Evaluation Summary

International Labour Office

Evaluation Office

Promoting Micro and Small Enterprises through Entrepreneur's Access to Financial Services (PROMISE IMPACT)

Quick Facts

Countries: *Indonesia*

Final Evaluation: *14th February 2020*

Mode of Evaluation: *Independent*

Administrative Office: *CO-Jakarta*

Technical Office: *ILO Social Finance Programme ENTERPRISES - Geneva*

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Project End: *31st December 2019*

Project Code: *INS/15/04/SWI*

Donor & Project Budget: *SECO – Switzerland, US$ 312.208*

Keywords: *Micro and Small Enterprises, Social Performance management, Non-Financial Services, Financial Services Providers*

Background & Context

Summary of the project purpose, logic and structure

The Project "Promoting Micro and Small Enterprises through Improved Entrepreneurs' Access to Financial Services" [PROMISE IMPACT] was developed to specifically contribute to the ILO's Decent Work Country Programme (DWCP) in Indonesia. The ILO/Indonesia DWCP, which was developed in close consultation with the tripartite constituents and is aligned with the Indonesia Jobs Pact had identified the promotion of adequate financial policies, productive employment and decent work for women and men and youth as some of its priorities. The PROMISE IMPACT project's development objective was "to promote more and better jobs through responsible financial inclusion and promotion of better productivity. The ultimate beneficiaries of the Project were the MSEs in the manufacturing sector even though MSEs from the services sector were not excluded. The focus was on East and West Java as this is where the manufacturing sector in Indonesia, especially in terms of MSEs, is concentrated. The overall purpose was to improve the MSEs performance that would eventually result in more and better jobs. The improved performance was to be a result of a bundled services approach which included offering financial and non-financial products by the FSPs.

To achieve the overall objective and the outcomes contributing to the development objective, the Project worked with the Financial Services Providers (FSPs), policymakers and regulators as well as collaborated with other stakeholders in the sector. Specifically, to achieve the outcomes, the Project worked with 13 FSPs under Outcome 1. These included *Bank Pembangunan Daerah* (BPDs) or Regional Development Banks, *Bank Perkreditan Rakyat* (BPRs) or People's Credit Bank / Rural Bank and financial cooperatives. The work with the FSPs included piloting Non-Financial Services (NFS). The main activity under the pilot included training FSPs on responsible finance/Social Performance Management (SPM), and training of trainers on business management training and business counselling for FSP's staff. Under outcome 2, the trained Accounts Officers from the FSPs trained the Micro and Small Enterprises (MSEs). This was supposed to lead to improved business practices resulting in improved business performance for the MSEs. This bundled service approach that included offering NFS alongside the financial products was also supposed to contribute to the business of the FSPs through improved loan sizes and better repayment rates, etc.

Outcome 3 included interventions at the sector level. The Project worked intensively with the *Otoritas Jasa Keuangan* (OJK)/ Financial Services Authority to raise awareness about responsible finance and social performance management. The aim was to bring policy guidelines to monitor Social Performance Management (SPM) of the FSPs.

The Project focused on East and West Java in view of a heavy concentration of the MSEs. However, the Project's outreach through training and knowledge events on SPM included FSPs from other regions as well.

Present Situation of the Project

The Project, originally designed for 3 years, with an official start in August 2015, ended with a no-cost time extension on 31 December 2019.

Purpose, scope and clients of the evaluation

The aim of the Final Evaluation (FE) was to assess the accomplishments of the end-of – the-project against its goal and its three specific outcomes and to encourage transparency, promote accountability and learning. The learning could be used in preparation for a potential next stage of the Project or in other similar projects. The clients of the FE report include the SECO, ILO (including the Project Team, Indonesia Country Office and Geneva office), OJK, government of Indonesia and the local governments of East and West Java

Methodology of evaluation

The methodology of Final Evaluation (FE) included desk study/document review, key informant interviews and field observation. Key informant interviews included amongst others SECO, Members of the Project Steering Committee (PSC) and Province level Advisory Committees (PACs), PROMISE IMPACT Project management Team and the FSPs. The team also met other relevant institutions involved in inclusive finance in Indonesia such as MicroSave and Strategi Nasional Keuangan Inklusi (SNKI). The evaluation team had discussions with the Project management team to understand, clarify issues and later ratify the findings emerging from the discussions with various stakeholders. Finally, the FE included a validation workshop with relevant stakeholders followed.

Main Findings & Conclusions

Relevance and strategic fit: The Project was found highly relevant and had a good strategic fit with the national priorities as well as with ILO and SECO's own strategies. Micro and Small Enterprises (MSEs) dominate the private sector in Indonesia in terms of numbers and jobs created accounting for more than 99.9% of the total enterprises and for 93.6% of the private sector workforce in 2013. Despite the importance of MSEs to the economy, banks' financing to MSEs stood at 18.3% of their portfolio only in 2014.

In view of this glaring gap, the Project aimed to contribute to the on-going efforts the national government and regulators on imprpving the demand and supply side of the financial inclusion of MSEs. To this end, the Project worked with OJK, the Association of *Bank Pembangunan Daerah* (ASBANDA) and *Perhimpunan Bank Perkreditan Rakyat Indonesia* (Indonesia Rural Bank Association) – some of the most relevant institutions to work with on developing responsible finance, especially in relation to the MSEs.

