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**SOCIAL JUSTICE
 DECENT WORK**

Promoting Value-Added



Financial Services

Promoting Value-Added Financial Services

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This report presents a synthesis of results and learning accrued from testing value-added financial services for small enterprises in Indonesia. The report draws from the technical assistance provided to several financial institutions across the country and pilot-testing which was carried under the *Promoting Micro and Small Enterprises through Entrepreneurs Access to Financial Services* (PROMISE IMPACT) Project.

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EXECUTIVE SUMMARY

One of the policy objectives of the Government of Indonesia (GoI) is to promote financial inclusion in the country. Financing microenterprises and small businesses (MSEs) is a key priority in the national strategy for financial inclusion (*Strategis Nasional Keunagan Inklusif*). In support of that objective, Promoting Micro and Small Enterprises through Entrepreneurs Access to Financial Services (PROMISE IMPACT) was designed to improve the quality and range of financial services and products for MSEs.

The Project has enabled financial services providers (FSPs) to deliver “bundled” value-added services to MSEs to support their growth and productivity. Bundling financial and non-financial services is an innovative approach for FSPs to differentiate themselves, improve market penetration, and contribute to enterprise development. The Project aimed to mainstream a “double bottom line” approach for FSPs to seek commercial profitability while at the same time pursuing socio-economic objectives.

The main beneficiaries and partners of PROMISE IMPACT were MSEs (final beneficiaries) and FSPs including financial institutions, regulators, policymakers, and other service providers in the industry. The Project aimed to change the relationship between clients and FSPs from being transactional to a partnership. Providing value-added services was seen as a means to engender this new relationship. One of the Project’s expected results was the advancement of social performance of core partners that then encourages wider adoption by financial institutions. The model was designed to help FSPs strengthen an inclusive and responsible financial environment for small businesses.

Following a series of client assessment surveys, 13 FSPs in West Java and East Java were selected as the core partners to develop pilot projects to deliver innovative services, including credit bundled with technical assistance. Certified ILO master trainers provided training on enterprise development, loan appraisal, and risk management. A total of 283 loan officers were trained. Moreover, senior managers of selected FSPs attended several training courses and knowledge-sharing workshops.

The training helped loan officers to become business counselors as well as improve their primary function. After the training, the loan officers held classroom training and counseling sessions with over 3,300 small businesses. Although a broad range of enterprise development topics were covered, technical assistance to clients mainly focused on marketing and financial management. Through a market survey, clients of targeted FSPs had identified these two topics as priorities.

As part of the evaluation process, both quantitative and qualitative assessments were carried out to measure results at the client level, and changes in the capacity of FSPs. Qualitative assessments included a series of peer reviews and individual “clinics” with the FSPs. Through a randomized control trial (RCT), the impact of the Project was measured among the clients.

At the institutional level, the Project was able to help FSPs to become more client-centric. FSPs are now better able to understand the businesses of the clients they are serving. This has helped FSPs to develop tailored products and services. The shift can also help FSPs to increase outreach. Specifically, the capacity of FSPs increased in conducting market research, loan appraisals, and portfolio management.

The Project helped FSPs to better understand the needs of their clients and to translate that into specific social metrics, assess their performance against these metrics, and adjust business strategies and services accordingly. Several FSPs reported improving their management and business practices following the training. Among the core partners, 8 FSPs have already incorporated bundled services as one of their core products.

Interactive games used during the training were very helpful for the clients. The clients considered the training simple and easy to understand and it helped them to broaden their business insights. Client satisfaction among participants was high: approximately 87% of the respondents considered training helpful, while 80% reported the same for counseling sessions. Clients regarded the technical assistance provided by the FSPs as useful. Loan officers rated the interest among clients as 8 and 7 out of 10 for training and counseling respectively.

According to the loan officers, business practices among clients improved as a result of counseling and training. These improvements include clients managing their cash better, improving work procedures, and the use of different marketing tools to increase sales. In some cases, clients increased their daily savings. Clients also better understand the challenges and what they need to do to make their businesses more efficient. Counselors are now better able to measure their clients' ability to pay their loan instalments.

FSP staff are now more familiar with their clients' business cycles and better understand the nature of their businesses. Many loan officers claimed that client loyalty and commitment improved. Loan officers received more referrals to potential new clients. Loan officers felt that greater interaction helped them increase their market. The clients appreciated the assistance of the FSPs in motivating them to develop their businesses. There was also support from village heads who provided meeting rooms for the training sessions.

To triangulate and validate findings collected through qualitative means, the Project assessed the impact at the client level using a randomized control trial (RCT) method comparing clients who received bundled services with those who only had a loan. The impact of the Project was measured at an "intermediate" and "final" outcome level. In the former, the focus of inquiry was the change in knowledge and practices among the clients. Final outcome indicators included changes in loan repayment, revenue, profit, expenditures, and life satisfaction. Overall, there were several positive effects - both at the intermediate and final outcomes- for different sub-groups.

There is a sizable increase in the share of clients who, after the intervention, include a cash flow analysis in their business plans. The increase in the use of cashflow is higher for clients who received counseling which suggests that there is a positive correlation.

Understanding the amount of income being generated, and cash that is moving in and out of the business is critical for planning. Moreover, loan repayments and cashflow of businesses are closely tied to each other. Thus, any improvement in cashflow can mutually benefit the client and the financial institution.

