



**INDONESIA G20
PRESIDENCY'S 2022
PRIORITIES PAPER**



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G20 Global Partnership for Financial Inclusion (GPII)

Background

The COVID-19 pandemic has widened inequality especially for the most vulnerable and underserved groups including Micro, Small, and Medium Enterprises (MSMEs). The increase of vulnerability due to the loss of income during the economic hardship and the limited access to financing is experienced by the most vulnerable groups. This includes social benefit recipients, households who were impacted by COVID-19, MSMEs, and especially women and youth (henceforth referred to as “target groups”). Advances in digital technology may boost a more inclusive and sustainable growth by further spurring innovation, generating efficiencies, and improving access to financial services. Through greater access to financial services for these underserved groups, advances in digital technology support economic recovery by creating greater economic opportunities.

There are still risks and challenges that remain to be considered in the wake of rapid digitalization, namely financial exclusion. Thus, the difficulties posed by the lack of financial and digital literacy, unequal access to digital infrastructure, data privacy issues, digital fraud, as well as inappropriate lending practices, magnify the importance of harnessing the gains from technological advancement while resolving these issues.

The socio-economic consequences from the pandemic for the vulnerable groups and MSMEs, especially women and youth, could last longer than expected, but digitalization could open up opportunities. Younger generations will face more challenges in the labor market, and more could be pushed into extreme poverty as they face financial losses from a drop in income and thus have less savings as cushion during difficult times. Evidence from the beginning of the COVID-19 pandemic crisis shows that the rise in unemployment between February and March 2020 was mostly experienced by young people; The OECD (2020) found that this could have a “scarring” and persistent effect on their career paths and future earnings. Moreover, UN Women estimated that 47 million more women worldwide have fallen into poverty since the start of the pandemic. The COVID-19 crisis has also negatively impacted MSMEs in terms of the loss of sales, shortages in liquidity, reduction in employment, and limited access to financing. The role of data and financial technology will be important in providing many opportunities to effectively support recovery and growth in the post-pandemic era. Responsible digital financial practices will also be significant in protecting and empowering the most vulnerable groups and MSMEs.

The challenges and opportunities on the demand and the supply side need to be addressed by integrating social programs with comprehensive and targeted financial inclusion measures. In doing so, they will support sustainable and inclusive growth outcomes. While transformative economic recovery will be the ultimate driver of poverty reduction, it will not be automatically inclusive and will not always penetrate the poorest households (World Bank, 2021). G20 and non-G20 member countries need to carry forward the development of impactful and inclusive digital finance policies. These policies are able to accelerate the delivery of social protection measures while

also taking into account the empowerment of the target groups' financial and economic capacity. Hence, financial inclusion efforts could help the most vulnerable groups and MSMEs recover from the pandemic, build resilience against future emergencies, and increase economic opportunities. For a stronger recovery, G20 and non-G20 member countries need to respond to the pace of innovation in the financial sector and mitigate its risks to enhance economic and financial inclusion.

Proposed Priority Agenda and Expected Outcome

In 2022, the Indonesian G20 Presidency will focus on digital financial inclusion and SME finance. This focus follows the G20 2020 Financial Inclusion Action Plan (FIAP) and supports the Indonesia Presidency Theme, which is “Recover Together, Recover Stronger”. The Indonesian G20 Presidency theme has three pillars: (i) promoting productivity; (ii) increasing resilience and stability; and (iii) ensuring sustainable and inclusive growth. Under the first and third pillar, promoting financial inclusion, enhancing the roles of MSMEs, and harnessing digitalization are some of the topics to be discussed in the GPII. Enhancing the role of MSMEs in the economy is pursued through digital transformation and increased financial inclusion for MSMEs.

The Indonesian G20 Presidency will focus the discussions on a policy that integrates both the supply side of the financial sector with its demand side. The policy aims to promote financial and economic inclusion for target groups and increase overall productivity. The discussion will cover 4 (four) deliverables that resonate with the 2020 FIAP, namely: (i) guidance and mechanism; (ii) financial products and services; (iii) regulatory environment; and (iv) data harmonization. The integrated policy is expected to maximize the economic potential and financial capability of the target groups. The policy will allow for the promotion of a sustainable financial inclusion with regards to access, usage, and quality.

