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COMPARATIVE REGULATORY MODELS FOR MSME FINANCIAL CONTRACT PROTECTION IN INDONESIA AND PHILIPPINES

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Abstract: This article explores the legal protections available to Micro, Small, and Medium Enterprises (MSMEs) when entering contractual relationships with Financial Service Providers (FSPs) in Indonesia and the Philippines. The study departs from the recurring problem of unequal bargaining positions and the widespread use of standard-form contracts that limit MSMEs' ability to negotiate essential terms. Using a normative legal method supported by statutory analysis and a comparative approach, the research examines the principal regulatory instruments in both jurisdictions—Indonesia's OJK Regulation No. 22 of 2023 and the Philippines' Republic Act No. 11765. The discussion focuses on contractual principles, duties related to market conduct, transparency obligations, and the mechanisms available for consumer protection and enforcement. The comparison demonstrates that Indonesia's regulatory framework emphasizes preventive safeguards, while the Philippines adopts a more assertive model that combines remedial measures, adjudicatory powers, and stronger consumer-oriented guarantees. The findings suggest that Indonesia could enhance its system by reinforcing principle-based supervision, improving suitability assessments, and strengthening its dispute-resolution framework. Through this analysis, the article contributes to ongoing debates on how ASEAN countries might align their approaches to MSME protection in financial contracting.

Artikel ini mengeksplorasi perlindungan hukum yang tersedia bagi Usaha Mikro, Kecil, dan Menengah (UMKM) ketika menjalin hubungan kontraktual dengan Penyedia Jasa Keuangan (LKM) di Indonesia dan Filipina. Studi ini berangkat dari masalah yang berulang mengenai posisi tawar yang tidak setara dan penggunaan luas kontrak standar yang membatasi kemampuan UMKM untuk menegosiasikan ketentuan-ketentuan penting. Dengan menggunakan metode hukum normatif yang didukung oleh analisis undang-undang dan pendekatan komparatif, penelitian ini mengkaji instrumen regulasi utama di kedua yurisdiksi—Peraturan OJK Indonesia No. 22 Tahun 2023 dan UU Republik Filipina No. 11765. Diskusi berfokus pada prinsip-prinsip kontraktual, kewajiban terkait perilaku pasar, kewajiban transparansi, dan mekanisme yang tersedia untuk perlindungan dan penegakan

hukum konsumen. Perbandingan menunjukkan bahwa kerangka regulasi Indonesia menekankan perlindungan preventif, sementara Filipina mengadopsi model yang lebih tegas yang menggabungkan tindakan perbaikan, kewenangan peradilan, dan jaminan yang lebih berorientasi pada konsumen. Temuan menunjukkan bahwa Indonesia dapat meningkatkan sistemnya dengan memperkuat pengawasan berbasis prinsip, memperbaiki penilaian kesesuaian, dan memperkuat kerangka penyelesaian sengketa. Melalui analisis ini, artikel ini berkontribusi pada perdebatan yang sedang berlangsung tentang bagaimana negara-negara ASEAN dapat menyelaraskan pendekatan mereka terhadap perlindungan UMKM dalam kontrak keuangan.

Keywords: MSME legal protection; standard-form contracts, market conduct regulation.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are often hailed as the backbone of the national economy in developing countries, particularly Indonesia and the Philippines. In terms of quantity, both countries demonstrate the absolute dominance of this sector, accounting for over 99% of total business units (SIDT, 2024; PSA, 2023). In carrying out their activities, MSMEs contribute to the balance of payments, provide employment, and play a significant role in the local economy. Business activities typically undertaken by individual entrepreneurs and business entities generally operate in the culinary, apparel, services, handicrafts, automotive, arts and crafts, and daily necessities sectors. The problem is that there is often an excessive focus on quantity, which results in structural challenges faced by this sector. Apriani and Said (2022) emphasize the role of MSMEs in welfare, yet current academic debates are shifting toward the question of whether the large number of MSMEs signifies economic resilience or, conversely, indicates the failure of the formal sector to absorb labor (Saputra et al., 2021).

In Indonesia, based on data from *the Single Data Information System* (SIDT-UMKM) released by the Ministry of MSMEs as of December 2024, there are 30.18 million non-agricultural MSMEs. This sector employs 97% of the national workforce and contributes 61% to the Gross Domestic Product (GDP), with over 190,000 active cooperatives (Kadin Indonesia, 2024) . Data indicates that the economic structure is absolutely dominated by the Micro sector, creating a unique legal landscape where state law must contend with the massive informal sector. The drastic disparity with the small and medium sectors indicates a failure of the law to function as *social engineering* in facilitating business growth. Constitutionally, this requires the state not only to provide administrative ease but also asymmetric legal protection that ensures the sustainability of micro-units without burdening them with legal standards for large businesses that they are not yet capable of meeting. The high proportion of micro-enterprises indicates the need to strengthen empowerment policies, access to capital, and legal

protection for the smallest-scale business operators in accordance with the mandate of the law.

