Empowering Migrant Workers: Feasibility Study of Innovative Financing Mechanism on Labour Migration

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Foreword

I am delighted to present the final report of Empowering Migrant Workers: Feasibility Study of Innovative Financing Mechanism on Labour Migration. This is part of The United Nations Development Programme's support to the Government of Indonesia in formulating inclusive and beneficial policies for all relevant stakeholders in managing orderly migration.

In collaboration with IOM and UN Women, UNDP Indonesia has initiated a joint program on Migration Governance for Sustainable Development in Indonesia. This program is funded by the Migration Multi-Partner Trust Fund and supported by 14 donor countries. A crucial activity of this project is the feasibility study on innovative financing mechanisms for migration. Mapping, designing, and analyzing innovative financing instruments for migration is considerably new and rarely discussed, while financing has been one of the key issues in the migrant lifecycle.

Migration contributes significantly to Indonesia's development agenda, with over 270,000 Indonesians actively seeking employment opportunities abroad annually. According to World Bank data, potential remittances in 2022 were estimated to reach IDR 150 trillion, ultimately supporting economic growth and poverty alleviation in Indonesia. However, there is a financing challenge for migrant workers. The Migrant Workers Protection Board (BP2MI) estimates an average pre-departure preparation cost of approximately IDR 30 million, highlighting the significant financial burden prospective migrants face. As such, there is a need to bridge the gap in Indonesian migration effectively, providing practical solutions to the financial barriers faced by many prospective migrants.

Financing for migration is one of many interesting areas under innovative finance. Since 2017, UNDP has been actively developing innovative financial instruments with public, private, and philanthropic partners to expedite financing and the achievement of SDGs in Indonesia, such as Climate Budget Tagging, Zakat for SDGs, Green Waqf, Green Sukuk, SDG Bond, Blue Bond, Impact Fund, and many more. Previously, UNDP explored the potential of alternative financing for renewable energy, climate adaptation and mitigation, disaster recovery, local economic development, and biodiversity. This migration-related study has added a new initiative to the list of innovative financing mechanisms.

Specifically on migration, a series of discussions were conducted in Semarang, Central Java, and Mataram, West Nusa Tenggara, to collect data from migration key players. Both provinces are among the highest contributors of migrant workers. Discussion was also organized in Makassar, South Sulawesi, which serves as a sender and transit region for migrant workers. The discussion involved diverse stakeholders: government, financial institutions, enterprises, NGOs, academia, and representatives of migrant workers, families, communities, and associations. A more profound session was also conducted for financial institutions at the national level in Jakarta to gather their insight on migration financing.

I would like to express my gratitude to our partner, the Ministry of Foreign Affairs, for their invaluable contribution and commitment to protecting the rights of migrant workers in Indonesia. It is my sincere hope that this study report can present the best recommendations regarding innovative financing modalities for migrant workers with gender sensitivity aspects throughout all stages of migration: before migration, during migration, and after migration. In addition, this study report aims to support the Government of Indonesia in protecting migrant workers in terms of economic empowerment in the long-term.

Sujala Pant

Deputy Resident Representative
UNDP Indonesia

Foreword

I welcome the study conducted by UNDP Indonesia on "Feasibility Study of Innovative Financing Mechanisms on Migration". This study is not just a reflection of timely and relevant research but also contributing to realize safe, orderly, and regular migration in Indonesia.

Indonesia has a sizeable diaspora, with more than three million Indonesians living and working overseas. Most of them are migrant workers, who have been contributing immensely to Indonesia's national development, including by bringing new skills and expertise.

It is undeniable, however, that their contribution comes at a high cost. In the financial sector, the substantial pre-departure expenses borne by migrant workers present a formidable barrier. To find a solution, many would-be migrants have been forced to resort to high-interest loan, or even opted for unauthorized migration.

While migration is a choice for everyone, policy makers and all relevant stakeholders must ensure that migration is conducted in a safe, orderly, and regular manner.

I therefore welcome the findings of this research. I am glad to be part of this endeavor and committed to integrating the insights from this study into the ongoing efforts to support Indonesian migrant workers. In line with the dedication to the principle of #NegaraHadir, ensuring that the state is present and responsive to the needs of its people, wherever they may be.

The study highlights the imperative need for innovative financial mechanisms. Two critical issues have been underscored: the limited financial resources, and a prevalent lack of financial literacy among migrant workers and their families.

Through meticulous field research and extensive stakeholder consultations in Central Java, West Nusa Tenggara, and South Sulawesi, the study has identified innovative financing schemes that can transform the migration journey into a safer, more regulated, and orderly process. The involvement of both public and private sectors is vital in catalyzing these schemes.

From the study's recommendations, a clear path forward has been set. The government is suggested to establish robust regulations facilitating KUR PMI (Kredit Usaha Rakyat Pekerja Migran Indonesia) and strengthen partnerships with local authorities, private sectors, and fin-tech providers to ensure a holistic approach to migration-based financing.

The importance of gender-sensitive measures cannot be overstated, given most of Indonesian migrant workers are women. It is critical to ensure that financial frameworks are inclusive and supportive of the unique challenges faced by women in migration.

In conclusion, the study provides all of us with a strategic roadmap to empower Indonesian migrant workers, safeguard their rights, and harness their potential to contribute to Indonesia's development. I wish to express my gratitude to all those who contributed to this study, and I am looking forward that the recommendations put forth will be transformed into concrete actions that will benefit migrant communities.

Thank you.

Penny Dewi Herasati

Director for Socio Cultural Affairs
and International Organizations of Developing Countries
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Executive Summary

International migration significantly shapes Indonesia's national development. Given its substantial population of 279 million, Indonesia serves as a key origin country for labour migration, with approximately nine million Indonesians, or nearly seven percent of the workforce, employed abroad. The majority of these workers, about 84 percent, work in Malaysia, Hong Kong, and Taiwan. Women play a prominent role in this migration, constituting 88 percent of regular migrants in 2021 and 61 percent in 2022. Within this demographic, about 47 percent are categorised as irregular migrants, predominantly male labourers in Malaysia.

Despite the evident advantages that migration brings to Indonesia's economic and social landscape, substantial challenges persist, particularly in terms of financial accessibility for migrants throughout their journey. The Law on the Protection of Indonesian Migrant Workers (No. 18/2017) aimed to alleviate migrant workers from shouldering departure costs. However, in reality, many still face significant expenses related to administrative and logistical preparations. These costs range from transportation for passport application procedures to expenses for health check-ups, obtaining medical certificates, and securing employment visas.

Indonesian migrants, mainly women, frequently secure jobs in the domestic sector, restricting their access to formal financing opportunities essential for the entire migration process—prior to departure, during their stay abroad, and upon return. This perception often characterised migration as a costly endeavour. The Migrant Workers Protection Board of the Republic of Indonesia (BP2MI) estimates an average pre-departure preparation cost of approximately IDR 30 million, highlighting the significant financial burden prospective migrants face.

Given these financial challenges, the demand for innovative and effective financial strategies to support Indonesian migration is more critical than ever. These strategies are essential for closing the funding gap and are pivotal for enhancing the quality of life for those pursuing employment overseas. These innovative financing mechanisms play a key role in supporting the Indonesian government's Productive Migrant Village program. This initiative focuses on developing vibrant and productive communities in the hometowns of migrant workers, involving systematic placement and protection of employment candidates, skill development for prospective workers, robust support for their families, and active engagement of local village governments. Successful implementation of these financial strategies effectively will significantly contribute to the prosperity and progress of villages and local communities, forming the backbone of support for migrant workers. Moreover, these strategies are fundamental in building a sustainable foundation for community development.

This comprehensive feasibility study examines the potential of mobilizing innovative financing strategies to support migration in Indonesia. It explores possibilities of harnessing resourcesf rom both the public and private sectors. This includes tapping into diverse funding sources such as local and village-level funds, philanthropic contributions, investments from impact and angel investors, and donations from religious organizations. The primary objective is to explore and implement alternative financing avenues to address the myriad challenges associated with migration. This study aims to present viable opportunities for innovative migration financing in Indonesia, spanning various phases of the migration process—pre-departure, during migration, and post-return stages. The goal is to effectively bridge the financing gap in Indonesian migration, providing practical solutions to the financial barriers faced by many prospective migrants.

Empowering Migrant Workers: Feasibility Study of Innovative Financing Mechanism on Labour Migration

01 Introduction: An Overview of Indonesian Overseas Migration

International migration has played a pivotal role in shaping Indonesia's national development. With a population of 279 million, Indonesia has emerged as a notable origin country for labour migration, with approximately nine million Indonesians, constituting nearly seven percent of the workforce, currently employed overseas[1]. Notably, 84 percent of these overseas workers are concentrated in Malaysia, Hong Kong, and Taiwan,[2] with women comprising 88 percent of regular migrants in 2021[3] and 61 percent in 2022[4]. Within this workforce, about 47 percent are considered irregular migrants, with over half of these undocumented workers being male labourers employed in Malaysia.[5]

The primary driving force behind international migration is the state of the economy, although factors such as improved access to education, healthcare, and essential services also play a significant role in migrant's decision-making, especially for those relocating with their families.[6]

Extensive engagement with prospective migrant workers, returnees, and their families in regions like Central Java, West Nusa Tenggara, and South Sulawesi has revealed that the main motive for overseas migration is the pursuit of enhanced livelihood opportunities. Many migrant workers cite social factors, including enticing offers from their communities, friends, and inspiration from successful family members, influencing their decision to venture into overseas labour.

However, overseas migration poses challenges, especially for informal sector workers, predominantly women, who face vulnerability due to limited protection under local labour laws and a lack of access to social safeguards.[7] This vulnerability is exacerbated by their undocumented status, making it difficult to assert their rights without legal agreements. In response to these issues, the Indonesian government has implemented various measures, including the Law on the Protection of Indonesian Migrant Workers (No. 18/2017), aimed at

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[1] World Bank. (2017). Indonesia's Global Workers: Juggling Opportunities and Risks. Jakarta. Available at https://openknowledge.worldbank.org/handle/10986/28937
[2] Ibid, World Bank, Indonesia's Global Workers: Juggling Opportunities and Risk (Jakarta, 2017).
[3] BP2MI, "Data pekerja migran Indonesia – periode tahun 2021a" [Data on Indonesian migrant workers – 2021 reporting period], report (Jakarta, 2021). Available at www.bp2mi.go.id/uploads/statistik/images/data_11-04-2022_Laporan_Publikasi_Tahun_2021_Final_23022022. pdf.
[4] https://bp2mi.go.id/uploads/statistik/images/data_20-03-2023_Laporan_Publikasi_Tahun_2022_-_FIX_.pdf
[5] World Bank, Indonesia's Global Workers: Juggling Opportunities and Risk (Jakarta, 2017). Available at https://openknowledge.worldbank.org/ handle/10986/28937.
[6] IOM Indonesia Country Strategy 2022 - 2025 (2022). https://indonesia.iom.int/sites/g/files/tmzbdl1491/files/documents/2023-08/pub2022_0_0.pdf
[7] Ibid, IOM Indonesia Country Strategy 2022 - 2025 (2022).

comprehensive worker protection. Furthermore, the government has negotiated memorandums of understanding with destination countries. Despite these efforts, significant gaps persist between policy intent and practical implementation.