Clients from the trading sector had a higher likelihood (5.9 percentage points to others) to know their payment type (difference significant at the 0.1% significance level). There was also a 15 percentage point increase among clients in the services sector who could correctly answer the question about profit. Knowing the payment type and profit are both good indicators of financial literacy. In terms of the loan payment, it is important that borrowers should know the terms and conditions of a loan. It is not uncommon for borrowers to underestimate the interest or fee that they are paying for loans. An improvement in knowing the loan payment can reduce risks and strengthen consumer protection.

Clients served by one sub-group of FSPs had a higher likelihood (9.6 percentage points) of preparing a business plan. In one of the FSPs, the likelihood of preparing a business plan was even much higher (18.6 percentage points). A larger number of clients now include cashflow, including clients of FSPs with an above average amount of loans disbursed in the last 12 months (4.7 percentage points), FSPs with an above average number of active borrowers (5.4 percentage points), and clients aged between 35 and 50 (6.5 percentage points).

The revenue of clients served by one of the FSPs increased by Indonesian Rupiah (IDR) 22.331 million (USD 1,595) which is a considerable increase. Among a sub-group of clients, profit generated in the last 30 days was higher by IDR 1.667 million (USD 119). The clients included those who had initially reported tough competition as the main business barrier. Furthermore, the same sub-group experienced an increase in profit in the worst month by IDR 1.157 million (USD 82) and an increase in profit in the best month by IDR 2.540 million (USD 181).

Several clients now show a smaller likelihood of loan defaults or late loan repayment. A reduction in loan default or late payment can improve the creditworthiness of a client. On the other hand, FSPs avoid incurring additional costs, which can cut otherwise their profit. Among others, clients who at baseline reported that business brings higher income show a reduction in loan default rate by 7.2 percentage points. Clients who already prepared business plans at the time of the baseline survey were 5.3 percentage points less likely to report late loan repayment

A 9 percentage point reduction in loan default was seen among clients in the manufacturing sector. Compared to trade and household consumption loans, FSPs consider manufacturing and agriculture loans riskier. A decline in loan default rate in manufacturing that is correlated to training and counseling shows that bundling technical assistance with a loan can be an effective strategy to minimize loan defaults in this sector. It is a measure that FSPs can consider to increase the share of lending for manufacturing.

At the policy level, PROMISE IMPACT actively offered advice to national stakeholders on financing schemes for small businesses. Among others, recommendations were given

on harmonizing national and sub-national credit schemes. The Project responded to requests from the government for advice on MSE financing by commissioning two studies that assessed the demand for enterprise credit and to better understand the constraints faced by FSPs in lending to small businesses in the manufacturing sector. The findings and recommendations from these studies were an important input in the national policy dialogue.

As part of the strategy to scale up, good practices and learning from the pilots were shared with over 384 FSPs across the country. To increase the outreach, PROMISE IMPACT forged partnerships with the association of development banks (ASBANDA) and the association of rural banks (PERBARINDO). Responding to the request of the Ministry of Finance, the Project also trained all the implementing partners of the *Ultra Mikro* (UMi). It is a national credit scheme implemented through non-banking financial institutions to improve access to finance for microenterprises.

ACRONYMS

Absindo	Asosiasi BMT Indonesia
ASBANDA	Association of Bank Pembangunan Daerah (BPDs)
BAPPENAS	<i>Kantor Menteri Negara Perencanaan Pembangunan Nasional</i> (Ministry of National Development Planning)
BI	<i>Bank Indonesia</i>
BPR	<i>Bank Perkreditan Rakyat</i> (People's Credit Bank)
BMT	Baitul Mal Tamwil (Sharia-based financial institution)
BPD	Bank Pembangunan Daerah (Regional Development Bank)
CAPI	Computer Assisted Personal Interviewing
CMEA	Coordinating Ministry of Economic Affairs
CSR	Corporate Social Responsibility
DKNI	<i>Dewan Nasional Keuangan Inklusif</i> (National Council on Inclusive Finance)
DokSMEs	Department of Cooperatives & Small Medium Enterprises
EOI	Expression of Interest
F&B	Food & Beverages
FSP	Financial Service Provider
ILO	International Labour Organization
Inkopsyah	<i>Induk Koperasi Syariah</i> BMT
ITS	Institute of Technology Sepuluh Nopember
KSP	<i>Koperasi Simpan Pinjam</i> (Saving & Credit Cooperatives)
MFI	Microfinance Institution
MMW	Making Microfinance Work
MoM	Ministry of Manpower
MoCSMEs	Ministry of Cooperatives and Small Medium Enterprises
MSEs	Micro and Small Enterprises
NPL	Non-Performing Loans
OJK	Otoritas Jasa Keuangan (Financial Services Authority)
OSH	Occupational Safety and Health
PAC	Project Advisory Committee
Perbarindo	Perhimpunan Bank Perkreditan Rakyat
PROMISE IMPACT	Promoting Micro and Small Enterprises through Entrepreneur's Access to Financial Services
PSC	Project Steering Committee

RCT	Randomized Control Trial
SECO	Swiss State Secretariat for Economic Affairs
SMEs	Small and Medium Enterprises
SPM	Social Performance Management
SNKI	<i>Strategis Nasional Keuangan Inklusif</i> (National Strategy for Inclusive Finance)
T&G	Textile & Garments
TOC	Training of Counsellors
TOT	Training of Trainers
TPAKD	<i>Tim Percepatan Akses Keuangan Daerah</i> (Team on Acceleration of Access to Finance in Regions)
UNPAD	University of Padjadajaran
UOM	University of Mannheim

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BACKGROUND



Small enterprises are vital for job creation. Around 99% of business entities in Indonesia are classified as micro and small enterprises (MSEs). MSEs account for almost 94% of workers employed and contribute 42.6% to the national Gross Domestic Product (GDP) of Indonesia.¹ However, productivity in MSEs is quite low. Annual labour productivity growth in small- and medium-sized manufacturing enterprises averages only 1.1%, which is much lower than large manufacturing firms.² Besides regulatory issues, the major challenges faced by MSEs is limited access to financing and weak internal business management.

