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PROMISE IMPACT MID-TERM REVIEW

REPORT

ABSTRACT

PROMISE IMPACT is a development project aims to promote productivity and employment among Micro and Small Enterprises through the improved access to socially responsible financing. The Mid-Term Review is conducted to assess progress, performance, challenges and constraints and provides recommendations for improvement.

RISE INDONESIA

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EXECUTIVE SUMMARY

Promoting Micro and Small Enterprise through Enterpreneurs Access to Finance (PROMISE IMPACT) is a development project designed by International Labor Organization (ILO), funded by Swiss State Secretariat for Economic Affairs (SECO), with the aim to promote employment and productivity by supporting Micro Small Enterprises (MSE) to access financial and non-financial services through capacity development of Financial Service Providers (FSPs). The project was designed with outcomes at three different levels: FSP, MSE, and the regulators (Government of Indonesia or GOI). Outcome 1 aims to improve the service of FSP; Outcome 2 to enhance productivity of MSE; Outcome 3 access of responsible finance is integrated in the regulatory framework. The expected end result of the project is the mainstreaming of social performance in FSP that would encourage wider adoption and replication by FSPs in other regions. The project has selected West and East Java regions for its pilot project, following prompt responses from FSPs and regional government offices.

The mid-term review (MTR) was conducted with the goal to assess progress and performances, strategies and implementation modalities chosen, partnership arrangement, constraints and opportunities, opportunities for scaling up and lessons to improve performance, delivery of project result and recommendation for future project. For collection of information, stakeholder interviews were conducted involving the donor, FSP, government agencies, and project management.

PROGRESS

Inspite of some delay at the inception of the program due to issues on readiness of FSPs, the majority of the project activities have been conducted as planned. Activities relevant to the improvement of FSP services and advocacy for the government are underway, while major activities that improve productivity and financial access to MSE are being planned for the coming year as the FSP partners implement their innovative projects.

Towards the improvement of supply of financial and non-financial services to better align with the needs of MSE, one output has been completed with the identification and recruitment of partner FSPs and the implementation of client assessment survey (CAS) in each. Financial and non-financial services (NFS) innovation pilot tests, adoption of Social Performance Management (SPM), and development of business case for FSP are in progress whereby activities are being implemented and currently on-going. Regarding dissemination of project results, activities will be implemented towards the end of the project in 2019.

The recruitment of partner FSPs was completed with the participation of 16 FSPs. Among partner FSPs, 15 received the training on conducting CAS and implemented it, with 2,600 clients interviewed. Thirteen FSPs further signed an agreement to implement the pilot project, with total clients and members amounting to 929,778. Partner FSPs consist of seven banks and six cooperatives. The banks comprised of five rural banks (*Bank Perkreditan Rakyat* or BPR) and two regional banks (*Bank Pembangunan Daerah* or BPD). The main criteria in the selection of partner FSPs was their interest to implement client-centric service, total number of clients, and the number of clients with manufacturing business.

Towards the adoption of SPM, workshops and seminars have been conducted to introducethe FSPs and key stakeholders on the concept. Support was offered to FSPs interested in mainstreaming SPM in their

business management processes together with the pilot project intervention. The promotion of SPM was conducted also to a wider audience in thae banking sector through knowledge sharing events to associate partner BPDs and to the Financial Services Authority or *Otoritas Jasa Keuangan* (OJK) and Regional Team to Accelerate Access to Finance or *Tim Percepatan Akses Keuangan di Daerah* (TPAKD).

To establish business case for innovative services, research design and methodology for Random Control Trial (RCT) was developed. The client's baseline data and the institutional data were collected for use to measure the changes and results at the end of the project. Social-economic benefit and analysis will use client level impact data and cost-benefit analysis to test the business case for FSPs.

For the enhancement of productivity and access to financial service among MSE, training modules were improved and training of trainers conducted while the delivery of training by FSP to MSE will take place starting in 2018 as part of the pilot projects. Making Microfinance Work (MMW) training course for FSP managers, and Start and Improve Your Business (SIYB) training course for FSP staff were the two main modules used to build the capacity of FSPs. Additionally, with the master trainer, the project helped in the development of training courses for business counseling.

In the direction of the integration of access to responsible financing in the national policies and regulatory framework, a steering committee has been established at the national (Project Steering Committee or PSC) and provincial levels (Provincial Advisory Committee or PAC) to guide and monitor progress. The key stakeholers involved in the committees were: Ministry of Manpower (MoM), OJK, Ministry of Cooperative and Micro Small Medium Enterprises (MoCSMEs), and Coordinating Ministry of Economic Affairs (CMEA).

To build the capacity of the government in overseeing SPM and the implementation of bundling services, training and knowledge sharing has been conducted to representative staff of OJK from all regions of Indonesia. In regards to promoting financing to manufacturing sector, Marketing and Credit Analysis (MCA) survey on 50 banks have been conducted in collaboration with OJK.

RESULTS

At the middle of the project, results of each Outcome comes at varying degrees. Major achievements of has come for the Outcome 1 where in interest and commitment from FSP to pilot client-centric service have been obtained and results have been shown at FSP level. Results of Outcome 2 is yet to be seen in second half of the project since major activities have not been conducted at the time of MTR. In Outcome 3, the support from government to promote, guide and monitor the project has been key achievement.

Major achievements on Outcome 1 is in obtaining commitment from FSPs for client-centric program, the implementation of CAS that allows FSP and stakeholders to better understand MSEs, and the laying of the groundwork for testing the business case for FSPs providing new and innovative services. Results of training to FSPs for better services have also shown at varying degrees among the FSPs.

CAS was intended to measure impact and achievement of the project, but with limited MSE research based information available in the country, CAS is a significant contribution, providing rich information on MSE and their relationship with FSPs. Manufacturing seems to be potential sector with large percentage of clients involved in the sector, and a sizeable number of them experience reasonable business growth. Clients in manufacturing sector has businesses of processed food and beverages, small-scale garment, handy craft and other manufacturing. Among FSP clients, the larger size of micro businesses seems to experience better growth. A larger percentage of those with loan between IDR 25-50 million and has more than four workers. Marketing, quality improvement and financial management are areas they considered most important for business training.

Major achievement for Outcome 2 is in the adaptation of training modules and in the implementation of training to FSPs that prepares them for better service to MSE. The implementation of training to MSE will come in the second half of the project and results to the productivity of MSE is yet to be seen. Partner FSPs, however, have increased knowledge and started to make changes on various aspects of organizations. Among observed changes were in marketing approach, product delivery, BDS planning, loan officer training, MIS, and even organizational structure.

The project has successfully appeal to the interest of key stakeholder to responsible financing concept and attained their active participation in promoting the project for the involvement of FSPs. Results of workshops conducted to OJK staff to improve their capacity to support SPM is yet to be seen in the next half of the project.

STRATEGY

The goal of PROMISE IMPACT to improve productivity and employment, fits to the priority agenda of the government of Indonesia. Among the nine priority agenda (Nawacita) which is the foundation of Medium Term Development Plan (*Rencana Pembangunan Jangka Menengah* or RPJM) the government aim to improve productivity and economic independency.

PROMISE IMPACT has made a very significant effort to pilot and test the business case of increasing productivity of MSE through financial service and NFS in FSP. FSP as MSE partner has strategic role as one that provides funding. When enhanced with NFS, FSP has the ability to provide complete scheme for MSE capacity building. With few data around the approach, result of test of business case would provide lessons learned in the development of MSE which by far has been very limited in the country.

In its effort to promote responsible financing as a mean to drive increased productivity and employment among MSE, the project has been designed as a comprehensive project that targets to see outcomes at three levels: the MSE, the FSP and the GOI. While hypothetically aiming to improve MSE productivity through improvement of FSP and regulatory framework seem to be a complete scenario, it needs to be conducted with careful consideration to capacity of institution and their priority activities. To the FSP, promoting NFS and integration of SPM at the same time may be daunting. To the stakeholders, the promotion to integrate of SPM, when it is not part of their priority program, could not come with beneficial output. Deeper discussions with various partners is required in order to lay out concrete plans for intended outcome.

PARTNERSHIP

In promoting responsible financial inclusion for MSE project PROMISE IMPACT has been designed as a collaborative effort that involve government and non-government institutions. Partnership has been built more intensely with OJK from the banking authority. Collaboration with MoCSMEs and regional offices have been less intense. MoM leadership role has been dropped but partnership with CMEA has been built.

For the implementation of pilot projects, collaborations were built with seven banks (BPRs and BPDs) and six cooperatives. The number of FSP partners for pilot have been over the target due to the anticipation of drop outs.

The ability of FSPs to provide training and mentoring services sustainably would likely be limited. FSPs need to be conditioned to collaborate with BDS providers, business communities as well as on-going government and non-government program. Sharing of technical expertise and MSE referral for financial service are two areas the project could benefit from such collaboration. On the first half of the project, ToT and ToC have been provided by project trainers. For the sustainability and scalability of the project, BDSP support needs to be built.

Various government and non-government MSE development programs could also be tapped for collaborations for sharing of expertise and in widening outreach of MSE for promotion of financial services.

CONSTRAINTS AND OPPORTUNITY

Major hurdle in the implementation of the project is to obtain commitment from banks to join in the pilot project. Unwillingness of the FSP due to lack of resources is among important factors. Banks have rigid structure that requires longer bureaucracy for partnership agreement and financial performance is still their main interest. Building NFS in banks is relevant because it has been their interest to build their MSE clients, but integration of SPM as a system of measuring social performance should not be a priority in the project.

The project faced challenges in targeting manufacturing sector for improved productivity. Majority of FSPs catering to the low-income segment are supplying to trading as main sector. FSP acknowledge that in credit services, their targeting has been skewed from manufacturing sector due to their lack of knowledge on the sector. There is also requirement of business registration that limits access from banks financing.

Interestingly, manufacturing sectors seems to be a potential sector with CAS data showing a large percentage of clients involved in the sector and a sizeable number of them experience reasonable business growth. Processed food and beverages and small-scale garment industries are two most potential sub-sectors of manufacturing sector. CAS data also shows that business with better growth are among the larger size of micro businesses. Given the large number of MSE in the processing sector, the project has the opportunity to make significant contribution. Programs could be designed around capacity building to FSP on their service for manufacturing MSE such as loan assessment and business licensing. The expertise of the institution could bring in lessons learned in the development of the sector.