A key concern addressed in this report is financing. Although the Law on the Protection of Indonesian Migrant Workers (No. 18/2017) exempts migrant workers from departure costs[8], the reality is that they still incur expenses for administrative and logistical requirements before leaving. These include transportation costs for passport applications, health check-ups, medical certificates, and employment visas. The Migrant Workers Protection Board of the Republic of Indonesia (BP2MI) estimates an average cost of approximately IDR 30 million per individual, covering various pre-departure expenses.

It is crucial to note that these costs vary depending on factors such as the destination country, the location of application and processing, job type, and required skills. For example, individuals migrating to East Asia, such as Japan and Korea, may face different administrative requirements compared to those heading to the Middle East, such as Saudi Arabia. Moreover, the nature of the job contributes to these variations, with high-skilled positions requiring formal competency certification, unlike informal sector workers, such as domestic workers. The table below illustrates the costs associated with pre-departure administration in lower- and higher-skilled destinations.

Figure 1. Estimated Pre-Departure Cost

Job roles	% Total placement	Top destination countries	Approximate cost structure[10 11]
Domestic industry (lower-skilled)	65%[9]	Hong Kong Taiwan Malaysia	Destination: Ex. Hong Kong Passport: - One-way flight: IDR 6,000,000 Domestic transportation: IDR 2,000,000 Health check-up: IDR 670,000 Psychological check-up: IDR 550,000 Social Protection (BPJS): IDR 370,000 Visa cost: IDR 460,000 Employment contract legislation: IDR 400,000 Training cost: IDR 5,500,000[10] Training logistics: 3,000,000[11] Total: Approximately **IDR 18.95 million**
Manufacturing (higher-skilled)	9,3%[12]	Japan South Korea	Destination: Ex. South Korea Passport: - One-way flight: IDR 7,000,000 Domestic transportation: IDR 2,000,000 Health check-up: IDR 850,000 Psychological check-up: IDR 550,000 Social Protection (BPJS): IDR 370,000 Visa cost: IDR 1,116,000 Employment contract legislation: IDR 400,000 Training cost: IDR 15,000,000[13] Training logistics: IDR. 580,000[14] Total: Approximately **IDR 27.7 million**

Source: Author's Compilation

[8]Article 30(1) stipulates that "Indonesian Migrant Workers cannot bear placement costs." However, it is noteworthy that prospective migrants often need to secure approximately IDR 30 million to cover various pre-departure expenses.
[9]2020, 2021, and 2022
[10]https://jdih.bp2mi.go.id/uploads/20230706/20230706170441_889000264_KEPKA_Nomor__256_Tahun_2023_tentang_Biaya_penempatan__PMI_Hongkong.pdf
[11]https://buruhmigran.or.id/info-kerja-luar-negeri/biaya-penempatan/biaya-penempatan-pekerja-migran-indonesia-di-hongkong/
[12]2020, 2021, and 2022.
[13]https://padangkita.com/biaya-pelatihan-tenaga-kerja-pariaman-yang-akan-dikirim-ke-korea-rp15-juta-per-orang/
[14]https://www.bp2mi.go.id/gtog-detail/korea/pengumuman-tambahan-biaya-tempat-tinggal-di-lokasi-pelatihan-bagi-pmi-terbang-tanggal-1-september-2022

Due to significant expenses associated with pre-departure preparations, many prospective migrants actively seek financing opportunities, hoping to enhance their living standards upon departure. Unfortunately, the majority of these individuals come from lower-income communities, limiting their access to financial resources. Stringent requirements for formal loans lead many to opt for costlier and riskier informal financing options, such as relying on family, turning to underground banks, or resorting to loan sharks. These informal avenues often entail extended repayment periods and onerous financial obligations in destination countries. Addressing financing issues in migration is crucial for ensuring the well-being and safety of migrants and their families.

Given the limitations of existing financing for labour migration-related expenses, the solution lies in exploring innovative financing strategies to bolster migration in Indonesia. Successfully implemented, these mechanisms could bridge the annual funding gap associated with migration and significantly contribute to universal access for those seeking an improved quality of life through overseas employment. For instance, under Article 42(e) on Responsibilities of Village Government under the Law on the Protection of Indonesian Migrant Workers (No. 18/2017), Village Governments play a pivotal role in empowering prospective workers, Indonesian migrants, Indonesian migrant workers, and their families, involving the allocation of Village Funds.

The mobilisation of innovative finance mechanisms is crucial for supporting the Indonesian government's efforts in the Productive Migrant Village Programme (*Program Desa Migran Produktif*/Desmigratif). This initiative focuses on fostering productive societies in the hometowns of migrant workers, involving methodical placement and protection of candidates for employment, enhancing the skills of prospective workers, providing substantial support to their families, and active participation of local village governments. The strategic deployment of these mechanisms is poised to substantially contribute to the prosperity and advancement of villages and local communities supporting migrant workers, fostering, and reinforcing the structural foundation for sustainable community development.

Innovative financing strategies involve mobilising resources from both the public and private sectors, drawing from diverse sources such as local and village-level funds, philanthropic contributions, investments from impact investors and angel investors, and donations from religious organisations. The objective is to effectively address migration challenges by exploring alternative avenues for financing. Therefore, this study aims to identify potential opportunities for innovative migration financing in Indonesia, covering various phases of the migration process, including pre-departure, migration, and return stages.

[15] https://www.kominfo.go.id/content/detail/20529/berdayakan-cpmi-kemnaker-kembangkan-400-desa-migran-produktif/0/berita

02 Financing Issues and Financial Flows Related to Migration

With over 270,000 Indonesians actively seeking employment opportunities abroad annually, remittance activities from migrant workers boost household income and consumption, supports poverty reduction initiatives and local economic growth. In 2022, the World Bank estimated that remittances from Indonesian migrant workers abroad amounted to IDR 150 trillion.

These repatriated funds are crucial in mitigating the adverse effects of economic shocks and financial crises. Remittances constitute around one percent of Indonesia's GDP and ten percent of its tax revenue, significantly impacting the national and local development agenda. Remittances from Indonesian migrant workers are the second-largest income for the government after oil and gas. However, it is less clear to what extent these financial flows contribute to achieving the Sustainable Development Goals (SDGs) at national and/or regional levels.

Globally, the annual financing gap for SDGs is estimated at around USD 4.2 trillion. With limited options for relying on national public funding to achieve the SDG targets, it is important to explore alternative financing opportunities. The World Benchmarking Alliance's Financial System Benchmark, which assesses 400 global financial institutions, reveals a significant deficiency in financing for low-income countries, SMEs, and marginalised groups. Only two percent of these institutions disclose their financing to low-income countries, 14 percent to marginalised groups, and 23 percent to small and medium-sized enterprises (SMEs).

In Indonesia, the financing needed to achieve SDG targets by 2030 amounts to USD 4.75 trillion, and USD 322 billion is required to achieve the climate target by 2030. Considering multiple points of convergence within the migration cycle, migrants facilitate improvements by communities in their countries of origin through the transfer of skills and financial assets, contributing to positive development results. To realize this potential, addressing fundamental financing issues at every migration stage will be a prerequisite for unlocking the full benefits of migration and development.

Pre-Migration: Financial Barriers

As the study highlights, a gap exists between migration financial policy and its practical implementation before departure. While the Law on the Protection of Indonesian Migrant Workers (No. 17/2018) guarantees placement cost coverage, evidence suggests prospective migrants often need to secure up to IDR 30 million to cover various pre-departure expenses[26]. These expenses typically include capacity-building and skills development training, certification fees, work visas, and travel tickets to the destination country (See Figure 1).

The Government acknowledges an annual financing need of IDR 8.7 trillion to finance working capital of Indonesia's migran workers.[27] Due to limited access to formal loans and stringent requirements, many prospective migrants opt for more expensive and riskier informal financing options, such as relying on family, underground banks, and loan sharks.[28] These alternatives involve extended repayment periods and imposing financial obligations in destination countries.

[26] https://www.kompas.id/baca/ekonomi/2022/11/15/pekerja-masih-menanggung-beban-biaya-penempatan-yang-tinggi
[27] https://www.antaranews.com/berita/2323958/bp2mi-resmi-kan-pelaksanaan-pembebasan-biaya-pekerja-migran-indonesia
[28] https://drive.google.com/file/d/1mDTyHk1cf10wD94WQZuYOn2K0XX2ZR_P/edit

During Migration: Financial Challenges

The informal migration financing utilised by many Indonesian migrant workers results in financial hardship in their destination countries. With high-interest rates from informal financial services, debt repayment often spans years, leading to significant financial obligations.[29] Besides managing debt, many migrant workers lack financial independence as the high costs and unfavourable exchange rates of money transfers and remittances consume their salaries.[30]

According to a study by BP2MI, migrant workers face various severe financial issues, including unpaid salaries, placement fees exceeding government-prescribed structures, unsettled payments with sending agencies, and unpaid working insurance.[31] A recent survey of 1,000 Indonesian migrant workers in Hong Kong revealed that 72 percent of workers considered remittances their main monthly expenditure, particularly among female workers.[32] Those in the informal sector, primarily domestic workers, are more vulnerable[33] due to limited access to formal bank accounts,[34] receiving cash payments from employers, and facing challenges in navigating unfamiliar financial systems.

Migrants in the informal sector, especially women in household industries in destination countries, encounter challenges in digital and financial literacy compounded by language barriers. This situation often forces them to resort to riskier methods for sending remittances, such as using unregulated remittance service providers or depending on employers, fellow migrants, and relatives for assistance. These forms of aid may involve transferring money on their behalf or physically transporting cash back to their country of origin, exposing some migrant workers to underground banking providers[35] and illegal trading.[36]

Post-Migration: Planning Imperatives

Financial management challenges persist beyond the destination countries, extending to the home country where migrant workers and their families often lack financial literacy. Remittances received are poorly managed, resulting in non-productive and unsustainable economic outcomes, undermining the primary goal of migration, which is to improve the economic livelihood of migrant worker households. While some migrant worker households use remittances for productive investment, the overall trend is low. A study on Indonesian and Filipino migrant workers in Hong Kong, titled "The Lives of Migrant Remittances", found that only 5.8 percent use remittances to run businesses.[37] Consequently, remittances often fail to lift families out of poverty and are instead used for consumptive behaviour.[38]

In the return phase, financial issues faced by migrant workers and their households include a lack of financial literacy, hindering economic reintegration. Unsuccessful financial planning can lead to no improvement in economic livelihood, repeated migration, or difficulties in becoming part of the local workforce due to unrecognised skills and lower wages in the local labour market.[39] This situation may disrupt socio-economic stability, leading to a cycle of re-migration. A significant number of returnees also consider seeking overseas employment as an alternative to sustain their livelihood.[40]

Successful economic reintegration for some migrant workers, achieved by establishing local businesses, still faces tangible challenges related to financing for

