

KEYNOTE ADDRESS

BY

**H.E. DR. SUSILO BAMBANG YUDHOYONO
PRESIDENT OF THE REPUBLIC OF INDONESIA**

AT

THE 2010 AFI GLOBAL POLICY FORUM

**“INNOVATIVE FINANCIAL INCLUSION:
AN IMPORTANT MEASURE IN POVERTY REDUCTION”**

BALI, 27 SEPTEMBER 2010

Bismillahirrahmanirrahim,
Assalamu'alaikum warahmatullahi wabarakatuh,
Peace be upon us,
Om Swastiastu,

Mr. Alfred Hannig, Executive Director, Alliance for Financial Inclusion,

Mr. Njuguna Ndungu'u, Governor of the Central Bank of Kenya,

Mr. Darmin Nasution, Governor of the Central Bank of Indonesia,

Mr. I Made Mangku Pastika, Governor of Bali

Excellencies,
Distinguished Guests,
Ladies and Gentlemen,

I am very pleased to extend to you a very warm welcome to Indonesia.

Bali has recently been featured in the film "Eat, Pray, and Love" starring Julia Roberts, which tells the story of a woman who, after a long search, finally found her love and peace in this beautiful island. Of course, I know you are only staying here for a few days, but I do hope that you will come back to Indonesia with your family where you can "eat, pray, and love" all you want.

When this Forum met in Nairobi last year, the world was being crunched by the global financial crisis. Now the impact has somewhat eased, thanks to the rapid response by the international community. We actually came close to plunging into the depth of global depression. But fortunately we found a way to work together through the G20 and other forums, which allowed us to avoid the worst scenario, and return to modest global growth. We used the opportunity to begin reforming the architecture of the global financial system – an on-going process that we must keep up.

The convening of the G-20 summit marked the new thinking that was desperately needed to address the global financial crisis. The G-20 was much better in reflecting the 21st century landscape of the world economy, which includes both the developed and emerging economies. The G20 has a strong commitment to creating a balanced, fair, transparent and credible global financial system, and has become a premier forum for international economic cooperation. Recently the G-20 has made a commitment to address development issues. This will be discussed in the G-20 Summit in November in Korea.

The global financial crisis is important for our collective efforts to fight poverty, where according to the World Bank, some 1.4 billion people still live with an income less than \$ 1.25 dollars a day.

For Indonesia, poverty alleviation is a top priority. It is at the heart of our four-track development strategy, which is pro-growth, pro-job, pro-poor, and pro-environment.

We all know that fighting poverty requires systematic, sustained and coordinated policy measures supported by necessary resources. In Indonesia, our anti-poverty efforts have shown

encouraging results. The number of Indonesians living below the poverty line has decreased from 16.7 percent of the population in 2004 to 14.1 percent in 2009. Even during the crisis we can reduce poverty to 13.3 percent in March 2010.

But we know that our national efforts can be more effective if it is synergized with efforts at the global level. That is why I welcome the Alliance for Financial Inclusion and Bank Indonesia for organizing this important forum.

This forum will enable us to exchange views on our respective national efforts, and discuss the issue of financial inclusion in the context of global efforts to tackle poverty.

Financial inclusion is central theme for all of us because most of those in poverty do not have access to financial services—savings, loans, transfer payment and insurance—at a reasonable cost. The exclusion of people—largely disadvantaged and low income groups—from financial services will only perpetuate their poor lives.

It is our hope that through access we can provide affordable financial services for people living with a low-income. This in turn will unlock many financial opportunities to improve their well-being, and close the economic and social gap. This will ultimately reduce poverty and inequality.

Financial inclusion will link the previously excluded group with the formal economy and they will eventually contribute to a country's economic growth.

In my opinion, financial inclusion cannot stop at just opening a savings account and obtaining micro-credits. The inclusion should empower the participants to use access to the financial services to widen the scope of their economic activities.

Financial inclusion that addresses poverty must be innovative. It must not be business as usual like regular financial services. For financial inclusion to promote growth, it has to move from “opening an account” in a bank, to regular savings and finally to a relationship which enables the borrower to access loans on a regular basis.