Table 01. MSMEs Classification and Distribution by Size

MSME Category	Number of Establishments	As % of Total Establishments	Employment	As % of Total Employment
Micro	1,127,058	90.4	3,219,402	33.9
Small	109,912	8.8	2,490,210	26.3
Medium	4,763	0.4	641,854	6.8
Large	4,640	0.4	3,132,499	33.0
Total MSMEs	1,241,733	99.6	6,351,466	67.0
Total Establishments	1,246,373	100	9,483,965	100

Source: Philippine Statistics Authority (2023), Philippines

Conversely, the Philippines, which also positions MSMEs as the primary drivers of inclusive development, exhibits an interesting anomaly. Although 99.63% (1,241,733) of business units in the Philippines are MSMEs, their contribution to GDP is only around 40% (PSA, 2023). This productivity gap raises fundamental questions regarding the extent to which each country's legal framework can facilitate quality economic growth, rather than merely the growth of business units focused on mere *survival*. The data also reveals the absolute dominance of micro-enterprises in the economic structure, yet there is a significant disparity in labor absorption capacity compared to large enterprises. This necessitates a reconstruction of legal policies that are no longer generalized.

Previous literature tends to be trapped in normative definitions of the role of MSMEs (Pedraza 2021) without critically dissecting cross-country performance disparities. And also (Suprihanti et al. 2025) in her research only discuss about the differences in the diversity of product and programs. There is a gap in the analysis regarding how environmental factors related to regulation and technology adoption in Indonesia might be more effective in converting micro-enterprises into economic value-added compared to the model implemented in the Philippines. Both countries have written regulations on MSMEs aimed at supporting MSMEs through various policies in effect in each country. Job Creation Law explains the need to adjust various regulatory aspects related to the facilitation, protection, and empowerment of cooperatives and MSMEs in Indonesia. Meanwhile, in the Philippines, the legal framework regarding the protection of MSMEs is regulated under Republic Act No. 9501, or the Magna Carta for Micro, Small, and Medium Enterprises (MSMEs), established as a national policy to promote, support, strengthen, and foster the growth and development of MSMEs.

However, the challenge faced by MSMEs in some ASEAN countries, particularly Indonesia and the Philippines, is the lack of access to financing from formal financial institutions, such as banks and non-banking institutions. These financial institutions are

commonly referred to as Financial Services Business Entities (PUJK), which are authorized to conduct business activities involving the collection, distribution, and/or management of funds within the financial services sector. The high costs or capital required to operate these businesses create barriers to economic competitiveness (Nurlaili et al. 2024). This is due to limitations in the availability of financial institutions, accessibility to these institutions, and the ability to access financing, which result in MSMEs' inability to provide collateral and the absence of proper administration—despite the fact that these Financial Service Providers (FSPs) were established to strengthen MSME capitalization (Yuanitasari and Suwandono 2025). In practice, MSMEs often remain trapped in *contracts of adhesion*—standardized contracts whose terms are unilaterally determined by financial institutions (Aliyah, 2022). This is evident in disputes over loan interest rates on digital financial platforms (*fintech*), where judges often adopt a formalistic stance. As long as the contract is signed, exorbitant interest rates and penalties are deemed legally valid without examining their substantive fairness. This practice indicates that the ease of business licensing offered by the Job Creation Law is not necessarily accompanied by protection against the risk of financial exploitation faced by micro-entrepreneurs (Karar et al., 2025).

In several case studies of disputes in the Philippines, the Supreme Court has a tradition of invalidating interest rates deemed contrary to public policy (*contra bonos mores*), even if the debtor has agreed to them in the contract. This difference in approach explains why the Philippines has more interventionist consumer protection compared to Indonesia, which tends to be bureaucratic-administrative (Abraham et al. 2017) . This gap between normative protection and contractual practice underscores that legal protection issues for MSMEs dealing with FSPs in both countries have not been adequately addressed. The use of standard form contracts in these business transactions requires a strong legal foundation and certainty to protect the contracts entered and uphold appropriate legal protection principles (Sukania et al. 2025).