[29] https://www.google.com/url?q=https://publications.iom.int/books/debt-and-migration-experience-insights-south-east
[30] https://www.kompas.id/baca/humaniora/2023/07/06/remitansi-merupakan-pengeluaran-utama-bagi-kebanyakan-pekerja-migran
[31] https://www.bp2mi.go.id/statistik-detail/data-penempatan-dan-pelindungan-pmi-periode-tahun-2022
[32] https://www.kompas.id/baca/humaniora/2023/07/06/remitansi-merupakan-pengeluaran-utama-bagi-kebanyakan-pekerja-migran
[33] Domestic workers are the majority of jobs for Indonesian migrant workers abroad, representing nearly 50 per cent of the total migrant workers sent abroad for the past three years. See https://www.bp2mi.go.id/statistik-detail/data-penempatan-dan-pelindungan-pmi-periode-tahun-2022
[34] https://www.womensworldbanking.org/insights/from-cash-to-digital-guiding-indonesias-migrant-workers-to-use-digital-wallets
[35] A recent case in Taiwan, at least eight Indonesian migrant workers were exploited by an underground bank operator due to their language weakness and the difficulties of income. See https://www.spa.org.tw/en/node/330
[36] https://www.antaranews.com/berita/3563664/polisi-ungkap-praktik-penipuan-trading-pekerja-migran-indonesia
[37] https://www.kompas.id/baca/english/2023/07/06/en-remitansi-merupakan-pengeluaran-utama-bagi-kebanyakan-pekerja-migran
[38] Similar study
[39] https://theaseanmagazine.asean.org/article/reintegrating-migrant-workers-into-local-job-markets/
[40] https://smeru.or.id/sites/default/files/publication/returnmigration.pdf

business scaling. Even when migrant worker households use remittances and savings to purchase farmland, build businesses, or open shops, these ventures often remain within the informal economic sphere, unable to scale up due to systemic challenges.

In Indonesia, microbusinesses, including the 64.6 million micro, small, and medium enterprises (MSMEs), encounter systemic challenges similar to those faced by other businesses in the country,[41] such as being unregistered and lacking necessary business licences.[42] Female migrant worker returnees face additional obstacles due to gender-insensitive regulations, with financial institutions often requiring spousal permission for loans,[43] adding another layer of difficulty. Consequently, many returning migrant workers find themselves confined to a subsistence economy post-migration due to the compounded complexities of these issues.

Figure 2. Mapping Innovative Financing Mechanism on Labour Migration

Instrument	Objective	Migration Phase	Role	Source of Funding
People's Business Credit for Migrant Workers (KUR PMI)	Pre-migration cost financing	Pre-Migration	Central Government	National Government Bugdet
Collateral-Free Credit	Pre-migration cost financing	Pre-Migration	- State-Owned Banks (National) - Rural Development Banks (BPR/Regional)	Bank funds
Pre-financing from Indonesian Migrant Worker Placement Company (P3MI)	Pre-migration cost financing	Pre-Migration	Private companies	P3MI company bugdet
Crowdfunding	Pre-migration cost financing	Pre-Migration	Financial Technology Companies (e.g., Fintech financial management)	Communities
In-kind support	Migration Ecosystem Empowerment (e.g., Skills Development and Psychosocial Support)	- Pre-Migration - During Migration - Post-Migration	- Private - State-Owned Companies & Banks	CSR
Local Government Programmes	- Pre-migration institutional support - Post-migration reintegration programme support	- Pre-Migration - During Migration (for migrant worker households at home) - Post-Migration	- Local Government - Village Government	- Local Government Budget - Village Fund
BPJAMSOSTEK	Pre- and during migration social protection support	- Pre-Migration - During Migration	- National Government - State-Owned Enterprise	National Government Bugdet

[41] https://dataindonesia.id/industri-perdagangan/detail/berapa-jumlah-umkm-di-indonesia
[42] https://magdalene.co/story/asal-suami-senang-bias-aturan-perbankan-dan-sulitnya-perempuan-punya-usaha/
[43] https://www.womensworldbanking.org/insights/report-womens-economic-empowerment-and-financial-inclusion-in-indonesia/

Financial Services	- Remittance transfer - Investment (Bonds, Gold, Obligation, etc) - Return financial planning	During Migration	- Migrant Workers - Financial Technology Companies - Banks	- Migrant workers remittances - Bank funds - Innovative source (e.g., Diaspora Bonds.)
Zakat, donation, and charity	Migration Ecosystem Empowerment	- Pre-Migration - Post-Migration	Charitable institutions (e.g., BAZNAS, Muhammadiyah, NU, Tzu Chi)	Donations and zakat (faith-based institutions)
Business partnership funds	Post-migration economic reintegration	Post-Migration	Private	Private-sourced (trading)
Revolving loan funds	Post-migration economic reintegration	Post-Migration	- Central Government - Public Service Agency - Rural Banks (BPR/ Regional)	National Government Budget

Source: Author's Compilation

03 Innovative Finance Status, Legal Framework, and Options in Migration

Pre-Migration: Financial Barriers

People's Business Credit for Migrant Workers (KUR PMI)

The People's Business Credit for Migrant Workers (*Kredit Usaha Rakyat untuk Pekerja Migran Indonesia*/KUR PMI) is a government-backed credit financing scheme to assist prospective Indonesian migrant workers in covering pre-departure costs. These costs include certifications, health check-ups, training, passports, visa applications, and departure ticket purchases. Introduced by the Indonesian Government in 2022 through the Coordinating Minister of Economic Affairs Regulation (Permenko Perekonomian) No. 1/2022,[44] KUR PMI offers loans of up to IDR 100 million with a six percent interest rate. This regulation supersedes the previous policy outlined in Permenko Perekonomian No. 8/2019, which set a maximum credit limit of IDR 25 million.[45] The allocated budget for KUR PMI in 2022 is IDR 390 billion.[46]

The fund, operating "without guarantee scheme", is not directly disbursed to prospective migrant workers. Financial Institutions (FIs) receive the fund allocation from the government and establish a partnership agreement with the Indonesian Migrant Worker Placement Company (P3MI). P3MI then manages the funds on behalf of the migrant workers to cover any pre-departure expenses. It is crucial to note that P3MI acts as the fund manager and serves as the "financing guarantor" on behalf of the migrant workers in coordination with the bank.

The proactive financing scheme, KUR PMI, faces challenges in accessibility, cost structure, and distribution efficacy. Limited awareness and information dissemination hinder the program's reach, particularly in Central Java, West Nusa Tenggara, and South Sulawesi, where many individuals lack knowledge about eligibility criteria and application processes. Gender dynamics exacerbate this situation, with female migrant workers facing greater obstacles due to societal expectations and limited exposure to opportunities compared to their male counterparts. Financial institutions struggle to break down migration costs into detailed pre-departure expenses, especially for women, who encounter systemic and societal hurdles in accessing financial resources. The lack of gender-sensitive regulations further compounds these challenges, disadvantaging women in accessing formal bank loans. This underscores the need for more inclusive and equitable financial practices in anticipated government guidelines that recognise and address the specific needs of women in the migration process.

Lastly, financial institutions encounter difficulties in collecting monthly instalments from migrant workers after their departure, mainly due to the absence of branch offices in destination countries. Migrant workers may also face confusion in making direct monthly repayments from abroad instead of through P3MI. Some institutions allow overseas payments, with migrant workers' households as guarantors. However, evidence from Central Java reveals challenges, including overcharging, where migrant workers are double billed directly and by their families at home.

[44] https://peraturan.bpk.go.id/Download/192270/Permenko%20Perekonomian%201%20Tahun%202022.pdf
[45] https://jdihn.go.id/files/900/Permenko%208%20Tahun%202019%20Pedoman%20KUR.pdf
[46] https://nasional.kontan.co.id/news/tingkatkan-perlindungan-pekerja-migran-indonesia-ini-upaya-yang-dilakukan-pemerintah

Collateral-Free Credit for Migrant Workers (KTA PMI)

In addition to KUR PMI, prospective migrant workers can apply for Collateral-Free Credit for Migrant Workers (KTA PMI) from State-Owned Banks (SOBs) and Rural Development Banks to cover pre-departure costs. BP2MI facilitates this program through the Decree of the Head of BP2MI No. 214 of 2021, which outlines the guidelines for exempting PMI placement fees and regulates the financing facilitation for KUR and KTA PMI.[47] The maximum loan amount depends on the regulations of the participating banks. As part of the partnership between BP2MI and Bank Negara Indonesia (BNI), BNI offers KTA PMI for up to IDR 40 million.[48] At the same time, another SOB, Bank Rakyat Indonesia, provides a maximum of IDR 100 million. The interest rate for KTA PMI is relatively higher than KUR PMI's; for example, BNI charges a six percent interest rate.[49] This financing scheme encounters similar challenges to KUR PMI, including difficulties in repayment collection, the absence of financial institution branch offices overseas, and limited awareness among migrant worker communities.

Pre-Financing from Indonesian Migrant Worker Placement Company (P3MI)

Prospective migrant workers can opt for pre-departure financing by applying for overseas jobs facilitated by P3MI. As an official intermediary, P3MI allows advance payment for all pre-departure and placement costs, which migrant workers repay through monthly salary deductions while working abroad. Details of the repayment system and regulation are outlined in the employment contract,[50] requiring careful review by the migrant worker. Legally registered P3MI entities providing placement services must meet specific financial criteria, including a paid-up capital of IDR 5 billion and an IDR 1.5 billion deposit at a State-Owned Bank, as outlined by the Regulation of the Minister of Manpower (Permenaker No. 10/2019) on the procedure of granting permits to P3MI.[51]

While known within prospective migrant worker communities, this funding option poses inherent risks, particularly for low-skilled labourers. The P3MI's successful fund repayment hinges on uninterrupted employment by workers' employers in destination countries, but changes in employment can disrupt this income stream. Migrant workers, especially low-skilled labourers, face challenges, including excessive charges for pre-departure costs and instances where promised job placements are not secured, leading to joblessness abroad.

In-kind Support for Migration Ecosystem Empowerment

Various activities, driven by public-private partnerships (PPPs) through private funding like Corporate Social Responsibility (CSR) and philanthropy projects, aim to strengthen the migration ecosystem at the pre-departure stage. For instance, a partnership between the Ministry of Manpower and Tahir Foundation, the Philanthropic Foundation of Mayapada Group, piloted a project providing capacity building for 5,000 prospective migrant workers in 2018,[52] involving Job Training Centres in Central Java and East Java as the training delivery providers.[53] In Semarang, our study found that the government body, the Women Organisations Partnership Agency (BKOW), initiated psychosocial capacity-building activities funded by BNI, collaborating with P3MI to enhance mental and psychological awareness.