Integrating SPM in national policies, especially for the banking sector, could still be a challenge. The government is still focusing on several other pressing issues, such as refocusing target segment and increasing the performance of FSP on delivering their product and services to the low income segment.

Deeper discussion needs to be conducted on how the SPM could be aligned with their priority program and how the project could provide support.

In the non-banking sector, integrating SPM in the regulatory framework has better chance for implementation as FSP are more ready for the adoption. The project needs to work more intensely with MoCMSE to discuss how the implementation could be moved forward.

Groundwork to involve MSE to influence regional policies has not been conducted effectively. The project needs to connect with associations or business communities and facilitate their discussion with regional government. With focus on manufacturing industry, challenges faced by manufacturing enterprises would be a strategic issue for such deliberation.

LESSONS LEARNED AND RECOMMENDATIONS

Banks and non-banks have different competitive advantages in serving the MSEs. They also have different level of readiness in adopting SPM and in implementing NFS. In supporting these institutions for better service, their level of readiness and priority programs needs to be taken into account.

Promoting the use of empirical method to better understand clients have been positively received by FSPs. Although the process has been long and tedious, it has been a very rich learning process for FSPs which will be useful for their future use. With very few information gathered among MSE, the survey is a rich resource that could be used by stakeholders for policy development. Flexibility on the use of resources for data collection, where third party has been an option when capacity of FSP is limited, is recommended for next phase.

In the pilot testing of innovative services, a range of approach is allowed, whether it comes in product development or NFS. While this approach provides opportunity for customized innovations for FSP, the implementation maybe exhaustive to limited resource of project team. A collaboration with third party microfinance consulting is recommended.

The project has made use of the well-developed modules MMW and SIYB and adapted to the need of MSE. Although it could be readily assumed that MSE does not want to pay extra for the service, CAS has shown interesting result, whereby a significant number of clients would be willing to have business training and assistance with a charge, either fully or partially (subsidized). It would be important in the pilot test to explore various scheme for funding the training. It could provide important insights on how FSP could run BDS program sustainably.

Involvement of stakeholders at provincial and national levels to guide and monitor the implementation of the project has been obtained. In improving capacity of government to oversee SPM and assessing socio economic impact of bundling, trainings have been conducted to the staff of OJK. Further discussions need to be conducted with stakeholders on the level of readiness of stakeholders to oversee SPM. Discussions need to lay out concrete goals and plans with consideration of what is feasible according to government priority program. In this regard, it is recommended that the project team work closely with CMEA as the coordinating role of the ministry could facilitate the coordination with relevant parties.

OPPORTUNITY FOR SCALING UP

Opportunity for the project for scaling up comes from the increasing interest among FSPs to develop client-centric service to MSE. Facing higher competition, FSPs want to provide competitive service with client-centric innovations.

The strategy to involve FSP in the development of MSE provides a scalability and sustainability set up. The program enhances and promotes a mutually beneficial relationship that already exists between MSE and FSP whereby productivity of MSE is a direct benefit to the business of FSP. With limited resources in FSP, the target to improve productivity among MSE nees to focus on the development of NFS in FSPs and less on the integration of SPM.

In the next phase of the project, manufacturing sector could be targeted. By nature of business, enterprises in manufacturing sector involves larger number of employees for processing. Thus, effort to promote employment and productivity of MSE may effectively improve employment. Results of CAS shows that a large number of FSP clients are involved in manufacturing business, food and beverages and small-scale garment in particular (see MSE profile), thus suggests the potential of the sector for scaling up. Results of pilot test could be used to guide this strategy.

In building the capacity of FSP to develop the manufacturing sector, the expertise of ILO in the sector, could bring significant contribution to the financial industry. Providing tools for credit analysis, capacity building to FSP staff, and advocacy for incentive scheme to the regulators are areas that could drive the scaling up in the sector which brings the project to its primary focus at the onset.

Considering the potential of both sectors, the project needs to continue to engage both banks and non-banks. Collaboration with BDSP and business communities for sharing of expertise and referral for outreach is recommended. While FSPs resources could be limited, partnership with various entities for the development of their client needs to be encouraged.

LIST OF ACRONYMS

ASBANDA	*Asosiasi Bank Pembangunan Daerah*
BDS	Business Development Service
BMT	*Baitul Mal Tamwil* (Sharia-based financial institution)
BPD	*Bank Pembangunan Daerah*
BPR	*Bank Perkreditan Rakyat*
DNKI	*Dewan Nasional Keuangan Inklusi*
FSP	Financial Service Provider
ILO	International Labor Organization
INKOPSYAH	*Induk Koperasi Syariah*
KSP	*Koperasi Simpan Pinjam* (Loan and Savings Cooperative)
LPC	Local Project Coordinator
MMW	Making Microfinance Work
MoCSME	Ministry of Cooperative Small Medium Enterprises
MoM	Ministry of Manpower
MSE	Micro and Small Enterprise
OJK	*Otoritas Jasa Keuangan* (Financial Service Authority)
PAC	Project Advisory Committee
PERBARINDO	*Perhimpunan Bank Perkreditan Rakyat Indonesia*
PROMISE IMPACT	Promoting Micro and Small Enterprises through Enterpreneurs Access to Financial Services
PSC	Project Steering Committee
RPJM	*Rencana Pembangunan Jangka Menengah*
SECO	Swiss State Secretariat for Economic Affairs
SPM	Social Performance Management
SIYB	Start and Improve Your Business
ToT	Training of Trainers
ToC	Training of Counselors
TPAKD	*Tim Percepatan Akses Keuangan Daerah* (Team on Acceleration of Access to Finance in Regions)
UNPAD	*Universitas Padjadjaran*

INTRODUCTION

Micro and small enterprises (MSEs) have major role in Indonesia economy, comprises almost 99.8 percent of the 57.9 million enterprises in Indonesia. Productivity in these firms, however, were relatively low, contributing only 43% of Gross Domestic Product (GDP). Microfinance sector in Indonesia sees banks (Bank Rakya Indonesia in particular), rural banks, and cooperatives as main financial service providers. Proportion of people with bank account is only 40 percent, and financial access for MSEs is still fairly limited with only 19 percent of the total outstanding loans to the firms. While microfinance institutions have mission to support economic development and address poverty reduction few of them are concerned with client level impact.

Promoting Micro and Small Enterprise through Entrepreneurs Access to Finance (PROMISE IMPACT) is a development project designed by International Labor Organization (ILO), funded by Swiss State Secretariat for Economic Affairs (SECO), with the aim to promote employment and productivity by supporting MSE to access financial and non-financial services through capacity development of Financial Service Providers (FSPs). The project was designed with outcomes at three different levels: FSP, MSE, and the regulators (Government of Indonesia or GOI). Outcome 1 aims to improve the service of FSP; Outcome 2 to enhance productivity of MSE; Outcome 3 access of responsible finance is integrated in the regulatory framework. The expected end result of the project is the mainstreaming of social performance in FSP that would encourage wider adoption and replication by FSPs in other regions. The project has selected West and East Java regions for its pilot project, following prompt responses from FSPs and regional government offices.

In the middle of the implementation period, a mid-term review (MTR) is devised to review the following aspects of the project: progress; performance; strategies and implementation modalities chosen; partnership arrangements; constraints and opportunities; highlight opportunities for scaling-up for future project; lessons to improve performance and delivery of project results.

To achieve the objectives of the MTR, review of project documents and stakeholder interviews were conducted. The review of project documents includes Project Summary that explains the design of the project, Goal, Expected Outcomes, Outputs and Activities; Progress Reports (December 2016 and June 2017) that details activities, achievements and challenges of the project.

Interviews were conducted with the project management, ILO headquarter staff, and local project coordinators, to obtain views from the implementer perspectives. The discussions provide better understanding on the design of the project, progress, achievements and challenges faced in the implementation of the project.

Interviews at government national and regional levels gained understanding of the relevancy of the project with government policies and program and saw potential alignment for future planning. Discussions with FSPs were conducted in both West and East Java, and with bank and non-bank (cooperative) financial institutions. To better understand challenges faced by the project, an interview was also conducted with one FSP that has dropped out from the pilot project (BPR Bandung). Third party survey institution interview (*Universitas Padjadjaran* or UNPAD) provide insights on findings and process of CAS and baseline surveys.

Table 1 Stakeholder interviews for MTR

Institution/Respondent	
GOI National Level Banking Supervision OJK International Partnership OJK	**Donor** Swiss State Secretariat for Economic Affairs
GOI Provincial Level Dinas Koperasi dan UMKM Jabar Dinas tenaga kerja Jatim OJK Jabar OJK Jatim	**FSP West Java** Bank BJB BPR Bandung Koperasi BAIK BMT Itqan
Implementing institution ILO project team Country Director of ILO ILO Geneva, Social Finance Programme Provincial Coordinator West Java Provincial Coordinator East Java	**FSP East Java** Bank Jatim BPR Lamongan Koperasi Assakinah **Survey Partner** UNPAD

PROGRESS

In promoting socially responsible financing the project was designed with 3-tiered outcomes, each of which involve different key stakeholders. Outcome 1: to improve the service of FSP; Outcome 2: to enhance productivity of MSE; Outcome 3: access to responsible finance is integrated in the regulatory framework of GOI. Below discussion on progress is based on the last approved logical framework of the project.

The majority of project activities and outputs have been conducted as planned, in spite of few delays at the inception period. At the time of MTR, Outcomes were achieved with varying degrees but most progressed on-track towards the end result, in alignment with the plan.

Outcome 1: Supply of financial and non-financial services by FSPs are better aligned to the needs of MSEs in the pilot areas as a result of innovations and social performance management

The first expected outcome is the improvement of FSP services. Of the five outputs of outcome 1, one output (Output 1.1: improved outreach and services among FSPs) has been completed. Output 1.2 (financial and non-financial innovation pilot tested in FSP); Output 1.3 (the adoption of SPM), and Output 1.4 (development of business case for FSP) are in progress wherein activities are on-going but not completed. Activities of Output 1.5 (events organized and publication) will only be implemented towards the end of the project in 2019. See Table 2 for progress of Outcome 1.