Based on the problem above, this study is guided by the following research questions, such as: How does the legal protection framework for MSMEs in financial contract differ between Indonesia and Philippines? And Which legal model is more effective in ensuring substantive contractual justice for MSMEs? This study aims to analyze the legal protection mechanism governing MSMEs financial contract in Indonesia and Philippines and compare the efectiveness of both regulatory frameworks in addresing contractual imbalace, also to propose a strengthned legal protection model for MSMEs in Indonesia based on comparative findings. The novelty of this research lies in identifying the determining factors causing differences in GDP contributions, despite both countries having nearly identical percentages of business units. This analysis will not only present statistical data but also evaluate the effectiveness of economic inclusion policies that have long been considered successful on the surface yet structurally fragile, particularly regarding contractual arrangements between SMEs and relevant financing institutions. Despite the growing body of literature on MSME development and financial inclusion, existing studies tend to focus on descriptive regulatory

frameworks or general policy effectiveness without critically examining the legal structure of contractual relationships between MSMEs and Financial Service Providers (FSPs). Moreover, comparative studies between Indonesia and the Philippines often remain at the level of institutional comparison, without developing a conceptual legal model that explains how regulatory design influences contractual justice.

This study addresses this gap by moving beyond descriptive comparison toward a theoretically grounded and conceptually driven analysis. It introduces a principle-based and adjudicatory-integrated model of MSMEs legal protection, which explains how differences in regulatory orientation between Indonesia's formalistic compliance model and the Philippines' interventionist model—shape the effectiveness of legal protection in financial contracts. Thus, the novelty of this research lies not merely in comparison, but in formulating a normative legal framework that integrates fairness, enforcement, and regulatory accountability.

RESEARCH METHOD

This study employs a normative juridical research method, positioned not merely as a passive literature review but as an effort to deconstruct power asymmetries in contractual relationships between MSMEs and *Financial Service Providers* (FSPs). This method also focuses on analyzing legal norm governing contractual relationships between both. The research adopts a combination of a *statutory approach, a comparative* legal approach and conceptual approach (Soekanto and Mamudji, 2012). The statutory approach focus to examining the relevant laws and regulations, inclyding Law No. 4 of 2023 on the Development and Strengthening of the Financial Services Sector (P2SK), POJK No. 22 of 2023 in Indonesia, and *Republic Act No. 11765* in the Philippines. The comparative legal approach is used to comparing the legal frameworks in Indonesia and the Philippines to identify differences in regulatory models, enforcement machanism and consumer protection standards and the needs of the conceptual approach is to utulizing legal doctrines and theoritical frameworks related to consumer protection, contractual justice and bargaining power imbalance where in practice, MSMEs are often trapped in *adhesion contracts*, where standard clauses are unilaterally determined by FSPs (Satory et al., 2024).

This study relies on three types of legal materials, such as primary legal materials which contain statutes, regulations and the official legal documents. Next are the secondary legal materials like academic journals, books and policy reports. Lastly, is the tertiary materials where the legal dictionaries and supporting references needed to complete this study. The analytical methods used in this study are statutory interpretation to examine normative provisions, doctinal legal analysis to assess consistency and legal principles and comparative legal reasoning to evaliate the effevtivesess of each legal system.

If we examine the regulations, both countries do indeed champion the spirit of consumer protection. However, critical analysis shows that these regulations remain reactive in nature. For example, in the widespread *fintech lending* disputes in both countries, the

burden of proof regarding "bad faith" in contracts is often still placed on MSMEs, which have limited legal resources. Here, consumer protection theory fails to transform from mere regulatory text into a substantive protective tool. Both countries also share the same systemic weakness: limited access for SMEs to affordable and expedient out-of-court dispute resolution mechanisms. This is due to the absence of an effective and integrated *Small Claims Court* specifically designed for MSMEs. Qualitative data analysis in this study demonstrates that legal harmonization must not merely focus on streamlining business licensing but must address the core of contractual justice. The implications of these differences in legal systems indicate that Indonesia needs to adopt the Philippines' firm stance to prevent FSPs from exploiting the economic vulnerabilities of micro-business operators.

Theoritical Framework: Contractual Justice and Consumer Protection

This study is grounded in an integrated theoretical framework that combines consumer protection theory, contract justice theory, and a law and economics perspective to analyze the legal position of MSMEs in financial contractual relationships. From the standpoint of consumer protection theory, the state plays a crucial role in safeguarding weaker parties within market transactions. Although MSMEs are formally categorized as business actors, in their interactions with Financial Service Providers (FSPs) they frequently occupy a structurally vulnerable position that of consumers. This asymmetry justifies regulatory intervention to ensure fairness, transparency, and accountability in financial contracting (Pelupessy and Cendrawasih 2026).