Pre-Migration Local Government Programmes

Local government agencies play a crucial role in incentivising schemes for government-issued administration and document fees for migrant worker applicants, including passport application costs and certifications. Article 2(1) of the Minister of Law and Human Rights Regulation (Permenkumham) No. 9/2022 on Terms and Conditions for Zero Rupiah and Zero American Dollars Immigration Services exempts first-time Indonesian workers abroad from any costs associated with the passport

[47] https://vkz9zw.bn.files.1drv.com/y4mRoJbOmuo-sYBrC5b-03zgIL6Den2RwgnMAzl5XdV4AyQAgmqmtGcIzhzo7eoDlHK-Uy_jSvLcPZePBgzPLhkQSeIDBMBSIOvtsi3poTBRM7RcoLBHEsuehuDoTwQrlmjSDWJ_jcSQwJWQgZwK0LNo2TRzhe3V5XhG-sabqP3QVVlrAP2XCoI-Q7H9rEdVJDy9MPH9kMVikh5_jdseXEwXpA/KEPKA-BP2MI-214-2021.pdf?download&psid=1

[48] https://validnews.id/nasional/negara-beri-pinjaman-bagi-tki

[49] https://ekonomi.bisnis.com/read/20221010/12/1586023/kredit-tanpa-agunan-para-pekerja-migran-dari-bank-bni-macet-ini-langkah-bp2mi

[50] https://bp2mi.go.id/berita-detail/skema-potong-gaji-untuk-biaya-penempatan-pekerja-migran

[51] https://peraturan.bpk.go.id/Home/Details/145264/permenaker-no-10-tahun-2019

[52] https://ppsdm.kemnaker.go.id/berita-kemnaker/kemnaker-tahir-foundation-kerja-sama-tingkatkan-kompetensi-calon-pekerja-migran-indonesia/

[53] https://jatengprov.go.id/publik/jateng-pilot-project-peningkatan-kompetensi-calon-pekerja-migran/

application.[54] The regulation is reinforced by Immigration Director-General Circular Letter (SE) No. IMI-GR.01.01-0252 outlining the Procedure for Applying for a Zero Rupiah Passport for Prospective Migrant Workers.[55]

In support of these efforts, the Semarang municipal government in Semarang can issue an endorsement letter to regional immigration authorities on behalf of prospective migrant workers. This letter verifies their eligibility and assists in covering expenses related to obtaining a zero-cost passport application. Some provinces, like East Java, allocate budgets to equip prospective migrant workers with necessary certifications before departure. In 2021, East Java Province allocated IDR 7.9 billion through ten local vocational training centres (*Balai Latihan Kerja*/BLK) to facilitate training and address issues for 1,500 prospective migrant workers.[56]

Fintech-enabled Sources

Migrant workers can leverage financial technology (Fintech) applications to crowd-fund their migration and systematically plan their finances. In crowdfunding, potential migrant workers can build a compelling case within their social network and seek resources through platforms like Kitabisa.com, a website dedicated to donations, fundraising campaigns, and social initiatives.

They must provide a detailed financial breakdown related to their funding objectives. Instances on this platform show successful fundraising for social causes, including education[57] and empowerment[58] programs for survivors of trafficking in persons (TIPs). Upon reaching their financial target, aspiring migrant workers can use financial planning applications to monitor and manage their income and expenditures, enhancing their financial literacy throughout their migration journey.

Case Study

Kitabisa.com has been utilised to crowdfund migration-related issues in Indonesia. Amidst the COVID-19 pandemic, the Koalisi Buruh Migran Berdaulat fundraised IDR 9.4 million to assist migrant deportees affected by the border closure in Malaysia. The funds were used for basic provisions and medications.[59]

Faith-based Finance

Indonesia, recognised as the world's most generous nation according to the 2023 World Giving Report by the Charities Aid Foundation, has consistently ranked in the top ten since 2016, often securing the top spot. This notable achievement is fuelled by remarkable growth in charitable activities, evident in the increasing number of institutions dedicated to aiding others. These include various religious organisations and family foundations, such as zakat, infaq, alms, tithes, collections, punia funds, and dharma funds, showcasing significant potential for impact. While the mobilisation of faith-based funds for migration issues in Indonesia has been limited, BAZNAS, a government-based Indonesian zakat institution that collects zakat, infaq/sadaqah, and other social funds (CSR) for poverty alleviation, has announced the possibility of mobilising their social funds to address social issues in the migration context,[60] including the pre-migration phase.

Social Security Protection for Indonesian Workers (BPJAMSOSTEK)

Given the significant number of Indonesian migrants working abroad, Indonesia may consider offering free or pre-subscription to social protection for workers, particularly those embarking on overseas employment for the first time. This complimentary subscription could be provided during a specific period leading up to their departure and after they arrive in the destination countries, continuing until their financial situation stabilises enough for them to commence regular or retroactive subscription payments. This approach aims to decrease the chances of irregular migration and boost the overall rate of social protection membership among the population.

[54] https://peraturan.bpk.go.id/Details/174002/permenkumham-no-9-tahun-2020
[55] https://www.antaranews.com/berita/3705504/kanwilkumham-jatim-permudah-persyaratan-paspor-pmi
[56]https://www.medcom.id/nasional/daerah/ObzZaVeb-ja-tim-siapkan-dana-pelatihan-dan-sertifikasi-tenaga-kerja-migran
[57] https://kitabisa.com/campaign/rumahedukasitppo
[58] https://kitabisa.com/campaign/bantupmihk/story
[59] https://kitabisa.com/campaign/lindungiburuhmigran/story
[60] https://tv.republika.co.id/berita/video/berita/18/04/20/p7fvrv216-zakat-bisa-untuk-advokasi-pekerja-migran-indonesia?

During Migration

Remittance Transfer Services

In managing their income or remitting earnings in their destination countries, migrant workers often choose less risky and safer financial services. For example, unbankable migrant workers working in the informal sector often use conventional (offline) Western Union services at nearby agents[61] or opt for digital platforms such as Wise, Paypal, and Skrill. These digital options allow the sender to open an account without needing a valid work permit or registration in the sender's country. Additionally, Indonesian financial technology (Fintech) companies, including DOKU, Finpay, and Maripay, have disrupted traditional banking by offering innovative financial solutions to overseas migrants facing barriers in performing financial transactions.

DOKU and Finpay assist Indonesian migrant workers overseas in remitting money to their home country. Workers can visit DOKU's remittance partners located in their destination countries, specify the desired transfer amount, and designate DOKU e-Wallet as the recipient account for the funds. To receive the funds, the families of migrant workers visit the nearest Alfa Group outlet and withdraw the cash remittance as needed. DOKU remittance partners exist in Hong Kong, Malaysia, Singapore, and South Korea.[62]

Similarly, Maripay, a mobile application based on Electronic Wallet Service developed by PT Telkom Indonesia (Persero) Tbk (Telkom), PT Finnet Indonesia (Finnet) with Suis Digital and Mpay,[63] focuses on supporting payment transactions, purchases, and money transfers from Malaysia to Indonesia for Indonesian migrant workers. By utilising these options, migration workers minimise the involvement of middlemen that may pose risks to the sender's money.

Case Study

In Cambodia, the National Bank introduced the Bakong App in October 2020. Initiated by the National Bank of Cambodia (NBC), this e-wallet platform aims to replace traditional databases with blockchain technology. It enables customers to execute real-time fund transfers across participating member banks and micro-finance institutions (MFIs) nationwide, accepting USD and KHR currencies.[64] Bakong's primary focus is to facilitate overseas migrant workers in sending money to their unbanked families[65] through local partner banks, such as Maybank.[66] In the Philippines, WorldRemit pioneered digital money remittance services, offering customers the convenience of sending money abroad via its website or mobile app. Migrants can transfer funds to WorldRemit's bank account. To ensure swift and effortless delivery of funds across the Philippines, WorldRemit collaborates with a network of local partners. Funds can be transferred to local e-Wallets, such as GCash, Maya, GrabPay or ShopeePay, or recipients can pick up cash at designated pickup locations.

Investment Opportunities

For higher-skilled migrants, with their relatively higher earnings, formal employment status, and elevated educational levels, there are broader opportunities for financial management compared to those in the informal economy. This group is typically not burdened by debts and repayment obligations during migration. In addition to conventional remittance practices, higher-skilled migrants may explore avenues such as investing in digital gold, opening deposit accounts, and exploring retail-based investment options like Government Securities (SBN), State Sharia Securities (SBSN or Sukuk), and State Retail Bonds (ORI), depending on their income and savings capacity. Higher-skilled and higher-income migrants are also potential investors in the Diaspora Bond introduced in 2020. This initiative aimed to mobilise development financing with a minimum investment of IDR 5 million for a three year maturity period at a fixed interest rate of six percent.[67] However, the scheme faced challenges as the Ministry of Finance observed a higher interest among the Indonesian diaspora in real estate investments rather than

[61] Transfer fee of Western Union depends on the senders' location.
[62] https://fintech.id/storage/files/shares/File/Handbook%20Fintech%20-%20Keuangan%20Pribadi.pdf
[63] https://www.telkom.co.id/sites/wholesale/en_US/news/mari-pay,-digital-solution-to-facilitate-indonesian-migrant-workers'-financial-transactions-in-malaysia-1817
[64] https://www.cpbebank.com/Banking/Online-Banking/Bakong-e-Wallet
[65] https://www.voacambodia.com/a/cambodia-aims-hybrid-digital-currency-on-blockchain-at-unbanked/6364852.html
[66] https://www.maybank2u.com.my/maybank2u/malaysia/en/personal/s-ervices/funds_transfer/overseas/maybank-bakong_transfer.page
[67] https://www.kompas.id/baca/ekonomi/2020/06/05/rilis-november-2020-diaspora-bond-tawarkan-imbal-hasil-6-7-persen/

financial instruments.[68] Additionally, the low participation rate, with only 1,300 people holding diaspora cards (KMILN) or 0.016 percent of the estimated 8 million population,[69] concluded that the scheme was not considered feasible.

Local Government Programmes (for Migrant Worker Household Members in Their Home Country)

Conditional Cash Transfer Programme (*Program Keluarga Harapan*/PKH) extends eligibility to family members of migrant workers residing in their home country. To qualify, these family members must be officially recognised as citizens living below the poverty threshold prior to the departure of the migrant worker. The programme includes support for educational expenses of children attending public schools, healthcare coverage for young children and expectant mothers, and a social welfare fund to assist elderly and disabled family members.

Figure 3. PKH Programme Components[70]

Education	Health	Social Welfare
From IDR 900,000 to IDR 2 million annually, depending on education level.	- Pregnant Mother (IDR 3 million/year) - Infants (IDR 3 million/year)	Elderly and persons with disability (IDR 2.4 million per year)

Source: Author's Compilation

Financing Opportunities for Return

Migrant workers in destination countries can proactively prepare for their return home by exploring various financial options to establish sustainable livelihoods. One promising avenue is People-to-People (P2P) lending, available through multiple Financial Technology (Fintech) services, which offers a more accessible and affordable way of raising capital. These fintech solutions simplify money management and transfer processes, which is particularly beneficial for those typically underserved by traditional banking systems.

Innovations like mobile apps for easy money transfers and prepaid debit cards for direct deposits have revolutionised remittances, reduced costs, and streamlined transactions. P2P lending platforms further enhance this by providing faster loan approvals, competitive interest rates, and the elimination of intermediaries, making finance more accessible for setting up local businesses upon their return.

