Risks (other  
than revenue)

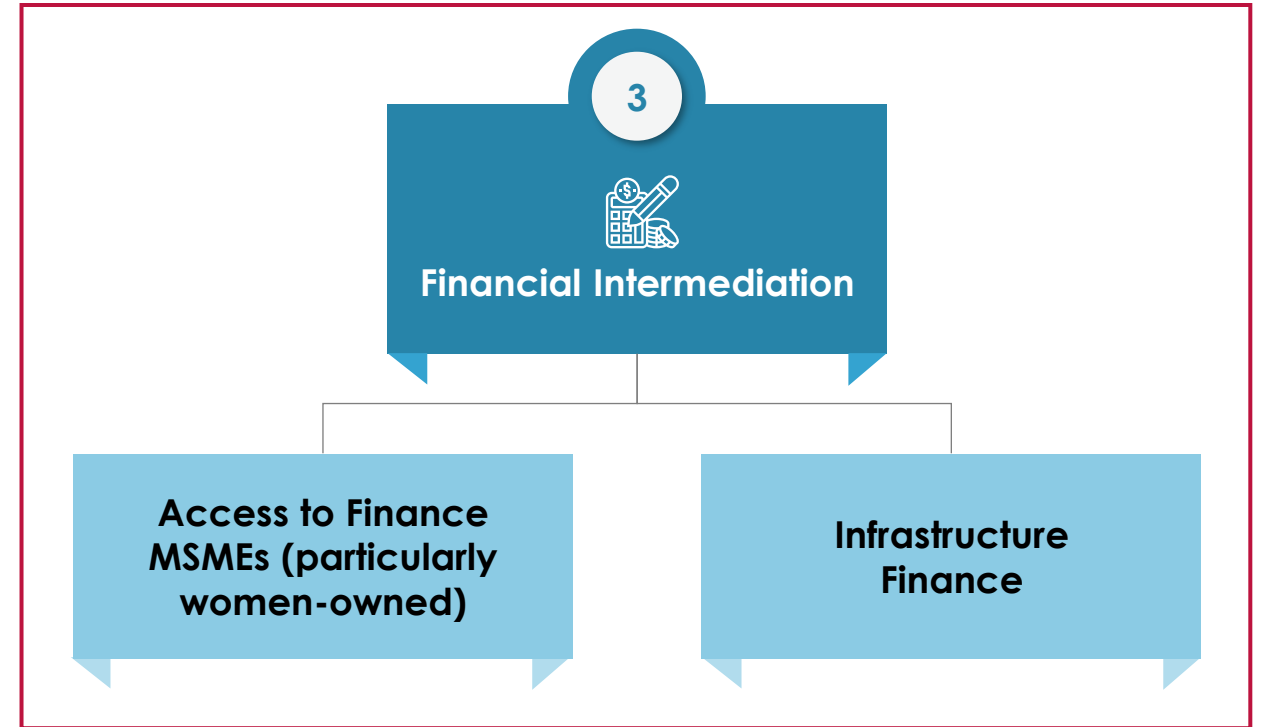
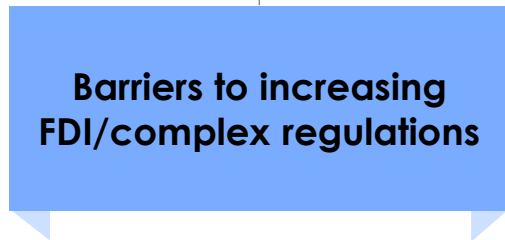
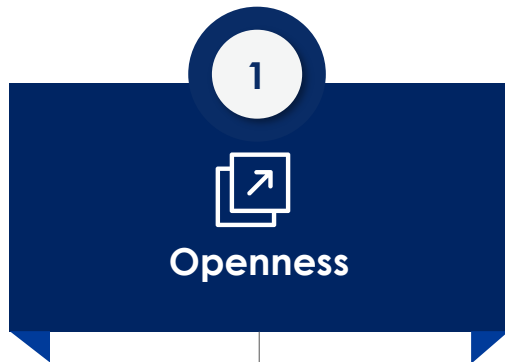
Health

Education

# Three Binding Constraints to Growth

Two Important Additional Constraints used as Preliminary Areas for Further Work

## Binding Constraint



Constraints to Women's Economic Participation



Transport and Logistics Infrastructure

➤ GOI proposed two concepts under the constraint of “costly and underdeveloped financial intermediation”<sup>3</sup>