Furthermore, this study draws upon contract justice theory, which challenges the classical doctrine of absolute freedom of contract. While traditional contract law assumes that agreements are the result of equal bargaining power and voluntary consent, this assumption does not hold in practice for MSMEs dealing with standardized financial contracts. The widespread use of standard-form agreements reflects a structural imbalance, where consent may be formally present but substantively constrained. Therefore, contract justice emphasizes the need to shift the focus from mere formal validity toward substantive fairness, particularly in preventing the abuse of dominant positions (Hetharie et al. 2025).

In addition, a law and economics perspective is employed to evaluate the efficiency implications of legal regulation. An effective legal framework should minimize transaction costs while preventing exploitative practices that may distort market behavior. In the context of MSMEs, contractual imbalance may lead to over-indebtedness, reduced productivity, and systemic inefficiencies within the financial sector. Consequently, regulatory frameworks must strike a balance between promoting financial inclusion and ensuring equitable outcomes. By integrating these three theoretical perspectives, this study provides a more comprehensive analytical basis for assessing the effectiveness of legal protection mechanisms for MSMEs in financial contracts (Karamba and Musah 2024).

RESULTS AND DISCUSSIONS

Legal Protection of MSMEs with FSPs in Indonesia

In the Indonesian legal system, *lex specialist* is the principle applicable in Indonesia for the execution of an agreement, which must comply with existing regulations. The legal basis governing the terms of agreements made by MSMEs with FSPs is Article 1320 of the Civil Code, which requires that the agreement meet the following validity requirements: there must be mutual consent between the parties, capacity to enter into a contract or agreement, a specific subject matter, and a lawful cause. Clarity and precision in each of these clauses are crucial to minimize the potential for future disputes and provide legal certainty for both parties (Manangin, 2022). In the context of financing agreements between MSMEs and FSPs, numerous challenges arise, particularly regarding the imbalance of power between the two parties. The legal relationship between FSPs and MSMEs is, in principle, designed to be equal. However, when viewed *de facto* and *de jure,* MSMEs are forced to agree to financing agreements drafted unilaterally by FSPs, where MSMEs have no opportunity to negotiate the contents of the contract clauses. (Atmoko, 2022).

The significant need for MSMEs regarding legal protection in the implementation of financing agreements is considered crucial. Legal protection is a means of safeguarding the public from arbitrary legal actions by authorities that do not comply with applicable laws (D. Bakarbessy et al., 2021) . Thus, this legal protection serves as an effort to shield legal entities from potential future legal issues through enforceable regulations, as their implementation is mandatory due to the presence of penalties. Legal protection is categorized into two types, namely: (Syauket et al., 2022) Preventive legal protection, which is a form of protection provided by the government aimed at serving as a preventive measure before a violation occurs. This protection is found in legislation as a limitation on the fulfillment of an obligation; and Repressive legal protection, which is the final form of protection in the form of sanctions for the failure of one party to fulfill an obligation, such as fines, imprisonment, and additional penalties imposed in the event of a violation.

The Indonesian regulatory framework demonstrates a strong emphasis on preventive regulation through transparency obligations and market conduct supervision. However, in practice, this framework reveals a structural weakness that can be characterized as a formalism trap**.** This condition occurs when legal validity is assessed solely based on formal consent, without examining whether such consent is obtained under conditions of substantive inequality The term formalism trap in this study refers to a regulatory condition in which legal protection is confined to formal compliance with contractual and procedural requirements, without substantive evaluation of fairness. Indicators of this condition include reliance on formal consent as the sole basis of contract validity, absence of mechanisms to invalidate unfair standard clauses and limited adjudicatory authority of regulators (Kim and Heo 2017).

In contrast, the Philippine regulatory framework reflects a substantive intervention model**,** where regulators are empowered not only to supervise but also to actively intervene in contractual relationships. Through Republic Act No. 11765, authorities may assess the

fairness of contractual terms, impose sanctions, and even invalidate provisions deemed unconscionable. This difference is not merely institutional but structural. While Indonesia prioritizes regulatory compliance, the Philippines prioritizes contractual justice and enforceability of fairness principles**.** This explains why the Philippine system provides stronger legal protection, despite potentially limiting aggressive credit expansion.

FSPs often hide behind the pretext of freedom of contract to apply compound interest or non-transparent administrative fees. In many post-pandemic *fintech lending* disputes, SME operators are often trapped in a "compound interest" mechanism that is not explicitly explained at the outset of the contract. Although POJK No. 22 of 2023 attempts to regulate transparency, practices on the ground still reveal FSP dominance in setting one-sided terms. Judges in Indonesia tend to adopt a formalistic stance. As long as an MSME signs a contract, the contract is deemed valid and binding without considering whether there is a "defect of consent" due to a severely weak bargaining position. The Job Creation Law does indeed facilitate business establishment, but it fails to provide protection when MSMEs are choked by exploitative interest clauses.

