Evaluation Unit

Promotion of Small Financial Institutions (ProFI), Indonesia

Final evaluation 2009 - Brief Report

gtz

On behalf of
Federal Ministry
for Economic Cooperation
and Development

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Tabular overview

The evaluation mission

Evaluation period	September 2009 – February 2010
Evaluating institute / consulting firm	GFA Consulting Group GmbH
Evaluation team	Ulla Törnroos (international expert) Syahril Bermawan (national expert) Steffen Kuhl (international expert)

The development measure

Title according to the offer	Promotion of Small Financial Institutions (ProFi)
Number	PN 2002.2578.9 and PN 1998.2006.9
Overall term broken down by phase	Phase I: 04/1999 – 09/2003 (4 years and 6 months) Phase IIa: 10/2003 – 09/2008 (5 years) Phase IIb´: 10/2008 – 06/2010 (1 year and 9 months)
Total costs	Phase I: 4.4 million EUR Phase IIa: 6.3 million EUR Phase IIb: 2.8 million EUR Total costs: 13.4 million EUR
Overall objective as per the offer, for ongoing development measures also the objective for the current phase	Sustainable access to enhanced microfinance services is broadened by small financial institutions
Leading executing agency(ies)	Bank Indonesia (BI)
Implementing organizations (in the partner country)	Bank Indonesia (BI); Professional Certification Institute for MFIs (Certif); Provincial government and Regional Development Bank (BPD) in Bali; Provincial and district governments in NTB
Other participating development organizations	None
Target groups as per the offer	Poorer population groups, which require financial services (savings and credit) of banks and non-bank microfinance institutions according to market-economy principles

The rating

Overall rating *On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)*	2
Individual rating	Relevance: 1; Effectiveness:2; Impact: 2; Efficiency: 2; Sustainability: 2

Executive summary

On behalf of GTZ, the program “Promotion of Small Financial Institutions (ProFI)” in Indonesia was evaluated by Ulla Törnroos, Syahril Bermawan and Steffen Kuhl from GFA Consulting Group GmbH.

In order to assess the success of the program, a multi-method approach was used. An inception report was prepared based on the analysis of program documents received prior to the field mission. Then the evaluation team travelled to Indonesia from 16 October and 7 November 2009 to carry out the on-site assessment, travelling extensively to areas of greater Jakarta (mainly components 1 and 4), Yogyakarta (mainly component 1), Bali (mainly component 2) and NTB (mainly component 3) in order to make on-site observations. The findings outlined in the report are based on individual interviews conducted during this period with the German and Indonesian program partners, Certif, training service providers in West Nusa Tenggara (NTB) and Bali, associations for small financial institutions receiving assistance from ProFI, and small financial institutions being supported by the program as well as their clients (target groups). Subsequently, the evaluation team carried out further desk research covering the program and background documents followed by report writing.

Since recovering from the 1997 Asian financial crisis, Indonesia has experienced increasingly strong economic expansion and made remarkable progress in achieving and maintaining macroeconomic stability, particularly during the past few years. Although the general economy has made significant strides and the GDP per capita nearly doubled from 2000 to 2009, this has not resulted in significant reduction in poverty levels. Therefore, tackling poverty remains a key challenge for Indonesia.

