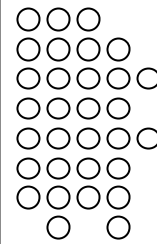


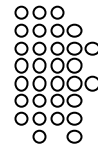
Developing BDS – the Indonesian Experience

Presentation
Turin, September 2002
Peter Bissegger
Swisscontact Indonesia



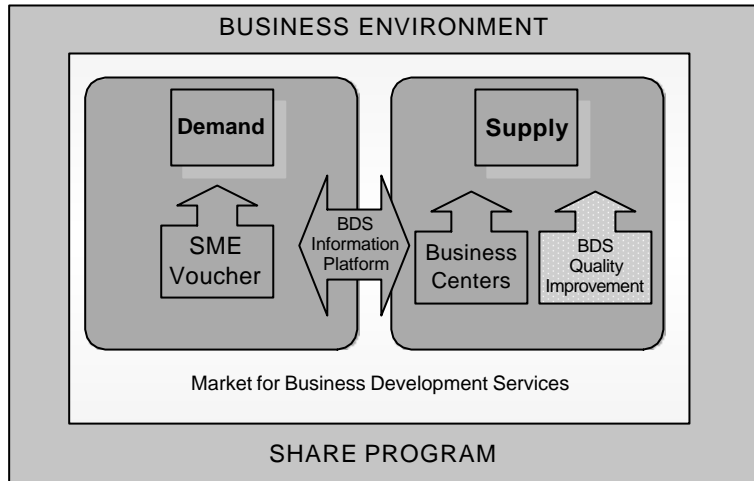

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Challenges in the Indonesian Context

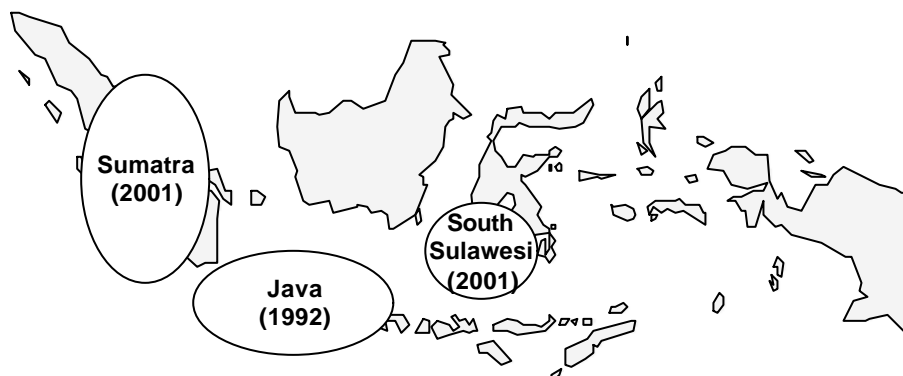


- Country size in terms of population and geographic distances
- Regional disparities – urban - rural
- The economic crisis
 - Collapse of the financial sector
 - Fluctuation and unpredictable exchange rates
 - Unemployment – forced self-employment
- The political changes
 - Decentralization – unclear responsibilities and leadership
 - Unfavorable business environment

Swisscontact' BDS approaches in Indonesia



Project Locations



BDS market – demand-side

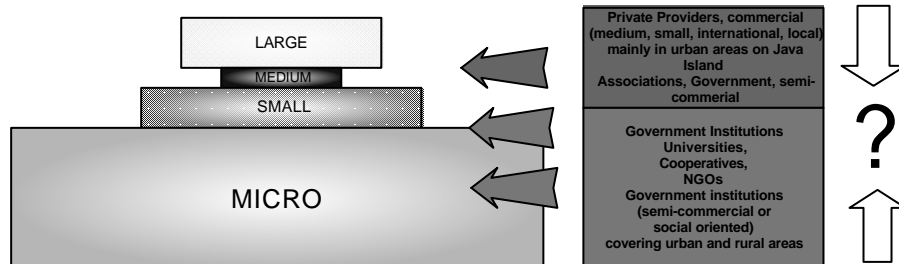


- Overall usage of BDS is still relatively low (15 – 25%)
- The vast majority of SME is willing to pay for BDS (80 to 90%)
- Ability to pay is no major constraint
- **Typical BDS user profile:**
 - Larger and/or older SME, in particular those managed by university-educated external managers or heirs of founder
 - Young and dynamic enterprises (less than five years in business) that are founded and managed by younger university and high school graduates
- **Typical non-BDS user profile**
 - 40-50 years old male entrepreneurs with only primary or secondary school education
 - Small enterprises with less than IDR 50 million turnover ~ (US\$ 6000) per year

BDS market – supply-side



- Types of BDS providers
 - Private companies (medium, small), mainly in urban centers in Java, serving rather medium to large size companies
 - Associations, Cooperatives, Government institutions (training centers, common service facilities, export promotion services etc)
 - NGO, Universities, mainly project funded



Intervention: BDC



A Business Development Center is.....

