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on

International Conference

***“Integrated Microfinance Management (IMM)
For Sustainable Community Development
(SCD)”***

Bandung, Tuesday, 20 September 2016

The Honorable,

- *Rector of the Padjadjaran University, Mr. Prof Dr. med. Tri Hanggono Achmad, dr;*

Whom we respect,

- *Prof. Dr. Dr (h.c) L. J Slikkerveer, Universiteit Leiden;*
- *The speakers and resource persons;*
- *Invitations and audience*

Assalamu'alaikum Wr. Wb.

Good Morning and best wishes for all of us.

A. INTRODUCTION

Praise and gratitude we pray to God Almighty for the abundance of His mercy, that we could gather in this event of the International Conference "*Integrated Microfinance Management (IMM) For Sustainable Community Development (SCD)*", organized by the Faculty of Economics and Business (FEB) Padjadjaran University, Bandung.

I highly appreciate the efforts made by the Padjadjaran University, Bandung, to continuously promote Financial Inclusion, especially through the utilization of Microfinance in poverty alleviation. Even today, the Padjadjaran University already has a course in Integrated Microfinance Management (IMM), which aims to deliver graduates who are properly trained

in the field of Microfinance Management, as well as to make a useful contribution to poverty alleviation in Indonesia.

Ladies and Gentlemen,

B. GLOBAL POVERTY ISSUES AND INDONESIA

Before going in into how the role of microfinance in poverty alleviation and development of the concept of Microfinance, I will submit a brief description of the demographics of poverty in the world and Indonesia today.

Based on published reports from the World Bank (*Global Monitoring Report 2015/2016*), over the last 25 years, more than one billion people in the world managed to get out of extreme poverty and it is estimated that the number will continue to increase from year to year, however, generally there are still many people in the world who are under the poverty line. By the World Bank calculation, currently, there are approximately 702 million people or 9.6% of the total world population, mainly concentrated in Africa and South Asia.

Meanwhile, in 2011 the World Bank has categorized Indonesia as Lower-Middle-Income country, and is ranked nine (9) out of ten (10) countries with the largest number of poor people in the world. Based on the data from the National Socioeconomic Survey 2016, the number and percentage of poor people in Indonesia from year to year continued to show a downward trend, in March 2016, it is estimated that the number of poor people in Indonesia had declined to 28 million people, almost 10% of the total population. Meanwhile, the value of the *Gini Ratio* in March 2016 is 0,397, a decrease compared to the same period in 2015 (0.408).

From these data, it appears that the overall number of the world's population living in poverty continues to decline, however, the decline was felt still less than optimal because there are still many people living below the poverty line. Therefore, various attempts to treat the condition are continued to be done, particularly to prevent the return of the population, which is already above the poverty threshold, from going back to be below the poverty line. Moreover, the economic crisis that had swept the world in recent years, has resulted in a decrease in revenues in almost all segments of society, especially the poor.

The World Bank identified the presence of three (3) main things that the world faces in

overcoming the problems of poverty, namely:

- 1) The depth of the population that are still living in poverty. Thus, we need policies that focus on segments of the population who experience extreme poverty.
- 2) Inequality in welfare. For that, we need policies that can encourage a steady increase in income for the bottom 40% segment of society.
- 3) Disparities are still occurring on a non-revenue factor in development, such as access to health facilities, education and finance. Therefore, we need policies that can address the inequality of access and opportunity for segments of society who are in poverty.

Meanwhile, the effort to overcome poverty and stimulate the improvement of welfare continues to be echoed by the United Nations together with the countries of the world through the *Post 2015 Development Agenda for Sustainable Development Goals (SDG 2015)*, where one of the goals is to eliminate the overall poverty in the world by strengthening the various aspects equally, which are the social, economic and environmental aspect.

One focus of the program is to improve the durability of the poor in facing various challenges, and as much as possible reduce losses caused by natural disasters experienced by poor families, especially the loss of life and community's productive assets including agriculture and live stock assets. The program is expected to eventually will indirectly boost food security, economic growth and climate change.

Ladies and Gentlemen whom I respect,

C. THE ROLE OF MICROFINANCE IN OVERCOMING POVERTY AND ENHANCING WELFARE

One solution to overcome poverty and improve the welfare of the community, which for decades has been carried out by many countries, is through the development of Microfinance. Over the past 30 years, microfinance has evolved as one of the key programs in addressing poverty and lift the economy and social life of the community.

Starting from the era of the 1970s through the movement of Dr. Muhammad Yunus through the *Grameen Bank* in Bangladesh which focused on efforts to alleviate poverty and unemployment, followed by the era of the 1980s in which the model of Microfinance transformed to improve the independence and sustainability of Microfinance Institution

(MFI), and the era of the 2000s in which some developing countries such as Bangladesh has been able to provide access to microfinance for any community in need.