Less than 30% of small enterprises use bank loans for working capital and only 11.6% of them receive bank financing for investment.³ While the number of small enterprises accessing loans is quite low, the type of loan products offered across different economic sectors is also limited. More than half of the loans are for trade, while manufacturing and agriculture loans amount to only 10.2% and 9.1% of the total respectively.⁴

A small number of MSEs receive business development services as most are unable or unwilling to pay for such services. A limited number of MSEs receive enterprise development services through government schemes, donors programmes, or as part of the corporate social responsibility projects. While attempts continue to promote a market approach for delivering business development services, the outreach of such programmes is quite low.

The Indonesian National Strategy on Financial Inclusion (*Strategi Nasional Keuangan Inklusif*) provides a broad policy framework to improve access to financial services and to increase the number of people/businesses with an account in a formal financial institution. Most Indonesians who need access to credit do so through informal methods at very high interest rates.

The downstream financial sector in Indonesia is often referred to as the “largest microfinance laboratory” in the world. Yet even with a plethora of institutions providing services, there is still a wide gap between demand and supply. A variety of loans, savings and investment products are on offer, but the range for MSEs is limited, and in some cases rather inflexible, and not suitable for business cycles and financing needs of MSEs.

Globally, the rapid commercialization of financial services at the downstream level has helped many financial institutions to reach economies of scale and a high level of profitability. However, this has also led to a “mission drift”. Several downstream FSPs started with a goal to reach low-income households and small enterprises with an underlying aim to support growth and job creation. However, in their quest for high financial profitability, FSPs may be undermining the depth of their outreach. Success is being narrowly defined in terms of higher return on assets, equity, and value for the shareholders. Very few FSPs, even those with a socially defined mission, measure impact at the client level.

1 http://www.depkop.go.id/uploads/laporan/1549946778_UMKM%202016-2017%20rev.pdf

2 http://www.ilo.org/jakarta/whatwedo/publications/WCMS_381566/lang--en/index.htm

3 World Bank Enterprise Survey 2015: <http://www.enterprisesurveys.org/data/exploreeconomies/2015/indonesia#finance--size>

4 OJK bank data October 2018

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PROJECT DESCRIPTION



Promoting Micro and Small Enterprises through Entrepreneurs Access to Financial Services (PROMISE IMPACT) Project was developed in partnership between the Government of Indonesia, the Swiss State Secretariat for Economic Affairs (SECO), and the International Labour Organisation (ILO). PROMISE IMPACT aimed to improve access to financial services for MSEs through three interrelated outcomes:

1. The supply of financial and non-financial services are better aligned to the needs of the MSEs in the pilot areas as a result of innovations and social performance management.
2. Enhanced productivity, improved working conditions, and access to financial and non-financial services for MSEs.
3. Access to socially responsible finance is integrated into national policies and the regulatory framework.

The expected result of the Project was to mainstream social performance with wider adoption and replication by FSPs across the country. West Java and East Java were selected for pilot interventions to design and test products and services for clients that not only contribute to the development of small business but also towards commercial profitability of FSPs.

PROMISE IMPACT supported financial inclusion for MSEs through responsible delivery of products and services from financial institutions that create value, stimulate growth and productivity, while ensuring good financial returns. This “double bottom line” approach was intended for lenders to profit, yet also actively contribute toward socio-economic development.

In implementing the PROMISE IMPACT, the ILO partnered with the Financial Services Authority (*Otoritas Jasa Keuangan*), Coordinating Ministry of Economic Affairs (*Kementerian Koordinator Bidang Perekonomian*), the Ministry of Cooperatives and SMEs (*Kementerian Koperasi dan Usaha Kecil dan Menengah*), selected provincial governments, and coordinated with the National Board on Financial Inclusion (*Dewan Nasional Keuangan Inklusif*). A partnership was also established with the Ministry of Finance (*Kementerian Keuangan Republik Indonesia*) to support the Ultra Mikro (UMi) programme, a national credit scheme that caters to microenterprises that do not qualify for bank loans.

The main beneficiaries of the PROMISE IMPACT were MSEs and FSPs. Many of the Project outputs were geared to build and sustain national capacities. There was no direct financing to FSPs or MSEs for business investment. Instead, the Project offered technical assistance, developed tools, provided advisory services, conducted research and analysis, and provided guidance to Project partners.

In the inception phase, the Project team carried out a series of consultations with the relevant stakeholders at the national level and in the two selected provinces: West Java and East Java. These consultations were very useful in testing the underlying assumptions and continued relevance of the Project.

The centrepiece in the monitoring and evaluation of PROMISE IMPACT was the strategic results framework (SRF). The framework specified deliverables and expected outcomes that the Project aimed to achieve. The monitoring and evaluation process was guided by the following principles:

Results-orientation: The monitoring and evaluation process was designed to measure results. The Project ensured appropriate measurement and assessment of the Project to effectively improve performance and achieve the desired results.