Case Study

For example, Investree offers an online application process where the platform analyses, approves, and facilitates funding mobilisation from lenders, offering an interest rate starting from 12 percent per annum.[71] Another P2P lending option, Amartha, requires migrants to form groups of 15-25 members in their villages, led by male household heads as the main funding applicants. Amartha analyses, grants funding, and conducts weekly meetings to monitor business progress,[72] with loans starting from IDR 3 million and lasting up to 50 weeks. KoinWorks, a different P2P lending service, allows borrowers to apply for loans of up to IDR 2 billion with a maximum loan duration of two years.[73]

[68] https://www.diasporaindonesia.org/news/potensi-diaspora-sebagai-investor-instrumen-keuangan-indonesia
[69] https://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=web&c-d=&cad=rja&uact=8&ved=0CDgQw7AJahcKEwioscGkoeiAAxUAAAAAHQAAAAAQAg&url=https%3A%2F%2Fopus.bsz-bw.de%2Fifa%2Ffiles%2F56%2FECP_Monitor_Indonesia_Country_Report.pdf&psig=AOvVaw3DCYH_nlpM_03_ego5gQPC&ust=1692518578050036&opi=89978449
[70] https://beritadiy.pikiran-rakyat.com/ekonomi/pr-706696745/k-lik-link-cek-data-penerima-pkh-2023-cekbansoskemensosgoid-bantuan-rp-750-ribu-cair-ke-pemilik-ktp-ini?page=3
[71] https://investree.id/loan/
[72] https://amartha.com/personal/pinjaman-kelompok/
[73] https://koinworks.com/pinjaman-modal-usaha-koinbisnis/?&frm_page=1

Post-Migration

Financing Opportunities for Return

Leveraging Corporate Social Responsibility (CSR) project funding, various initiatives aimed at empowering the post-migration phase are being executed through the Public-Private Partnership (PPP) model. As part of fortifying the entire migration ecosystem and fostering resilience among migrant returnees during the reintegration phase, BNI allocated a CSR fund of IDR 5 billion to support education for migrant workers' children, enhance the skills of returning migrant workers, and implement business assistance programmes in West Java, the third largest province for migrant worker deployments.[74]

Case Study

In Indramayu Regency, CSR funds from State-Owned Enterprises (SOEs) PT PLN Nusantara Power and PT Pertamina have enabled the local government to provide women returnees with entrepreneurship training, mentoring, and access to capital through West Java Bank of Bank Jabar.[75] West Nusa Tenggara has mobilised CSR funding from PT Pegadaian, a state-owned pawnbroker under Bank Rakyat Indonesia, to offer equipment capital to migrant returnees to establish local businesses.[76] Additionally, in West Java, Central Java, and East Java, a prominent Indonesian Big Tech e-Commerce entity has supported financing opportunities for the empowerment of migrant returnees in a project titled "*Berkembang bersama Tokopedia: Recover Together, Empower for Better!* (Growing with Tokopedia: Recover Together, Empower for Better!)". The initiative focuses on facilitating the digital onboarding of MSMEs products from women migrant returnees.[77]

Local Government Programmes

Several local governments in Indonesia have earmarked budgets to bolster post-migration empowerment programmes and facilitate reintegration. Examples include DI Yogyakarta Province, which allocated IDR 321.7 million in 2022,[78] West Nusa Tenggara with IDR 114.6 million in 2022,[79] Central Java allocating IDR 239 million in 2022,[80] and South Sulawesi designating IDR 627 million in 2023.[81] These budget allocations are consistently utilised for implementing economic resilience activities to support migrant returnees, enabling them to become local entrepreneurs in their villages. Additionally, the funds contribute to assisting migrant workers who are victims of violence. Some regional authorities, like South Sulawesi Province, have specifically directed financial resources to facilitate the immediate reintegration of migrant workers facing life-threatening situations while abroad. This government funding is part of unexpected expenditures (*Belanja Tak Terduga*/BTT) that address emergencies and critical matters.

Zakat, Donation, and Charity

The national government has initiated discussions and collaboration with BAZNAS regarding the potential establishment of BAZNAS Zakat Collection Units (UPZ) in foreign countries where Indonesian Migrant Workers (PMI) are primarily employed. Creating UPZ units in these overseas locations aims to streamline the process for PMIs to contribute to charitable causes benefitting their home communities and families. These contributions will support various initiatives, including educating the children left behind, safeguarding PMIs' overseas communities, and fostering economic empowerment.[82]

Business Partnership Fund

Financing for migrant returnees can be facilitated through partnerships with larger companies, where they produce local community goods. This approach is feasible when returnees own or acquire arable land in their hometown, suitable for cultivating commodities in demand by corporate partners. In Central Java, Japfa Comfeed, a leading business group in agrifood and poultry, collaborated with a migrant worker to establish a poultry farm, with the company itself acquiring the farm's produce. Similarly, in the agricultural sector, migrant returnees can engage as partner farmers with PT Sido Muncul,

[74] https://www.bni.co.id/id-id/beranda/kabar-bni/berita/articleid/20659
[75] https://www.fokuspantura.com/csr-pjb-ujb-o-m-pltu-indramayu-konsen-program-peri/
https://garuda.kemdikbud.go.id/documents/detail/2836707
[76] https://www.bp2mi.go.id/berita-detail/upt-bp2mi-wilayah-ntb-gelar-rapat-tindak-lanjut-pelatihan-kewirausahaan-dengan-para-stakeholder
[77] https://akurat.co/tokopedia-migrant-care-luncurkan-program-dorong-ekonomi-digital-perempuan-purna-migran
[78] https://nakertrans.jogjaprov.go.id/website/wp-content/uploads/2023/03/Renja-2022-Disnakertrans-DIY.pdf
[79] https://disnakertrans.ntbprov.go.id/wp-content/uploads/2021/08/RENJA-2022-GABUNG.pdf
[80] https://disnakertrans.jatengprov.go.id/assets/upload/informasi/05_2022/292c3a623478638051050b7d7721e21c.pdf
[81] http://bappelitbangda.sulselprov.go.id/content/uploads/Rencana_Kerja_Pemerintah_Daerah_Provinsi_Sulawesi_Selatan_Tahun_2023.pdf
[82] https://bp2mi.go.id/berita-detail/bp2mi-dan-baznas-berkolaborasi-beri-kemudahan-untuk-pmi

an Indonesian herbal medicine and food products company in Semarang, cultivating commodities essential for Sido Muncul's herbal products like cardamom, ginger, and *lempuyang* (fragrant ginger).

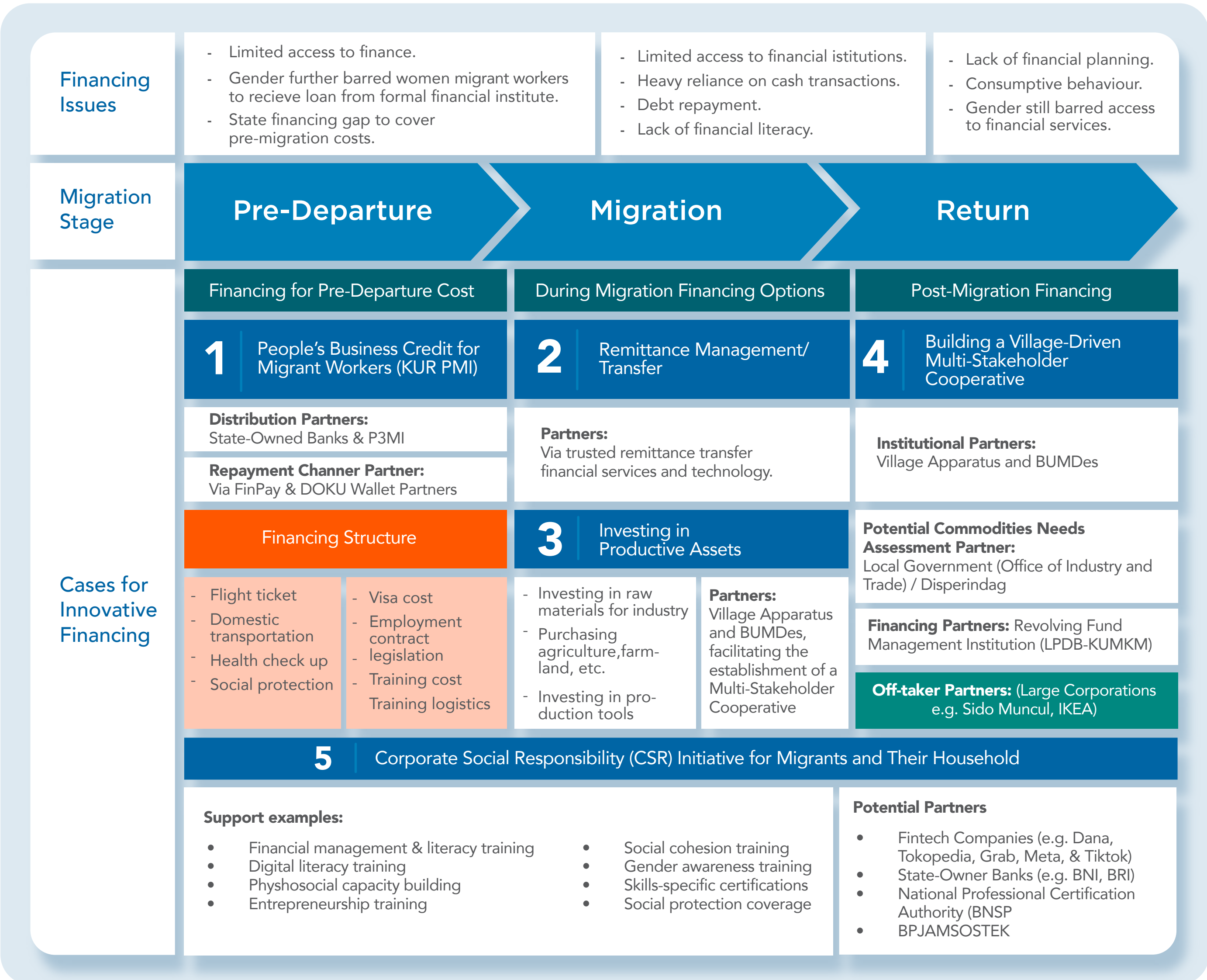
Case Study

In Central Java, groups of Sido Muncul partner farmers, including Subur Agung Sejahtera and Kridoyuwono Farmers Group, secured purchase orders ranging from IDR 100 million to IDR 350 million for cardamom, ginger, and *lempuyang*.[83]

Revolving Loan Funds

Migrant returnees can access financing from the Revolving Fund Management Institution (LPDB-KUMKM) by establishing a local production-based cooperative in their home villages. Establishing a cooperative allows for more extensive economic activities and production size compared to individual or family-sized businesses upon their return. To apply for financing, migrant workers must meet the cooperative requirement and submit an e-proposal. LPDB-KUKM will assess the business' feasibility, capacity, and risks before granting financing. LPDB-KUKM offers two rates for retail financing: conventional and sharia. The maximum interest rate for conventional loans is eight percent per annum, while the Sharia rate is based on a 70:30 profit-sharing ratio.[84] In addition to providing financial capital, LPDB-KUKM offers entrepreneurship capacity-building activities, including mentorship for cooperative managers and business incubation, to support business development, scaling up, and sustainability.[85]

Figure 4. Proposal for an Overarching Innovative Financing Scheme



[83] https://money.kompas.com/read/2023/09/29/131349726/sido-muncul-serahkan-po-senilai-rp-450-juta-kepada-poktan-kapulaga-dan-kunyit
[84] https://inkubator.lpdb.id/?sfwd-courses=pengajuan-dana-bergulir
[85] https://www.lpdb.id/

04 Innovative Migration Financing Models

This feasibility study focuses on exploring innovative financing methods to address migration challenges in Indonesia. It involves formulating financing schemes and presenting relevant case studies. The primary goal is to ensure that proposed financing mechanisms enhance the socioeconomic well-being of migrants and their families throughout the migration process. Simultaneously, the study aims to uplift migrant households and their communities toward a more prosperous and sustainable future.