Validity of Design: The Project's objective was highly valid. It is evidenced by the Project's premise that when MSEs are offered better financial and non-financial services by FSPs, they will be able to improve their business performance and contribute to the more and better jobs. The designed outcomes each of which contributed clearly to the overall development objective were highly valid. Further, outcomes focus on demand, supply and regulatory development aspects of responsible financing.

Outcome 1 focused on improving the products offered by the FSPs to the MSEs. Outcome 2 focused on developing the business capacities of the MSEs which would not just positively impact their business performance but also improve their bankability. Finally, outcome 3 focused on creating an enabling environment in which the FSPs offer more responsible finance and apply the principles of SPM in their operations. As such, the 3 formulated outcomes were relevant and valid.

Project Results and Effectiveness: The Project was effective. Most of the outcome targets were achieved. Under Outcome 1, 13 FSPs offered NFS, compared to a target of 10. Of the 13 FSPs, 8 agreed to incorporate non-financial services in their product suite. The target under this indicator was 50% and it was more than achieved.

Outcome 2 related to the provision of innovative services by FSP to MSEs and aimed at the adoption of improved business practices and performance. The randomized selection of MSEs under this outcome proved to be logistically challenging for the assigned Account Officers (AOs) to offer training and counselling as the MSEs were widely dispersed. The pilot under the Project was of a limited timeframe. However, the FSP staff were trained well by the Project. Within the limited time, the Project trained/counselled 3,333 MSE clients and trained 863 manager level officers. The training for managers included a number of training for the Account Officers of the FSPs who delivered further training to the MSE clients. ILO's training modules such as SIYB, Making Microfinance Work were suitably modified and used for the training. The is evidenced by the very positive feedback received from the MSEs and FSP staff. The training enabled the FSP staff to offer very effective training and counselling to the MSEs.

On Outcome 3 the Project conducted workshops, training and knowledge events to sensitise and disseminate the importance of SPM and responsible finance. The Project conducted sector level studies and the findings and recommendations from these studies were shared and discussed through policy dialogues with relevant government agencies. These would help OJK in fine-tuning policies for creating an enabling regulatory environment for MSE financing. The Project was quite effective in promoting SPM in the financial sector by strategically engaging OJK – which is the most important stakeholder that promotes and regulates financial inclusion.

Efficiency: The Project was highly satisfactory in terms of using resources and efficiency. Despite a time-extension, the Project did not require additional funding to complete its activities. The budget and expenses were managed well, and the Project finished all the activities within the agreed timeframe.

The Project also managed to leverage support from other stakeholders. For example, the Project trained 68 managers from 24 FSPs under the UMi programme while the cost of this training was covered by the Ministry of Finance (MoF). The staff composition was adequate for the Project. External organizations and consultants were hired for specific activities and the mix of inputs provided by Project staff and external organizations/consultants was found to be efficient

Impact and Sustainability: Within a limited time, the Project had a noticeable impact. The Adoption of cash flow significantly improved with an increase of 46% clients. Also, MSE's business performance showed an increase in income of USD166 per month, which is also significant. The impact on the FSPs included a decrease in late loan repayment rates by 7.2%. However, the stakeholders agreed that the Project could have been more impactful for the clients if the project ran longer and the impacts were measured after providing enough time between the inputs and the anticipated results.

From FSPs' perspective, the most widely hailed outcome of the training and counselling was that the FSPs got to understand their clients better. The second most resounding benefit was that the relationship between the AOs and the clients improved – this resulted in many cases in improved repayment behaviour.
From a sustainability perspective, 8 FSPs out of 13 agreed to integrate non-financial services in their product offering for the MSEs, which is another achievement of the Project.

At the sector level, achievements included recognition by major sector players of the value social performance/responsible financing in terms of economic and social dividends for both FSPs and MSEs. However, at the sector level it will take a longer time for institutionalizing SPM.

Recommendations

Main recommendations and follow-up

Expand the Project through a second phase, building on the traction created in the current phase and tapping in on the opportunity to include interventions that could substantially enhance the impact on the FSPs, MSEs and other stakeholders.

Ensure some minimum support till Phase II of the Project starts. Such an interim 'maintenance" phase is to ensure that the Project's achievements do not lose their momentum.

Design a possible phase II Project for a 4-year duration and build sufficient flexibility in the design to allow for updating the results framework and a budget revision after the 1st year, if required.

Depending on needs and capacities, provide a range of SPM support to different FSPs – ranging from basic SPM support to support that includes NFS with business training and counselling

Differentiate between delivery (in-house) v/s distributing/facilitating (use of 3rd party) of NFS and offer more feasible NFS support to FSPs who don't want to offer NFS on their own. Where needed, use third-party service providers for providing in collaboration with FSPs

Increase the range of products for MSEs to cater to different needs for financial services. This may include for example e-learning modules and accounting/financial management apps

Support FSPs with digitalisation and possibly include FinTech companies as partners to increase efficiency in delivering products to the MSEs

Engage with Strategi Nasional Keuangan Inklusi/National Strategy for Financial Inclusion (SNKI) and similar stakeholders to work on establishing a Self-Regulating Organisation (SRO) for institutionalising SPM in the sector