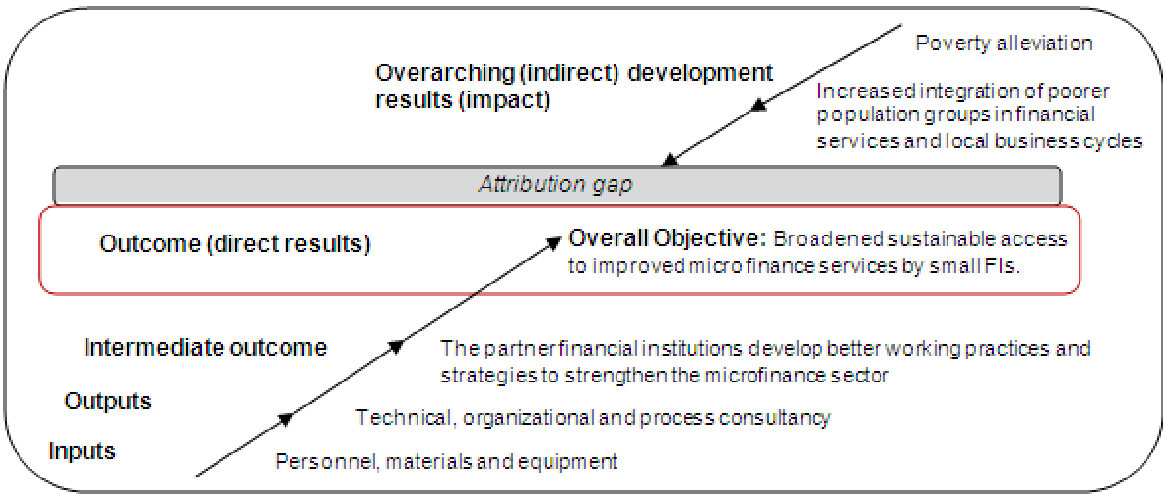
In 2007 there were approximately 44.6 million micro enterprises and 4.2 million small enterprises, most of which are owned and operated by individual households. The micro and small enterprise sector totals over 90% of all enterprises in Indonesia. However, despite the significant growth of the microfinance sector during the past 10 years, more than half of the almost 50 million micro and small enterprises (MSEs) in Indonesia still lack effective access to broader financial services. Against this background, the project evaluators conclude that the **core problem** for the program is valid: *“The majority of the poorer population groups and small enterprises does not have sustainable access to financial services”.*

ProFI started in April 1999 with a focus on improving information about the microfinance sector and on developing new approaches to capacity building within the sector. Towards the end of 2001, the concept was expanded considerably and changed into a program. With this change, the overall objective shifted, moving away from improving the efficiency of microfinance institutions (MFIs) and focusing instead on enabling the customers of MFIs to increase their economic and social living standards in a sustainable manner through better access to financial services. This is supported by the current **overall objective**: "*Broadened sustainable access to improved microfinance services by small financial institutions*". According to the assessment of the evaluators, the overall objective corresponds well to the core problem.

The program has been implemented in essentially three phases with a total budget of EUR 13.4 million. The **overall term** of the project is 11 years and 3 months, from April 1999 to June 2010: Phase I from April 1999 to September 2003, Phase IIa from October 2003 to September 2008, and Phase IIb from October 2008 to June 2010.

The cause/effect hypothesis of the program can be formulated as follows: policy advice at the macro level, strengthening the infrastructure (associations, training providers, supervision) at the meso level as well as the creation of show cases at the micro level, all of which serve to improve access to financial services for the target groups. Both the overall and component objectives and indicators include the needs of the target groups. Consequently, this cause/effect hypothesis is applicable and can be taken as the basis for the evaluation of the entire program (see graph below).

Graph: Results Chain



The success of the development measure is evaluated according to the five OECD/DAC criteria relevance, effectiveness, impact, effectiveness and sustainability. While sustainability is rated on a 4-point scale (from 1 = very good sustainability to 4 = inadequate sustainability) the other criteria are rated on a 6-point scale (from 1 = very good rating to 6 = program is useless, or the situation has deteriorated on balance).

Relevance: The program has been conducted in accordance with Indonesian development goals and is consistent with German development policy priorities. In addition, ProFI addresses the macro, meso and micro level approaches for the sustainable operation of financial systems, which reflects the key BMZ, GTZ and CGAP themes on financial systems development. By strengthening different types of Indonesian small FIs with the capacity to improve their performance and services as well as increase outreach, the development measure aims directly at the needs of the poorer population groups (target groups). The political partner, Bank Indonesia, is the relevant political actor for the development measure. Local circumstances were also taken into account by selecting relevant implementation partners at the component level. In the design of the development measure, cross-cutting issues related to poverty reduction, gender equality and good governance were considered. In conclusion, the relevance of the program concept is rated as very good **(Rating 1 – very good rating)**.