The expected results of Outcome 1 are: FSP experience increased outreach (by 20%), FSPs adopt SPM in their business processes (at least 50% of them); and business case proven (for 50% of partner FSPs). The measurement of these results is not included in the scope of MTR due to the nature of activities and the level of project progression.

Output 1.1 FSPs in the targeted areas of intervention have improved outreach and services

Major activities of Output 1.1 are the identification of partner FSPs and the administration of CAS. The process of selection of FSPs with strong social mission is crucial since outcomes of the project are loaded with social objectives. Efforts at the very beginning of the project were directed to promote the project to potential FSPs and gauge their interest for participation. Project socialization has involved around 80 FSPs in West and East Java.

Cooperatives were the first ones to convey their commitment to participate in the project while the enthusiasm from the banks had been slower. Recommendations has been sought through associations such as *Perbarindo* and *Inkopsyah*, but resulted with minimal information. The support of OJK has been instrumental in convincing the participation from the banks as they accompany the project team in some of the socialization visits. The socialization process to banks took several meetings with different unit managers and senior directors to get their buy-in. Large institutions took longer time before they could join in because of internal bureaucratic and administrative challenges. The process has been facilitated by focal persons assigned by selected banks as per project team request.

The effort to build partnership with FSPs resulted with the participation of 16 FSPs from which 15 received training and conducted CAS. From among the 15 FSPs, 13 have given their commitment to join the pilot projects (six cooperatives, five BPR and two BPDs). Total clients of the 13 FSPs is 929,778 people, with the largest number of clients comes from banking institutions. In anticipation of drop outs, the project management has recruited 13 partner FSPs instead of the targeted 10.

The project originally prioritized the participation of MSE in textile and garments and food and beverages manufacturing sector. It has been a constraint, however, to identify FSPs with a large enough number of clients in these sub-sectors since FSPs in general have large number of clients in trading sector. The project has therefore expanded to include all manufacturing sub-sectors and agriculture sector.

CAS was designed as a tool to help FSPs to better understand their clients, assess the impact of financial services on clients, and to identify need for additional services that client prioritized. These informations were collected as background information for FSP in developing innovative products and services which would be piloted with the support from the project.

Prior to the implementation of the survey, the project provided support to the FSPs in developing the survey instruments and trained the loan officers for data collections. As a result of CAS, more than 2,600 clients have been interviewed, averaging 200 clients per FSP. In the implementation of CAS it was found that banks were not able to deploy sufficient human resources to undertake the surveys. Loan officers prioritized their routine tasks and did the client interviews less frequently. As a result, there were delays that affected the project development process.

Output 1.2: Financial and non-financial innovations pilot tested in 10 FSPs

Pilot projects are planned to test the business case of client-centric service wherein financial and non-financial service is bundled to fulfill the need of the client in the development of their business. In the process of designing improved product and services for pilot projects, findings of CAS were presented and discussed with each of the FSPs individually in workshops. At least five FSP staff members from the FSPs were invited to ensure that results from the survey were widely shared within the FSPs and there was feedback from different departments of the FSP. During these workshops, FSP staff were also briefed on pilot project and proposal templates. Additional in-house briefings were also organized for FSPs to help them prepare the activity and budget plan for their innovative project for improvement of product and services.

Induction workshops have been held with the participation of 15 FSPs. FSPs were briefed on drafting their project proposal based on CAS findings that shows that majority of clients face challenges in financial management and marketing area. FSPs were also introduced to theory of change and the development of results framework. International experts were involved in these workshops.

As a result of the workshops 13 FSPs have submitted proposals to provide bundled services. In the process of implementing CAS, and development of proposals, the pilot projects have been a bit delayed, but efforts has been made to bring it back on track. Further assistance will be provided towards the implementation of pilot project activities, which is planned to be completed by the end of 2018.

Output 1.3: FSPs in the targeted areas adopt SPM to better identify client needs and assess social and economic impact of their services on MSEs

Towards the adoption of SPM, workshops and seminars have been conducted to FSP and key stakeholders. To partner FSPs, SPM was bundled in the 10-day MMW training. SPM has also been a major theme in CAS workshops to FSPs as the initiative builds the capacity of FSPs to understand the clients better and critically assess the results and impact of services rendered to them. Pilot intervention (Output 1.2) is also part of the strategy for mainstreaming SPM. To follow up on SPM implementation in partner FSPs, technical assistance will be conducted for the monitoring and reporting of SPM. This particular activity will be conducted to FSPs who adopt SPM in their organization and is planned for 2018.

Aside of the core partner FSPs, the project has catered to the needs of other FSPs that has the need for capacity building but do not implement pilot project. Among these associate partners, the BPDs received SPM/MMW seminars with the facilitation of ADBANDA and OJK. For the regional government, SPM was introduced to the regional financial access acceleration team or *Tim Percepatan Akses Keuangan Daerah* (TPAKD). In these workshops, TPAKD is introduced to SPM and the benefit of using SPM to monitor the improvement of financial inclusion. The involvement of OJK to endorse SPM in the banking sector would be promoted with the development of marketing tool that is planned to take place towards the end of 2018 and early 2019.

Output 1.4: Business case for FSPs providing new and innovative service(s) established

Towards the testing of the business case for FSP providing new innovative services, scope of work for carrying out the research to measure results has been conducted and research design and methodology has been developed for RCTs. To measure change and results of pilot projects, institutional data and baseline surveys has been conducted in partner FSPs. The test of business case would be conducted after the implementation and evaluation of the pilot projects. These will feed into the assessment of net social-economic benefit of the projects.

In the collection of baseline data, cooperatives have used their resources for client interviews. For the banks, third party resources have been used, i.e. *Universitas Padjadjaran* (UNPAD) in West Java and *Institut Teknologi Sepuluh Nopember* (ITS) in East Java. In this case, banks provide assistance in contacting the clients. The development of survey instrument involved international experts from University of Mannheim. The data collection has used digital tool (tablets).

Output 1.5: Results of providing innovative services to MSEs documented and shared with relevant stakeholders

To make sure that stakeholders are well-informed, dissemination of results of business case and pilot projects will be organized through publication and workshops towards the end of the project. During the MTR, none of the activities of the Output 1.5.

Table 2 Progress of Outcome 1

OUTCOME 1 : Supply of financial and non-financial services by FSPs are better aligned to the needs of MSEs in the pilot areas as a result of innovations and social performance management		
OUTPUT	**INDICATOR**	**PROGRESS**
1.1 FSPs in the targeted areas of intervention have improved outreach and services	Identify partner-FSPs committed to develop innovative services. Provide training to FSPs in carrying out client surveys	• 15 FSPs received training and carried out Client Survey • > 2,600 clients interviewed • Client Survey done and analyzed
1.2 Financial and non-financial innovations pilot tested in 10 FSPs	Identify challenges and needs of the clients (and potential clients) of FSP	• The needs of the clients identified, in marketing and financial aspect
	Provide technical assistance to partner-FSPs to design innovative service(s) that meet the needs of MSEs and address decent work deficits	• 13 FSPs develop proposals to provide bundled services to their clients
1.3 FSPs in the targeted areas adopt SPM to better identify client needs and assess social and economic impact of their services on MSEs	Organize in partnership with MoM and OJK workshop with selected FSPs to set the context of SPM, review and discuss the relevant indicators, as well as the methods for data collection and reporting	• Organized in partnership with OJK workshop with selected FSPs to set the context of SPM • Organized seminars and workshops (including with TKPAD on SPM)
	Provide technical assistance to FSPs to monitor, and report results from SPM:	• 2018
	Assist OJK in developing marketing tools to promote SPM:	• 2018-2019
1.4 Business case for FSPs providing new and innovative service(s) established	Define the scope of work for carrying out the research to measure results	• Research design and methodology developed for RCTs. Now 6 partner FSPs have completed the baseline survey
	Number of FSP projects showing positive net social-economic benefit. Analyze findings using clients level impact data, and carry out cost-benefit analysis (CBA) to test business case for FSPs	• Towards the end of Pilot
1.5 Events organized and publications prepared for dissemination of results	Prepare a report discussing results of the research and lessons learned from FSPs delivering innovative financial and non-financial services Finalize the report and supplementary material including brochures and briefs Launch the final report at a national workshop inviting all the relevant stakeholders and experts	• 2018-2019

Notes: Green highlights are completed; yellow on-going; orange not started

Outcome 2: Enhanced productivity and greater access to services for targeted MSEs through customized interventions

The project is designed to see results at the MSEs level in terms of their improved productivity and access to socially responsible financial service. For this particular outcome, three outputs were devised: improved training module for MSE (Output 2.1), improved management of MSE (Output 2.2), and improved MSE role in influencing local policy (Output 2.3). Of all the outputs, one (Output 2.1) was completed; while two outputs (Output 2.2 and 2.3) are on-going and not completed.

The end targets of the Outcome 2 are: 70% MSEs targeted participate right through the training and coaching cycle of the innovation; 30% MSEs adopt better practices; and 10% MSEs increase in productivity through better management. The measurement of these results is not included in the scope of MTR due to the nature of activities and the level of project progression.

Output 2.1: Training modules adapted to the needs of targeted MSEs and selected sectors

At the beginning of the project, major activities include the development and adaptation of training tools. MMW and SIYB are the two main training courses adapted for the purpose. The project also emphasizes on building local trainer capacities for future expansion of trainings.

The MMW is a ten-day training course to help FSP managers better understand their role, and teach them strategies and measures for improving performance. Five national trainers are certified to deliver MMW training. The impact of the project has also gone beyond the project framework, as trainers have been invited by government and international agencies to train their FSP partners. The SIYB training course developed by ILO for international projects, has been adapted to trainer partner FSP field staff of this project.

SPM training modules has also been devised to help FSPs understand the merits of mainstreaming a double bottom-line approach in their business processes. The training courses are designed with a focus on adult learning methodology.

