Scope of Services

Design & Implementation of SOFIA (Survey on Financial Inclusion and Access)

A. Background

1. **To accelerate the achievement of poverty alleviation and financial inclusion agenda** DFAT (Department of Foreign Affairs and Trade), the Government of Australia is supporting BAPPENAS, the Government of Indonesia, through a program called AIP-PRISMA (Australia-Indonesia Partnership for Promoting Rural Income through Support for Markets in Agriculture). The program aims at reaching 300,000 smallholder farmers in eastern Indonesia by 2018 and increasing their net income by 30%.

2. **Limited access to financial services has been identified as one of the key constraints to increased incomes for poor and near-poor people in rural areas**, in particular micro, small to medium enterprises (MSMEs) including smallholder farmers – the bottom of the pyramid (BOP). Financial services needed by this group include savings, payment / money transfer services, loan services both for working capital and small investment purposes, as well as crop and livestock insurances. As a result, the BOP has to rely on their family members, friends, and informal money lenders.

3. **Farmers and MSMEs have limited ability to access formal financial services**. There are manifold causes for this problem, among others: Lack of knowledge of the different types and requirements of loan products offered by formal financial institutions and how these services may potentially support their business; collateral requirement; complicated formal procedures; long distance to the nearest financial institutions' offices; operational hours not fitting farmers' and MSMEs' daily activities.

4. **Formal financial institutions & structures are struggling to cater for the specific needs of smallholder farmers and MSMEs**. The lack of understanding & knowledge of the specific characteristics and business models of the various informal sectors where MSMEs are working in leads to the creation of loan products that do not meet the needs of MSMEs. In particular in the agriculture sector, loan products do not fit the different production cycles of different agriculture commodities. The lending risks are also exacerbated by increasingly unpredictable climatic risk factors and volatile market prices. Smaller size of loans but higher volume or larger number of loans, and remoteness of the clients increases substantially the transaction costs and administration costs for the banks. Last but not least, the opportunity cost for lending to the BOP is high, as banks can potentially generate much higher return with less risks from other types of investments.

5. **The importance and benefit of serving the BOP is acknowledged but better information on the target groups is needed**. Policy makers and regulators recognize the importance to promote financial inclusion at the BOP level to spur their productivity and growth. Financial institutions are aware of the commercial potential to reach new clients from the BOP. However, there is very limited information on the demand side by MSMEs and smallholder farmers: the characteristic of the sectors, types of financial services in need, individual behaviour pattern related to the management of financial resources and expenditures, access level by the target groups, etc.

6. **Credible information & analysis on the financial lives of the BOP needs to be established to provide solid evidence both for policy making and developing appropriate financial products.** This finding was a highlight in the scoping studies commissioned by AIP-PRISMA[1]. The studies included consultations with Government stakeholders, a range of financial institutions, and the donor community. It was concluded that there is a consensus on the need to conduct a representative survey of demand for and use of

[1] Scoping studies: Rural Finance (Sep 2013) and Financial Access Survey (Nov 2014). These studies and other sources of information will be made available to the Subcontractor.

financial services in eastern Indonesia. The survey will be built upon FinScope[2], an internationally applied survey instrument to promote financial inclusion agenda. The survey will be adjusted to the specific context of Indonesia and will be called SOFIA (Survey on Financial Inclusion and Access).

B. Objectives

7. The key objective of SOFIA is

to measure and profile levels of access to and use of financial services by all adults across income ranges and other demographics, and
to make this information available for use by key stakeholders such as policy-makers, regulators, and financial service providers.

8. As such, SOFIA seeks:

- To measure the levels of financial inclusion (i.e. the proportion of the population using financial products and services – both formal and informal);
- To provide comparison of the level of financial inclusion in Indonesia over time and against other countries;
- To determine the needs for financial products in general and with particular emphasis on the agricultural sector, as well as the gap between:
  - Supply: Financial products (formal and informal) available and the current providers; and
  - Demand: Financial product currently available and their uptake and usage (formal and informal);
- To describe the landscape of access (i.e. the type of products and services used by financially included individuals); and
- To identify the drivers of, and barriers to the usage of financial products and services.
- To stimulate evidence-based dialogue that can ultimately lead to effective public and private sector interventions that can increase and deepen financial inclusion and financial literacy strategies.
- To provide baseline information through which the impact of interventions to enhance access could be assessed by means of follow-up surveys.