Effectiveness: The effectiveness of the program has been assessed against the performance of the overall indicators and component indicators for the final phase. All indicators for the overall objective “Broadened sustainable access to improved microfinance services by small FIs” have been achieved.

All indicators related to strengthening the Bank Perkreditan Rakyat (BPR – Peoples Credit Bank; rural bank) industry have been achieved or are likely to be achieved by June 2010. As a result, the evaluators think that the BPR industry has been significantly strengthened in its capacity to improve and expand its services. The overall improvement of BPR performance as well as the availability of new products, practices and technologies specifically for BPRs was considered essential (int.).

All indicators related to strengthening the Lembaga Perkreditan Desa (LPD – Village Credit Institution) industry are likely to be achieved. ProFI has provided extensive support to LPDs in Bali. Substantial improvement of the LPD industry has been achieved due to the LPD regulations along with a draft development strategy (Blueprint). In addition, the competencies of both supervisory staff and LPD staff / supervisory members have improved.

Two of the three indicators related to strengthening the MFIs in NTB are likely to be achieved, whereas one is unlikely to be reached. Activities under this component started late and, therefore, only a portion of the indicators will be achieved by the end of last program phase. However, the MFIs in NTB have certainly been strengthened, as shown by the high grades allocated to two of the indicators. Revitalization of the MFIs “Unit Pengelola Keuangan Desa” (UPKDs) and the establishment of a regulatory and supervisory framework for the newly established village owned MFIs “Badan Usaha Milik Desa Lembaga Keuangan Micro” (BUMDes) are remarkable achievements. This has been particularly important as BUMDes were found to be the existing – and primary – finance provider in all of the areas visited by the evaluation team in rural NTB.

Two of the three indicators related to strengthening the Certif Institute are likely to be achieved, whereas one is unlikely to be reached. The required systems for market oriented, sustainable development should be in place before the end of the program. To date nine certification products are offered, just shy of the 10 targeted by the indicator. A positive ancillary outcome has been the development of a broad range of training providers. However, the financial situation of Certif is seen as problematic.

The ProFI program has set key standards in the microfinance sector by creating complementary activities and synergies among the different program components. In summary, even though some of the indicators were not achieved, the overall **effectiveness** of the program is rated good **(Rating 2 – good rating, no significant defects)**.

Overarching development-policy results (impact): Despite the lack of sufficient surveys good impact for all three categories of small FIs – BPRs, LPDs and BUMDes – ProFI support has somewhat contributed to the reduction of interregional inequality, i.e. by providing support to BUMDes located in the comparably poor rural areas of NTB. Improved access to financial services by MSEs has contributed to the development of the local economy. Access to credit and investment possibilities has helped MSEs develop, improving not only their business operations and the entrepreneurs’ living conditions but also that of poorer population groups being employed by the MSEs. Interviews with clients of small FIs supported by the program confirmed that most had improved their living conditions along with integration into formal economic cycles thanks to access to financial services. Some clients interviewed had emerged from poverty to reach adequate income levels. It could not be assessed whether the program had any impact on female participation in business cycles. The program has not contributed to any change in the portfolio structure of the targeted small FIs nor has there been any change in the proportion of loans for rural areas or the agricultural sector. However, due to program support, barriers to market entry have significantly decreased for all supported small FIs. From the outset, all of the targeted MFIs operated according to market-economy principles, so no change has occurred. ProFI supported the creation of protection mechanisms related to BPRs. Both control and supervision of the small FIs supported by the program have significantly improved. With ProFI support, the legal framework has been established for both LPDs and BUMDes, with a view to setting up a legitimate, integrated financial system. Consequently, the program interventions are very likely to have contributed positively towards achieving the desired long term impact and the program impact is rated good (**Rating 2 – good rating, no significant defects**).