To ensure protection for MSMEs as consumers in the implementation of financing agreements, the Financial Services Authority Regulation No. 22 of 2023 on Consumer and Public Protection in the Financial Services Sector was enacted, with the aim of enhancing a reliable consumer protection system, empowering consumers and the public, and fostering FSP awareness. The existence of regulations governing FSP market conduct—including the design, provision, and communication of information; the offering of services; the drafting of agreements; and the handling of complaints and dispute resolution—constitutes a form of preventive legal protection for MSMEs. FSPs are required to serve MSMEs without discrimination and to provide information that is clear, accurate, honest, and not misleading. This information must be provided during marketing activities and prior to the signing of the agreement.

The characteristics of a financing agreement that should be reflected in the contract include balance, fairness, and reasonableness, and it is prohibited to exploit the circumstances of prospective consumers when drafting the agreement. FSPs are also required to include an agreement on dispute resolution through the courts or alternative dispute resolution mechanisms so that MSMEs receive the legal protection they are entitled to. The agreement must also be drafted exclusively in Indonesian to ensure legal certainty and avoid the risk of violating the principle of halal causation or failing to meet objective requirements (Mas'ud and Muwazir 2025).

FSPs must provide MSMEs with a clear understanding of the costs, benefits, risks, as well as the rights and obligations outlined in the financing agreement clauses. As consumers, MSMEs also have the right to fully understand the terms before signing the financing agreement, and confirmation of their understanding of the agreement clauses must be documented in a written document or other medium that can serve as evidence in the event of a future dispute.The drafting of financing agreements must establish clear boundaries

between the parties. If restrictions on the use of standard clauses are not explicitly defined, financial service providers (FSPs) may have greater leeway to dominate the contractual relationship, potentially harming consumers. In such situations, consumers often sign agreements under conditions of limited information, urgent need, and other circumstances. This creates an opportunity for the abuse of circumstances (*misbruik van omstandigheden*) (Parluhutan Sinaga and Sitorus 2023).

MSMEs may file a complaint indicating a dispute if the FSP is deemed not to have fulfilled the agreed-upon agreement, after which the MSME will receive a response to the complaint offering a final resolution from the FSP to the MSME. To resolve disputes regarding breach of contract or unlawful acts committed by the FSP, the OJK provides the Alternative Dispute Resolution Institution for the Financial Services Sector (LAPS) as an alternative means of dispute resolution between MSMEs and FSPs outside of court. However, if the dispute cannot be resolved through LAPS, the MSME may file a civil lawsuit in district court as a form of dissatisfaction with the outcome of the decision reached through non-litigation channels(Fitriana and Aliya Sandra Dewi 2023) .

Legal Protection for MSMEs in Relation to Financial Service Providers in the Philippines

Article 19 of the Civil Code of the Philippines provides that every person, in exercising all rights and fulfilling all obligations, must act fairly, considering honesty and good faith, which form the basis of the formation of a contract. Article 1305 defines a contract as an agreement between two parties that binds them to provide a service. Both parties may determine clauses, provisions, and conditions deemed appropriate if they do not conflict with the law, morality, custom, and public order.

The Asian Development Bank (ADB), headquartered in the Philippines, states that one of the challenges faced by MSMEs is accessing financing, particularly through banks. The share of MSME loans has dropped to less than 10% of total bank loans since 2013. Although it has begun to improve since 2016, compliance with mandatory loan allocation requirements has not yet improved. The total bank loan portfolio has dropped to 6.1% (P588.8 billion) due to many FSPs failing to comply with mandatory credit allocation requirements and preferring to pay penalties rather than bear the risks associated with lending to MSMEs. (Asian Development Bank, 2020).

A common example in the Philippines is where the Philippine Supreme Court, in several landmark rulings, has invalidated interest clauses exceeding 3% per month, deeming them “contrary to public policy” (*contra bonos mores*), even if the debtor had agreed in writing. This is reinforced by RA 11765, which mandates regulators to intervene in contracts deemed *unconscionable*. This explains why the GDP contribution of Philippine SMEs is lower, as the financial sector there may be more conservative due to strict legal limits on interest rate exploitation. However, from a consumer protection perspective, Philippine SMEs have a more functional legal framework compared to the administrative approach in Indonesia.

To protect MSMEs in financing agreements entered with FSPs, Republic Act No. 11765—An Act Affording More Protection to Consumers of Financial Products and Services—provides policies to ensure that consumers receive transparent financial services, benefit from healthy market conduct, and have access to fair and effective resolution of financial consumer disputes. The rights of MSMEs as consumers are protected under these regulations, granting them the right to fair and equal treatment, the right to disclosure and transparency regarding financial products and services, the right to asset protection against fraud and misuse, the right to privacy and protection of personal data, and the right to timely dispute resolution. The inclusion of market conduct provisions in the provision of financing agreements is also designed to enable FSPs to offer their financial products or services to MSMEs. Financing activities are supervised by the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Cooperative Development Authority (CDA).

