International Labour Organization | PROMISE2 IMPACT

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PROMISE II IMPACT: Promoting SME Enterprises through Improved Entrepreneurs' Access to Financial Services

Overview

Promise II Impact is the second phase of the Promise Impact initiative, aligned with Indonesia's post-pandemic recovery strategy. It focuses on expanding financial access for SMEs and promoting nationwide financial inclusion that will lead to economic growth and improved employment outcomes.

Strategic Positioning

Objective:
To advance a more inclusive financial sector that empowers SMEs and drives post-pandemic economic recovery by fostering the adoption of digital technologies that enhance productivity, operational efficiency, and business growth.

Approach:
Dual transformation by embedding finance into local value chains and modernizing Financial Service Providers (FSPs) to deliver client-centric, digital-ready services.

Leverage:
Combines smallholder farmers and SME digitalization and capacity building with digital transformation of Financial Service Providers and high-level policy engagement.

Core Strategies

Value Chain Development
Establish and digitalize ecosystems in three sectors: dairy, seaweed and patchouli oil.

Capacity Building
Equip SMEs, FSPs, cooperatives and regional government officials with ILO-owned training modules.

Financial Service Strengthening
Upgrade Rural Banks and Provincial Government Banks core systems, loan approval process, product design and risk management.

Policy and Advocacy
Rapid response facilities, the integration of the Indonesian National Council for Financial Inclusion and the financial access acceleration team at Regional Financial Access Acceleration Team.

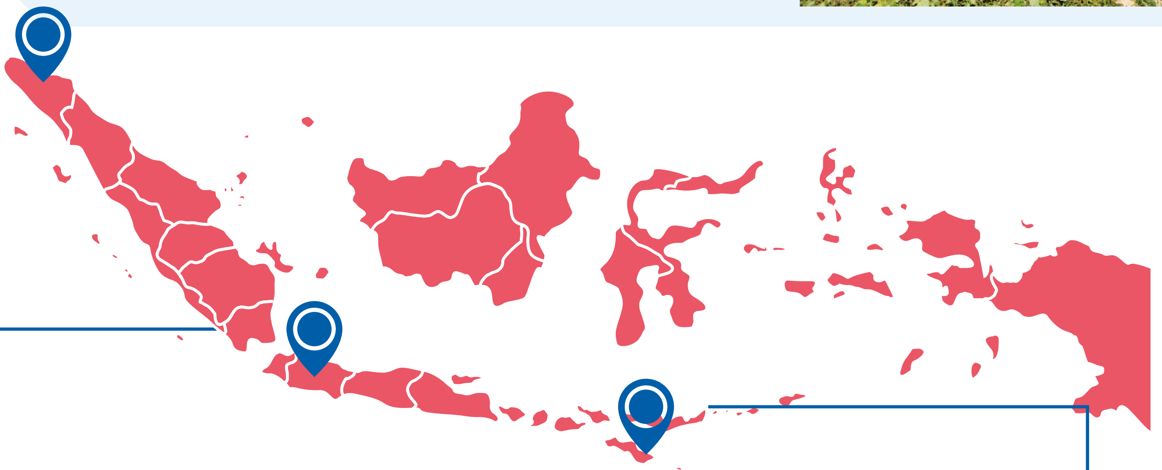
Key Achievements

Digitalizing SME Value Chains

Enterprise Resource Planning (ERP) systems have transformed three priority sectors:

Patchouli oil in Aceh

- The **"MyNilam" application** was developed in partnership with the Atsiri Research Centre at Syiah Kuala University, **marking the first of ERP system in this sector**.
- Technical assistance on **cultivation and traceability for farmers**.
- **30 farmers secured Islamic financing loans** by November 2024.



Dairy in Pengalengan, West Java

- The South Bandung Livestock (dairy) Cooperative (KPBS) **expanded ERP modules for health, logistics, and finance, benefiting 2,050 farmers.**
- **429 farmers accessed mobile-based loans** since March 2024.
- ERP model **replicated in three East Java dairy cooperatives**.

Seaweed in East Sumba, East Nusa Tenggara

- **650 farmers joined a digital ecosystem** via a Swiss agritech firm Koltiva and PT Algae Sumba Timur Lestari (ASTIL), a regional government-owned enterprise.
- Traceability enabled loan access; **26 farmers received working capital loans** from Bank NTT and additional 100 farmers are in process.
- **Many farmers opened first-ever savings accounts**, marking their initial engagement with formal banking services.

Capacity Building

The training programme has utilized ILO modules such as Start Your Business (SYB), Improve Your Business (IYB), Gender and Entrepreneurship Together (GET Ahead), and Financial Education.

