Workshop on Enhancing Financial Accessibility for SMEs

The intensive workshop focusing on how to enhance the financial accessibility for small- and medium-sized enterprises (SMEs) in Indonesia was held in Jakarta on January 29-30, which was co-organized by Japan International Cooperation Agency (JICA) and Indonesia’s Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK).

Starting from opening remarks from Mr. Takashi Sakamoto, Resident Representative of JICA Indonesia Office and Ms. Nurhaida, Head of the Real Sector Corporate Finance Bureau of BAPEPAM-LK, the Workshop addressed four main issues: 1) SME conditions and policies; 2) SME financing and credit guarantee system; 3) potential for capital market financing for SMEs; and 4) market regulations and supervision. Dr. Ir. Nining Soesilo, Director of the UKM Center - FEUI, chaired this event.

SME sector is a main component of the economy and the industry in Indonesia, which accounts for 99% of the total number of enterprises and contributes to more than 50% of GDP. However, there is the fact that most of the SMEs have been substantially excluded from the formal financial system despite crucial necessity of fund raising from outside. Against this backdrop, the Workshop especially focused on how to involve SMEs in the financial system linked to the macroeconomic stability in Indonesia.

Attended by around 150 participants from policy makers (BAPEPAM-LK, Bank of Indonesia, Ministry of Industry, and State Ministry of Cooperatives and SMEs), academics (University of Indonesia) and relevant institutions (Indonesia Stock Exchange, PT. ASKRINDO, etc.), the Workshop was successfully concluded and well received by all participants from the viewpoints of frank and open discussions on wide-ranged SME financial issues. In fact, it was the first time to widely discuss this topic among relevant institutions from public and private sectors in Indonesia. JICA and BAPEPAM-LK will continuously follow this discussion in close cooperation with the UKM Center - FEUI.

Main discussed points are as follows:

Session 1: Overview of SME Conditions and Policy in Indonesia
- SMEs are key actors of the economy, which account for 99% of the total number of enterprises and contribute to more than 50% of GDP.
- Indonesia is a growing economy with ample labor force but SMEs have yet to be a driving force that alleviate high unemployment ratio, considering the slow pace of SME growth.
- Most of the SMEs have been substantially excluded from the formal financial system despite crucial necessity of fund raising from outside. Against this backdrop, it is a prioritized policy issue how to involve SMEs in the financial system linked to the macroeconomic stability in Indonesia.

Session 2: SME Finance and Credit Guarantee System
- The establishment of SME-friendly lending environment is the first priority to be improved, considering the fact that less than 30% of SMEs have access to the banking sector.
- Obstacles to SMEs’ access to financial institutions arise mainly from both real sector (e.g. uncertainty of the business and lack of credible collaterals) and financial institutions (e.g. much prudent lending attitude and severe lending conditions).
- Well-functioning public financing and credit guarantee system will be a help particularly for SMEs under high risk stage, e.g. start-up stage, to smoothly raise funds and play the role of safety net for their funding in case of events such as financial crisis.
- New financial techniques such as asset backed lending (ABL; loans backed by credit receivable, movables, etc.) and asset backed securities (ABS; securities backed by SME
loans) are worth examination as a method to control risks that SMEs hold, which will also improve the collateral-dependant lending structure.

**Session 3: Potential for the SME Funding Market**
- It is important to diversify funding channels for enterprises (create financial deepening), responding to the change of economic environment.
- To this end, it is necessary to establish proper infrastructure of direct finance as an alternative for SMEs as well as improve the indirect financing mechanism.
- Launching a special market for SMEs, separated from the regular market, is worth consideration due to the fundamental weaknesses of SMEs. Meanwhile, there are several issues to be solved, e.g. corporate governance, disclosure and how to create an attractive market for investors.
- It is crucial to create “mechanism” that encourages both SMEs’ growth and financial sector development through diversified funding channels for SMEs.
- Market (Board) Segmentation to facilitate and to suit the listing of SMEs stocks on the exchange should further be developed.
- A joint-research involving regulator, exchange, and universities could be valuable to issue suitable recommendation for the SMEs to access non-conventional funding resources.
- Learning from Japan experiences, participation of retail domestic investors is quite important to increase liquidity in secondary markets of SMEs.
- Transparency and investor protection are paramount to maintain market integrity of the SMEs markets.

**Session 4: Market Regulation and Supervision**
- In order to make proper regulation and supervision for SMEs, the definition of SMEs in Indonesia should be clarified.
- Indirect and direct financing markets for SMEs cannot be developed without well-established financial infrastructure, as a whole. Basic regulatory and supervisory approaches in the SME markets are not different from those in the overall financial markets.
- In order to create an enchanted market for investors, the enhancement of market transparency and quality is indispensable. To this end, it is crucial to establish a supervisory scheme well securing the enforcement of laws and regulations, good corporate governance principles and the disclosure system. It should be rather taken note when the establishment of a market for SMEs is considered.
- Preferential tax treatments, e.g. tax incentive system for angel investors, will be worth examination in order to cultivate so far “untapped” investors, e.g. average households.
- As a complementary role of private sector, public financing and credit guarantee schemes play an important role to effectively involve SMEs in the financial system. To this end, it is prerequisite to strengthen monitoring mechanism so as to make those schemes function well.
- To have special treatment for SMEs, the minimum unit price of SME services should be calculated, to enable the cross subsidy among clients of Capital Market and Financial Institutions Supervisory Agency for example in calculating the special discounted price for listing fees for SMEs.