Each regulator has the normative authority to establish the standards and rules necessary for the implementation of agreements, including determining the reasonableness of fees, interest rates, and compensation that may be charged by FSPs. In the area of Market Conduct, regulators have the right to conduct monitoring and inspections, either directly or using off-site methods, to ensure that every FSP complies with consumer protection provisions. These inspections may be conducted independently. Every FSP is required to provide full access to consumer data— —to the regulator. Enforcement authority is also clearly defined. The regulator may act against FSPs that commit misconduct in the execution of agreements by imposing fines, suspending operations, or imposing penalties for non-compliance. The regulator also has the authority to issue cease-and-desist orders if actions result in harm to MSMEs. Additionally, the regulator may suspend specific services or products if a violation has been proven and order the return of profits derived from the violation through the Disgorgement Fund. This method is one of the legal protections for MSMEs against violations of financing agreements involving the abuse of a dominant position. (OECD, 2016)

In addition to the regulator, the implementation of protection by FSPs must also be carried out in accordance with the provisions of Republic Act No. 11765. Section 8 states that FSPs have duties and responsibilities in all activities related to consumer protection in the provision of financial services. Within the legal framework for protecting MSMEs as users of financial services, financial service providers (FSPs) are required to implement responsible governance through active oversight by the board and senior management to ensure compliance with consumer protection principles and the management of product and service risks. FSPs must conduct product suitability assessments based on the capabilities, needs, and level of understanding of MSMEs, including through affordability assessments to prevent excessive debt burdens, the provision *of a cooling-off period* so that MSMEs can review the contract without penalty, and the provision of the right to early repayment with costs disclosed transparently.

Additionally, FSPs are required to apply fair contractual principles using clear language, transparency regarding costs and risks, and accurate marketing materials to enable comparison with similar products. These protections also include a prohibition on discriminatory practices and improper collection, the obligation to safeguard the privacy and data security of SMEs, the provision of an integrated complaint mechanism along with cost-free dispute resolution alternatives, and the implementation of information security standards to ensure the confidentiality and integrity of digital transactions. If it is found that an FSP attempts to remove consumer rights from clauses in a financing agreement.

MSMEs are in a weak position due to the imbalance of clauses in financing agreements. MSMEs in the Philippines also face similar issues regarding unfairness in the implementation of such agreements. As previously mentioned, the regulator has the authority and specifically handles the resolution of financing agreement disputes between MSMEs and FSPs in cases of breach of contract, utilizing the Consumer Assistance Mechanism (CAM). The resolution of consumer complaints is carried out using alternative dispute resolution methods, such as mediation and conciliation, which can be conducted before proceeding to the adjudication stage. MSMEs also have the right to file a lawsuit if they feel aggrieved by a financing agreement or if there has been a serious violation, such as illegal investment or fraud. Such lawsuits are valid for five years from the date of the transaction or from the discovery of the fraud and must not exceed ten years from the date the violation occurred. Any party that intentionally violates these provisions shall be subject to imprisonment for one to five years, a fine ranging from P50,000.00 to P2,000,000.00, or both, at the court's discretion. Criminal liability may be imposed if the violation is committed by a corporation or legal entity, a director, an authorized officer, an employee, or any other official.

In addition to criminal penalties, the regulator may also impose administrative sanctions. The regulator may suspend or revoke operating licenses for specific products or services. The regulator is also authorized to file civil lawsuits on behalf of affected MSMEs for violations of the law and its implementing regulations. If the regulator receives penalties from the settlement of a case, those funds are deposited into a disgorgement fund for victim compensation. Civil lawsuits may be filed if they concern consumer interests, and the regulator may be granted the authority to file civil lawsuits on behalf of aggrieved MSMEs for the purpose of consumer protection. If the regulator receives fines from case settlements, those funds will be deposited into a disgorgement fund for victim compensation.

Comparisons of Legal Protection Regulations for MSMEs Indonesia and Philippines

This chapter examines the differences and similarities in legal protection regulations for MSMEs acting as consumers in financing agreements entered into with financial services providers, as stipulated in Law No. 4 of 2023 on the Development and Strengthening of the Financial Services Sector (P2SK), which is further regulated by POJK No. 22 of 2023 on Financing Institutions and Consumer Protection for MSMEs in Indonesia, and Republic Act No. 11765 – the Financial Products and Services Consumer Protection Act in the Philippines.