Output 2.2: Improved transparency, reduced financial risks, and transaction costs among targeted MSEs

To improve transparency, reduce risks and cost among MSEs, FSP staffs will provide classroom training and counseling, starting in 2018. To prepare them for these, Training of Trainers (ToT) of SIYB has been conducted to selected staff of FSPs. Certified national trainers delivered the Training of Trainers (ToT) as part of the pilot project to help loan officers develop skills and techniques to organize classroom training and counselling services. The training course generally runs for 10 days, and attended by around 20 participants each.

Due to limited human resources in banks, pilot projects will only involve business counseling and not classroom trainings. Therefore, loan officers of banks only participated on training of counselors (ToC) and not on ToT. An exception was for Bank BJB who specifically requested for a full ToT for their staff. BJB is running a training center and it is their aim to further build the capacity of their trainers. BJB would like to adopt the ILO training programme owing to its focus on adult learning and participatory approach.

The technical assistance to the clients will be rolled out by FSP staff in 2018. It will include one classroom training and periodic counselling session. It is expected that for counselling loan officer will visit the client seven to eight times during a period of 8-10 months. For the purpose of objectivity of result assessment, FSP staff were not allowed to deliver the training or start the counselling sessions until the baseline data has been collected and clients are assigned to treatment and control groups. Only clients from the treatment group will get technical assistance, during which close monitoring will be conducted to ensure the quality of training according to plan.

Output 2.3: MSEs in selected sectors influence local policies and programes to improve their access to finance

To improve MSE role in influencing local policy and program, support has been conducted to local financial inclusion committee (TPAKD) through consultative meetings and policy dialogue. OJK has been instrumental in organizing this knowledge-sharing events during which findings from CAS are shared and issues of financing for productive sectors was raised. The client assessment surveys have provided useful and rich information which has become the basis for advocacy.

The support to selected intervention to improve access to finance of MSE with high growth potential was planned through BPR Bandung Melati program, but it was pending due to withdrawal of the MFI from the program. Similarly, support was planned for MoM program with BPR Bojonegoro for MSE financing, but the program has been pending also. Alongside with the implementation of innovative projects of FSPs, MSE selection will be conducted and dialogue with MSEs will be explored to make it easier for them to access finance and other services in 2018.

Outcome 3: Access to socially responsible finance is integrated in the national policies and the regulatory framework

Towards the integration of access to responsible financing in the national policies and regulatory framework, three outputs were devised: establishment of steering committee, improved capacity of government to oversee SPM and assessing socio-economic impact of bundling services (financial and non-financial service); socially responsible financial inclusion guidelines developed and shared for future use.

Ouput 3.1: Steering committees to guide and monitor the implementation of the project established and functioning

Steering committees were established at national (PSC) and regional levels (PAC) to provide guidance and monitor progress of the project. Regular six-monthly meetings were organized to update and discuss issues, and reports were disseminated among members. Field visits by committee members was organized, and will be conducted in 2018. To this end, Output 3.1 is nearly completed.

The plan was for MoM to host the project, but after long discussion on relevancy of project goals and activities, it was mutually agreed that MoM not to host the project and instead advised on collaboration with another ministry. ILO has approached other ministries to solicit their interest to host the project, with the CMEA as the likely candidate.

Table 3 Progress of Outcome 2

OUTCOME 2: Enhanced productivity and greater access to services for targeted MSEs through customized interventions		
OUTPUT	**INDICATOR**	**PROGRESS**
2.1 Training modules adapted to the needs of targeted MSEs and selected sectors	Map business development service providers (BDSPs) for TOTs: Undertake a stocktaking exercise, using also evidence from innovation proposals, to identify training modules and tools needed to support MSEs in selected sectors	• Modules of "Make Microfinance Work" and "Start and Improve Your Business" used to equip managers of FSPs to deliver quality services to the clients.
	Develop and/or adapt the existing training modules in partnership with BDSPs and FSPs	• Prepared Start and Improve Business Program (SIYB) and Training of Counsellor Program for FSP staff
2.2 Improved transparency, reduced financial risks, and transaction costs among targeted MSEs	Organize TOTs using modules e.g. Making Microfinance Work (MMW), Start and Improve Your Business (SIYB), Financial Education, Work Improvement in Small Enterprises (WISE) etc.	• Organized ToT and ToC for FSPs using SIYB modules
	Continuously monitor the delivery of training and ensure that trainings and support services to MSEs are delivered according to agreed plans:	• Planned 2018
	Carry out assessments to capture changes in the business processes and operations of MSEs	• Planned 2018
2.3 MSEs in selected sectors influence local policies and programs to improve their access to finance	Organize a series of workshops to create an interface between relevant government agencies, FSPs, BDSPs, representatives of MSEs	• Planned 2018
	Support the efforts of local financial inclusion committees (TPKAD)	• Consultative meetings and policy dialogues at the local level and engaged in TPAKD
	Support selected interventions to improve access to finance for MSEs with high growth potential	• Melati project involving BPR Kota Bandung (pending due to high delinquency); MoM project with BPR bojonegoro (pending).

Notes: Green highlights are completed; yellow on-going; orange not started

Regardless of changes at the PSC level of coordination, the PAC has continued its activities in the two provinces. Strong relationship and good coordination exists between the project and various institutions. There is strong commitment and support for the project, both at the national level and in the target provinces. OJK considers the project to be a model that can be replicated in other provinces.

Output 3.2: Improved capacity of government to oversee SPM and assessing socio-economic impact of bundling financial and non-financial services

To improve the capacity of the government in overseeing SPM and the implementation of bundling services, training and knowledge sharing has been conducted to OJK from all regions in Indonesia. Government counterparts are becoming interested in learning new approaches that the project is trying to introduce. There is willingness to try these approaches by piloting new services and importantly to assess and learn from that experience.

At the provincial level local project coordinators (LPCs) have maintained regular communication with project partners and government institutions. The project has made attempts to synergize activities with the provincial programmes and policies. The provincial government is interested to see the results of this project so that it can be replicated further. One of the key priorities of local government is to support entrepreneurship and access to finance. The project has tried to raise their awareness about the developmental role that finance can play.

Early on, during the selection of FSPs, it was found that a relatively small number of enterprises in the manufacturing sector have access to finance. The government has tried to encourage banks to increase their loan portfolio for manufacturing sector, but banks have been reluctant. In this regard, the project has provided support in the implementation of Marketing and Credit Analysis (MCA) involving around 50 banks. The survey is aimed to help policy makers and FSPs to understand the constraints affecting enterprise financing for manufacturing. Internal procedures, policies, and capacity of staff marketing and processing loans applications were reviewed as part of the survey. UNPAD conducted the survey with technical support from the project. The preliminary findings of the survey have not been released during the period of MTR.

As part of technical support to the regional government, TPAKD were invited to several workshops at which the results of the client assessment surveys were shared with them. TPAKD also participated in trainings on SPM. Most of the TPAKD members are on the PAC, thus they are familiar with the project and receive regular updates from the LPCs.

As part of the mission, OJK officials visited one of the saving and loan cooperatives partnering with the project. The team from OJK was impressed by the client-oriented focus of this cooperative and noted that such an approach should be adopted by BPRs which will help them to achieve better performance. This is a realization that it is possible for FSPs to achieve a double bottom line, which is to deliver better quality services responsibly to their clients while at the same time strive for greater profitability.

Output 3.3: Socially responsible financial inclusion guidelines developed and shared for future use

The project has engaged more with OJK on policy issues, and signed the MoU with OJK which formalizes the relationship between the two institutions. OJK is keen to see the results of the model and has advocated BPRs and BPDs to join the project. The focus on social performance and developmental impact which is relatively a new area for OJK made them interested. As a result, OJK has facilitated capacity development and knowledge-sharing events with associate partner FSPs. Support to OJK to organize workshops to introduce guidelines; and the orientation of FSP research projects, training and knowledge sharing events are planned for 2018.

The MoCSME has been less engaged in discussions and seminars on socially responsible financial inclusion. At the provincial level, however, the Department of Cooperatives and SMEs regularly participated in project events including trainings on SPM.

Table 4 Progress of Outcome 3

OUTCOME 3. Access to socially responsible finance is integrated in the national policies and the regulatory framework		
OUTPUT	**INDICATOR**	**PROGRESS**
3.1 Steering committees to guide and monitor the implementation of the project established and functioning	Develop terms of reference (ToR) for the Project Steering Committee (PSC) and Provincial Advisory Committees (PAC)	• TORs were developed and PSC and PAC established. Chair to be identified after MoM dropped out.
	PSCs and PACs meet to discuss project implementation and provide inputs	• Meetings held with PSC and PAC to review progress and provide inputs.
	Organize field visits and other study visits for members of the PSC and PACs	• Planned 2018-2019
3.2 Improved capacity of government to oversee SPM and assessing socio-economic impact of bundling financial and non-financial services	Provide technical advice and capacity development support to OJK in SPM etc.	• Conducted two training workshops with OJK for members of ASBANDA (Regional Development Banks)
	Organize knowledge sharing workshops with relevant government institutions to assess results from provision of financial and non-financial services on MSE development	• Organized training for OJK staff from all over Indonesia on entrepreneurship and financing for SMEs
3.3 Socially responsible financial inclusion guidelines developed and shared for future use	Provide technical assistance to OJK and other relevant government agencies to develop guidelines on integrating social and economic impact indicators in FSP information and reporting systems.	• OJK participates in capacity development trainings (MMW Training)
	Support OJK to organize technical workshops to introduce guidelines and orient FSPs	• Planned 2018-2019
	Organize a national seminar to disseminate guidelines and project approach in promoting financial inclusion	• Planned 2019

Notes: Green highlights are completed; yellow on-going; orange not started

RESULTS

In the middle of the project, results of each Outcome comes at varying degrees. Major achievements of has come for the Outcome 1 where in interest and commitment from FSP to pilot client-centric service have been obtained and results have been shown at FSP level. Results of Outcome 2 is yet to be seen in second half of the project since major activities have not been conducted at the time of MTR. In Outcome 3, the support from government to promote, guide and monitor the project has been key achievement. Below are discussions on results, highlighting major achievements with notes of what has not been achieved.

Outcome 1: Supply of financial and non-financial services by FSPs are better aligned to the needs of MSEs in the pilot areas as a result of innovations and social performance management

Major achievements on Outcome 1 is in obtaining commitment from FSPs for client-centric program, the implementation of CAS that allows FSP and stakeholders to better understand MSEs, and the laying of the groundwork for testing the business case for FSPs providing new and innovative services. Results of training to FSPs for better services have also shown at varying degrees among the FSPs.