Efficiency: The development measure has operated efficiently; therefore the efficiency is rated as good (**Rating 2 – good; no significant defects).** The program structure and composition of the methods of delivery was assessed as generally being appropriate to achieve the program and component objectives. Resources invested compared to the outputs achieved are also considered appropriate. In particular, the increased use of national short-term experts throughout program duration is found to be efficient. Interventions related to strengthening the BPR industry, the LPD industry and the MFIs in NTB have, in general, been efficient and demand-driven. The decision to start in NTB was very lengthy, but the mode of delivery has been efficient since activities began in 2006. Support provided to the targeted small FIs has been given at the macro and meso level. In addition, participating MFIs in NTB received technical support at the micro level. Extensive capacity building in the form of training for MFI managers has been an efficient mode of delivery. Therefore, assistance to small FIs has been an efficient mode of delivery. However, the evaluators are not sure whether the support for MFIs in NTB as a whole was an efficient mode of delivery due to the late start of the activities there. In addition, it would have been useful to capitalize even more on the synergy between the three components supporting the various types of small FIs.

Sustainability: Overall, ProFI has succeeded in establishing sustainable structures in many of the areas supported. Most of the program results relating to the BPR industry can be maintained with signs pointing towards continued improvement; there are no significant risk factors for longer-term sustainability. BPRs now operate more professionally with sustainable structures built at the Directorate for Credit, BPRs and MSMEs at BI, ensuring stronger regulation and supervision of BPRs. Capacity building in the form of training has been acknowledged and sustainable training providers now exist at the regional level. LPDs have also been strengthened and are now able to meet most of the needs of their village residents.

Therefore, the evaluators believe the LPD industry will continue to play an important role in Bali and that LPDs will be able to improve services and broaden their scope. The regulatory and supervisory structures have been set up and training provisions put into place; nevertheless, these structures will need further strengthening in order to become sustainable over the long-term. MFIs in NTB are rated as not yet satisfactory, but this is mainly due to the late start of program activities in this area. Further assistance by an international donor is very important to achieve long-term sustainability. Certif's owners will assure the financial sustainability of Certif; moreover, if corrective measures are put into place during the remaining months of the program, it may be possible to also reach operational sustainability. Summing up, the sustainability of the ProFI program is rated as good **(Rating 2 – with a high probability, the overall success of the program will only minimally decrease but will overall remain significantly positive).**

Overall Program: Overall the program is rated as good **(Rating 2 – good rating, no significant defects)**. This overall rating is derived from a combination of very good relevance, good efficiency, good impact, good effectiveness and satisfactory sustainability.

Recommendations for German development cooperation: (i) The evaluation team recommends that, prior to investing substantial resources in a project GTZ should thoroughly investigate the realistic possibility of achieving each component/project objective; (ii) When supporting the creation of new institutions, it is important to thoroughly verify that the organization being supported has adequate structures in place well before phasing out the program; (iii) It is also important to make sure that the implementing partners agree on each of the project/program objectives so that they support the corresponding activities throughout the promotion of the development measure.

Recommendations to implementation partners: Strong commitment to achieving program goals requires the willingness of the implementation partner to invest adequate resources in order to establish sustainable structures. Furthermore, it is important to request support only for those measures (e.g. new "tools" or concepts) that are considered a high priority. This will ensure that the partners can effectively contribute the resources necessary for successful implementation and achievement of the goals and objectives.

Recommendations to the lead executing agency in Indonesia: A critical element of the program's achievements was the high degree of ownership demonstrated on the part of the executing agency, Bank of Indonesia. Future development measures and cooperative efforts could benefit from this same level of commitment.

Annex: Comparison of target and actual situation

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Promotion of Small Financial Institutions (Sep 2009 – Jun 2010)

Overall objective:

Broadened sustainable access to improved microfinance services by small financial institutions.

Cross-cutting issues

Public Private Partnerships (PPP-1)	Poverty (MSA)	Good Governance (PD/GG-1)	Gender (G-1)	Environment (UR-0)
STATUS: Cooperation with partnerships related to provision of microinsurance and establishing a mobile agent.	STATUS: Improved access to microfinance and savings has some indirect effect on poverty alleviation.	STATUS: Some improvement on transparency and good governance of the microfinance sector.	STATUS: Objectives are not gender focused. However, secondary effects on women might exist.	STATUS: Environmental issues were not addressed by the project. .