# Core Problems, Root Causes, and Intervention Areas:

## Finance for Infrastructure

### Core Problems

Low supply of finance available for transport and logistics infrastructure investments

Inability of the infrastructure sector to absorb what finance is available

### Root Causes

Limited availability of long-term capital in the capital market

Limited bank credit: low deposits, high loan-to-deposit ratios, single borrower limits

Planning & Selection: lack of credible project pipeline

Execution: low-readiness of infra projects

Low incentives for sub-national borrowing

### Intervention Areas

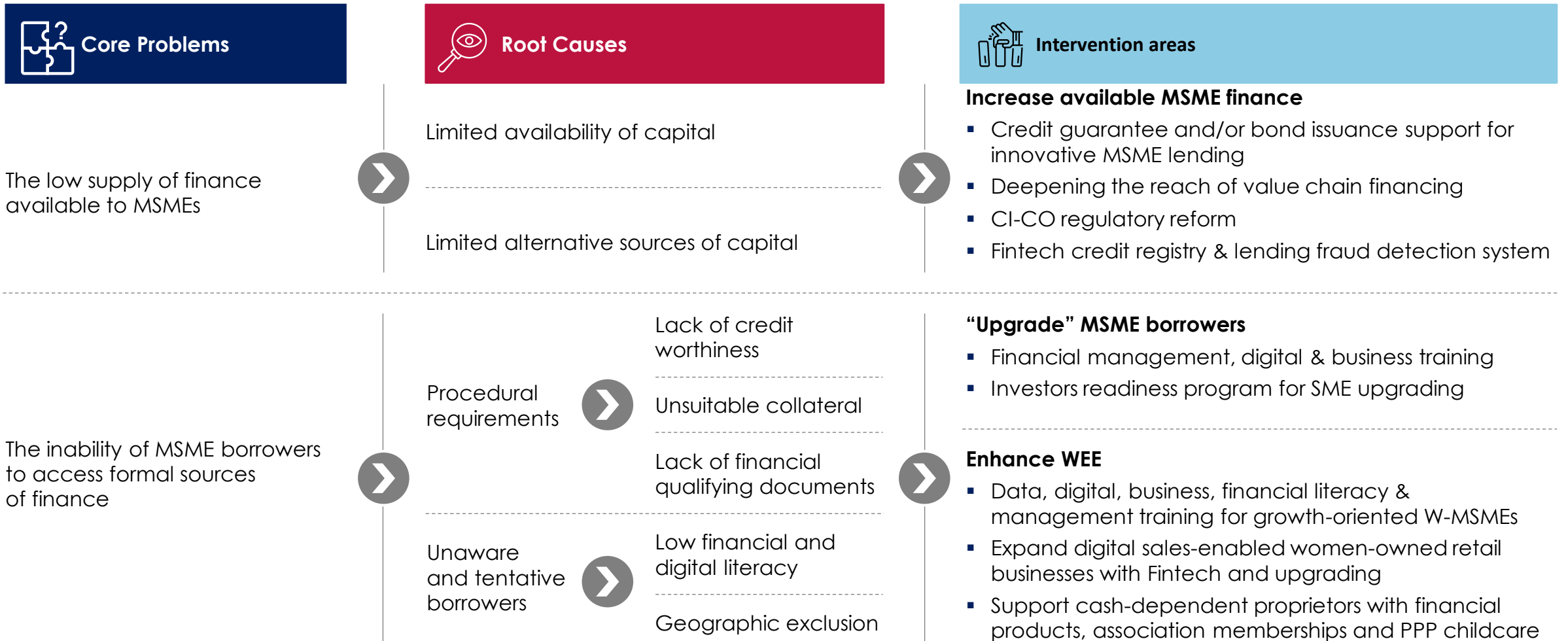
#### **Blended finance & de-risking tools**

- Encouraging use of sophisticated project finance solutions (e.g., non- and limited-recourse financing, financial asset recycling, project bonds, etc.)
- Investor education