3 Training of Trainers sessions certified master trainers.

13 Training for Beneficiaries sessions **engaged 1,026 participants**.

160 SMEs received a six-month post-training support.

Expansion of the training programme to:

- **206 Agri-input retailers and local agriculture-off takers** in collaboration with Bayer; and
- **160 village heads and local government officials** in collaboration with the Indonesia's Financial Services Authority (OJK) and Sumba District government in East Nusa Tenggara.

Policy influence

MoU signed **with the Indonesia's Financial Services Authority (OJK)**.

Activities integrated into **the Indonesian National Council for Financial Inclusion's Annual Report to the President**.

Contributions to the draft regulation for the National Committee for Literacy and Inclusive Finance regarding a new financial inclusion body.

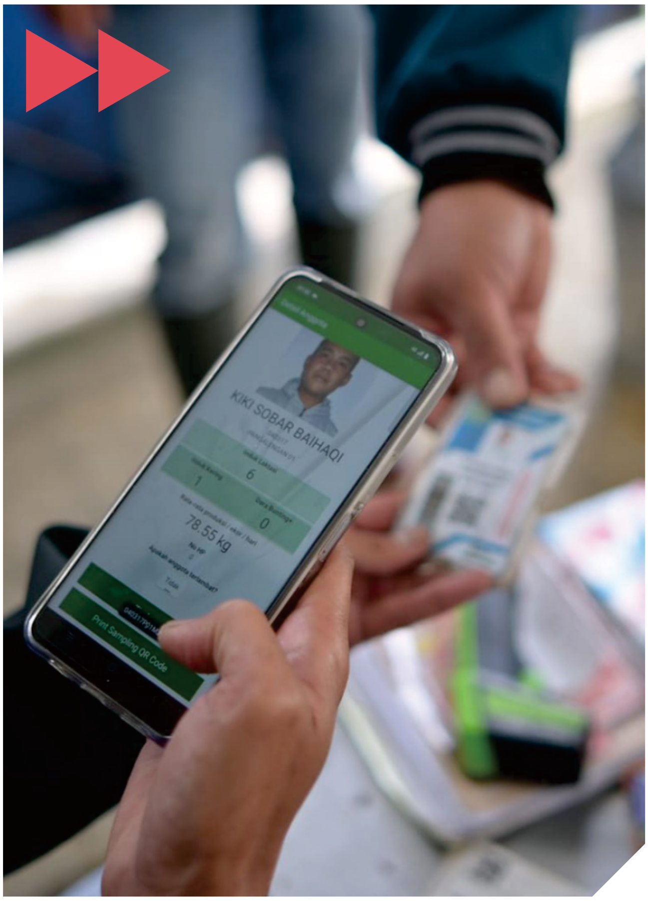
Symbolic recognition awarded to KPBS by the Coordinating Ministry for Economic Affairs.

Support for policy **coordination meetings** of the Working Groups of **National Council for Financial Inclusion and Regional Financial Access Acceleration Team** in three provinces.

Scaling up Financial Services

Training and support initiatives have been scaled to deliver tailored financial products and services for SMEs, emphasizing digital transformation and institutional strengthening:

- **Support to 14 Rural Banks/Regional Development Banks:** Enhancement of key systems such as Loan Origination Systems, Dashboard Loan Portfolio Monitoring and Core Banking Systems.
- **System integration:** Connection of the Application Programming Interfaces to aggregator and alternative credit scoring platforms for digital conectivity.
- **Microfinance Training:** 25 Rural Banks and 13 Regional Development Banks officers trained in partnership with the Association of Rural Bank and the Association of Regional Development Bank.



Critical Insights

Proof of Concept
Embedding ERP-based data collection and traceability into value chains generates verifiable financial records, expanding SME access to finance.

Systemic Shift
Rural Banks and Regional Development Banks, long disadvantaged compared to fintechs, are gaining competitiveness through digital infrastructure support.

Policy Leverage
Local pilots inform national financial inclusion policies, enhancing long-term sustainability

Challenges:
- Uneven SME and farmers' digital readiness, especially in remote areas.
- Dependence on cooperative strength-weak institutions risk fragility.
- Scaling requires stronger risk-sharing mechanisms for small banks.
- Price volatility and market imperfections of the agricultural sector.

Promise II Impact: A catalyst for change

Scalable Model
From pilot ecosystems to sector-wide replication (start with dairy ecosystem).

Systemic Impact
Simultaneously reshapes grassroots financial access, financial institution competitiveness and national inclusion policy.

Sustainability Built-in
Training institutionalized through cooperatives, associations and government structures.

Catalytic Potential
Positions Indonesia as a reference model for linking SMEs, local banks and digital ecosystems in inclusive finance. Potential business linkage with Swiss companies operating in the related sectors.

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For more information about the implementation of ERP systems in dairy sector, please scan the QR code or visit the following link:
https://www.ilo.org/resource/article/west-java-east-java-advancing-digital-transformation-dairy-farming