

Indonesia II

Presentation to the MCC Advisory Council October 19, 2020

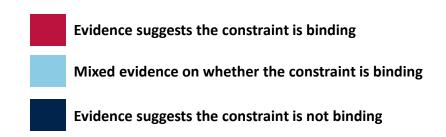
Summary of Constraints to Growth Analysis

(December 2019)



Binding constraints

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



Micro Risks-Barriers to Exportoriented 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)

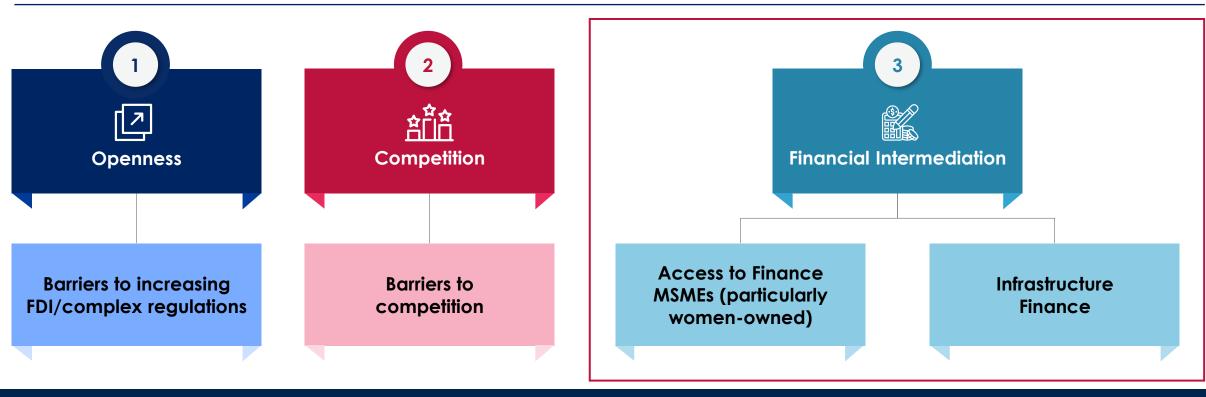
Macro Risks (other than revenue)

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



ightarrow GOI proposed two concepts under the constraint of "costly and underdeveloped financial intermediation" $_3$

Core Problems, Root Causes, and Intervention Areas: Finance for Infrastructure



Low supply of finance available for transport and logistics infrastructure investments



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



而得用 Intervention Areas

Blended finance & de-risking tools

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

Inability of the infrastructure sector to absorb what finance is available





Execution: low-readiness of infra projects

Low incentives for sub-national borrowing



PDF and demonstration transport projects

- Public Investment Manual and Guidelines (PIMG) development for national and subnational 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



The low supply of finance available to MSMEs



Root Causes

Limited availability of capital



Limited alternative sources of capital



Intervention areas

Increase available MSME finance

- Credit guarantee and/or bond issuance support for innovative MSME lending
- Deepening the reach of value chain financing
- CI-CO regulatory reform
- Fintech credit registry & lending fraud detection system

The inability of MSME borrowers to access formal sources of finance



Lack of credit worthiness



Unsuitable collateral

Lack of financial qualifying documents

Unaware and tentative borrowers

Procedura

requirements



Low financial and digital literacy

Geographic exclusion

"Upgrade" MSME borrowers

- Financial management, digital & business training
- Investors readiness program for SME upgrading

Enhance WEE

- Data, digital, business, financial literacy & management training for growth-oriented W-MSMEs
- Expand digital sales-enabled women-owned retail businesses with Fintech and upgrading
- Support cash-dependent proprietors with financial products, association memberships and PPP childcare

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



The low supply of finance available to MSMEs



Root Causes

Few financial products to serve women



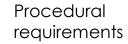
Increase available MSME finance

• Female-responsive financial products

Intervention Areas

Prejudicial attitudes

The inability of MSME borrowers to access formal sources of finance





Time poverty

Unsuitable collateral

Low financial and digital literacy



Unaware and tentative borrowers



Kin tax and inheritance practices

Preference for informal arrangements

Enhance WEE

- Data, digital, business, financial literacy & management training for growth-oriented W-MSMEs
- Expand digital sales-enabled women-owned retail businesses with Fintech and upgrading
- Support cash-dependent proprietors with financial products, association memberships and PPP childcare

Areas for Discussion

Infrastructure Finance	Brownfield Asset Recycling
	Financial Asset Recycling
	Project Development Facility
	Public Investment Management Guidelines
	Demonstration Projects
MSME Finance	CI-CO Regulations
	Registry and Fraud Detection
	Value Chain Financing
	Credit Guarantee / Bond issuance
	Business Skills / Financial Literacy
	Fintech
W-MSMEs	Investor Readiness
	Data and Financial Literacy
	Fintech
	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
 - Broadening the range of instruments?