Commitment for client centric service. Promoting SPM in an industry where commercial and profit orientation has been main focus of the business is not a simple matter. Although by nature cooperatives have been client-centric (since their clients are also owners of the organization), many have been driven solely by profit making motives and has been operational for the interest of an exclusive group of people. Engaging the participation of banks has been even more challenging. Banks are strictly regulated by financial authority, and performances are by far measured on financial aspects.

"The program is really in line with what we need. We realize we should stop thinking of making our institution big. We should think of making our clients big, and automatically we will become big. We are now talking about responsible financing." (BMT Itqan, Bandung)

The project has been successful in the socialization of the projects to gain the interest and commitment of FSPs to join in the pilot project through numerous visits, presentations, and lengthy waiting period. Various channels have been involved in the process, the relevant government organization, FSP associations, and networks. Member-based cooperatives who are willing to improve their SPM has joined in. Although it has come at a slower stride, banks have also committed their participation to the pilot project. The rural banks (BPR), regional banks (BPD), conventional and syariah loan and savings cooperatives formed a good mix of FSPs for the pilot projects. Testing the business case around different types of FSPs could resulted with applicability for wider range of FSPs.

Following FSPs commitment for client centric services, with assistance of the project team, FSPs have developed designs for innovative services which will be implemented in the next half of the project. Results of the implementation at MSE level is yet to be seen at the end of the project.

Groundwork has been done for the adoption of SPM in the form of workshops, involving relevant stakeholders. Results of the promotion of SPM is yet to be seen on the second half of the project. Due to the nature of organizations and businesses, the adoption of SPM in banks and cooperatives is expected to be somewhat different in pace and forms.

Improved understanding about client needs. Understanding clients need for improved services is key in financial services, whether for commercial or social purposes. The project has provided opportunity for FSP to learn the process of designing, planning and analyzing client needs assessment through CAS. The management and field staff were trained for the full process and involved in most part of data collection. For many of the partner FSP, it was their first time to conduct such survey and their involvement has been such a learning process.

In the process of implementing surveys, FSPs learn the importance of collecting detail information of clients. FSPs appreciate the survey since they found that it could help them to understand the need of clients. Following the survey, some FSPs have even considered to review their information system. They have come to realize that so far they only have very basic information about their clients. Better information regarding their clients leads them to be better client-centric organizations and give them business opportunities since they now understand the need of their clients.

"The survey activities help us learn to collect comprehensive client information. So far we only have simple information. But if we really want to build capacity of our MSE clients, we need more detail information." (Koperasi BAIK, Bogor)

CAS was intended to measure impact and achievement of the project, but with limited MSE research based information available in the country, CAS is a significant contribution, providing rich information on MSE and their relationship with FSPs. Even though it covers only two provinces (East and West Java), these are among most populated provinces, with a rich dynamic of MSE and microfinance institutions. CAS could provide insights, on which policy makers and other stakeholders could base their decisions.

CAS data shows that MSEs think business development training is important to help them grow their business. So far, they have not received such training from the FSPs they affiliated with. Marketing, quality improvement and financial management are areas they considered most needed. Business counseling combined with classroom training are preferred method of business assistance. Although a larger percentage of clients expect the training to be free of charge, a significant number of them were willing to pay in full or at least partially for such business assistance. So far they have not been affiliated with any organization related with their business, and base their business solely on their limited knowledge.

Manufacturing seems to be potential sector with large percentage of clients involved in the sector, and a sizeable number of them experience reasonable business growth. Clients in manufacturing sector has businesses of processed food and beverages, small-scale garment, handicraft and other manufacturing. Textile also has the highest percentage of business with substantial growth but only a small percentage of FSP clients are involved in this sector. FSPs client have various sizes of businesses, i.e. micro[1], small and medium, with largest number of them in micro businesses. Among these businesses, the larger size of micro businesses seems to experience better growth. A larger percentage of those with loan between

[1] Micro enterprise is defined as a business with maximum asset of IDR 50 million, maximum annual revenue IDR 300 million; Small enterprise has IDR >50-500 million, annual revenue IDR 300 million – 2.5 billion; Medium enterprise has IDR >500 million – 10 billion, and annual revenue IDR 2.5-50 billion. (*Profil Bisnis Usaha Mikro Kecil dan Menengah (UMKM)*, LPPI dan Bank Indonesia, 2015)

IDR 25-50 million and with more than four workers experience business growth compare to those with smaller loan and smaller number of workers.

PROFILE OF FSP CLIENTS

A rich information on client profile has been gathered from CAS, with 2405 respondents from 15 FSPs: 6 cooperatives and 9 banks; 8 FSPs in West Java and 7 in East Java. Profile of FSP clients are typical of microfinance institution clients, with slight differences between geographical area (East and West Java), and larger differences between banks and non-bank clients, that shows a difference in target segment between the two institutions.

Education. FSP clients has relatively low education, with almost half has only junior highschool education and below. FSPs in West Java has relatively lower education compares to East Java, with coooperatives being the lowest.

Source of income. Own business is the main source of income, and seconded by salaried worker; higher percentage of cooperative workers own businesses particularly among FSPs in West Java. Businesses has been operational in a relatively long period.

Business sectors. Highest percentage of businesses are on non processed food and beverages, followed by processed food and beverages, small-scale garment (*konveksi*), and handycraft.

Employees. Majority of the businesses have employed workers instead of daily laborers; with a relatively high percentage of workers are non-family members. Majority of client businesses are not registered, particularly cooperative clients.

Access to finance. Majority of businesses do not have funding at the start of business. Loan sizes of banks are considerably higher than cooperatives. Loans to women are relatively smaller then to men. Largest percentage of businesses have loans IDR 25 million and below. There is a high demand of loan as most of them would want to borrow more if possible.

Business growth. A higher percentage of those with loans between IDR 25-50 millions experienced business growth as compare to those with smaller or larger loan sizes. Textile has the highest percentage of businesses with substantial growth but less client involvement. Food and beverages (processed and non-processed), small-scale garment and handycraft have reasonable percentage of business with substantial growth. Businesses with non-family member workers, particularly those with more than four workers seems to have higher growth compare to those with family member workers, and with less number of workers.

Financial literacy. Financial literacy among clients are low among cooperatives members than banks; and less among clients in West compare to East Java.

Non financial service. Majority of clients do not receive non-financial services from FSPs, while they think receiving business training is important. Marketing, quality improvement and financial management are most important areas for training. Classroom training combined with mentoring/assistance are preferred; a significant number of them were willing to pay at least partially. Majority of clients do not join any business organizations.

Outcome 2: Enhanced productivity and greater access to services for targeted MSEs through customized interventions

Major achievement for Outcome 2 is in the adaptation of training modules and in the implementation of training to FSPs that prepares them for better service to MSEs. Results at FSP level has also been observed. The implementation of training to MSE will come in the second half of the project and results to the productivity of MSE is yet to be seen.

Efforts through consultative meetings with TPKAD have been made towards the improvement of MSE influence on local policies. It remains unclear, however, how much the MSE have been involved in the effort during the first half of the project. Concrete steps towards the output and outcome needs to be discussed further with stakeholders.

Client-centric management. MMW and SPM training have given management of FSPs ample opportunity to learn how to manage their institution with client-centric service, and learn in detail on strategic approach to cater to MSEs. Bank management receives a lot of institutional development training, but MMW is specific on MSE, which by far lacks in BPDs.

Although training and consultation sessions to MSE were not delivered yet (due to the on-going process of baseline), the implementation of MMW and SPM training in some organization is almost immediate. Partner FSPs have increased knowledge and started to make changes on various aspects of organizations. Among observed changes were in marketing approach, product delivery, BDS planning, loan officer training, MIS, and even organizational structure.

BPR Bandung

“We attended so many trainings before. But nothing compares to MMW training. Very comprehensive and interesting. We make significant changes in our organization after the training. We improve our marketing system. We go out instead of waiting for clients to come to the office. We change the structure of our marketing team, to a more integrated format. Before we have disintegrated system where AOs are specialized under each division. Now AOs do multiple tasks and are integrated under one marketing unit. We equipped them with motorbike. Their salary is increased and more task is given.

Our micro loan is not customized. We have monthly repayment. We have poor repayment. We are considering to change to weekly or bi-weekly. We are hopeful that this will increase our outreach and improve our loan quality.

Right now we couldn’t join the program because we have to fix our internal issues. Also we have only one Director. Others are vacant. We cannot make major decisions.”

SIYB is a well-tested comprehensive training module around business development topic of MSE. The administration and delivery of training have been commended as effective and very engaging. So far, FSPs are interested to develop business development service to their clients but they lack of know-how and expertise. SIYB gave them opportunity to learn the full training content and method of delivery. The training is appreciated by banks and cooperatives. The administration and delivery of training is commended as effective and very engaging. FSPs who already have BDS for several years (like BJB through their PESAT and Koperasi Assakinah with their group strengthening program) could see that this program would improve their BDS by giving them knowledge on a better structured training program.

“This (SIYB training) is exactly what we need. So far we try to provide training for business development to our members, but we realize we need improvement. We hope the training will help us better structure our training.” (Bank BJB, Bandung)

After the SIYB training some FSPs responded with immediate plan and changes. They started to build the capacity of their loan officers in giving business advises to clients. Some started to make improvement in their BDS. One FSP has even made a plan to create videos as training tool for its loan officers.

Outcome 3: Access to socially responsible finance is integrated in the national policies and the regulatory framework

The project has successfully appeal to the interest of key stakeholder to responsible financing concept and attained their active participation in promoting the project for the involvement of FSPs. OJK as supervisory body of banks have given its full support to the project. OJK has joined a number of trips to FSPs and even arrange for numerous seminar and trainings for their staff as well as with FSP beyond the pilot project. The comprehensiveness of the project, involving capacity building to FSPs and to MSE, and the testing of business case have been commended by OJK.

