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SMARTLESSONS

IFC International Finance Corporation World Bank Group

REVIVING THE HANDICRAFT SECTOR IN BALI

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Background

The IFC Program for Eastern Indonesian SME Development (IFC-PENSA) launched its Handicraft Export Promotion Program in January 2005. The program ran for 2.5 years, and its ambition was to revive the handicraft industry in Bali with a demonstration effect filtering through to other handicraft regions of Indonesia. The handicraft sector in Indonesia employs over 3 million poor and disadvantaged people, including approximately 400,000 in Bali. It is among the five top-priority sectors for the Indonesian government. Handicraft manufacture in Bali is predominantly a cottage industry, and a paucity of medium local or foreign-owned businesses deprives the sector of the scale and financial resources vital for competing against countries such as China, Vietnam, or Thailand in export markets.

In the late 1990s, the country was the second-largest handicraft exporter in the world. After the turn of the century, however, Indonesia had lost its competitive edge, mainly due to the Bali bombing and much stronger competition from other Asian countries. As a result, the value of handicraft exports dropped from some $2 billion a year in 1998 to $400 million in 2002.

Bali has always been a hub and Indonesia's window to the world for this industry, so the idea was that by reviving the hub, IFC could spur the growth of this sector in other parts of Indonesia.

Lessons learned

In the course of the program, it became obvious that due to a non-conducive business environment and high shipping costs, the program was not in a position to significantly improve competitiveness of the sector as a whole, especially in such a short period of time. However, the program did manage to develop a model under which many common constraints facing artisans and small handicraft makers could be

addressed. As a result, CraftNetwork-Indonesia, a grassroots private business run by a social entrepreneur, was established to provide handicraft producers with both access to markets and basic business skills. This Bali-based private exporter acts as a trade-promotion umbrella and provides capacity-building assistance to some 40 handicraft producers that provide employment for 4,500 artisans in Bali, Lombok, and Central Java. CraftNetwork-Indonesia's e-commerce capability is being used by the handicraft trade promotion organizations and artisans in other countries as well.

Lesson 1: *Make sure your objective is realistic. Improving the competitiveness of an industry is an ambitious task. Its accomplishment would require a greater commitment on the part of IFC and its partners, in resources and time. For IFC, however, this sector has never been a priority, mainly due to the limited investment opportunities and absence of any special advantages or expertise in this area.*

The program focused on providing assistance to a relatively small group of handicraft makers in Bali, Lombok, and Central Java. The assistance encompassed both export promotion and enterprise capacity building, ranging from helping to register a business, training on costing and pricing, and setting up basic bookkeeping systems to improving health, safety, and environmental standards. In this work, the program team was assisted by local partners such as trading companies and business service providers. Critical inputs and guidance were provided by IFC's Grassroots Business Initiative Department (GBI). The challenge was that there were no experienced partners in the field, and the ones we partnered with were also learning by doing. The trade promotion partner and the Business Services Provider (BSP) were both set up by foundations, so at least we all shared the same vision of fighting poverty through job creation.

Lesson 2: *Don't expect to find experienced local partners. You have to prepare for a longer-term engagement with those BSPs who might not yet have all the necessary skills but at least share your vision and objectives.*

The program idea was to start with a small group of five handicraft producers, provide them with comprehensive assistance, test and improve the "tools," and, if successful, expand to a larger group of handicraft clients. Working with the first five enterprises was relatively easy and successful, mainly because they were enthusiastic and committed. Adding another ten proved to be a challenge. To build our handicraft makers' interest in learning basic business skills, we had to make sure we had orders or buyers for most of them. Finding buyers, however, is always time-consuming. Enterprise capacity building was equally time-consuming and challenging. Not all participants in the enlarged group had the right motivation. Therefore, for the partnering Business Development Service Provider (BDSP) it was difficult to keep the consulting and mentoring activities on track. Also we hoped that our BDSP partner, who was very good in a classroom training situation, also would be a good mentor and consultant. He was not,

and as a result, the capacity-building part of the program took longer than anticipated. Another challenge was that our BDSP partner didn't have the same commitment to the clients as IFC had. Therefore, a thorough supervision and follow up were necessary to make sure that clients were well served.

All in all, the most difficult part of the program was finding an efficient way to provide capacity building to a dispersed group of SME clients with varying levels of motivation. Also, because we had a small group of SME clients, a success or failure of even a few enterprises would have a significant impact on the program as a whole.

Lesson 3: *A trade-off between scale of intervention and its depth has to be carefully considered at the program design and planning stage. In this case, the program opted for an in-depth approach, believing that only comprehensive assistance can turn around struggling handicraft producers. As a result, the program has achieved a limited scale in the number of SMEs. However, the in-depth character of the intervention allowed IFC-PENSA to acquire substantial knowledge of what is needed to make this industry more competitive and how to provide the necessary services.*

The success of the program was to be measured by an increase in export sales and employment achieved by the affiliated handicraft producers. But finding new markets and buyers and securing new orders takes long time. For IFC, which has no special advantage in this field, this task was challenging. Not only was time short but also the value of the sales facilitated was not impressive due to the fact that as a rule handicraft products are not expensive and sell in relatively small volumes (cottage industry). Therefore, measuring program effectiveness on a basis of value of sales facilitated was not to our advantage. On the other hand, the program was improving business results and the lives of many people. The question raised on many occasions was: How many? The conclusion was that benefiting 40 or so companies and 4,500 artisans was not enough, compared to the needs of the country, cost of the program, and the amount of effort that had to be put into it. The mid-term review of IFC-PENSA concluded that, due to its limited reach and the lack of potential for scaling up, HEP Program should be phased out.

Lesson 4: *The program would have been more effective if, from the beginning, it had a partner among the large international handicraft buyers. By facing less uncertainty on the demand side, the program would have less difficulty in motivating the suppliers to improve product design, quality, and general business skills. The program would also be able to target the "right" producers and, ultimately, be more effective in export facilitation.*

From its early stages, the program was looking for and working with several local organizations that could take over the program upon its completion and continue our work on a commercial or semi-commercial basis. The program was indeed handed over to one of the key partners, Benz International, a private trading company specializing in e-commerce. At the program completion date, the Craft-Network Indonesia—a commercial name that was given to the operation—comprised 37 handicraft producers employing some 4,500 artisans.

Lesson 5: *Planning the exit from the early stages is essential. Finding the right partner or successor takes long time. By working with several potential successors from the early stages, the program, in its final stage, had a good understanding of the potential and suitability of each of them, and thus had a better chance of selecting the right one.*

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With regard to the key results, the program has added over 600 jobs and directly facilitated additional export sales of almost $900,000. But the key achievement is the improved skills and capacity of the CraftNetwork-Indonesia suppliers and their enhanced access to international markets, which should benefit them for years to come.

Was the program a success? The mid-term review argued that, even though the program was effective in implementing its activities, it was lacking in scale and therefore the cost-benefit ratio was not favorable. The exit through a private trading company has been successful so far, and the final verdict on the program's outcome will depend on the future performance of its successor and how well it will be able to marry the commercial and social elements of its business. A more general question we faced was whether IFC should be involved in this type of advisory services in this particular industry, and the conclusion was that IFC is not the right organization to do that type of work.

About the Author

Carl Dagenhart joined IFC-PENSA and the Handicraft Export Promotion Program in March 2005 as a Program Manager. He previously worked for MPDF.

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