The topic of financial Inclusion cross-cuts with other agendas of the Indonesian Presidency. It will also be highlighted in several working groups as it relates to the exit policy that supports equitable recovery and overcome the scarring effect brought by the COVID 19 pandemic. Ultimately, financial inclusion strengthens the effectiveness of the exit policy by maintaining financial intermediation, enhancing financial access for MSMEs, as well as boosting MSMEs productivity through digitalization.

THE INDONESIA G20 PRESIDENCY

The Indonesian G20 Presidency will explore areas where digitalization could leverage the use of financial products and services that will support productivity and ensure inclusive growth. Therefore, the Indonesian G20 Presidency will be formulating “Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth, and MSMEs”. It will address the most vulnerable groups, such as social benefit recipients and households who were impacted by COVID-19, MSMEs, and especially women and youth.

The Financial Inclusion Framework will be built upon the deliverables coherent with the FIAP and under the guidance of the Co-Chairs as well as collaboration with the implementing and affiliated partners. The deliverables are as follows:

Digital Financial Inclusion: Action Area 1

Implementation framework of the 2016 G20 High-Level Principles for Digital Financial Inclusion (HLP for DFI) is interpreted as a mechanism for the assessment and guidance through identification of policy options, best practices, as well as experiences and showcases in G20 and non G20 countries. Accordingly, due to the impact of the pandemic on digitalization, we propose the implementation framework to focus on several principles of the HLP for DFI, namely principle 1 (Promote a Digital Approach to Financial Inclusion), 2 (Balance Innovation and Risk to Achieve Digital Financial Inclusion), 5 (Establish Responsible Digital Financial Practices to Protect Consumers), and 6 (Strengthen Digital and Financial Literacy and Awareness). The framework is coherent with the Bali Fintech Agenda, especially element 1, 3, 4, 5, 6, 7, and 9¹. The Bali Fintech Agenda is a blueprint which is aimed to help countries harness the benefits and opportunities of fintech while managing its inherent risks. It is still relevant for policymakers and the international community to address those issues.

SME Finance: Action Area 1

Stocktaking of digital and innovative financial products and services for MSMEs beyond credit products. This aims to develop policy options that leverage digital financial services, to lessen possible financial fragility and stimulating job creation, investment, innovation, and inclusive economic growth globally. The outcome will feature a living database in a website that will consist of successful cases of digital and innovative financial products and services for MSMEs, beyond credit products. The objective is to facilitate the leveraging of those financial products and services from formal financial institutions, including fintech. The products and services include: digital payments, social/community-based financing and securities crowdfunding as alternative sources of MSMEs financing, insurance and risk-management products, alongside other products and services that could facilitate the MSMEs' access to finance. Additionally, one can also leverage those outside of finance to support MSMEs' access to the financial markets, increase their management skills, and improve their business capabilities. Those products and services are expected to provide faster and cheaper access to finance to increase financial resilience and mitigate risks. There is also a possibility to showcase some Digital Payment Instruments to be leveraged into digital financing, and for social/community-based financing to be linked to economic empowerment. The financial products and services for MSMEs beyond credit products will be based on financial need characteristic of

¹ 1. Embrace the promise of fintech; 3. Reinforce competition and commitment to open, free, and contestable markets; 4. Foster fintech to promote financial inclusion and develop financial markets; 5. Monitor developments closely to deepen understanding of evolving financial systems; 6. Adapt regulatory framework and supervisory practices for orderly development and stability of the financial system; 7. Safeguard the integrity of financial systems; 9. Ensure the stability of domestic monetary and financial systems.

specific target groups, which are (i) women as MSMEs Entrepreneurs; (ii) youth as MSMEs Entrepreneurs, and (iii) social finance recipients.

The database will focus on financial products and services beyond credit products suitable for each target groups specified. Criteria for the financial products and services should take into account the HLPG on Digital Financial Inclusion for Youth, Women and SMEs (deliverables of Saudi Arabia G20 Presidency). In conjunction with the database, a short document will also be developed to contain the concise summary of the cases, an explanation of the new database (i.e. what it contains, how it can be useful in finding good practice and how the database can continue to expand to contain more useful experiences and lessons learned).