“There are many similar program, but this is the first time for us to see a project conducted in such a comprehensive way. Not just targeted to FSP but to their clients too. We really want to see results of this project.” (OJK)

Results of workshops conducted to OJK staff to improve their capacity to support SPM is yet to be seen in the next half of the project. OJK, however, has conveyed their reluctance to promote the integration of responsible finance to the microfinance policies and regulatory framework. At present priority program is focusing on improving the BPD financial performance, products and segmentation. Further discussions need to be conducted on how responsible finance could better be aligned with the priority program of OJK.

Capacity building to MoCSME as partner for the non-bank have not been conducted sufficiently during the first half of the project and efforts need to be improved. However, MoCSME has better potential for responsible financing integration as it is inherent to the need of their FSPs counterpart as social oriented institutions. Effort in this line would likely shows results in the time frame of the project.

STRATEGY

The goal of PROMISE IMPACT to improve productivity and employment, fits to the priority agenda of the government of Indonesia. Among the nine priority agenda (Nawacita) which is the foundation of Medium Term Development Plan (*Rencana Pembangunan Jangka Menengah* or RPJM) the government aim to improve productivity and economic independency.

The target to improve MSE performance in this project if resulted with replication and scaling up could contribute to several indicators of RPJM. At present the government aims to increase productivity growth of total production of MSME from 3.7% in 2014 to 5-7% in 2019. Proportion of MSME and Cooperative contribution to the GDP is aimed to increase from 6% to 7.5%. Improved productivity of MSME is expected to also impact the government target to provide two million employments per year, and growth of one million new enterprises by 2019.

For the development of MSE, different approaches have been conducted in various government and non-government programs. Programs with direct approach would conduct capacity building directly to MSE through training, counseling, and even funding. In indirect approach, programs are built around the development of supporting agencies that provides services to MSEs. Development of training centers or business communities are common for such approach. With few acknowledgement, FSPs have also conducted MSE development with NFS program. Unlike other institutions, FSP provides a complete scheme, ranging from non-financial and financial services. When planned well, it has the potential of providing the program in sustainable way.

Some FSPs provides business counseling and training to MSE. Some has innovated value chain approach in their financial and NFS. Different business players in a selected value chain is financed and trained, and linked for marketing. Such approach has been observed as beneficial for MSE growth and subsequently the growth of FSP. These attempts however, have been done in a non-empirical manner and without a documented test of business case. Therefore, replication and scaling up of such program has still be a challenge.

PROMISE IMPACT has made a very significant effort to pilot and test the business case of increasing productivity of MSE through financial service and NFS in FSP. Result of the pilot and the test of business case would provide lessons learned in the development of MSE which by far has been very limited in the country.

Financial service industry in general needs improvement in their effort to serve the low-income market. As increasing number of FSP established and operational with the goal to improve economy and welfare of the poor, it is often a question whether their activities have been in line with their mission. In certain regions over-indebtedness issue has been raised as FSP push for their loan targets and put aside the concern of capacity of repayment among borrowers. Responsible financing is an issue that needs attention, both among the financial institutions, and more importantly among the policy makers.

In its effort to promote responsible financing as a mean to drive increased productivity and employment among MSE, the project has been designed as a comprehensive project that targets to see outcomes at three levels: the MSE, the FSP and the GOI. On the demand side, MSE is expected to have improved productivity and improved access to services. On the supply side, FSP is envisaged to have client-centric services that provides innovative financial and non-financial services customized to the demand of MSE. In support to the supply of responsible financing, the government is expected to integrate in the national policy and regulatory framework.

To improve services to align with the need of MSE, FSP has been guided to understand their clients, and develop financial products or non-financial products accordingly. Aside of that, FSPs are trained and guided for improved management for better social performance management. Although the integration of SPM and development of NFS in FSP are complementary objectives which could be achieved with similar activities, their parallel implementation could be overwhelming to an organization.

SPM is a multi-dimensional concept[2] and the level of adoption in business process is expected to vary between FSPs. Each organization has different capacities and ways of translating their social mission into action and aside of that they have priority program on their agenda. The project team needs to be able to see how all these could be integrated to a successful implementation of pilot project. In the case of BPD, the transformational program geared towards MSE productive financing (potentially use financial technology) is in actuality relevant with the goal of the project. Common grounds need to be identified and communicated properly to convince FSPs that SPM is not contradictory to their goals.

While implementing NFS is a relatively structured process, adopting SPM and integrate it in business process could be more complicated, and FSP would need more intense assistance. Considering the timeline of project is relatively short, it is advisable that FSP with limited resources to put SPM integration on hold, and focus on the implementation of NFS and the testing of business case.

[2] SPM six dimensions: 1) Define and Monitor Social Goals; 2) Ensure Board, Management, and Employee Commitment to Social Goals; 3) Design Products, Services, Delivery Models, and Channels That Meet Clients' Needs and Preferences; 4) Treat Clients Responsibly; 5) Treat Employees Responsibly; 6) Balance Financial and Social Performance. (Social Performance Task Force, 2016)

PARTNERSHIP

PROMISE IMPACT has been designed as a collaborative effort that involve government and non-government institutions. From the government side, central and regional government were both involved. Committees that provides guidance and monitoring for the project was formed at national (PSC) and regional level (PAC).

From the banking sector, OJK has been a strategic partner with the Directorate of International Partnership and Banking Supervision actively involved. The later has direct supervisory role to BPRs and BPDs. OJK at national level facilitated collaboration with OJK at the regional level in West and East Java. As coordinator of TPAKD in regional level, OJK has also been instrumental in facilitating project collaboration with the special task force for acceleration of financial access in the region.

Overall, partnership with OJK at national office has been the strongest among other stakeholders. Regular discussion during and outside of SPC meetings has been instrumental in the building of collaboration. Collaboration with OJK at regional level, however, has not been as strong and increased communication has been suggested to improve the collaboration. The role of regional office could be strengthened for the monitoring of project implementation which could come as part of their regular monitoring in banks.

Collaboration with MoCSMEs at national level has been relatively weak. Capacity building activities has not been conducted to the office. The regional offices have been somewhat instrumental in recommending potential FSP to participate in the project, but there has not been further collaboration for capacity building of the office or in the implementation of the project. As MoM lessened its role, collaboration has been more developed with the CMEA. Aside of the periodic PSC, however, there has not been much capacity building activities involving the office.

From the banking sector, collaborations were built with seven BPRs and BPDs--all government-owned. OJK has been instrumental in obtaining the interest of these banks but it seems to still be a challenge to gain participation from private banks at the pilot project stage. Providing NFS and integration of SPM have not been in the mainstream of the banking institution. Results from the pilot project would affect the uptake in scaling up phase.

Partner cooperatives, with the exception of one, are sharia cooperatives (BMT and KSPS). Sharia cooperatives generally operates with religious foundations supporting social objectives. This partnership matches with the objectives of the project. It is recommended that in the scaling up plan, the project would build partnership with credit unions and other Koperasi Simpan Pinjam (KSP), which is part of the cooperative movement with a strong social base. Credit cooperatives (*koperasi kredit* or *kopdit*) in Indonesia are known as co-operative with good track record, in terms of both financial performance and social performance.

Associations have their role in building the capacity of FSP and the project has sought to involve them the capacity building of FSP. ASBANDA (the association of BPD) has been instrumental in the coordination of capacity building of associate partner BPDs. Participation has not been obtained from *Perbarindo* as an association of BPR. The effort to involve them in the identification of partner BPR resulted with minimal outcome. PUSKOPSYAH, PUSKOPDIT and PAKINDO are among associations yet to be tapped for collaboration. In the scaling up of the project, such collaboration would be more important, in gaining the participation of larger number of FSPs.

The ability of FSPs to provide training and mentoring services sustainably are fairly limited. Thus, early on FSPs need to be conditioned to collaborate with BDS providers, business communities as well as on-going government and non-government program. Sharing of technical expertise and MSE referral for financial service are two areas the project could benefit from such collaboration.

Table 5 Partner FSPs and Stakeholders

Bank	Cooperative	Central government	Regional government
Bank Jatim	BMT NU	OJK	OJK Jawa Barat
Bank BJB	BMT Itqan	Dinas Koperasi dan UMKM	OJK Jawa Timur
BPR UMKM Jatim	BMT Ibadurahman	Coordinating Ministry of Economic Affairs	Dinas Koperasi Jawa Barat
BPR Jombang	Koperasi Assakinah	Ministry of Manpower	Dinas Koperasi Jawa Timur
BPR Lamongan	KSPS BAIK		Dinas Tenaga Kerja
BPR Kertaraharja	Puskowanjati		TPAKD
BPR Subang			

There are a number of MSE development program in the regions conducted by various parties, both government and non-government. *Dinas Koperasi Perindustrian dan Perdagangan* regularly conduct training for MSE in various sectors. The regional government office also has large training programs for MSE, e.g. in Bandung, training was targeted to new entrepreneur, a segment that the project may want to consider entering. Similar program by non-government parties could be tapped for collaboration. Collaboration could be in terms of sharing training expertise or in referring MSE for financial services.

For the future, collaboration can be established with non-government institution that supports client-centric FSPs, such as Rabobank Foundation and Opportunity International. These institutions could make reference to potential partner FSP. Additionally, collaboration could be established with projects that provide business assitance to MSE since they have the need to network FSP for financial access for their MSE, e.g. JAPRI and Mercy Corps Striver Program.

BPD transformation program is an on-going national program that has also been an opportunity for the project to collaborate with. The program currently is focusing on several issues such as improving financial performance in promoting productive loan for MSE. The project could provide support in reaching their aim for MSE outreach.

Dewan Nasional Keuangan Inklusi (DNKI) that has the mandate to coordinate the national financial inclusion program is currently pursuing the target of financial inclusion index. The project could potentially synergize by providing tools to FSP in entering un-entered areas and reaching the unbanked. Financial education could be an innovation that could encourage FSP to provide NFS to new regions.

CONSTRAINTS AND OPPORTUNITY

In the implementation of the project several constraints and opportunity were faced. Below are areas where constraints as well as opportunities were found.