How do we do this ?

Well, let me highlight six conditions that I believe are necessary for a successful implementation of innovative financial inclusion.

The FIRST condition is leadership.

Indonesia has had a long productive experience in the field of micro-finance. There are many institutions throughout Indonesia that have provided micro clients with micro credit. Bank Rakyat Indonesia, or BRI, a state-owned-bank, is a good example. BRI was the first bank to promote micro financing and has successfully launched a rural savings and credit scheme known as SIMPEDES and KUPEDDES. These are run commercially and without any government subsidies or grants.

Since 2007, the government has introduced an innovative scheme to provide Government guarantee. This strategy is implemented, among others, through a credit scheme called “Credit for the People” (KUR – Kredit Usaha Rakyat), which is executed through commercial banks. KUR is a credit facility from banks, of which 70% is guaranteed by the Government. The Government guarantees the amount of two trillion rupiah (approximately 200 million US dollars) and this has the capacity to generate up to 20 trillion rupiah in microfinance activities. This way, micro-enterprises lacking collaterals are able to access bank loans.

The KUR credit program has also been expanded to target micro entrepreneurs in need of smaller loans of less than 20 million rupiah – approximately more than 2000 US dollars.

Remarkably, up to July 2010, more than three million small and medium enterprises have accessed this program. Of these, 96 % are micro clients with an average loan size of four million rupiah, or more than \$ 400 dollars.

True, this seems a tiny amount. But if you realize that most micro-entrepreneurs have daily turnover of two million rupiah (about \$ 210 US Dollars), the impact on the Indonesian economy is considerable.

I am proud to mention that this program has improved the status of approximately 400 thousand out of 3.2 million debtors from unbankable to the entitled ones. More bankable persons mean more opportunity for development.

In the case of Indonesia, although the financial program poses some risk to the government, it has been successful in alleviating poverty. The program is also able to narrow the gap between the rich and the poor.

To complement financial inclusion program, the Indonesian Government has also developed other poverty reduction programs. These include cash support to the very poor, to compensate their decreasing purchasing power following the increase in oil price.

“The National Program for Community Empowerment” is another innovative program to reduce poverty and create jobs. It is a community-based program. The government disburses funds according to the community’s project proposal.

The SECOND condition is accountability and coordination.

Innovative financial inclusion is not a one man show. Its success will depend on the presence of an institutional environment with clear lines of accountability and coordination within the government, and between the government and other stakeholders, including the private sector.

Indonesia is currently developing a national cluster program. This program is dedicated to strengthening coordination between institutions responsible for development of both upstream and downstream businesses.

This national cluster program aims to reach small farmers, fishermen, or handicrafters at the upstream cluster with limited knowledge, skills, and funding. Opening financial access will stimulate their businesses and allow for a stronger linkage with the downstream sector - which are usually much larger businesses - and consumers.

The THIRD condition is diversity.

Diversity is critical to an innovative financial inclusion so that it caters to the wide range of demand for financial services.

A policy of diversity must promote competition and provide market-based incentives. Moreover a policy of diversity must ensure delivery of sustainable financial access, use a broad range of affordable services, and offer more choice of service providers.

In Indonesia, the main economic players are micro-enterprises, that contribute some 99% of the total existing businesses. Our experience shows the importance of SMEs. In the 1997 Asian financial the backbone of our economy were our SMEs. They survived the crisis while the bigger businesses collapsed due to their non-performing loans.

To serve their financial needs, we have developed various microfinance schemes through banks as already mentioned. These are also rural banks or village-units and non-bank microfinance institutions, such as cooperatives, village credit unions and the traditional local

micro finance insititutions, such as the *Lembaga Perkreditan Desa* (LPD) or Village Credit Institution.

It is fitting that today we are meeting in Bali. In Bali, the LPD is a landmark micro-finance institution. The LPD grew within the local community, was developed by the community and is dedicated to the community. The LPD has helped many locals get a taste of formal financial services for the first time.

Like the traditional Balinese dances that you see around the island, the LPD is locally made.

Hopefully you will have a chance to visit some LPDs here in Bali and obtain first-hand information of their success stories and the challenges ahead.

