

Case Study 9: Indonesia – Digitising microenterprise value chains

Indonesia's food services sector is changing rapidly with the emergence of internet delivery platforms. These are creating new opportunities for restaurants and other food services to expand their businesses. As highlighted by research undertaken by Women's World Banking (2020), the digitisation of these value chains has the potential to significantly affect small food kiosks, known as *warungs*. There are over 4 million of these microenterprises in Indonesia, about half of which are registered, and they are often limited in their ability to take advantage of the growing digital economy due to constraints such as lack of suitable infrastructure and digital literacy or low trust in digital services.

Warung enterprises frequently transact with both buyers and suppliers, usually in cash, which is preferred because supplies are often bought from local wet markets, which also rely heavily on cash. While many *warungs* have begun using digital food delivery platforms (e.g. Go-Food and GrabFood), which let customers pay digitally, most still prefer to take payments from delivery drivers in cash.

Government initiatives supporting digitisation

In recent years, the Indonesian government has established programs that support the digitisation of microenterprise value chains. Some of the more prominent examples include:

- Through the Bantuan Pangan Non Tunai (BPNT) program, several *warungs* have been equipped and trained to accept payments via government-issued cards used by the poor to access subsidised staple food items (World Bank 2017).
- The Ministry of Finance has enhanced its Ultra Micro (UMi) financing and Micro Credit Program (KUR), giving affordable loan assistance to micro and small businesses and supporting the development of cashless business transactions and the creation of a digital marketplace for microenterprises (Ministry of Finance 2018).
- Bank Indonesia, the central bank, has launched a Quick Response Indonesia Standard (QRIS) code system to universalise cashless payments. The QRIS system and use of QR codes lets users transfer funds between rival payment services through the central bank's ecosystem (Harsono 2019). *Warungs* and other microenterprises are primary targets for adopting QRIS transactions, with the government speeding adoption by deploying officers to conduct door-to-door QRIS education and eliminating transaction fees for MSMEs.
- As part of Indonesia's Covid-19 recovery efforts, the government has announced that some of its IDR 641.17 trillion economic recovery stimulus will be used to help MSMEs. This includes supporting 10 million MSMEs to adopt digital technologies, such as e-commerce and digital payments, by the end of 2020 (Eloksari 2020).

As the government continues to support the evolution of the digital economy, microentrepreneurs and other stakeholders in the value chain will become more familiar with, and understand the value of, digital payment channels.

Potential impact

Research by Women's World Banking (2020) has highlighted several examples of how digitising *warung* value chains would help stakeholders. For B2B suppliers (e.g. Warung Pintar or Wayhoo) and service platforms (e.g. Go-Food or GrabFood), this includes greater potential for innovation, increased revenue and reduced liquidity challenges. Payment partners could also benefit from an increased user base, opportunities to cross-sell, or lower credit risks because of access to transaction data. Some payment providers, such as GoPay and OVO, have already used increased digitisation to build a marketplace for merchants to access credit.

The Covid-19 pandemic has made stakeholders pay greater attention to the importance of digitisation, particularly as many businesses are increasingly relying on digital platforms to sustain themselves

2020 Asia-Pacific Financial Inclusion Forum

through the crisis. According to research by MicroSave on the effect of the pandemic on MSMEs in Indonesia, technology solutions can play an important role in enabling microenterprises, including *warungs*, to continue operating during a crisis and in assisting economic recovery efforts. For example, the digital databases of e-commerce providers or QRIS merchants could be used to help the government identify informal microenterprises and target response measures to them more effectively. The use of biometric-based e-KYC in conjunction with an economy-wide identification database could also be used to facilitate non-face-to-face verification of microentrepreneurs (Pelupessy et al. 2020).

Success factors

Women's World Banking (2020) has identified several critical factors for the successful digitisation of Indonesia's *warung* value chains, which are also relevant for any economy and should be considered by governments:

- **Simplicity and security.** Payment systems need to be secure and easy for microenterprise owners to use.
- **Access and training.** A systematic approach is needed to onboard and train microenterprises to use digital technology and platforms. Increasing smartphone penetration is also critical.
- **Integration.** Digital platforms and payment wallets must be integrated into the apps of value-chain partners through APIs.
- **Funds transmission.** A payment gateway is needed for e-wallet transfer of funds within apps.
- **Interoperability.** Payments must be accepted from multiple platforms.
- **Regulation.** Regulation must be balanced. For example, if e-wallet transaction limits are too low, this may diminish the value of DFS for customers.

A simplified digital KYC system that helps service providers register merchants quickly and efficiently should also be considered as a key factor for success. The absence of such systems can make it considerably more difficult for e-commerce and payment service providers to expand and deepen their solutions.