As illustrated in Figure 4, our study introduces a comprehensive approach to innovative financing solutions, covering every phase of the migration cycle and considering both migrants and the families they leave behind. While migration is an individual choice, this proposal adopts a holistic community-focused strategy, extending the positive impacts of migration to benefit surrounding villages and communities. Therefore, a pivotal aspect of this proposal involves adopting a multi-stakeholder approach, which plays a crucial role in the success of this innovative financing solution.

What distinguishes this scheme in terms of innovation?

As previously outlined in Section 1, innovative finance involves resource mobilisation from the public and private sectors. In this proposal, innovation lies in two distinct financing methods: (1) fund mobilisation and (2) incentivisation through subsidies provided by public and private entities. Additionally, our proposal explores inventive ways to formalise financial services for wealth management, remittances, and transactions for migrant workers in destination countries. This approach aims to reduce the risks associated with underground banking. By combining these methods, the financing scheme seeks to attract capital to address socioeconomic challenges stemming from migration across all levels.

People's Business Credit for Migrant Workers (KUR PMI)

As highlighted in earlier sections, migrants must cover pre-departure expenses (as depicted in Figure 1) before commencing their overseas journeys. The specific amount of these costs borne by migrants varies based on the job type and chosen destination country. Economic hardships force many Indonesian migrant workers to embark on their journeys without sufficient savings for these pre-departure expenditures.

The Government introduced the KUR PMI programme to address this, offering financial support of up to IDR 100 million with a modest 6 percent interest rate. However, this initiative does not align with the intention of the "no-cost policy" in Law No. 18/2017. Challenges arose, especially regarding collecting monthly instalments due to the limited availability of overseas bank representative offices.

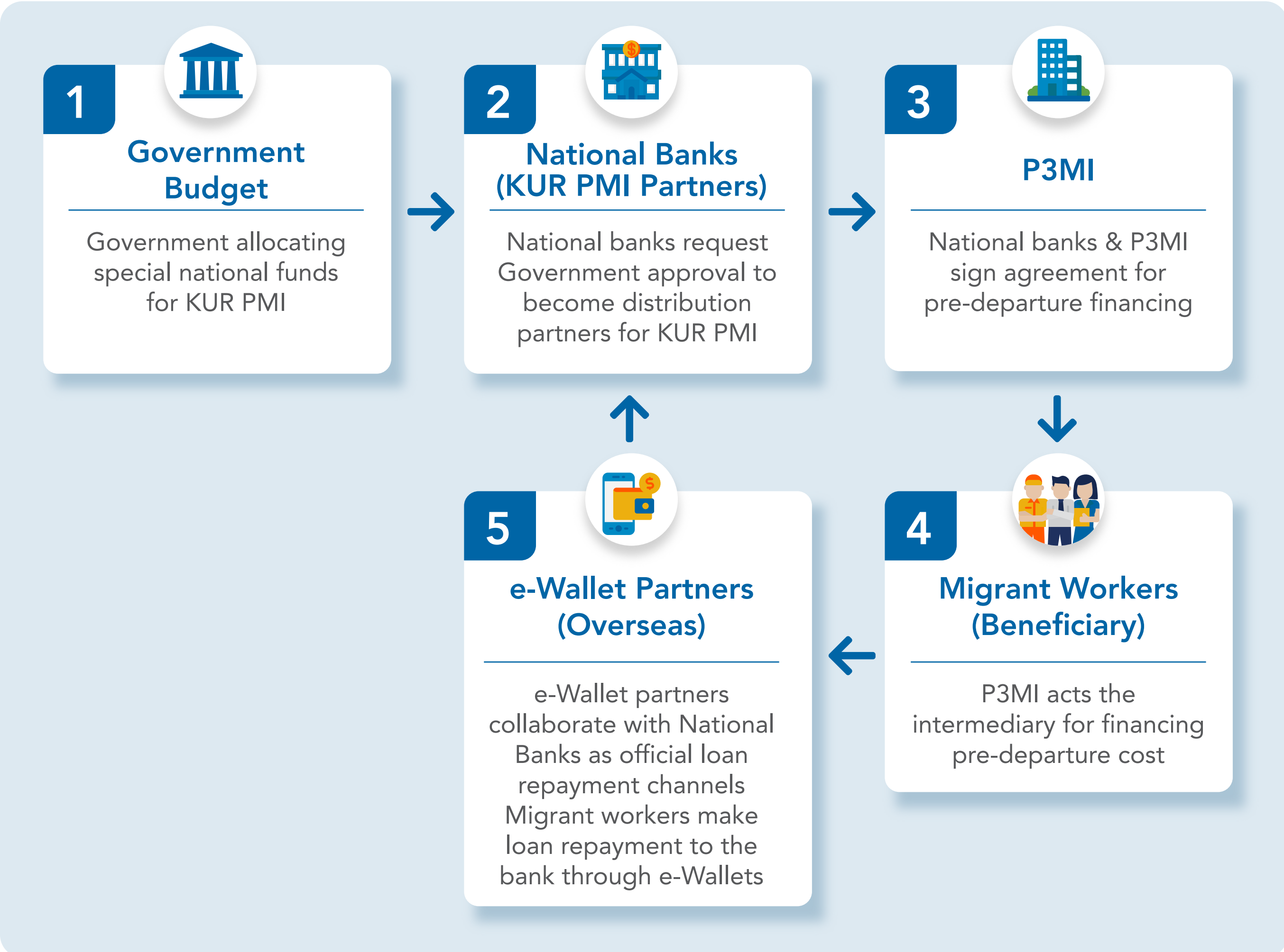
An innovative solution to tackle these issues could involve National Banks collaborating with KUR PMI to explore options for extended repayment tenure, easing financial burdens for migrant workers abroad. However, this might result in higher interest rates for conven- tional banks, necessitating a modification of the KUR's financial structure to enable an affordable profit-sharing mechanism. Additionally, collecting migrants' monthly instalments could be streamlined by collaborating with third-party digital financial services, specifically e-Wallet providers. Migrants could securely deposit earnings through e-Wallet's re-mittance partners overseas, allowing convenient in-app payments directly to the bank. This scheme involves P3MI as an intermediary facilitating fund disbursement between the bank and migrant workers.[86]

[86] Moreover, it is essential to recognise the challenges encountered by certain migrant worker communities, particularly their high rates of non-performing loans (NPLs). This predicament further complicates efforts to encourage banks to explore alternative approaches for streamlining the KUR PMI process.

Insight Box

DOKU Wallet has forged remittance partnerships in four Asian countries (namely Hong Kong, Taiwan, Malaysia, and Singapore), while FinPay's remittance network extends across seven countries (Japan, Taiwan, Malaysia, South Korea, Saudi Arabia, East Timor, and Hong Kong). This approach enables migrant workers within the service coverage areas to conveniently carry out transactions.

Figure 5. Pre-Departure Financing Flow using KUR PMI and Partnering with e-Wallet Companies



Remittance Management/Transfer

Migrant workers can efficiently manage their finances and conduct various financial transactions, including remittance transfers, through a range of reputable financial services—both traditional and digital—during their migration. The key objective to move away from informal financial channels is to mitigate risks associated with underground banking services.[87]

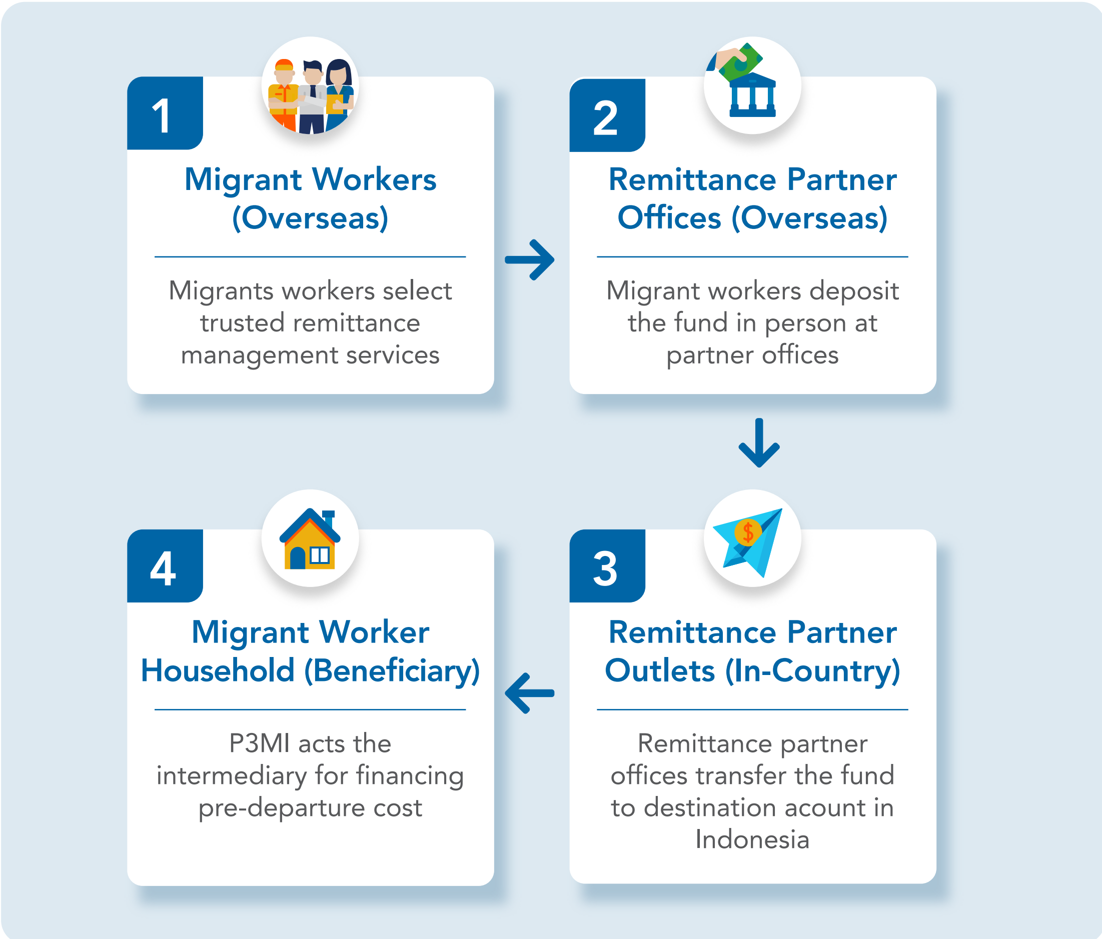
To facilitate this transition, migrant workers may physically visit the offices of remittance partners affiliated with selected financial service providers in their respective destination countries to initiate money transfers. Subsequently, recipients, including migrant worker households and their families, can conveniently access the transferred funds by visiting nearby fund withdrawal outlets, ensuring a smooth cash-out transaction.