Microfinance industry statistics today show relatively high growth, i.e.15-20% at the global level, particularly in Indonesia which potential shows remarkable development, where growth reached 25-35%.

I see the Microfinance industry has a great potential and plays an important role in poverty alleviation and the improvement of public welfare. Microfinance institutions provide a solution for the need of financial access for the unbanked population segments. By opening access to public finance, it increases the chance for the population to develop their productive business.

With the right assistance and application of innovation and technology, I believe that the appropriate access to finance will encourage the rapid growth of small industries within the community. As a further impact, the development of small industries within the community will encourage employment quite highly, especially for the poor and households with low incomes.

These conditions will ultimately encourage improvements in income inequality, increase domestic production and consumption, help to evenly distribute economic growth, and reduce social inequality.

Indonesia itself has a long experience in the field of Microfinance. Indonesia has a reputation as a pioneer center for the development of microfinance industry in the world, dating back more than 100 years ago. Starting from *Bank Rakyat*, *Bank Desa*, and *Lumbung Desa*, which were formed in 1901 as the forerunner of microfinance. This was followed by successful commercial microfinance services / by the private sector, which began in the 1890s when *Bank Rakyat Indonesia* started microfinance services then become a reference for many developed countries, including the *Grameen Bank* in Bangladesh.

Ladies and Gentlemen,

D. THE MICROFINANCE PARADIGM TOWARDS FINANCIAL INCLUSION

As I have mentioned above, we can see that microfinance has had a long history in encouraging poverty alleviation and improvement of public welfare. However, on this occasion I would like to convey that today there are also new considerations about development in Microfinance and its position in promoting access to public finance.

In the last decade, several opinions have emerged that felt that the success of microfinance in poverty alleviation and opening access to the public finance, is still less than optimal in pushing the enhancement of access to public finance.

In 2006, the United Nations Publication "Building Inclusive Finance Sector for Development" has already begun to voice it. In the publication, it is mentioned that today the world is experiencing a paradigm shift from Microfinance towards Financial Inclusion. Microfinance is no longer a major solution in opening access to public finance, but is now a part of a broader effort that is Financial Inclusion. If Microfinance focus on the supply side by providing access to financing (microcredit), the Financial Inclusion also include the demand side which consists of: the capabilities of public finance, quality education and financial access, and with infrastructure endorsement in the form of supporting regulations and policies.

The need for Financial Inclusion program, which has a broader scope, is very substantial. Tens of millions of people are unable to access financial services, either due to uneven network deployment of formal financial service institutions, geographical structure and the populations that are dispersed, and the absence of collateral and low financial literacy. In fact, according to the World Bank sources, more than 2.5 billion adults worldwide are still expected to not have access to formal financial services and most of them are low-income communities. Meanwhile, in the case of Indonesia, it is recorded that our Financial Inclusion Index is still around 20%, which is classified as low in Asia. Therefore, a paradigm shift is not only an international agenda but also a national agenda.

In an international forum *Asia Microfinance Forum* in Shanghai in 2014, which was attended by a variety of world financial leaders, experts and Microfinance observers, including the

Chairman of the FSA Mr. Muliaman Hadad, raised various issues, views and inputs related to this paradigm shift. Mr. Muliaman Hadad himself suggests that the repercussion of the current paradigm shift has transmitted, in which the effect can be seen by 50 developing countries that are already starting to or even have been implemented with the Financial Inclusion strategy.

To anticipate these conditions, the relevant authorities and all stakeholders must respond with appropriate policies, as this paradigm shift will create opportunities and challenges, such as:

- a) The products / financial services are more diversified. Coverage is no longer limited to microcredit, but also other financial products, including savings, insurance, and payment systems.
- b) The new platform. A great opportunity to use digital technology and telecommunications to reach the unbanked populations.
- c) The creation of new markets. This initiative not only for the poor but also for the people who classified as the unbanked within all income levels.
- d) Involve parties or new service providers. The parties involved are not only banks or Microfinance Institutions, but could also involve the government through pro-poor programs and telecommunication companies.
- e) A new challenge for the regulator. On how the regulator may issue policies and regulations to encourage Financial Inclusion that balance the social and commercial aspects yet not compromising on prudential aspects.

From these various opportunities and challenges, the growing realization that the Financial Inclusion is not only talking about how to provide access to credit for the poor and SMEs, but has a purposes that are more holistic which are reducing poverty, doing the distribution of income in order to achieve a more qualified economic growth and being sustainable without compromising and even sustain the stability of the financial system.