- A small (starting) company... which can fail or succeed
- A market and customer oriented company
- A specialized company, providing specific services to SMEs
- An independent company with a clear legal set-up
- A cost and profit oriented company
- A company which is determined by their people
- A company which has a mission in providing services to SMEs

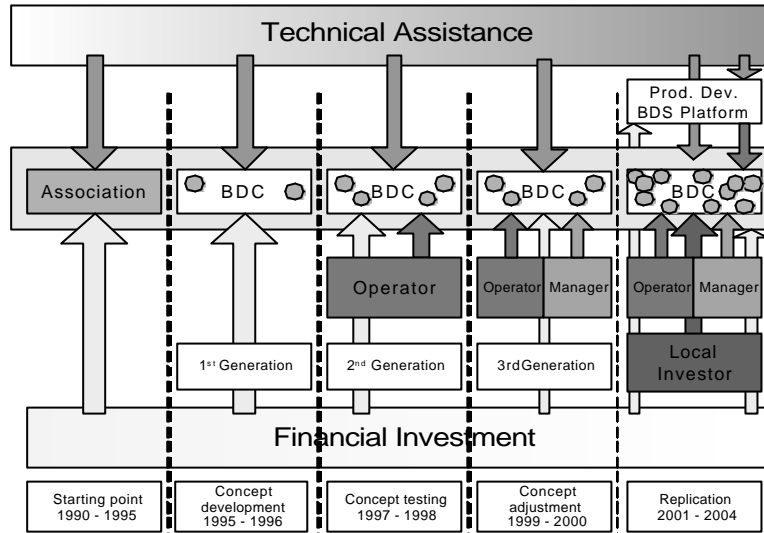
.... just a business

Concept development – learning by doing

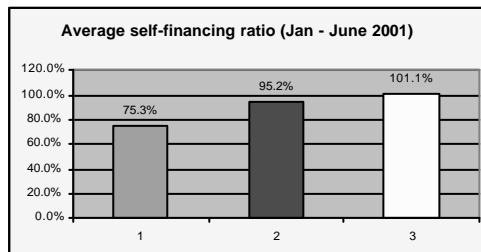
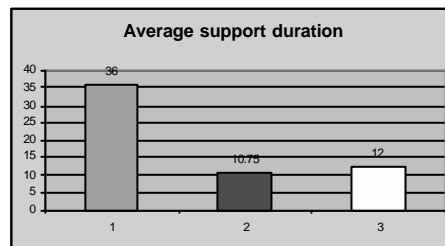
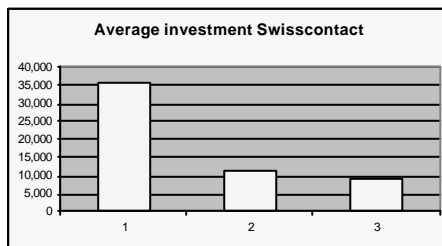


Phase	Partner	Financing	Experience
1990 - 95	Associations	Project pays for activities and overhead	Negative, no sustainability
1995 – 96 (1 st generation)	Former project as BDC	No financial investment from partner, increasing cost recovery	+/-, difficult to change staff attitude
1997 – 98 (2 nd generation)	Selection by tender based on business plan	Co-financing operator and SC (max 70%)	(+) tender (-) focus on BP only
1999 – 2000 (3 rd generation)	2-step selection: Tender and training program	Co-financing operator, manager and SC (max 50%)	(+) training, 2-step selection
2000 – 2002 Replication	Same as above	Co-financing operator, manager and local investor	(-) Dependency from sponsor

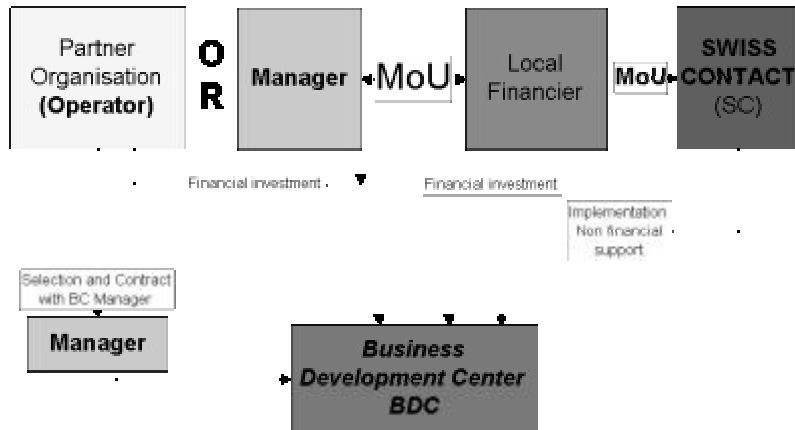
Development stages of BDC approach



Comparison of key figures



Cooperation scheme



Lessons learned

- Establishing new BDS providers is an appropriate option for underserved regions and/or for demonstration purpose, especially in cooperation with local investors – but look at the market first!
- **Key success factors**
 - Selection through tender and two – step selection procedure
 - Intensive work on business plan and training of manager prior to final selection. Repeat tender if no viable partners can be selected rather than starting with doubtful partners
 - Clear contract, financing scheme and rigid financial monitoring scheme.
 - Limited company as legal form recommended, but...
 - Non-financial support is important, but organize non-financial support in way that markets are not distorted
 - Be careful in selection of local investors – they might have different interests...