The FOURTH condition is innovation.

Technological and institutional innovation is critical to keep track of the diversity of demand for financial services. Through innovation, we can customize responses to meet the financial needs of those who have a low, irregular and unreliable income.

The FIFTH condition for innovative financial inclusion is related with culture.

Not all people feel convenient to use modern banking services. Many still prefer to put their money under the pillow or into socks or piggy banks.

Developing people's financial literacy is as important as developing financial capability. It is critical that people be taught about the importance and benefit of accessing financial services. In 2008, we introduced a national campaign called "*Ayo ke Bank*" or in English "*Let's go to the bank*".

Last year, we launched another campaign in 2009 with a slogan of "*whatever the product, ensure the benefits, understand the risks and consider the costs*".

One case in point is the fact that today \$ 6 billion dollars annually are sent back to Indonesia by millions of Indonesian migrant workers through the formal banking system. Many of those Indonesian were not accustomed to the banking services when they were in Indonesia. This shows that traditional mindset can be changed and the migrant workers are in fact "going to the bank."

The SIXTH condition is a strong regulatory framework.

Innovative financial inclusion will work on the basis of certainty when it is built under a strong regulatory framework. Equally important, they must observe international standards and national circumstances.

The G-20 has discussed the issue of prudential regulations and standards extensively. The G-20 also agreed that the development of micro-finances for Small and Medium Enterprises (SMEs) must adhere to prudential regulations and standards. However, given the importance of SMEs, it is important for the prudential regulations and standards to accommodate the needs of SME micro-finances.

I believe that we need to convince the standard setting organizations such as the Financial Safety Board and the Basel Committee for Banking Supervision on the merits of this view.

Distinguished Guests,
Ladies and Gentlemen,

Innovative financial inclusion is currently receiving world-wide attention.

Financial inclusion is essential to our efforts in fighting poverty. It is a critical instrument to achieve the Millennium Development Goals. It also is in line with G-20's commitment to address "Development Issues" and the Principles for Innovative Financial Inclusion.

With that in mind, I hope that this forum could benefit from best practices and lessons learned from the experiences of different countries and institutions.

I also invite you to share any ground-breaking ideas to make innovative financial inclusion more effective in helping reduce poverty.

What I have shared with you shows that developing countries such as Indonesia can and have started to address financial inclusion. However, while we have made a good start, we are far from finished. For us to scale up our efforts for greater and more comprehensive financial inclusion from our own resources, it will take too long.

There needs to be a sharing of this responsibility for achieving more universal financial inclusion. Developed countries can contribute and share in achieving this objective – not only through providing funds but also through sharing financial innovation and technology.

We need to work together to develop such a global mechanism. I am hopeful that together we can set the global agenda for scaling up and accelerating financial inclusion.

Along the process, I call on all the participants of this forum to set your own national targets, develop your own objectives, commit to your own appropriate targets and allocate a certain budget for financial inclusion.

We need to give the less fortunate in our society an opportunity to pull themselves out of poverty. And this cannot wait until the global mechanism is completed.

Let us make this forum a bridge between our national, regional and global efforts. Let us collaborate and synergize our works to eradicate poverty through financial inclusion.

I am convinced that we have just as much to share as we do to learn. We are looking forward to hearing your experiences from Asia, Africa and Latin America so we can be inspired by your ideas and make our own financial system stronger, more inclusive and innovative.

As we approach the G-20 Seoul Summit this November, innovative financial inclusion should be part of the "Development Issues" agenda. Indonesia is ready to bring this issue to the attention of the G20 leaders,

It is on such an optimistic note that I would like to end my address this morning. I wish you fruitful deliberations and a successful conference.

Finally, by saying *Bismillahirrahmanirrahim*, I declare the 2010 Global Policy Forum officially opened.

Thank you. *Wassalamu'alaikum warahmatullahi wabarakatuh.*
Om Santhi, Santhi, Santhi Om

Bali, 27 September 2010
THE PRESIDENT OF THE REPUBLIC OF INDONESIA,

DR. H. SUSILO BAMBANG YUDHOYONO