Outcome 1: Supply of financial and non-financial services by FSPs are better aligned to the needs of MSEs in the pilot areas as a result of innovations and social performance management

Major hurdle in the implementation of the project is to obtain commitment from banks to join in the project. The project had difficulty in identifying partners to be involved in the pilot project which is caused by a number of factors. Among them is the readiness of the FSP to participate in the program, primarily due to lack of resources which needs to be committed for a long period of time. Involvement in the program requires a commitment to provide resources. Both management and staff needs to give a significant amount of time to join trainings and later in the pilot project implementation.

Being a larger institution with more rigid structure, banks have longer bureaucracy to pass through before they could come to make an agreement for such a long term partnership that needs quite a rigorous human resources involvement. Banks are also closely supervised by stakeholders and are heavily monitored for their financial performance. Management and staff have loads of targets to achieve in monthly basis. Commitment for training, surveys, implementing new or modified NFS would add additional load to staff.

Difficulty to get commitment from FSPs for the project, however, should not be understood as their disinterest to the concept of SPM and client-centric service. In the following seminars organized by OJK for larger audience banks (those who are not involved as partner in the project), there are observed enthusiasms and interests. However, priority internal program requires them to focus their resources, and could not attend to project activities in lengthy period involving a significant number of their staff.

Partner FSP face challenges in their management capacity to adopt client-centric service in their institutions. In integrating SPM into their system, they need to make strategic as well as operational decisions affecting various aspects in the organizations. In doing so, they need closer technical assistance to analyze impact and prioritizing steps in implementing changes.

Banks, being larger institutions, have better outreach. Much more MSEs are reached from the program in banks as compare to cooperatives. Cooperatives are smaller, but more in numbers, and they have better reception to the program. If planned well, replication of program in cooperative could be done in shorter period and at the end the outreach could equal if not more than those of banks.

Outcome 2: Enhanced productivity and greater access to services for targeted MSEs through customized interventions

The project aims to provide support to MSE in manufacturing sector, and thus was searching for FSPs with a significant number of MSE clients in manufacturing sectors. However, it faced challenges as manufacturing sector comprised of only small portion of MSE clients in FSPs. Majority of FSPs catering to the low-income segment are supplying to trading as main sector. This has been a problem, even when we talk about major institution offering KUR, the largest government credit program.

> "Profiling of manufacturing MSEs in FSPs needs relevant legal documentation but many MSEs could not provide this. Usually they are then documented as Trade MSE." (OJK Jabar)

Several factors seem to contribute to the low service to the manufacturing sector. FSP acknowledge that in credit services, their targeting has been skewed from manufacturing sector because of some bias they have on the sector. Loan assessment to manufacturing MSE requires knowledge on business process for more precise judgment on loan. They tend to see manufacturing as a sector that is difficult to assess (for loan) for which they do not have the capacity. When a client has a processing business as well as trading, they tend to register the trading business for loan instead of the processing business.

For the MSE there has been a limitation in registration their manufacturing business. At least in banks, manufacturing business needs to have a business registration to proof their business sector before they could apply for loan. Many small and micro businesses do not have this registration because of few reasons. They consider the process for business licensing lengthy and relatively expensive. They consider it is a waste of time and money to make such registration. Micro business also often changes their type of businesses thus they do not want to make all the effort to register their business when there is possibility to change. In supporting MSE growth the government has in recent years facilitated business licensing process to make it shorter and free of charge, but MSE still lacks of awareness on how and where they could make the process.

Interestingly, manufacturing sectors seems to be a potential sector with CAS data showing a large percentage of clients involved in the sector and a sizeable number of them experience reasonable business growth. Processed food and beverages and small-scale garment industries are two most potential sub-sectors of manufacturing sector, followed by handicraft and other manufacturing (more detail information on this data needs to be further analyzed). Higher percentage of FSP clients in West Java are involved in small-scale garment industry, while more in East Java are involved in processing of Food and Beverages.

CAS data also shows that business with better growth are among the larger size of micro businesses. Considering their loan size and number of workers, business growth is experienced by larger percentage of FSPs client that has loan between IDR 25-50 million and has more than four workers compare to those with smaller and larger loan and smaller number of workers.

In support to the promotion of responsible financing to the MSE in manufacturing sectors several constraining factors need to be taken into account. Capacity of FSP for business assessment, familiarity of potential sectors and licensing process are among important factors that still hinder the deepening of financial service in the sector. Support in these areas would be foundational in promoting the sector. Improvement of MIS that capture more detail information of clients would be an upgrade of FSP in better catering to the need of their clients. Although detail data is captured during loan assessment, it is often not included in MIS, thus making it difficult to conduct further analysis for service purposes. Capturing secondary business information in MIS could improve FSP targeting to manufacturing sector. The sector is often overlooked when treated as additional business aside of trading or service sector and not formally documented in MIS.

Given the large number of MSE in the processing sector, the project has the opportunity to make significant contribution. Programs could be designed around capacity building to FSP on their service for manufacturing MSE such as loan assessment and business licensing. The expertise of the institution could bring in lessons learned in the development of the sector.

Outcome 3: Access to socially responsible finance is integrated in the national policies and the regulatory framework

Constraint in project registration was faced when MoM decided not to host the project due to relevancy of project activities. However, there have been opportunity to collaborate with CMEA and OJK which in this case has been more appropriate as it directly related with their domain. OJK as key stakeholder in the project has been very supportive and open for collaborative effort. The project has obtained support in linking with potential FSPs and in facilitating seminars to wider audience of FSPs. Potentially regional offices could perform monitoring for the bank, as part of the routine monitoring activities performed.

Integrating SPM in national policies, especially for the banking sector, could still be a challenge. The government is still focusing on several other pressing issues, such as refocusing target segment and increasing the performance of FSP on delivering their product and services to the low income segment. Deeper discussion needs to be conducted on how the SPM could be aligned with their priority program and how the project could provide support.

In the non-banking sector, integrating SPM in the regulatory framework has better chance for implementation as FSP are more ready for the adoption. The project needs to work more intensely with MoCMSE to discuss how the implementation could be moved forward. The facilitation of the deputy of increasing competitiveness of cooperative and MSE in CMEA could be beneficial. The deputy is currently very active in synergizing effort from various ministry supporting the development of MSE. There are needs of these program to link with client centric FSPs that could provide continuity to their programs.

Groundwork to involve MSE to influence regional policies has not been conducted effectively. The project needs to connect with associations or business communities and facilitate their discussion with regional government. With focus on manufacturing industry, challenges faced by manufacturing enterprises would be a strategic issue for such deliberation. Challenges on business registration, access to finance, and FSP targeting are topics to discuss.

LESSONS LEARNED AND RECOMMENDATIONS

Outcome 1: Supply of financial and non-financial services by FSPs are better aligned to the needs of MSEs in the pilot areas as a result of innovations and social performance management

Towards the identification of partner FSPs (Output 1.1), direct visit approach has been effective in obtaining commitment from FSPs specially when conducted together with regulators. Promotion through associations have not been effective. Most FSPs are not familiar with SPM approach, and many do not provide NFS. When visited directly, particularly with endorsement from regulators, FSPs are better convinced of the benefit of the program.

Although the service of the bank and non-bank institutions are similar, the stakeholders are different. To ensure maximum benefit of the test of business case, at the end of the project each stakeholders needs to be closely consulted. Round table forums (preferably separated between banks and non-banks) needs to be conducted to ensure concrete steps for scaling up.

Strategically, it is recommended that the project customizes the approach for mainstreaming SPM for banking and non-banking differently due to the level of readiness of FSPs. The banking sector focuses on financial performance and less on social performance. However, banks have increased demand to improve its outreach to the lower income for financial inclusion, thus exploring innovative approaches including the use of digital and financial technology. The project could study potential support to banks in the development of such innovations which are relevant to the integration of client-center services. Considering the readiness of cooperatives for client-centric services, the project could aim for a more structured integration of SPM in FSPs. The introduction of SPM tools to report to internal as well as external audiences could be explored.

When integrating SPM or implementing NFS, the institution financial performance, governance status and human resources setting needs to be looked in a wholistic frame. FSPs may need support in these areas before they could seamlessly integrate SPM or implement pilot project which are new innovations in their institutions. The integration needs to be carefully designed to fit each institutions' priority program, human resource availability, and business processes. Microfinance experts need to be involved in providing technical assistance for FSPs.

Promoting the use of empirical method to better understand clients have been positively received by FSPs. Although the process has been long and tedious, it has been a very rich learning process for FSPs which will be useful for their future use. The collection of MSE data from more than 2,600 respondents have been a result of hard work, starting from devising tools, training of FSP on design and data collection, and monitoring the data collection itself, developing report and disseminating results. The survey could easily be among the largest recent quantitative research on MSE. It is recommended that the survey is used to inform stakeholders for policy development.

In identifying challenges and needs of the clients (Output 1.2), marketing and financial aspect have been identified through a research base CAS. Client needs on quality improvement, however, has come to be a significant need also. As product improvement is key aspect in the marketing mix, it is an area that may need to be addressed in the training and counseling of MSE.

In the pilot testing of innovative services, a range of approach is allowed, whether it comes in product development or NFS. While this approach provides opportunity for customized innovations for FSP, the implementation needs to be conducted carefully. The project needs to ensure the capacity of the team to provide technical assistance since it will need a wide range of skill and expertise. A collaboration with third party microfinance consulting is recommended.

In partnership with stakeholder to promote the adoption of SPM (Output 1.3) the project team has successfully engage with OJK. OJK has been eager to tap the capacity building opportunity for the BPD and BPR. MMW content is fitting to their objective in strengthening these microfinance institutions in better cater to the MSE. The stage where they are at, however, is yet in the strengthening of financial performance and not on the social performance. The goal to promote productivity of MSE is very much relevant with the program of BPD transformation that aims to increase productive loan. The integration of SPM, however, would need to be put on hold yet, since it may absorb resources that is needed in the current program. Capacity building of the counter part of the non-bank (MoCSME) needs to be developed in the second half of the project, as it has not been sufficiently conducted in the first half. In this effort, the team is recommended to work.

For the testing of business case (Output 1.4) baseline survey has been conducted. Main challenge in the process has been the load of FSP human resources for field data collection. Third party service has been used to collect data and support the analysis, particularly among the banks. Since variation of the profile and status of each institution, the analysis of business case needs to be conducted carefully to consider all aspects that potentially affecting the result. Microfinance experts that understand local context would need to be involved.