Intervention: Voucher Program



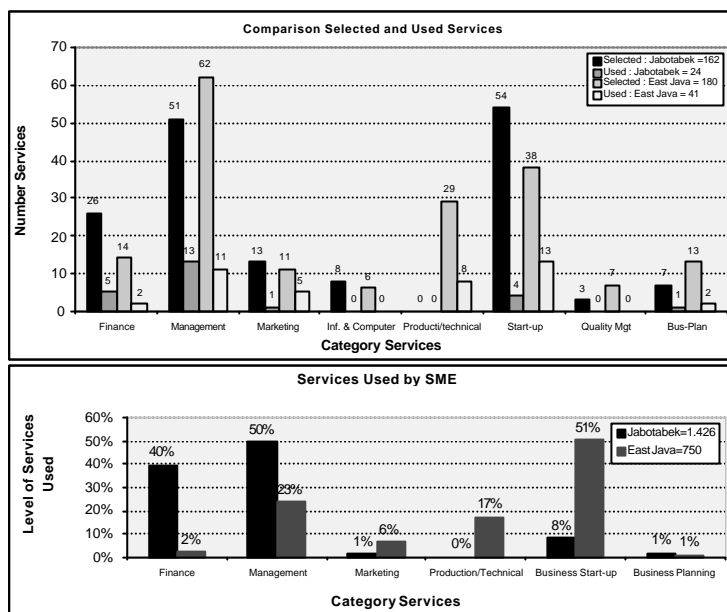
- Objectives:
 - *Demand*: stimulate the purchase of commercial BDS, increase market transparency for customers;
 - *Supply*: increased competition and information on market results in improved supply in terms of range and need-orientation of services
- Key features:
 - 2 locations: East Java (1998 – 2002) and Jabotabek (2001-2002), Sumatra (since 2001)
 - Response to economic crises – special focus on start-up services;
 - Relatively low subsidy rate: max. IDR 100'000 (~US\$ 12) or 50% of service price;
 - Voucher distribution through public telephone shops and other easy accessible outlets; no distribution through providers;
 - Accreditation of services (not institution) based on minimum quality criteria;
 - Strong focus on promotion/marketing/provider networking and monitoring

Major Results



- Demand-side
 - Use of voucher below expectations (app.60 %)
 - 78% of participants bought a BDS for the first time
 - 75% did not know the provider before and received first information on the provider through the voucher program
 - Around three-quarters of participating SME were micro-enterprises, 18% were small enterprises (5-19 employees), and 4% medium-scale enterprises with more than 20 employees
 - 72% are ready to buy another service from the same provider
- Supply-side
 - Approximately half of the accredited providers remained inactive
 - Over the 17 months of Program implementation, 10 participating institutions introduced 38 new services
 - voucher program stimulates provider networking, e.g. leading to individual BDS providers sharing resources with others

Major results



Lessons learned

- Voucher schemes are standardized and indiscriminate, This enhances potential outreach and disbursement efficiency, and reduces the risk of fund misappropriation, but also limits potential application:
- Voucher schemes should be primarily **targeted at standardized BDS with broad potential demand from SME and micro-enterprises**, but are hardly suitable for more complex, custom-tailored services
- Voucher schemes **primarily address demand-side constraints**, namely information problems and low willingness to pay. However, combined with supply-strengthening measures such as provider networking, support for product development etc, voucher schemes have a high potential to address supply side constraints, as the voucher scheme provides easy access to a large number of BDS providers.
- Response on voucher schemes depends much on characteristics of the local BDS market – pilot testing is advisable



How do the programs measure up?



Criteria	Voucher (SC)	BDC (SC)	TATP (WB)	Dapati (WB)
No of BDS deliveries supported	1918	1066	638	145
Average no. of BDS del. per project year	959	267	213	36
No of Providers financed /participating	20	6	133	84
Total program cost (US\$)	96'160	173'000	5'200'000	1'350'000
Program Management Cost/Total Cost (%)	89%	73%	41%	62%
Avg. direct cost per BDS delivered (US\$)	5.44	43	4822	3562
Total program cost per BDS delivery (US\$)	50	161	8'141	9'258
Total program cost per provider (US\$)	4'808	28'685	39'056	15'981

The challenge: Creating the environment for BDS market development



- BDS are not driving development and modernization of SMEs, and can in isolation not improve SMEs competitiveness. Rather, the role of BDS is to support modernization processes that have been triggered off by changes in SMEs' business environment.