Quality assurance: While the focus was on results, the Project ensured that the activities were carried out effectively, delivery targets were met, and prompt identification of issues and corrective measures were taken.

Accountability: Activities were carried out so that resources were used efficiently and to maximize value for the beneficiaries. To ensure accountability, systems including checks and balances were put in place to track the use of Project resources.

Transparency: Project results were widely disseminated among all the stakeholders in the form of formal reports, briefing notes, and regular meetings with stakeholders to keep them abreast of all the developments.

Learning: Monitoring and evaluation were not only treated as a means for verification but also as an opportunity for learning. Several knowledge-sharing events were organized to share lessons learned and results from the Project.

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PILOT INTERVENTIONS



A series of consultations and information meetings were organized in the selected provinces of Indonesia to solicit interest from financial institutions to partner with the Project. An important criterion for the selection of the FSPs was their social mission, financial performance, outreach, and commitment to promoting client-centric services. PROMISE IMPACT focused on economic sectors that potentially contribute more to economic development and job creation. These included agro-processing, food and beverages, and textiles and garments.

A total of 15 pre-selected FSPs conducted a client assessment survey (CAS) targeting 2,600 respondents. The purpose of this survey was to understand the financial and business management needs of the clients. It was part of a market research to develop bundled services which combined credit and business training. In the end, 13 FSPs agreed to implement pilot projects for testing. Partner FSPs consisted of seven banks (BPRs and BPDs) and six saving and credit cooperatives (KSPs).

To provide enterprise development services to the clients, the Project supported 283 loan officers to go through a trainer of trainers (ToTs) and training of counselors (ToCs) course. The 10-day TOTs and five-day TOCs were based on the ILO training course, *Start and Improve Your Business* (SIYB). Additionally, the managers of the FSPs participated in ILO's *Making Microfinance Work* (MMW) programme which is also a 10-day training course.

Bank Jawa Barat



Bank Jawa Barat (BJB) is one of the regional development banks (BPD) in Indonesia that partnered with PROMISE IMPACT. BJB has branch offices in several provinces. Following recommendations from OJK, BJB was selected to partner with PROMISE IMPACT as part of the "BPD Transformation" program.

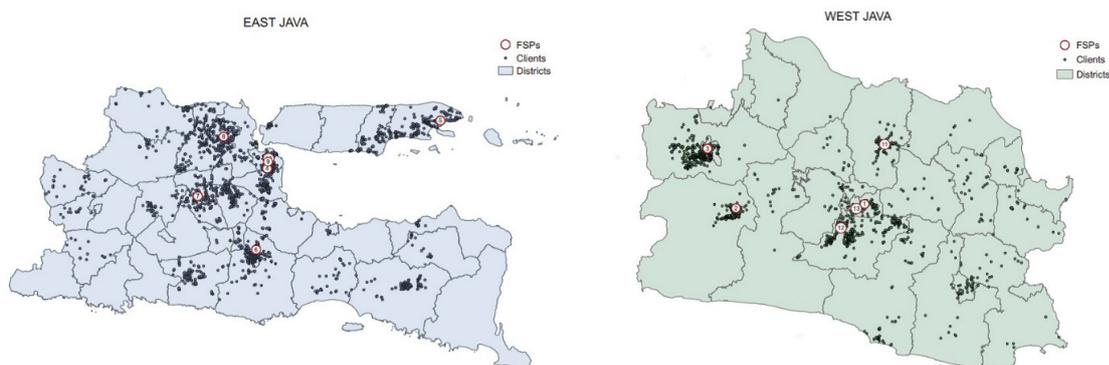
BJB was established in 1960 to assist the West Java provincial government to support the local economy. BJB has assets of approximately IDR 120 trillion (~USD 8,571,429,000). It employs almost 8,000 staff and serves more than 430,000 active clients. BJB offers a range of products for MSEs, consumer banking, and corporate clients.

A total of 15 loan officers from BJB took part in the training of counselors course. Following that, BJB pilot-tested bundled (loan and business coaching) services with 150 clients.

After the pilot testing, BJB decided to adopt counseling as one of their core services. BJB also added the counselors' training module to their existing training course. Subsequently, to help increase their outreach, more loan officers of BJB were trained under the PROMISE IMPACT.

Following their training, the loan officers organized classroom training for clients with a focus on marketing and financial planning. In each training between 15 and 20 clients participated. To the extent possible, loan officers organized training close to where the clients were living or working. The training was highly interactive with modules developed for adult-education. During the initial rollout of training, certified master trainers accompanied the loan officers to observe. At the end of each session, master trainers provided feedback to the loan officers.

Geographical location of clients served in West Java & East Java



Source: Research Report "Does bundling credit and enterprise development services promote growth of micro and small enterprises?"

Unlike classroom training, counseling was provided to the clients individually. The counseling sessions took place at the premises of the business. Usually, the first meeting with the client helped the loan officer to further understand the needs of a client. In the second session, the loan officer and the client usually agreed on an action plan to address shortcomings and measures needed to improve productivity. With continuous encouragement and advice provided during subsequent sessions, the loan officer monitored the extent to which the client implemented the plan.

More than 3,300 MSEs received training and counseling services. During the rollout phase, the Project team continued to support the FSPs by undertaking regular field visits. Several peer-learning workshops were also organized with all the counselors and trainers to share their experiences. To make the workshops more interactive, a 'World Café' method was used. This method mimics an informal café environment with participants sitting at small round tables. At each table, a host was assigned to facilitate discussion. After each session, the participants moved to the next table. After the final session, key findings, good practices, and challenges were drawn up and shared.

