



# Promoting Micro and Small Enterprises through Improved Entrepreneurs' Access to Financial Services (Promise Impact)

## Rationale

Indonesia's microfinance industry is among the largest in the world with over 150,000 microfinance institutions, the majority of which are characterized by low growth in outreach and inefficient operation systems. Micro and small enterprises (MSEs) play a significant role in the Indonesian economy. According to recent statistics, MSEs contribute up to 50% of the national GDP while employing 97% of the national workforce. However, despite its huge importance as a job creator and economic driver, investments in MSEs only account for about 25% of the total investment value in the country. Hence, there is a big gap between the MSEs' major role in the economy and the support available for their development, in particular in connection with access to finance. Furthermore, it is also important to note microcredits are in 30% of all cases used for consumption needs. This indicates that increased lending alone to MSEs does not automatically lead to more productive investments. Experience in other countries (e.g. India) showed that the proliferation of supply of microcredits did not take into account the capacity of the borrowers and led clients into over-indebtedness as well as a collapse of the microfinance industry. Microfinance should therefore be fostered with a view to balance both social and commercial objectives. The focus on clients needs to be put at the core of all microfinance operations (often referred to as 'responsible finance' practices) in order to ensure the sustainability of the industry.

## Objectives and activities

The goal of the Promise Impact project is to promote more and better jobs through greater financial inclusion and productivity of micro and small enterprises (MSEs). The project is implemented in two pilot provinces of East Java and West Java.

The following three outcomes have been identified:

1. Supply of financial and non-financial services by financial service providers is better aligned to the needs of MSEs in the pilot areas as a result of innovations and social performance management
  - a. Overall coverage of the 10 partner MFIs (microfinance institutions) is increased by 20% (tentative baseline of 70,000 client MSEs);

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Country/region

Indonesia

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Executing agency

ILO

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Project duration

2015-2018

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Total budget

CHF 2,710,987

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SECO contribution

CHF 2,710,987

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- b. At least 10 partner MFIs introduce a new financial or non-financial service;
  - c. Business case for MFIs providing non-financial services internally, proven for 50% of the partner MFIs.
- 2. Enhanced productivity and greater access to services for targeted MSEs through customized interventions: 10% of the MSEs clients of the partner MFIs (7,000), increase their productivity and capacity to access markets as a result of access to financial and non-financial services (tentative baseline of 70,000 MSEs)
- 3. Access to socially responsible finance is integrated in the national policies and regulatory framework.
  - a. Financial Services Authority (OJK), Bank Indonesia, Ministry of Cooperatives and MSEs, and Ministry of Manpower and Transmigration have at least 4 evidence-based recommendations drafted on how to facilitate financial service/innovations and social performance management for the purpose of financial inclusion and enhanced productivity of MSEs;
  - b. A coordination mechanism in place for more integrated approach on responsible financial inclusion and productivity of MSMEs.

**Governance structure**

The ILO is the executing agency and will implement the activities through a project team, established in a Project Office in Jakarta and two field offices in the selected provinces (East Java and West Java). A Project Steering Committee (PSC) consisting of relevant government counterparts (National Development Planning Agency, OJK, Ministry of Manpower, Ministry of Cooperatives and SMEs), SECO, and ILO meets twice a year to provide strategic guidance and coordination among all stakeholders involved in the project. At the provincial level, a Provincial Advisory Committee is established in each of the pilot provinces to: facilitate the implementation of the project through coordination with local stakeholders; provide recommendations on potential project partners, assist in introductions, and facilitate meetings with them; and serve as the interface with other regional level bodies and forums responsible for promoting inclusive finance.



*Micro and small businesses (MSEs) account for 99.9 per cent of the total number of enterprises in Indonesia and contribute 91.7 per cent to total employment. (© SECO)*