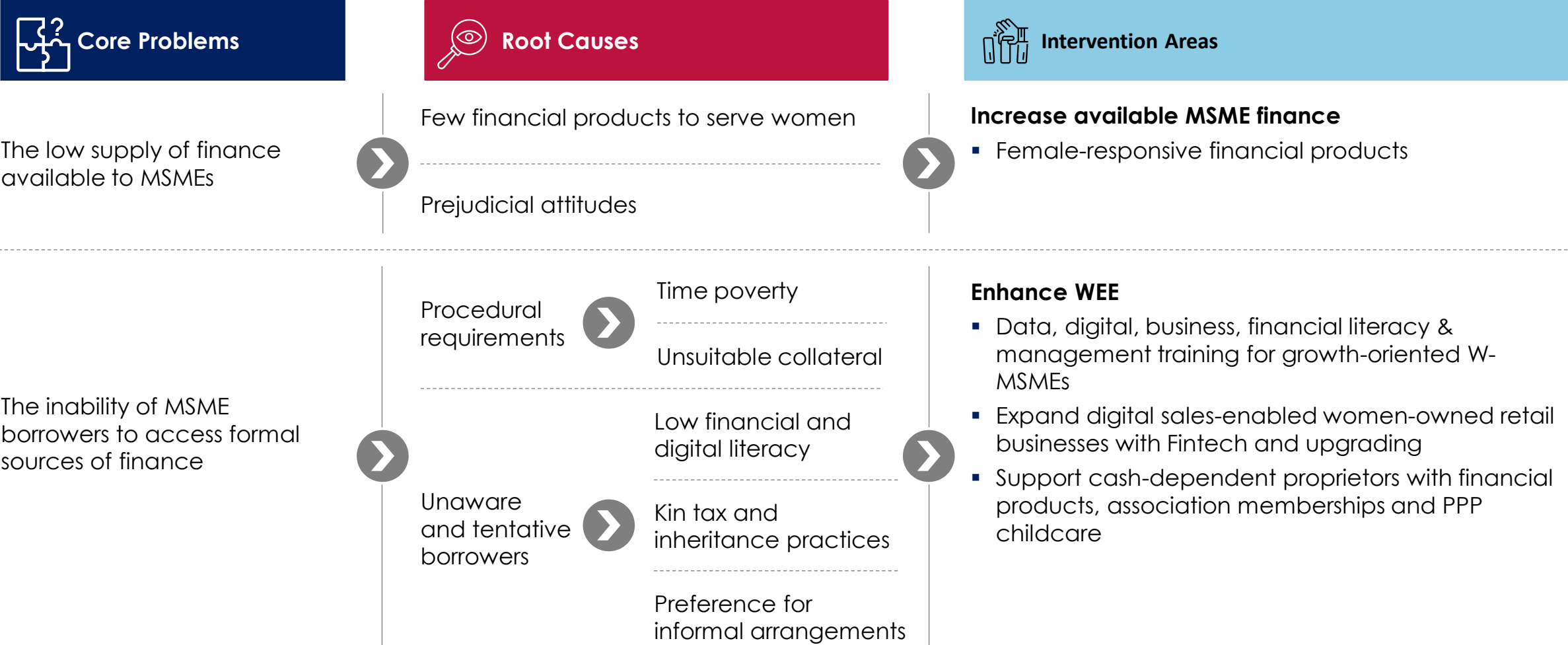
#### **PDF and demonstration transport projects**

- Public Investment Manual and Guidelines (PIMG) development for national and sub-national governments
- Creating provincial-level project development facilities (PDF) to build local government capacity & develop viable project pipelines
- Implementation of demonstration infrastructure projects to demonstrate innovative financing practices, e.g., brownfield asset recycling

# Core Problems, Root Causes, and Intervention Areas: Finance for MSMEs



# Core Problems, Root Causes, and Intervention Areas: Finance for W-MSMEs



# Areas for Discussion

Infrastructure Finance	<b>Brownfield Asset Recycling</b>
	<b>Financial Asset Recycling</b>
	Project Development Facility
	Public Investment Management Guidelines
MSME Finance	Demonstration Projects
	CI-CO Regulations
	Registry and Fraud Detection
	<b>Value Chain Financing</b>
	Credit Guarantee / Bond issuance
W-MSMEs	Business Skills / Financial Literacy
	<b>Fintech</b>
	Investor Readiness
	Data and Financial Literacy
W-MSMEs	<b>Fintech</b>
	Online Retail W-MSMEs

- 1. What has worked/not worked/lessons learned based on what council members have seen elsewhere?**
- 2. Given themes above and the need to further focus the program, how can we use a Blended Finance lens to address the binding constraint of costly and underdeveloped financial intermediation by:**
  - o Deepening capital markets**
  - o Diversifying the investor base**
  - o Broadening the range of instruments?**