SME Finance: Action Area 2

- a. **Regulatory diagnostic toolkit to help regulators create an environment that promotes access of MSMEs to innovative digital financial services², given the rapid advancement of digital technology.** A supportive and robust national/domestic environment is needed to promote MSMEs' access to and their utilization of digital financial services. The support and commitment from the Government and the private sector in providing infrastructures, financial products and services, policies and regulations, as well as MSMEs data, are essential. The regulatory diagnostic toolkit is developed based on the best practices on policies, regulations, or initiatives that may cover components such as regulatory architecture, digital financial services ecosystem, consumer protection, data privacy, financial and digital literacy, and Anti Money Laundering/Counter-Terrorism Financing (AML/CTF).
- b. **Progressing the agenda on MSMEs data harmonization framework** to improve the availability of disaggregated data (i.e. by gender and age groups) that could be used to measure cross-country gaps in financial inclusion, identify financially vulnerable groups of small businesses, make more informed decisions, or assess the impact of policy interventions. In 2022, steps forward will be taken to ameliorate the availability of harmonized data on MSMEs financial inclusion, as part of a multiyear project.

Cross-cutting Topic: Financial Consumer Protection

The strategic review of G20/OECD High-Level Principles on Financial Consumer Protection will be discussed within the GPII to promote financial consumer protection as part of supporting financial inclusion. The topic will be discussed given the recent trends of rapid digitalization and the spirit of balancing innovation and risk mitigation. The Financial Consumer Protection Principles were originally endorsed by the G20 Finance Ministers and Central Bank Governors (FMCBGs) and G20 Leaders in 2011. The review of the FCP Principles was referenced in the G20 FMCBG Communiqué of

² Refer to the definition as mention in G20 High Level Principles on Digital Financial Inclusion. It covers financial products and services, including payments, transfers, savings, credit, insurance, securities, financial planning and account statements which are delivered via digital/electronic technology.

October 2021. The review is undertaken in collaboration with the G20/OECD Task Force for Financial Consumer Protection, which comprises of financial consumer protection policy makers and experts. All G20 countries, as well as OECD countries and others, also participate in the review process. The FCP Principles have been the leading international standard in financial consumer protection frameworks for the last ten years. The objective of the review is to ensure that they continue to reflect best practice, given changing conditions and policy developments. The principles are also forward-looking.

Key Dates

Tentative Timetable of GPII and G20 Finance Track Meeting:

Date	Task/Meeting/Event	Location
9-10 Dec 2021	1st Finance and Central Bank Deputies Meeting (FCBD)	Bali, Hybrid
2 February	International Seminar on Digital Financial Inclusion (for public)	Jakarta, Virtual
3-4 February	1st GPII Plenary Meeting a. Introduction of Indonesia Presidency b. Discussion on the issues notes of IPs' reports (i.e. outline, process, methodology). c. G20/OECD Task Force presentation on the strategic review of HLP on Financial Consumer Protection	Virtual
15-16 February	2nd Finance and Central Bank Deputies Meeting (FCBD)	Jakarta, Hybrid
17-18 February	1st Finance Minister and Central Bank Governors Meeting (FMCBG)	Jakarta, Hybrid
March	Workshop on Beyond Credit Financial Product and Services for MSMEs	Virtual
21-22 April	2nd Finance Minister and Central Bank Governors Meeting (FMCBG)	Washington DC
12 May	International Seminar on Digital Transformation for Financial Inclusion of Women, Youth, MSMEs	Bali, Hybrid
12-13 May	2nd GPII Plenary Meeting a. Presentation on the draft reports (preliminary findings) by IPs b. Discussion on draft reports led by Co-chairs and Presidency c. G20/OECD TF presentation on the strategic review of HLP on Financial Consumer Protection	Bali, Hybrid
13-14 July	3rd Finance and Central Bank Deputies Meeting (FCBD)	Jakarta, Hybrid
15-16 July	3rd Finance Minister and Central Bank Governors Meeting (FMCBG)	Jakarta, Hybrid

Date	Task/Meeting/Event	Location
4 October	GPII High-Level Symposium: Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth and MSMEs	Surabaya, Hybrid
4 - 5 October	3rd GPII Plenary Meeting a. Presentation on the final draft of the reports by IPs and Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth and MSMEs b. Discussion on the final draft reports led by Co-chairs and Presidency c. G20 Presidency and co-chairs presentation on the summary of results achieved during the year	Surabaya, Hybrid
13-14 October	4th Finance Minister and Central Bank Governors Meeting (FMCBG)	Morocco