An online phone application (whatsapp) was developed for loan officers to report on counseling and training. Regular performance reports generated from this application were shared with the FSP senior management. Through whatsapp, partner FSPs also shared their experiences and received feedback and advice from the Project team. Whatsapp group was also used to send reminders and encourage loan officers to follow their plans closely.

KSSPS Baytul Ikhtiar



KSSPS Baytul Ikhtiar (BAIK) is a saving and credit cooperative from Bogor, West Java. Established in 2008, BAIK currently has 47,600 active clients and 270 staff working in 18 branch offices. With assets of IDR 90 billion (~USD 6,428,571), BAIK products include group and individual lending.

As one of the leading saving and credit cooperatives, BAIK has received recognition from other financial institutions and the local government for its performance. BAIK believes in continuous improvement so that it can provide better services to the members of the cooperative. With that in mind, BAIK decided to join the PROMISE IMPACT Project.

Several loan officers participated in training courses organized under the PROMISE IMPACT Project. Out of the 500 BAIK clients selected to take part in the pilot project, half of them took part in classroom training, while the other half participated in individual business counseling.

Both training and counseling were very well received by the clients. Loan officers have noted that after participating in training and counseling their clients are managing their businesses more effectively. Loan officers have also built a stronger working and personal relationship with their clients. They believe this has led to greater customer loyalty.

BAIK will continue providing business coaching and training to their clients. To do that, BAIK has set up a dedicated unit. BAIK sees it as an investment for the future. As the businesses of their members grow, so will the institution.

POLICY & CAPACITY SUPPORT

4



To forward the integration of access to responsible financing and an oversight mechanism for the Project, a steering committee was established at the national (Project Steering Committee or PSC) and provincial levels (Provincial Advisory Committee or PAC). The key stakeholders in the committees were: OJK, CMEA, MoCSMEs, and MoM. At the provincial level, members of PAC represented the Regional Team to Accelerate Access to Finance or *Tim Percepatan Akses Keuangan di Daerah* (TPAKDs).

PROMISE IMPACT commissioned two important studies to assess the demand for enterprise credit and to better understand the constraints faced by FSPs in lending to small businesses in the manufacturing sector. The findings and recommendations from these reports were an important input in policy formation.

To build the capacity of the government in mainstreaming social performance management (SPM) and the implementation of bundling services, training and knowledge sharing events were organized including relevant staff of OJK from all the provinces of Indonesia. To promote the adoption of SPM, workshops, and seminars were also conducted with several associations of financial institutions.

Capacity development support was seen as crucial for promoting socially responsible finance in national policies and the regulatory framework. The Project helped stakeholders to build analytical capacity, particularly in areas related to SPM and inclusive finance. The results from the research and Project implementation, as well as experiences from other countries, were discussed and shared with the partners.

In the final year of its implementation, the Project focussed on documenting results, knowledge dissemination, and advocating for policy development. The findings from analytical work to assess the implementation of pilot interventions and capacity development were widely shared with the relevant stakeholders. Several knowledge-sharing seminars were organized to present the results and discuss policy options.

5

KEY RESULTS AND IMPACT



This section looks into key achievements and impact from the Project. The results are broadly grouped into institutions and capacity, and client-level impact. Changes observed at the FSP level are qualitative in nature based on observations in the field, self-assessment of FSPs, consultations, and peer reviews among the FSPs. Feedback from the loan officers during the implementation of pilot intervention are also discussed to capture change and results as perceived by those who were directly involved in the day-to-day engagement with the clients. Results at the client level were measured quantitatively through a baseline and an endline survey.

5.1 INSTITUTIONS & CAPACITY

The Project provided several inputs on national and provincial policies concerning inclusive finance. Analytical work supported by the Project fed into policy dialogue at the national and the sub-national level. Studies were commissioned to assess demand for enterprise credit and to better understand constraints faced by FSPs to lend to small businesses. PROMISE IMPACT provided feedback on inclusive finance schemes, while also supporting capacity development at the national and provincial levels.

The Project contributed to policy development and knowledge creation by developing a tested model of service delivery that can be replicated at the national level. The long-term aim which goes beyond the life of the current project phase was to mainstream the model and best practices into the national credit schemes and thereby to strengthen the enabling environment for inclusive finance.

The Project assisted selected FSPs to reorient their focus and incorporate systems and procedures to actively seek positive social change. A set of tools was introduced to the FSPs to develop innovative services for their clients. The Project called for a “credit+” approach that responsibly contributes to economic development.

PROMISE IMPACT worked with the market to stimulate the supply of and demand for MSE services. On the supply side, the Project helped FSPs to better understand the needs of their clients and to translate their mission into specific social or development metrics, assess their performance against those metrics, and adjust their strategies and services accordingly.

BPR Kerta Raharja



BPR Kerta Raharja is a state-owned rural bank located in West Java. Established in 1976, the bank has assets of IDR 320 billion (~USD 22,857,142) with 15 branches serving 10,000 active clients. BPR Kerta Raharja is committed to developing the local economy through different financial products with a focus on agriculture, manufacturing, construction, and trade.

OJK recommended BPR Kerta Raharja as one of the partners to participate in the pilot testing. Out of the 230 employees, 30 loan officers were selected to participate in the PROMISE IMPACT training of counselors.