Overall Indicator 1:
The number of head offices and branches of BPRs, LPDs und participating MFIs in NTB increased from 3.589 (12/2003) to 4.000.
STATUS: 4,071

Overall Indicator 2:
The number of savings, time deposit and loan accounts of BPRs, LPDs and participating MFIs in NTB increases from 8.7 million (12/2003) to 11.3 million.
STATUS: 11.9 million

Overall Indicator 3:
At least 85% of BPRs, LPDs and participating MFIs in NTB are classified as sound or fairly sound by their supervisory authorities over the whole project period.
STATUS: BPRs 89.8%; LPD 83.5%; BUMDes 100%

Overall Indicator 4:
The high level of satisfaction among clients of BPRs, LPDs and participating MFIs in NTB regarding the quality of financial services, differentiated by gender, is regularly confirmed.
STATUS: Regular customer suveys confirm satisfaction.

Component objective 1:
The BPR Industry is strengthened in its capacity to improve and expand its services.

Indicator 1:
The BPR development strategy and regulations of the central bank support the expansion of the BPR industry and their financial services.
STATUS: Achieved

Indicator 2:
The standard competences of at least 4,000 BPR employees are certified by the Certif Institute
STATUS: 4,849

Indicator 3:
Innovative practices and/or technologies (e.g., m-banking) for increasing access to financial services have been tested by at least 20 BPRs
STATUS: To date 7 BPRs

Component objective 2:
The LPD industry is strengthened in its capacity to improve its services and to develop in a sustainable manner.

Indicator 1:
BPD Bali has a LPD supervision unit, and the competences of its entire supervisory staff at district level have been documented and/or certified.
STATUS: Training completed. Certification not yet started.

Indicator 2:
At least 75% of LPD managers confirm that the BPD offers improved apex services such as refinancing and liquidity management.
STATUS: Studies conducted. Setup of apex services difficult.

Indicator 3:
The competences of at least 1,000 LPD staff/supervisory board members have been certified by the Certif Institute or documented through training certificates.
STATUS: 861 LPD staff/supervisory **board members trained. Certification not yet started.**

Component objective 3:
MFIs in NTB are strengthened in their capacity to develop in a sustainable manner.

Indicator 1:
A regional regulatory and supervisory system, promoting good governance and solid management of non-bank MFIs has been established.
STATUS: Regional regulations issued. Supervisory bodies not yet selected. Transfer of adequate supervision from ProFI not finalized before project end.

Indicator 2:
All supported non-bank MFIs (BUMDes) have 2 staff members each, whose competences have been certified or documented.
STATUS: Training about to start; certification or documentation will follow

Indicator 3:
At least 75% of non-bank MFIs supported by the project have access to project-independent technical and financial assistance.
STATUS: In process, can be achieved by the end of the project.

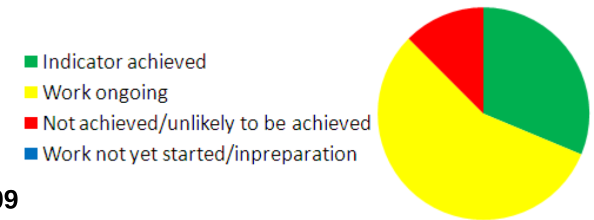
Component objective 4:
The market orientation and sustainability of the Certif Institute are strengthened.

Indicator 1:
Management, HRD and IT infrastructure (MIS, website, exam system) of the Certif Institute meet requirements of a market-oriented and sustainable development.
STATUS: Systems for management and HRD in place. Rest in process

Indicator 2:
The number of training and certification products offered by the Certif Institute increases from 5 (2008) to at least 10.
STATUS: 9

Indicator 3:
The income of the Certif Institute covers its operating costs.
STATUS: True in the past, but uncertain once the program ends.

Current status of activities and outcomes, as per implementation



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KNOWING WHAT WORKS

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