In general, these two legal regimes share the same objective: to provide comprehensive protection to consumers as the complexity of financial products and services continues to grow. The following table compares MSME legal protection regulations in Indonesia and the Philippines:

Table 03. Comparison of MSME Legal Protection Regulations Between Indonesia and the Philippines

No.	Comparative Aspect	Indonesia POJK No. 22 of 2023 concerning Financing Institutions and Consumer Protection	Philippines Republic Act No. 11765 – Financial Products and Services Consumer Protection Act
1	Supervisory Authority	Financial Services Authority (OJK)	Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC) and Insurance Commission (IC)
2	Scope	Financial institutions such as leasing, factoring, consumer finance, Islamic finance companies, and consumer protection activities in the financial services sector	All financial service providers, including banks, insurance companies, securities companies, electronic credit providers, fintech companies, and related third parties.
3.	Authority Primary	Market conduct, guidance, and administrative enforcement	Rulemaking, surveillance, enforcement, and adjudication
4.	Sanctions and Enforcement	Administrative sanctions: warnings, fines, restrictions on business activities, freezing of assets, and revocation of licenses.	Suspension, disqualification, fines and disgorgement orders for illegal profits, cease-and-desist orders, product operation suspensions, and criminal penalties.
5.	Consumer Rights	Access to information, cost transparency, financing eligibility assessments, risk management, and fair treatment of consumers	Receiving board oversight, access to information, cooling-off periods, data protection, dispute resolution, and the right to file complaints through regulators.
6.	Transparency and Disclosure of Information	Must clearly disclose costs, financing schemes, interest/ujrah, risks, and financing agreement terms before the contract.	Regulate comprehensive disclosure regarding prices, product risks, the identity of the regulator, and information on the existence of consumer assistance units.
7.	Complaint Handling	Provide a consumer service unit, complaint mechanism,	Provide a Financial Single Consumer Assistance Mechanism

		and Service Level Agreement (SLA) through the OJK Consumer Protection Portal Application ( ).	(FSCAM) including information on the status of dispute resolution and the right to escalate to the regulator.
8.	Consumer Protection	Prohibition of unfair practices, consumer education, and basic protection mechanisms	Redress mechanisms, fraud prevention, and comprehensive consumer protection standards
9.	Debt Collection	Prohibited from collecting debts through intimidation, violence, or data misuse, and must comply with OJK regulations on ethical debt collection	Prohibiting abusive collection, including threats, harassment, or coercive practices; violations may result in administrative and criminal sanctions.
10.	Dispute Resolution	Through the Financial Services Sector Dispute Resolution Institution (LAPS-SJK), mediation mechanisms and internal handling by business actors	The regulator has the authority to settle disputes through mediation, conciliation, and alternative dispute resolution mechanisms, and to adjudicate civil cases with claims valued at up to PHP 10,000,000**.**

Source: Author(s), (2026)

The comparative table illustrates a fundamental divergence in regulatory philosophy. Several similarities and differences in regulations between Indonesia and the Philippines can be observed. In Indonesia, the OJK requires FSPs to consistently apply the principles of prudence, fair conduct, and robust governance in the execution of agreements. The presence of clear written sanctions against FSPs that violate the rules is expected to minimize the potential for abuse of the FSP's dominant position. Disputes arising between FSPs and MSMEs will first be resolved internally and will proceed through the Financial Services Sector Dispute Resolution Institution (LAPS-SJK) using mediation mechanisms if internal resolution is deemed unsuccessful. This legal protection framework is designed not only to prevent various losses suffered by MSMEs but also to foster a more inclusive, healthy, and sustainable business environment. The effectiveness of this regulation depends on the consistency of its implementation so that MSMEs can receive optimal financial services and legal protection in financing agreements.

Meanwhile, in the Philippines, the enactment of Republic Act No. 11765 strengthens the mandates of the BSP, SEC, and IC as financial regulators through their authority for rulemaking, market monitoring, surveillance, and adjudication. Financial Service Providers (FSPs) are also obligated to provide a cooling-off period or allow contract cancellation without penalty during a specified period, except for initial processing fees deemed beneficial to MSMEs evaluating the agreement to be entered into with the FSP. The establishment of a

Disgorgement Fund is also utilized as a means to protect rights as a form of recovery for losses incurred by MSMEs, a provision not yet explicitly outlined in POJK in Indonesia.