Following a needs assessment survey, financial management and marketing were identified by clients as the most needed to grow their businesses. The loan officers then delivered individual business counseling sessions to 150 clients over eight months with an average of three visits per client.

After three years with PROMISE IMPACT, BPR Kerta Raharja management is very satisfied with their loan officers' improved performance, client communication, and their ability to understand their clients' businesses.

The loan officers are now more communicative with the management and have better skills to assess the creditworthiness of potential clients. For their improved performance, the management of BPR Kerta Raharja promoted several loan officers to senior positions.

BPR Kerta Raharja is now supporting the loan officers to transfer their knowledge to their colleagues so they too can deliver business counseling in other branch offices. BPR Kerta Raharja plans to have at least one trained loan officer in each branch who can provide enterprise development advice to the clients. BPR Kerta Raharja believes that this will improve client loyalty and help the bank to keep the loan default rate low.

Based on testimonies from the loan officers and site visits by the Project team there were several positive developments. Many FSPs are now better able to understand their clients' businesses. Loan officers reported improvements in business practices as a result of counseling and training. These improvements include clients managing their cash better, improving work procedures, and the use of different marketing tools to increase sales.

Increased daily savings: In some cases, clients increased their daily savings. Counselors are now better able to measure their clients' ability to pay their monthly instalments.

Better target market awareness: Counselors are more familiar with their clients' business cycles and better understand the nature of their businesses. Many loan officers claimed that client loyalty and commitment improved.

Greater interaction: From existing clients, counselors received leads on potential new clients. Loan officers felt that greater interaction helped them increase their market. The clients appreciated the assistance of the FSPs in motivating them to develop their businesses. There was also support from village heads who provided meeting rooms for the training sessions.

BMT ITQAN



Koperasi Syariah
bmt itQan

BMT Itqan is a shariah-based saving and credit cooperative established in 2007. Its mission is to become the most trusted and largest saving and credit cooperative in West Java. BMT Itqan has estimated assets of IDR 48 billion (~USD 3,428,571) and more than 12,000 active clients.

BMT Itqan joined the PROJECT IMPACT to benefit from technical assistance and knowledge. BMT Itqan is always striving to improve services for its members. Following client assessment, BMT Itqan selected financial management and marketing as their clients' most pressing needs. BMT's 12 loan officers then joined the training of trainers and training of counselors course.

For the pilot testing, 300 clients were selected to participate in classroom training and business counseling, which was delivered by a cadre of BMT Itqan loan officers. Although only 12 loan officers were trained, the expectation was that they would be able to share their knowledge with other colleagues. In this regard, BMT Itqan conducted internal training for other loan officers.

After almost three years of collaboration with the ILO, the management of BMT Itqan decided to offer bundled loan products as one of their core services using their financial resources. A new business unit dedicated to providing enterprise services to the members was also established.

Effective training: The training material was comprehensive and appropriate for the market. Interactive games used during the training were very helpful for the clients because they could relate it to their businesses. The clients considered the training simple and easy to understand and it helped them to broaden their business insights. Many clients applied the training directly to their businesses.

To scale up and share best practices, the Project organized joint training sessions for the members of the Association of Provincial Development Banks/*Asosiasi Bank Pembangunan Daerah* (ASBANDA) and the Association of Rural Banks /*Perhimpunan Bank Perkreditan Rakyat Indonesia* (PERBARINDO). A total of 384 financial institutions were trained across the country. Considering the high demand and interest among the banks, all the training courses were delivered on a cost-sharing basis with the concerned associations.

In addition to this, following a request from the Ministry of Finance (MoF), the Project trained all the implementing partners of the *Ultra Miko* (UMi). UMi is a national credit scheme catering to microenterprises that are not able to borrow from banks. This scheme is implemented through saving and credit cooperatives. All the senior managers and responsible loan officers were required to participate in the training programmes organized by the Project. MoF covered the costs for these trainings.

5.2 CLIENT-LEVEL IMPACT

To assess the impact at the client level, a randomized control trial (RCT) was carried out. RCT is considered the gold standard in research. It is a scientifically rigorous method of measuring change that can be more objectively attributed to external intervention. The theory of change that underpinned the research reasoned that change in attitudes will lead to improved practices, which, in turn, can positively impact performance and income of MSEs. As part of the RCT, baseline and endline surveys were conducted by an external research institution.

On average, two out of three interviewed clients were female. A majority of businesses served by the Project are MSEs that generally sell their products directly at a market close to their residence or place of work. The most common loan type among the clients was a business/individual loan. Below are excerpts from the final research report highlighting selected results.

Satisfaction with the pilot amongst the participants was high: approximately 87% of the respondents considered training helpful, while 80% reported the same for counseling sessions. Clients regarded the technical assistance provided by the FSPs as useful. The loan officers were asked to rate the interest of the group (training) or individual (counseling) on a scale of 1 to 10: with 1 showing very low interest and 10 showing very high interest. The average score was 8 and 7 for training and counseling respectively.

There was a sizable increase in the share of clients who, after the intervention, included a cashflow analysis in their business plans. Given the importance of loan repayments and cashflow for a business, this result is quite important and can mutually benefit both the clients and the FSPs. The increase in the use of cashflow is higher for clients who received counseling.

Clients from the trading sector had a higher likelihood (5.9 percentage points) to know their payment type (0.1% significance level). There was a 15 percentage point increase in clients engaged in the services sector who could correctly answer the question about profit. Both of these indicators suggest a clear improvement in financial literacy. With more knowledge, people can make better and more prudent financial choices. Moreover, financial literacy is a key measure to promote consumer protection.