[87] As the adoption of e-Wallets by migrant worker communities generally becomes more prevalent, it is crucial for service providers to emphasize both socialization and financial literacy education regarding the use of digital financial services. This educational push is essential to ensure that migrants can fully transition from traditional banking methods to these more innovative solutions, thereby maximizing their benefits and utility.

Insight Box

When using the DOKU e-Wallet, migrant workers can choose to visit established remittance partner locations in various destination countries, such as Hong Kong, Malaysia, Singapore, and South Korea. They have the flexibility to designate their DOKU e-Wallet as the destination account for these transfers. Subsequently, migrant worker households in their home country can withdraw the transferred funds by visiting the nearest Alfa Group outlet for a smooth cash-out transaction.

Figure 6. Financing Flow for Remittance Transfer through Trusted Financial Services



Investing in Productive Assets

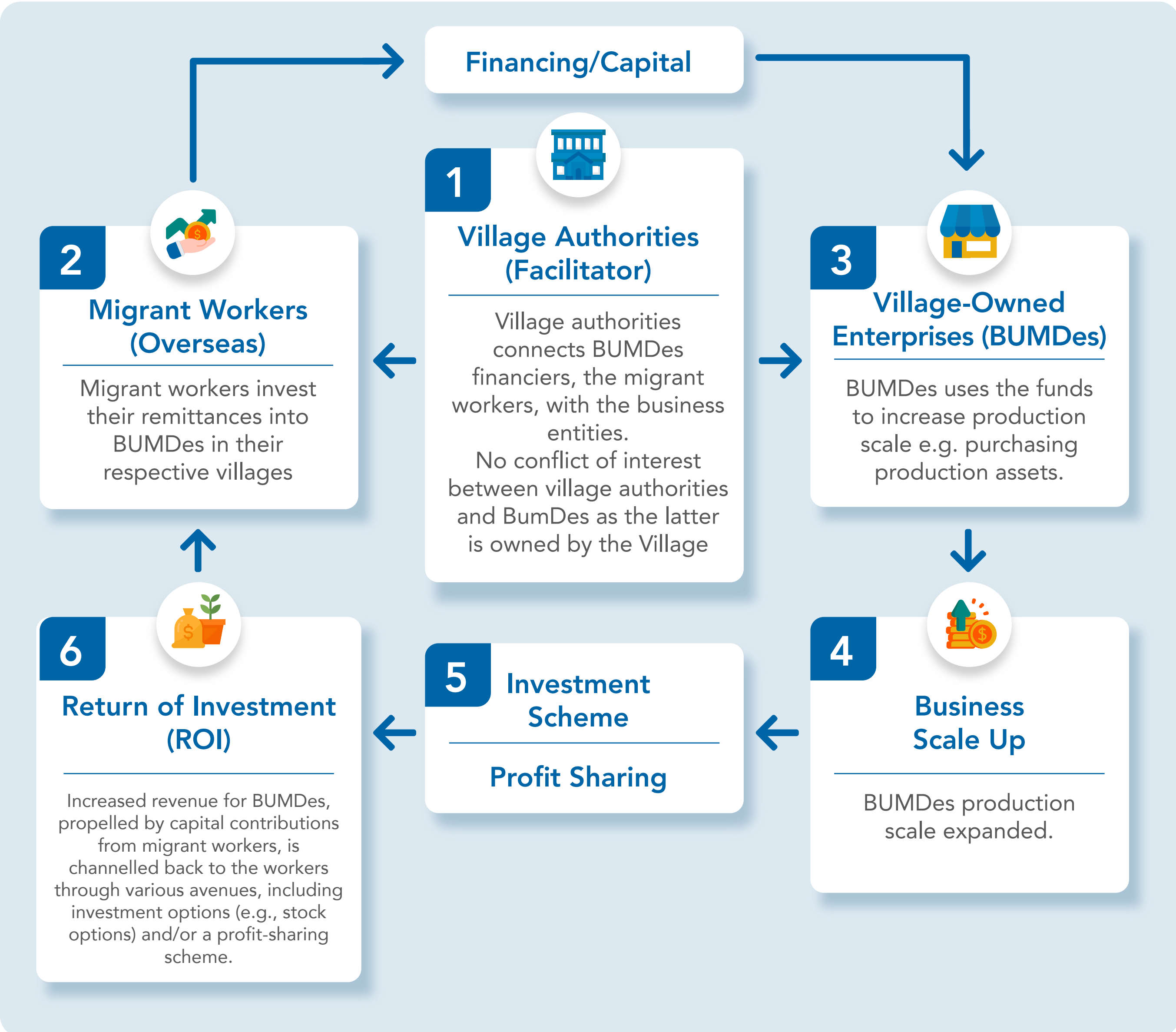
Migrant workers abroad manage daily expenses and focus on securing savings and planning for their future return. Long-term financial planning is internal to their journey, and local authorities in villages that contribute a significant number of migrant labourers overseas can play a pivotal role in supporting their financial well-being. This involves facilitating strategic investment activities at the village level.

As intermediaries, local authorities can guide migrant workers in investing in essential business operations and development initiatives based on the potential commodities managed by existing Village-Owned Enterprises (*Badan Usaha Milik Desa*/BUMDes). The funds from migrant workers serve as capital for these businesses to expand. As these BumDes businesses grow, they can establish a revenue-sharing scheme for financiers through investment options or profit-sharing arrangements. This approach ensures that the scalability and empowerment resulting from the business's growth benefit all stakeholders in the village, fostering universal and inclusive development.

Insight Box

BUMDes *Serang Mandiri Sejahtera*, located in Serang Village, Purbalingga, Central Java, has shown remarkable business expansion in tourism, agriculture, and microfinance. Leveraging the economic potential of residents, the enterprise has generated nearly IDR 4 billion in revenue. Noteworthy is the 2020 achievement, where the sale of BUMDes shares was exclusively offered to Serang Village residents, exemplifying a community-driven model for business growth.[88]

Figure 7. Investment Scheme Facilitated by Villages Authorities through BUMDes



[88] https://www.purbalinggakab.go.id/info/bumdes-serang-raih-pendapatan-rp-4-miliar/

Building a Multistakeholder Cooperative (MSC)

The Village Government plays a pivotal role in facilitating the economic reintegration of Indonesian migrant workers returning from overseas, particularly in preventing their inclination towards re-migration due to limited prospects for livelihoods and insufficient income upon their return. This phase is closely linked to the aforementioned Point No. 3, signifying a transition for migrants from being investors abroad to becoming integral contributors to local businesses upon their return. In this context, Village Governments can leverage existing economic potentials within their respective villages, specifically by fostering the growth and industrialisation of locally-driven enterprises. This transformation presents an opportunity for returning migrant workers to actively participate in the local economy actively, thereby empowering themselves and giving rise to the concept of a Multistakeholder Cooperative (MSC). The MSC is governed by Minister of Cooperatives and SMEs Regulation (PermenKopUKM) No. 81/2021, which outlines a cooperative model employing a multistakeholder approach. This approach recognises and integrates diverse roles of cooperative members within a single business unit. The development of MSCs empowers villages to advance the industrialisation of their goods and resources specific to each village. This strategic initiative enhances economic opportunities and contributes to sustainable community development.

Insight Box

To instil entrepreneurial skills from an early age, the Indonesian Government launched the *"Pergi Migran Pulang Juragan"* campaign,[89] designed to transition migrants into entrepreneurs. In line with this initiative, local governments have allocated resources to entrepreneurship training programmes. For instance, in 2021, the Yogyakarta Government earmarked IDR 321 million to offer targeted entrepreneurship training for returning migrant workers.[90] Looking ahead, it is essential to ensure that the businesses pursued by these returning migrants are viable and sustainable in the long term.[91]

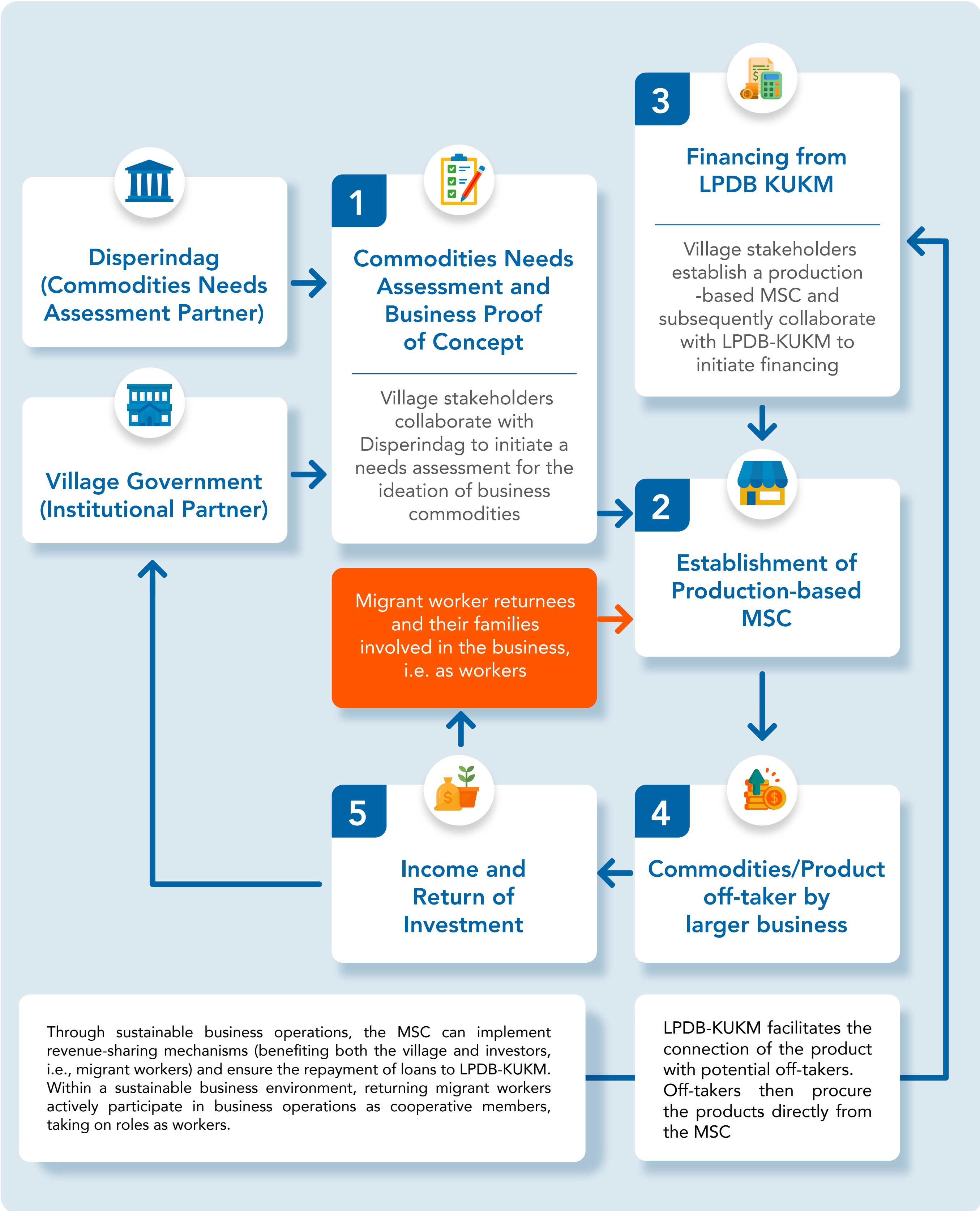
To enhance the overall goal of promoting entrepreneurship in this demographic, village authorities must conduct a thorough needs assessment of potential commodities before establishing the MSC. This assessment helps create a priority list of commodities, identify market demands, estimate supply scales, highlight unique selling points (USPs), and ascertain business feasibility. During this study, collaborating with the Local Office of Industry and Trade (Disperindag) is essential for financial, institutional, and knowledge support.