This comparison demonstrates that both countries share similarities in complaint-handling practices, providing services for MSMEs to file complaints regarding non-compliance or violations committed by FSPs. Cross-border regulations also address transparency in the implementation of agreements regarding the use of financial services. Both Indonesia and the Philippines prohibit harsh, coercive, discriminatory, and intimidating collection practices against MSMEs that have entered into financing agreements. However, there are also significant differences in the consumer protection legal frameworks of the two countries. Indonesia focuses more on regulating FSP conduct and transparency in financing activities, whereas the Philippines' regulations emphasize enforcement through adjudicatory and remedial powers in resolving disputes regarding losses faced by MSMEs. Although Indonesia boasts massive employment figures from MSMEs, protection for them remains largely procedural. Conversely, the Philippines demonstrates that a legal model centered on comprehensive information transparency and strict enforcement can foster a fairer financial ecosystem, even though the macroeconomic growth of its business units has not yet accelerated as rapidly as in Indonesia.

The comparative analysis also reveals that Indonesia's regulatory framework remains trapped in what can be describe as a "formalistic compliance model," where legality is measured by procedural adherence rather than substantive fairness. In contrast, the Philippines adopts **a** "substantive intervention model," where regulators are empowered not only to supervise but also to intervene, adjudicate, and invalidate unfair contractual terms. This distinction is crucial. While Indonesia promotes financial inclusion, it risks enabling exploitative practices due to weak enforcement of contractual justice. Conversely, the Philippines prioritizes consumer protection, even at the cost of slower credit expansion.

In terms of supervision and legal protection, the Philippines also provides a mechanism for MSMEs to access a disgorgement fund, whereas in Indonesia, oversight is limited to on-site supervision, inspections, and the enforcement of administrative sanctions. Another notable difference is the inclusion of a cooling-off period in Philippine regulations as a safeguard for decision-making. These differences reflect varying regulatory approaches, although both share the same goal of creating a safe, fair, and accountable financial ecosystem for consumers. Building upon the comparative findings, this study proposes a principle-based and adjudicatory-integrated model of legal protection for MSMEs in financial contracts**.** This model seeks to move beyond the limitations of procedural compliance by embedding substantive fairness as a binding legal standard (Vaccari and Lham 2026). At its core, the model emphasizes the transformation of regulatory approaches from rule-based formalism toward principle-based obligations that require Financial Service Providers (FSPs) to ensure fairness, transparency, and responsible pricing in all contractual arrangements. In addition, the model introduces a mandatory suitability assessment mechanism, whereby financial

products must be aligned with the financial capacity, risk profile, and level of understanding of MSMEs to prevent over-indebtedness and exploitative lending practices.

Furthermore, the model advocates for a substantive review of standard-form contracts, granting regulators the authority to invalidate the clauses. This is complemented by the strengthening of adjudicatory mechanisms through the establishment of specialized and accessible dispute resolution bodies with binding decision-making powers, enabling MSMEs to obtain effective remedies without excessive procedural burdens (Farhad 2024). Lastly, the model incorporates an integrated complaint and redress system that is efficient, low-cost, and responsive, ensuring that legal protection is not only normative but also practically accessible. By combining these elements, the proposed framework aims to shift MSME protection from a predominantly administrative regime toward a system that delivers substantive legal justice and balanced contractual relationships.

CONCLUSION

This study answers the research questions in several keyways. First, legal protection for MSMEs in Indonesia and the Philippines differs fundamentally in regulatory orientation. Indonesia emphasizes preventive and administrative measures, while the Philippines adopts a more interventionist and adjudicatory approach. Second, the findings demonstrate that Indonesia's framework has not yet effectively addressed the imbalance, as it remains focused on formal contractual validity rather than substantive fairness. Third, the Philippine model is relatively more effective in ensuring contractual justice due to its strong enforcement mechanisms and regulatory authority to intervene in unfair agreements. A comparison between the legal regimes of Indonesia and the Philippines reveals a fundamental dichotomy in how the state mitigates the vulnerability of MSMEs to the abuse of bargaining power by financial institutions, which simultaneously addresses the puzzle of the disparity in the GDP contribution of in both countries. The novelty of this finding underscores that the disparity in macroeconomic performance between the two countries is not merely a matter of capital availability, but a reflection of the "formalism trap" in Indonesia, which prioritizes bureaucratic procedures over substantive contractual justice. As a concrete step to break this cycle of exploitation, Indonesia requires a radical transition toward principle-based regulation that establishes the obligations of responsible pricing and fair treatment as legally binding norms for FSPs, rather than mere ethical guidelines. This reform requires the implementation of a mandatory product suitability test to prevent excessive lending practices, as well as the establishment of an integrated complaint system through an independent financial sector ombudsman to resolve disputes quickly and cost-effectively. Without clarity regarding the limits of standard clauses and the enforcement of strict administrative sanctions against prohibited clauses, claims of SME protection in Indonesia will continue to be merely administrative instruments without any tangible economic protection. [*W*]

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