Clients served by one sub-group of FSPs had a higher likelihood (9.6 percentage points) of preparing business or financial plan. In one of the FSPs, the likelihood of preparing a business plan was even much higher (18.6 percentage points). A larger number of clients now include cashflow, including clients of FSPs with an above average amount of loans disbursed in the last

Atik Triningsih (Client of Bank Jatim)

Atik Triningsih started her business manufacturing shoes and sandals in 2015 with support from the Surabaya City Government. She also managed to get an initial loan of approximately USD 1,000 from Bank Jatim. Ibu Atik was one of the clients selected under PROMISE IMPACT to receive business counseling.

Ibu Atik feels that after the counseling she is now more independent as an entrepreneur. She has developed additional product designs to expand her company's market outreach.

Owing to an increase in orders, it is now easier for Ibu Atik to take out new loans to purchase raw materials and obtain other company needs. Recently, she borrowed US\$ 3,500 from Bank Jatim. Ibu Atik now employs seven people.

12 months (4.7 percentage points), FSPs with an above average number of active borrowers (5.4 percentage points), and clients aged between 35 and 50 (6.5 percentage points). These results seem to indicate that besides training and counseling, businesses that are more active, and arguably more experienced, tend to benefit more.

Although the implementation period was relatively short and the endline was conducted immediately after the intervention, there were some positive changes in the revenue and profit of certain clients. The revenue of clients served by one of the FSPs increased by Indonesian Rupiah (IDR) 22.331 million (USD 1,595). There were also cases of increased profit among different client sub-groups.

Profit generated in the last 30 days was higher by IDR 1.667 million (USD 119) for clients who initially reported tough competition as the main business barrier. Furthermore, the same subgroup also experienced higher profit in the worst month: an increase of IDR 1.157 million (USD 82) and higher profit in the best month: an increase of IDR 2.540 million (USD 181). It may be that clients who recognize competition, and one can assume make more efforts to remain ahead, tend to benefit more from training and counseling.

Training and counseling also reduced loan default rate and late loan repayment. Clients who at baseline reported that business brings higher income show a reduction in loan default rate by 7.2 percentage points. Clients who prepared business plans at the time of baseline were 5.3 percentage points less likely to report late loan repayment.

Clients involved in the manufacturing sector show a reduction of 9 percentage points in the loan default rate. Compared to trade and services, loans for manufacturing are considered riskier. The evidence from the research seems to suggest that combining technical assistance with loans can help FSPs to increase market outreach, diversify loan portfolio, and manage risks.

SOFAN HADI (Client of Bank Jatim)

Sofan Hadi, a client of Bank Jatim, has a food catering service in Surabaya. He has been running this business since 2007. Owing to this passion and experience in the food industry, Pak Sofan wanted to open his own business. In the past, he and his wife worked at a large catering company.

Pak Sofan believed that he could be successful. According to Pak Sofan, people should take risks as long as the risks are reasonable. Most of Pak Sofan's customers are from the local government offices in Surabaya and nearby cities such as Gresik and Sidoarjo. Sometimes Pak Sofan gets orders from Bank Jatim.

Pak Sofan was selected to participate in the piloting of bundled services, which Bank Jatim was testing in partnership with the ILO. Pak Sofan joined several business counseling sessions organized by the loan officers of Bank Jatim.

It was a challenge for Pak Sofan to separate business and household finance. "I just did calculations in my head. I thought as long as I can purchase things that I need for fulfilling the order and I have adequate money to pay for household expenses, I thought I was making a profit", said Pak Sofan.

During the counseling sessions with loan officers, he learned that it was very important for him to record every financial transaction. After three sessions, Pak Sofan had already developed a simple bookkeeping system for his business. With this system, it is now easy for him to track his cash and estimate income.

In October 2019, immediately after the business counseling ended, Pak Sofan applied for a much larger loan amount of IDR 200 million (USD 14,200). Previously, Pak Sofan had never borrowed more than IDR 150 million (USD 10,700).

With a bookkeeping system in place, he was able to show the loan officers that his monthly turnover is around IDR 100 million (USD 7,000) with a profit margin of around 20%. Pak Sofan now employs 12 workers. "If there is an increase in orders, I will hire more workers to help me in the kitchen", said Pak Sofan.

6

LESSONS LEARNED



6.1 Training topics can overlap and thus a holistic training approach is needed

The classroom training focused on marketing and financial planning. However, the training often covered other related topics in business management. Various business management topics are interrelated. For example, marketing training cannot be provided in isolation without touching upon product quality. Similarly, financial planning cannot be completely detached from overall business planning. Therefore, while there is more emphasis on one or more topics, enterprise training is best approached holistically. The delivery and feedback from the clients confirmed that this approach is more useful. It is a lesson that can be considered for future enterprise development training or counseling for MSEs.

6.2 Digitalizing part of training and counseling content

Technology can be used to minimize costs and loan officer workload/visits. Given the geographical spread of clients and the labour-intensive nature of delivering training and counseling, some of the training content can be digitized and delivered to the clients through their smartphones. A significant part of counseling is motivational in nature including encouragement, reminders etc. which can be a means to support behavioural change. These elements can be digitized and do not necessarily require a meeting of loan officers and clients. However, considering the type of businesses served, it is important to recognize that a full training or counseling course cannot be delivered online. At least for the time being a model that combines online content along with face-to-face client interaction is likely to be more effective.