Outcome 2: Enhanced productivity and greater access to services for targeted MSEs through customized interventions

The project has made use of the well-developed modules MMW and SIYB and adapted to the need of MSE (Output 2.1). Training is a major component of the project, with almost all components of the project uses the method for capacity building. Although it could be readily assumed that MSE does not want to pay extra for the service, CAS has shown interesting result, whereby a significant number of clients would be willing to have business training and assistance with a charge, either fully or partially (subsidized). It would be important in the pilot test to explore various scheme for funding the training, i.e. free, subsidized and self-funded. It could provide important insights on how FSP could run BDS program sustainably.

Several options for business training needs to be explored further. The quality of training, effectiveness and pricing of Business Development Service Provider (BDSP) as well as the benefit of linking MSE with business communities needs to be studied.

For the capacity building of MSE (Output 2.2) ToT and ToC were mainly delivered collectively in classroom setting whereby all partner FSPs were gathered for training. Gathering all partner FSPs in one classroom for training allow them to learn from each other. For the enhancement of training, however, individual FSP in-house training and coaching has been proposed.

A number of FSPs already have NFS program for their clients, however, they expect the project to enhance their program with better structure, content, planning and delivery. For the newly implementing FSPs, the need for guidance would even be greater. As such FSPs would need handholding process wherein assistance is given for discussing issues in customizing their program to the need of their clients and to the capacity and condition of the institution. Technical assistance following the training would be a key component of the project to guide FSP in implementing what they learn from the training.

Limited time for training and assistance could be enhanced with the use of digital technology. With mobile phone being ubiquitous gadget, it would be interesting to try to make use of the device to support training sessions. Lessons could be made available in e-book or short video clips which could help participants for self-learning following the training. The method could be tried among FSP staff and potentially to FSP clients.

Coordination with partner FSP is key to successful implementation of the pilot project. Communications and coordination with FSP has so far been conducted with FSP staff who attended training and this has been considered insufficient by FSP management. The management prefer to have direct discussions with the project team for coordination and implementation in their FSPs.

To promote the influence of MSE to local policies and program to improve access to finance (Output 2.3), representative MSE may be referred by FSPs. But the participation of business associations or communities in workshops may help promote the participation of MSE. Participation of MSE may want to be focused on priority sector (manufacturing), and in particular the food and beverages and textile subsectors.

TPKAD has not been consistently active in promoting support to MSE for access to finance. Collaboration with OJK as main driver of the task force could help the promotion, involving business associations and communities.

CAS has shown interesting results of reasonable growth of processed food and beverages and textiles business, particularly those larger size of micro enterprises as opposed to the smaller micro enterprises or the small enterprises. This finding needs to be explored further, and interventions to improve their access to finance that will influence local policies is to be taken.

Outcome 3: Access to socially responsible finance is integrated in the national policies and the regulatory framework

Steering committees at provincial (PAC) and national level (PSC) has been formed (Output 3.1) to guide and monitor the implementation of the project. The committees met regularly and discussed progress and issues. The pace of the project activities and the complexity seem to require more communications between members. It has been recommended that increased number of meetings and reporting is to be conducted, i.e. more often than the six monthly period that has been set. While collective project committee meetings are important for coordination, it is also important for the project to keep periodic communication with individual stakeholder offices. This could ensure regular flow of communications for monitoring and input for improving activities for project output.

Stakeholder visits has been beneficial for familiarization of issues around project intervention. Future visits would need to be conducted to observe the implementation of the main activities of the second half of the project, i.e. business counseling and training to FSP clients. Visits needs to be used as an opportunity for FSPs to discuss issues directly with stakeholders. Further observations on segmentations, and sectoral targeting needs to be conducted during this event.

In improving capacity of government to oversee SPM and assessing socio economic impact of bunding services (Output 3.2), trainings have been conducted with OJK for the members of ASBANDA. The training workshops has been introductory in nature. Further discussions need to be conducted with stakeholders on the level of readiness of stakeholders to oversee SPM. Discussions need to lay out concrete goals and plans with consideration of what is feasible according to government priority program. This discussion will then determine the follow up on the development of guidelines (Output 3.3) of socially responsible financial inclusions.

It is recommended that the project team work closely with CMEA in integrating access to socially responsible finance in the national policies and regulatory framework. The coordinating role of the ministry could facilitate the coordination with relevant parties.

In providing support for capacity building for GOI different approaches may need to be applied for the bank and non-banks financial authority. Each have their priority programs and different needs of support in terms of improving regulatory environment for client-centric service. As banking financial authority focuses on promoting financial performance and financial inclusion of BPD and BPR, the project is recommended to form close collaboration to pinpoint potential areas for support which could contribute to the progress and are relevant to promoting client-centric service.

In promoting client-centric service in cooperative sector, the project could go deeper since the sector is by nature operates with focus on social performance. Providing support in development of policy recommendations along with tools for monitoring and supervision may be appropriate measures. There has been a concern for some time, that individuals with solely profit making motive have been using the legality of cooperative as a vehicle to achieve their exclusive goals. The project could make a significant contribution by providing the government with guidelines for SPM and tools to monitor cooperatives to stay align with the spirit of cooperation and social principles. To drive the interest of the FSPs, the project could provide support in developing incentive scheme for SPM.

OPPORTUNITY FOR SCALING UP

Opportunity for the project for scaling up comes from the increasing interest among FSPs to develop client-centric service to MSE. With high competition in their existing market, banks are eyeing the low-income segment more seriously. They want to provide competitive service with client-centric innovations. FSPs needs support in developing their strategic plans and in the subsequent development of products and services that better caters to the segment. It is an opportunity for the project to target these banks in scaling up of the project.

The BPD with its transformational program to cater to MSE with productive loans is an opportunity for project scale up. The project could provide support for strategic plans, product and service development, and risk management. This may include also the development of digital financial service which has their interest recently. In principle, these plans are geared towards better service for the client, particularly for the MSE, thus, it is in line with the project goal. Aside of BPD, BPR are also in similar situation, where they are improving their services in face of tighter competition from commercial banks. The significant number of BPRs and BPDs are opportunity for the project to scale up.

In face of increasing competition, cooperatives are eager to provide more competitive product and services. There is a large number of loan and savings cooperatives with most of them in need for support in developing client-centric services. Many of them also have provided NFS and would like to improve their services. The project could target these cooperatives, and in doing so, could work with secondary cooperatives or associations for collaboration in promoting and monitoring the implementation of SPM.

Next phase

Considering that the MTR was conducted in the middle of the project, where major implementation activities to MSE has not been completed, the information gathered may not be sufficient to propose a complete second stage format. However, some observations have built some recommendations for scaling up of the project.

The strategy to involve FSP in the development of MSE provides a scalability and sustainability set up. Unlike direct capacity building to MSE, involving FSP would allow continuity of mentoring and handholding of MSE. The program enhances and promotes a mutually beneficial relationship that already exists between MSE and FSP. The increase of productivity of MSE induces growth in FSP and a direct benefit to the business of FSP. With improved capacity of FSP, the institution would be able to scale up the outreach and conduct it in sustainable way.

The focus on improving productivity of MSE through FSP, however, should not be conducted with too much additional agenda because FSPs have limited human resources. Implementation of NFS in FSP is sufficient to load FSPs staff, both management and field staff, with additional work. From the development of modules and training, adaptation of business process, to the monitoring and control. When implemented with the integration of SPM, the resources will need to be distributed thinly and efforts may be less effective, impact will be less obvious. Because the implementation of SPM needs even larger effort as it involves various level and aspects of an institution. Therefore, it is recommended that the second stage would focus on the development of NFS in FSPs. SPM promotion could still be conducted but the integration is only proposed to institutions that are ready.

The above situation is true also with the stakeholders. With limited resources, the government is still focus on the improvement of basic performance of FSPs, and less resources could be given to promote SPM. As mentioned before, however, the situation in non-bank industry could be different. The FSP as well as regulator may be more ready for the integration of SPM, and it could even be a priority program. Deeper discussions on this needs to be conducted to confirm readiness of FSP and stakeholders.

In the next phase of the project, manufacturing sector could be targeted. By nature of business, enterprises in manufacturing sector involves larger number of employees for processing. Thus, effort to promote employment and productivity of MSE may effectively improve employment. In addition to that, results of CAS shows that a large number of FSP clients are involved in manufacturing business, food and beverages and small-scale garment in particular (see MSE profile), thus suggests the potential of the sector for scaling up. Results of pilot test could provide more information on the impact of capacity building when services are delivered to manufacturing sector.

As discussed in previous sections, regardless of its potential, FSPs have not tap manufacturing sector effectively. Challenges in understanding the sector, method of gathering of client information, and business registration regulation are among factors that needs to be addressed. In this regard, the expertise of ILO in the sector, would bring significant contribution to the financial industry. Providing tools for credit analysis, capacity building to FSP staff, and advocacy for incentive scheme to the regulators are areas that would drive the scaling up in the sector which has been the primary interest at the onset of the project.

CAS findings shows that business growth is experience more by the larger size of micro businesses compare to the smaller micro businesses or the small businesses. Targeting the larger micro business may result with higher increase of productivity--a hypothesis that needs to be observed during the pilot test and accordingly used in the scaling up plans.

Considering the potential of both industries, the project needs to still engage both banks and non-banks. Among the banks, BPR and BPD would remain potential partner for scaling up. Among the non-banks, scaling up plans need to include more conventional credit and savings cooperatives (KSP) and credit unions, which are known for their outreach to MSEs and interest to implement NFS.

To strengthen BDS in FSP, partnerships need to be built with various entities providing resources for training and counseling. Stock taking and linkage with business communities, BDSP and government training programs needs to be conducted. In addition to that, value chain approach for MSE development which has increasingly been a practice in non-bank financial institutions could be explored for scaling up plan.

Promoting linkages for MSE is a practice that needs to be developed in FSPs. While FSPs resources could be limited, partnership with various entities could support the development of their clients, which in the end will help FSPs to also grow. For continuous institutional development of FSPs, expertise from microfinance consulting organization would be beneficial. Partnership with such organization would be beneficial for FSPs during and beyond project life.