Upon confirming the business's feasibility, Village Authorities and BUMDes (Village-Owned Enterprises) should establish a production-based cooperative using the MSC model. This approach ensures the distribution of ownership and control among various membership classes, fostering the development of the social economy within the village, including consumers, producers, workers, volunteers, and community supporters.[92]

Once established, the cooperative can seek financing from LPDB-KUKM to launch and scale up the business. LPDB-KUKM assesses capacity and risk, allocating financing based on conventional or Sharia principles. Additionally, LPDB-KUKM facilitates connections with potential off-takers to integrate commodities into a broader supply chain. This system enables returning migrant workers and their families, initially served as investors abroad, to transition into roles as workers in the business.

[89] https://www.bp2mi.go.id/berita-detail/lepas-83-pekerja-migran-indonesia-ke-korsel-bp2mi-yakni-semuanya-jadi-juragan
[90] https://nakertrans.jogjaprov.go.id/website/wp-content/uploads/2023/03/Renja-2022-Disnakertrans-DIY.pdf
[91] https://ukmindonesia.id/baca-deskripsi-posts/menja-di-bisnis-lestari-untuk-lebih-tahan-banting-lawan-pandemi-perkenalkan-tools-gusti
[92] Permenkop UKM No. 8 Tahun 2021

Figure 8. Innovative Financial Solutions on Building Production-Based MSC



Corporate Social Responsibility (CSR) Initiatives for Migrants and Their Households

To fully unlock the positive impact of migration, innovative financial solutions should go beyond addressing the financial needs and management of migrants at each stage of migration. The focus should extend to developing the entire migration ecosystem, leveraging public and private funds to foster a conducive environment for safe, orderly, and regular migration. The primary beneficiaries are the migrants, with their households and families as secondary beneficiaries. The scope of CSR support activities is broad, contributing to positive changes in the migration ecosystem, particularly during the 'pre-departure' and 'during migration' stages.

A substantial part of CSR initiatives, funded by both public and private sectors, aims at capacity-building for migrants and their families. This includes improving financial and digital literacy, addressing psychosocial concerns, fostering entrepreneurship, promoting social cohesion, and raising awareness about gender-related issues. Government agencies play a crucial role in facilitating such initiatives. Notable examples include Bank Rakyat Indonesia (BRI), which, in partnership with the Financial Services Authority (OJK), conducts entrepreneurship and financial literacy programs for migrants and their families in Malang. Bank Central Asia (BCA) utilised CSR funds to provide financial education to migrant households in Cirebon, Indramayu, and Sukabumi. Additionally, CSR support can manifest as incentives or subsidies for migrants. Proposed ideas include potential exemptions or reductions in social protection costs provided by BP JAMSOSTEK and offering free course certifications by BNSP for first-time migrant workers.

Figure 9. Financial Flow for CSR-funded Capacity-Building to Migrants and Their Households

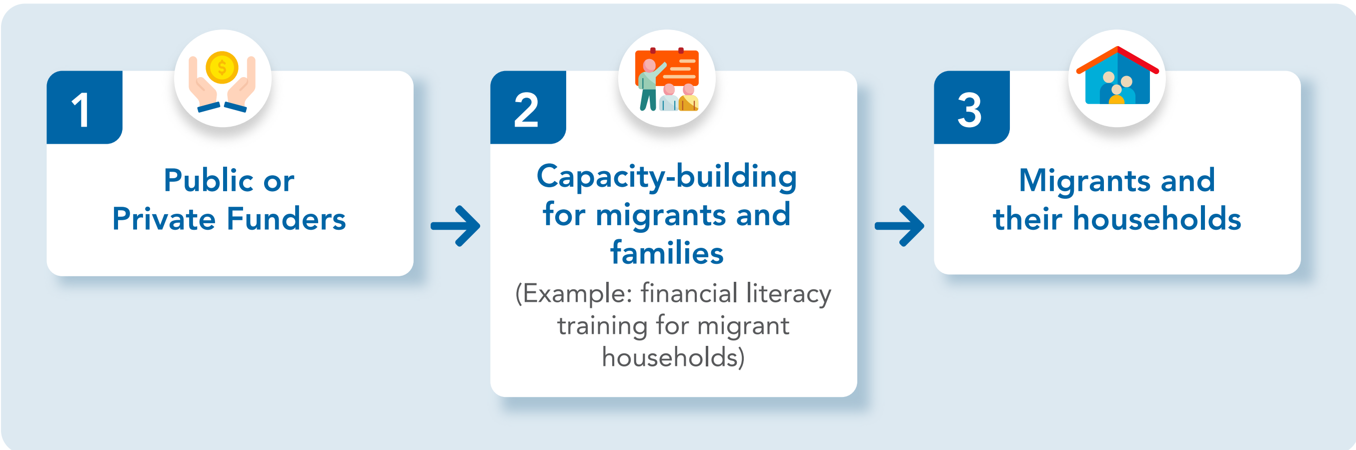
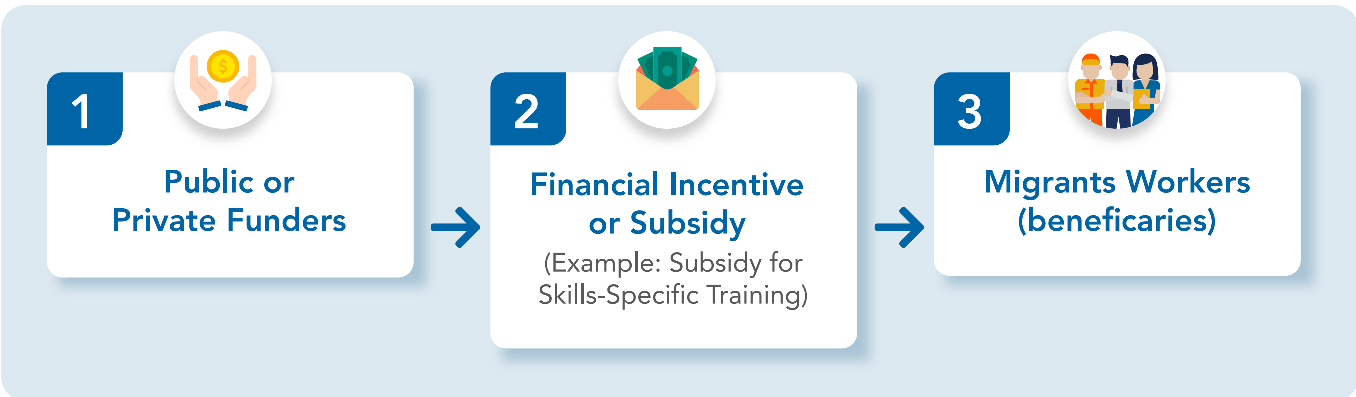


Figure 10. Financial flow for Incentive in-kind Support to Migrants and their Households



[93] https://biz.kompas.com/read/2018/12/18/190547228/brincuba-tor-optimalkan-literasi-keuangan-umkm-dan-keluarga-migran
[94] https://wartaekonomi.co.id/read102449/-umkm-bakal-mandek-bila-tak-diimbangi-literasi-keuangan-3

05 Conclusion and Recommendations

This feasibility study critically assesses the landscape of innovative financial solutions for migration in Indonesia, aiming to propose schemes that address migration-related challenges. Highlighting the substantial contribution of international migration to Indonesia's development, the study underscores the urgent need for innovative financing mechanisms that align with national and local development.

Two key factors underscore the significance of this endeavour. First, the limited option for Indonesian migrants to access migration related financing. Second, a widespread lack of financial literacy and planning among migrant workers and their households, both pre- and post-migration, necessitates innovative financial solutions to bridge these gaps.

Incorporating field research in Central Java, West Nusa Tenggara, and South Sulawesi, and complemented by seven consultative Focus Group Discussions (FGDs) in Jakarta involving 180 national-level stakeholders, the study identifies several innovative financing schemes at national, local, and individual levels. These schemes, mobilising public and private resources, offer crucial support to migrants throughout their journey.

A consensus among stakeholders recognises innovative finance as a pivotal tool for enabling safe, regular, and orderly migration in Indonesia. These financial innovations are crucial for guiding migrants and their families towards sustainability.

However, the study acknowledges challenges in fully realising the potential of innovative finance for migration, both institutionally and practically. The following recommendations aim to enhance further innovative financial solutions' effectiveness in supporting Indonesia's migration dynamics and overall development goals.

1. The national government should establish and enforce technical regulations and guidelines to facilitate the KUR PMI, enabling national banks, in collaboration with P3MI, to fund pre-departure migration expenses.
2. Village and local authorities in migrant-origin regions should play an active role in ensuring the safety and productivity of the migration journey. Introducing incentive mechanisms that benefit not only migrant workers but also their families and local development is crucial. Creating a 'social contract' between sending villages and migrant workers is essential to prevent repeated migration and enhance socioeconomic well-being upon return.
3. Strategic partnerships with private sector entities are vital for accelerating financial and digital literacy among migrant workers and their households. Implementing sustainable capacity-building programmes for migrant communities breaks the cycle of multidimensional poverty.
4. Leveraging technology-driven and formal solutions is imperative to mitigate risks in remittance management and financial transactions by overseas migrant workers. Relevant authorities and financial service providers should collaborate by forming a working group or task force to raise awareness and reduce barriers to financial inclusion within migrant worker communities.
5. Integrating gender-sensitive measures into the entire innovative financing framework is crucial, acknowledging that women, the majority of Indonesian migrant workers abroad, may be adversely impacted by the suggested financing model. This involves adopting proactive gender-inclusive policies by National Banks during the pre-departure stage to ensure equal financial access. During migration, the introduction of digital financial technology (e-Wallet) for remittance transfers provides unbanked communities with reliable financial services. Lastly, encouraging business formalisation through establishing cooperatives ensures that female migrant workers actively participate in business and access economic opportunities equitably.

These recommendations arise from insights and consultations conducted in the study, revealing that the primary motivation for migration is improving livelihoods. Given a significant portion of Indonesian migrant workers falls into the low-skilled category, interventions should prioritise safeguarding principles, recognising these communities as vulnerable groups.