6.3 Changing business processes during piloting?

One of the key lessons from the pilots was that the training for loan officers had to be modified so that it helps shape a mindset of seeing advisory support to clients as one of the core functions of the loan officer. Conducting training and counseling helped loan officers to better understand the mechanics within the businesses and identify constraints affecting performance. Ideally, the additional work that loan officers have to manage should be written in the job description with the complete buy-in of the senior management. However, changing business processes or standard operating procedures are not feasible in the pilot testing phase. It can be done after the financial institution has agreed to adopt bundling as part of their business plan.

6.4 Using loan officer knowledge to pursue portfolio growth

The content of training for loan officers should integrate topics that relate to the “core function” of the loan officers. During the implementation of the pilots, one of the concerns of the FSP management was that providing bundled services can constraint loan officers and thereby cut into their time to search for new customers. Bundled services and portfolio growth are not

mutually exclusive objectives. Providing additional non-financial services usually yield results in the longer-term. The knowledge and experience gained by loan officers can be an investment for future. Even in the short-term loan officers can use this knowledge and experience in appraisal of loan applications and monitoring the repayment of borrowers.

6.5 Complexity of working with diverse financial institutions

PROMISE IMPACT worked with 13 independent and largely different FSPs. The degree to which these FSPs implemented the intervention varied greatly. While some FSPs were not able to meet the minimum target of training and counseling, others were so motivated that some spillover to the control groups may have occurred. Both can make it a bit challenging to estimate results. Whereas a random selection of partner institutions is not feasible, further research is needed to understand the institutional characteristics of successful pilots. These characteristics when combined with training and counseling seem to result in more positive change.

6.6 Client training needs and what they value most are difficult to identify

Surveys to find client's needs do not always reveal real priorities or true value. It is possible to do contingency surveys wherein clients are asked their willingness to pay fully or partially for the training/counseling. But again without have experienced it, clients may indicate their willingness to pay during the survey but in practice, they may not want to pay or are willing to pay a portion of the cost.

In the long-term, FSPs can consider revising the interest rate or profit-sharing mechanism to add fees for training/counseling. This can cover part of the cost and if needed the rest can be treated as an expense or taken from the corporate social responsibility budget which many FSPs have.

6.7 Randomizing can complicate the delivery of services and thereby affect outreach

Another lesson learned was that piloting with several FSPs with a large sample of clients can be very challenging. As the results of the pilots had to be measured in a scientifically sound manner using the RCTs, it constrained the FSPs. Randomly assigning geographically dispersed clients meant that loan officers had to work in diffuse locations which not only consumed more time, it increased costs.

Relatively large-scale testing through a diverse group of FSPs requires champions in the FSPs. At the start of the pilot, each FSP was asked to nominate a project manager. While most of the project managers remained committed, some more than others were able to convince the senior management and were thus able to manage the workload of loan officers more effectively.

6.8 Give more time before measuring impact; change is gradual and non-linear

It would have been better to conduct the endline survey at least six months after the pilot intervention. Usually, more time is needed to see the change in practices and performance of

businesses, especially when the intervention is channelled through several FSPs in different geographical locations.

Many small businesses targeted in the pilot have been running for over 10 years. Although they have been borrowing from commercial sources, owners of these businesses are experienced entrepreneurs. Theoretically, young businesses grow faster and then more gradually as they mature. It is important to see client impact in that context.

Across several indicators, the evidence suggests an improvement, and the magnitude of change was reasonable. After participating in training or coaching, clients gradually started to apply that knowledge which led to an improvement in practices. However, in the real world of business, the process was not linear and difficult to see the causality. It takes time for a business to adapt and act and there are many external factors that can also influence results.

6.9 Theory of change and results chain don't always follow stylized causality

RCT can minimize contributing factors, but it is not possible to eliminate all of these effects. The methodology provides a strong scientific basis for linking change to the intervention and thus attribution can be more objectively verified. The "theory of change" that underpinned the research assumed that an increase in knowledge would contribute to better practices which would then manifest in the form of improved business performance.

A fairly comprehensive questionnaire was used to collect data on a range of indicators across the three dimensions viz. knowledge, practices, and performance. However, results suggest that even with very sophisticated tools, it is not easy to capture the results chain. Often clients who showed improved business performance vis-à-vis growth did not always exhibit a positive change in knowledge or practices.

6.10 How policy advice becomes effective?

Policy advice should be grounded in experience that is accumulated locally through engagement with industry players rather than simply drawing it from academic research. One of the strengths of the Project was that analytical research was embedded in the technical assistance for FSPs, regulators, and other stakeholders. Stakeholders including policy-makers and regulators were more receptive to advice that the Project was offering as it was drawn from real experience in the field along with the research work that the Project commissioned. As a result, the Project received many requests from stakeholders for technical support and policy support.



PD. BPR
BANK JOMBANG



PUSKOP BUEKA AS SAKINAH



KOPERASI BAYTUL IKHTIAR



PROMISE IMPACT

Decent jobs through financial inclusion

Promoting Micro and Small Enterprises through Entrepreneur's Access to Financial Services (PROMISE IMPACT) project was developed in partnership between the Government of Indonesia, the Swiss State Secretariat for Economic Affairs (SECO), and the International Labour Organization (ILO). The project supports financial service providers to operationalize development mission into specific metrics, craft strategies, and design services to help small businesses achieve greater productivity, growth, and jobs