

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

<b>TA No. and Name</b> 3829-INO: Strengthening Business Development Services for Small and Medium Enterprises			<b>Amount Approved:</b> \$1.5 million	
			<b>Revised Amount:</b> \$1.5 million	
<b>Executing Agency</b> National Development Planning Agency ( BAPPENAS)		<b>Source of Funding:</b> Asian Currency Crisis Support Facility ( ACCSF)		<b>TA Amount Undisbursed</b> \$0.019 million
				<b>TA Amount Utilized</b> \$1.481 million
<b>Date</b>			<b>Completion Date</b>	
<b>Approval</b> 9 January 2002	<b>Signing</b> 19 April 2002	<b>Fielding of Consultants</b>  5 August 2002		<b>Original</b> 31 December 2004
			<b>Actual</b> 11 July 2005	
			<b>Closing Date</b>	
			<b>Original</b> 31 March 2005	<b>Actual</b> To be determined <sup>1</sup>
<b>Description</b> In the recovery of the Indonesian economy after the Asian economic crisis in 1997-1998, small and medium enterprises (SMEs) displayed particular resilience. Under the Industrial Competitiveness and SME Development Program (Loan No. 1738-INO for \$200 million, approved in 2000) the Government has prepared a Medium-Term Action Plan (MTAP) for SMEs announced by President Megawati in April 2002. The MTAP highlighted the role of SMEs to broaden the economic base and to accelerate much-needed structural reforms. The TA was designed to provide necessary support to the Government for the implementation of the key recommendations of MTAP				
<b>Objectives and Scope</b> The TA's objective was to promote the growth and development of SMEs specifically by (i) strengthening their capacities through business development services (BDS), (ii) improving business facilitation through simplification of regulations, and (iii) easing SME's access to credit by making available credit information more widely. The TA provided, on a pilot basis, (i) demand-driven quality BDS in line with SMEs' specific requirements and international best practices; (ii) one-stop facility to overcome the regulatory hurdles faced by SMEs, while carrying forward the efforts launched to simplify regulations and licensing procedures through regulatory impact assessment (RIA), and (iii) a study report on the proposed credit information system that will help the banks better assess SME credit risk. The TA covered localities other than those already being targeted by other development partners, i.e., World Bank, IFC, JICA, USAID and GTZ, on the islands of Java and Sulawesi.				
<b>Evaluation of Inputs</b> The 3 TA components required a total of 110 person-months of consulting services, including 34 person-months of international consultants, and 76 person-months of domestic consultants over a period of 35 months. A consortium led by Swiss Contact Services and joined by UFJ Institute and GFA Management made available adequate inputs in line with the terms of reference. The consultant firms' performance was rated satisfactory. EA made an excellent coordination with the consultants and ADB in closely monitoring the TA activities. The performance of EA was rated highly satisfactory. Having assisted TA activities generally closely, the performance of ADB was rated satisfactory. The mid-term review mission and the subsequent tripartite review meeting among EA, ADB and consultant group conducted in November 2003 concluded that overall progress of the TA activities had been satisfactory, but slower than expected because of the Indonesia 's decentralization process that made coordination with participating local governments difficult. Additional inputs were made by IFC and a private Australia-New Zealand consulting firm for feasibility/ scoping study on the credit information bureau. These inputs were also coordinated well.				
<b>Evaluation of Outputs</b> (i) Facilitation of Regional BDS The TA helped 14 BDS providers to offer services to SMEs and microenterprises on a commercially sustainable basis. These BDS providers were introduced to the client SMEs through the publication made under the TA. A successful work in the seaweed sector in South Sulawesi was in cooperation with local technical resource institutions which were motivated to build trust and facilitate cooperation and network between all relevant parties within the value chain, including producers, buyers and financing institutions. Other BDS pilots supported under TA were also generally successful.				
The TA was less successful in promoting the change in the role of local governments from being a direct providers to facilitators due to a) lack of political motivation to relinquish direct delivery of BDS, b) inadequate capacity to identify private BDS providers, and c) unavailability of analysis of specific SME constraints in the area to appreciate the				

<sup>1</sup> The TA amount will be closed after payment of final claims.

irrelevance of generic government BDS.