Mr and Ms whom I respect,

E. DEVELOPMENT OF MICROFINANCE INSTITUTIONS (MFIs) [Slide 7]

One of the Microfinance Institutions that is currently being developed in Indonesia is the Micro Finance Institutions (MFIs). Based on the Law Act No. 1 of 2013 on Micro Finance Institutions (MFI Act), the establishment of MFIs intended to support program / business activities development and community empowerment.

The critical role of MFIs in addition to improving access to finance is through guidance and consultation granted to SMEs, among others, related to various constraints faced by SMEs, namely in the areas of technology, marketing, human resources and management. Through the guidance and consultation, it is expected to help increase the business capacity of SMEs by increasing the quality and quantity of products, market expansion, and so forth.

Given the important role of MFIs in the development of SME, it would not be inappropriate if the MFI Law Act to mandate the development, regulation and supervision of MFIs to be conducted by the Financial Services Authority (FSA). Various efforts ranging from the preparation of regulatory and supervisory system that is efficient, the inventory of MFIs that have not been incorporated, the MFI licensing assistance, human resource training for local government and for MFI management, as well as training for the Sharia Supervisory Board of Islamic MFIs have been carried out by the FSA.

Coordination and cooperation between the FSA with a range of other stakeholders, especially the local government, plays an important role in empowering MFIs. It is necessary to follow up the implementation of the MFI Law Act, namely:

- a) Preparation of the inaugural MFIs;
- b) Implementation of the guidance and supervision of MFIs given MFI law has delegated guidance and supervision of MFIs to the Government of Regency / City;
and
- c) The synergy of business development programs and empowerment of the regional work units (SKPD) with MFI development program so it is expected that development programs in the region, especially efforts to increase the income of middle to lower income people, can function better.

In practice, significant obstacles faced by MFIs that have not been incorporated to grow larger and increase the contribution to serve low-income communities. In addition to capital constraints, the low quality of human resources, lack of management skills, and a lack of IT facilities and networks, are the constraints that often faced by MFIs that have not been incorporated. To that end, the Law Act requires that MFIs who have legal status to obtain a license from the FSA and transform into formal financial institutions, so that it will be easier to gain access to capital and to develop institutional capacity.

In the implementation of the inclusive finance program, the FSA will synergize the MFI with other financial institutions that are in the guidance and supervision of the FSA. Among others are: MFIs can be a bank's agent in *LAKU PANDAI*, and be an agent of marketing for micro insurance and other financial institution products. Synergies with other financial institutions will provide benefits for MFIs, among others are: receiving training from the bank, take advantage of the bank's network, gain a fee, and a simplified access to funding from banks. Considering that most of the MFI's clients, including non-bankable clients, still constrained by the lack of quality within the human resources, management, technology, marketing, and networking, thus, in order to mitigate risk, MFI financing needs to be strengthened with an insurance or credit guarantee program. To that end, the synergy between *Jamkrida* with MFIs became an important matter that needs to be applied. With these synergies, it is expected for MFIs to be able to improve access to funding for the lower-middle income people.

Ladies and Gentlemen,

F. AFTERWORD

Before I end my speech, I would like to re-emphasize that the development of microfinance in the future will continue to depend on how we are able to perform a wide range of innovations and breakthroughs in overcoming the challenges that arise in its implementation. I feel that the Integrated Microfinance Management (IMM), have become one of the innovations and breakthroughs in the development of microfinance in the future, thus, the effectiveness of microfinance in poverty alleviation and improvement of the public will be more optimal.

However, I also want to remind you that in order to improve access to public finance, a more holistic strategy will be required, namely the Financial Inclusion strategy. The government itself has launched a National Strategy for Inclusive Finance (SNKI) in 2012, which was inaugurated by the Vice President. In supporting the government program, the Financial Services Authority itself has conducted various Financial Inclusion programs, among others are: *Laku Pandai* Program (Branchless Banking), Net Program (financing of marine and fisheries sector), Microfinance Services, Literacy Finance Curriculum elementary, middle, and high school, Student Savings, and others, where the latter is the launch of the Center for Development of Microfinance and Inclusion (FSA-Proxy).

Finally, once again I would like to thank the Faculty of Economics and Business (FEB) Universitas Padjadjaran Bandung for organizing this conference. These efforts demonstrate

the commitment and continuous effort of the Faculty of Economics and Business of Universitas Padjadjaran to continue to develop bigger roles and contributions of Microfinance, not only by opening access to the financial community through the distribution of funding for the community, but also in embodying that Financial Inclusion belongs to the whole society, especially the poor with low income.

Hopefully this conference will be optimally effective in encouraging the development of financial services for all Indonesian people.

Thank You.

Wabillahi Taufik Hidayah wal. Wassalamualaikum Wr. Wb.

Bandung, 20 September 2016

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ILYA AVIANTI