(ii) Regulatory Climate for SMEs

The regulatory review was conducted at two levels: the center and at the local level. At the central level, development of RIA as an analytical tool to assess the current regulations and licensing procedures was highly appreciated by the Government. However, the produced analytical results did not necessarily led to policy actions to reduce inefficiencies. The local level activities have been more successful using the TA resources and engaging the consultants to help local governments implement changes in the administration. Among the four pilot projects under the TA, assistance to Sragen in Central Java was a typical case where one-stop service office was most successfully established to issue business licenses based on the authority delegated by different local government agencies, and the efficiency in business licensing was dramatically improved by 30-60% depending on the type of license. This successful model was disseminated through workshops conducted under the TA for replication by other local and provincial governments. The TA project also outlined a streamlined process for business registration which would reduce the time necessary to register a limited liability company by 54 business days (30% reduction). The process was recommended to local governments at the workshops.

(iii) Development of a Credit Information System

Facilitating the intensive discussions between the banking associations and Bank Indonesia, the project prepared a detailed scoping study which outlined the framework for the future Credit Reporting System. The study was cofinanced by Bank Indonesia and IFC. It recommended that the credit bureau should cover finance company data, consumer and commercial credit data, and positive and negative credit information. It also recommended that Bank of Indonesia act as the regulatory authority. ADB and IFC participated in the presentation of the detailed scoping study at Bank Indonesia in 2004. Subsequently, Bank Indonesia decided to establish a new Credit Information System which cover not only large and medium size loans but also small loans below Rp 50 million to be participated not only by banks but also the non-bank credit-card providers. Accordingly, BI issued a new regulation in January 2005 on the requirements for banks and financial institutions to submit report to BI.

**Overall Assessment and Rating**

Despite some delay in TA implementation resulting from the need to adjust TA implementation in the context of Indonesia's decentralization, the TA made concrete contributions to help develop competitiveness of SMEs, which was the goal of the TA. The outputs of the TA are resulting in some tangible outcomes, thus, the TA is rated successful. The advisory work for local governments in creating an enabling environment for private sector development as demonstrated in the Sragen and South Sulawesi case studies, development of RIA as an analytical tool, preparation of the ground study for credit information system, and dissemination of these achievements to all stakeholders represent that the TA satisfactorily met its initial objectives. The TA also showed a good example of donor coordination between ADB and IFC in preparing the study on credit information system.

**Major Lessons Learned**

A well functioning one-stop service for business registration cannot be replicated without the strong commitment of local government and local parliament. Local governments also need to have capacity and political will to review and streamline the various licensing procedures. Based on findings of this TA in Indonesian SME context, one should not overestimate the developmental impact of the "demonstrational effects". There is a strong demand from a number of local governments for direct support in conducting RIA or to streamline various licensing procedures. While the TA attracted interest of many stakeholders including local governments, translating such interest to actual actions and political commitment may require additional assistance.

**Recommendations and Follow-Up Actions**

Following the review of business regulatory framework and licensing procedures in selected areas which were undertaken under this TA project, a broader consensus on the new business registration policy can be discussed in a next step to improving nationwide business environment. Given that some concrete proposals were formulated through PPTA No. 2766 - INO: Provincial SME Development, which advocated the need to work closely with other development partners in helping the Government implement such proposals, there is a need to widely disseminate PPTA outputs with the Government together with other development partners.

ADB should also closely monitor the preparations for the establishment of the credit information system, and consider provision of appropriate support as the planned credit information bureau currently under development by BI would cover credit information on SMEs to be provided by a wide range of financial institutions.