9. SOFIA will provide specific understanding of the adult populations related to:

- Their livelihoods and how they generate their income;
- Their financial needs and/or demands;
- The methods used for financing their business (incl. agribusiness) activities;
- Their financial perceptions, attitudes and behaviours, and access to assets and other forms of collateral;
- Their demographic and geographical distribution with data being sex disaggregated;
- The obstacles they face, including financial capability and access to infrastructure such as internet, mobile phones etc, and the other factors that would have an influence on their financial situations;
- Current levels of access to, and utilisation of, financial services and products (formal and/or informal);
- The landscape of access (i.e. types of products used including savings, credit, insurance and remittances, the volume of transactions and the current providers);

[2] http://www.finmark.org.za/finscope/

- Drivers of financial products and service utilisation; and
- Barriers to, utilisation of, and access to, financial products and services.[3]

C. Scope of Work

10. SOFIA will be significant at the provincial level and district level (selected only):

- The survey will cover the provinces of East Java, NTB, and NTT in eastern Indonesia
- A number of focus districts will be selected based on the consensus of the Steering Committee (see E Governance)

11. **The sample size is estimated to be around 20,000-22,000 respondents covering about 2,000 villages.** The results generated should be statistically significant to the provincial level and down to district level for a pre-selected number of districts that will be agreed on with the Steering Committee and key stakeholders.

12. **The survey will cover MSMEs in general and with special attention to agriculture and agribusiness.** The main questionnaire will target the BOP in general and supplementary questionnaire will be used to inquire deeper into agriculture and agribusiness-related income-generating activities, including non-farm enterprises.

13. **The key tasks / activities to be completed include preparation (consultation & design), field work, data processing, and presentation of results** as follows:

    a) **Steering Committee (SC)**: The final draft of sample design and questionnaire design that are developed based on the previous scoping studies (see note 1) and additional consultation meetings, will be presented to the SC. The SC will then decide whether further refinement is needed or whether endorsement can be provided. The SC will also be consulted during the implementation process of the survey as well as the presentation of results.

    b) **Consultation meetings:** Additional meetings may be needed with banks or other financial institutions that are financially contributing to the implementation of SOFIA to incorporate their key questions or particular locations of interests into the questionnaire.

    c) **Sample Design** - **Listing Exercise**:

    - A three stage sampling approach will be applied, first for the main survey and then for the districts identified during consultation meetings with stakeholders.
    - The first level of sampling will entail identifying the geographical areas where the survey will be conducted – i.e. drawing a representative sample of villages/enumeration areas (EAs) using a probability proportional to population size approach – this process will be conducted by the subcontractor.[4]
    - During the second stage of sampling a representative sample of ten to twenty households within each of the sampled EAs will be drawn using the 2010 Census household data for the EA as the sampling frame. This stage will be the responsibility of the subcontractor.
    - The third level of sampling will entail the random selection of a respondent by the research firm within each of the households sampled in an EA.[5]
    - Subcontractors are requested to specify their approach to this sampling process in their technical proposals to ensure statistical significance to the appropriate level..

[3] See Annex 1.

[4] It is expected that the subcontractor will carry this out in cooperation with the National Statistics Office (BPS: *Badan Pusat Statistik*).

[5] The subcontractor may consider undertaking the selection of a respondent within each of the households using a Kish grid.

d) **Sample Design - Survey Plan:**

- Within each selected EA, about ten to twenty (10-20) households are selected systematically, selecting every kth household (systematic random selection).
- The sample interval is determined by the listing exercise.
- Within selected households, where there is more than one qualifying respondent, one household member will be randomly selected with whom to complete the interview (this individual will be the ultimate sampling unit). Interviews are either to be conducted face-to-face using Pen and Paper Interviewing (PAPI) or Computer Assisted Personal Interviewing (CAPI). The subcontractor should specify their preferred methodology.
- If a selected person is unavailable, then up to three recalls at different times of the day and days of the week are made to maintain the integrity of the sample. If a person is repeatedly unavailable or refuses participation, then very strict substitution rules are applied.
- The substitute is also chosen using randomization techniques. No substitution of individuals within a household is allowed.

e) **Questionnaire design:** On the basis of the issues identified by the scoping mission (A list of key areas of interests / questions is provided in Annex 1), a suitable questionnaire will be designed, including consultation meetings to obtain stakeholder input. The final questionnaire will then need to be translated into Bahasa and other local dialects, as may be required.[6] The administration of the questionnaire should take about 75 minutes on average[7]. Subcontractors are requested to specify proposals for capturing the areas / questions of interest within this timeframe.

f) **Pre-test:** The translated version of the questionnaire will be tested in the field by conducting a number of face-to-face interviews and adapt the translation where necessary.

g) **Recruitment of supervisors and enumerators:** Recruit an adequate number of personnel to ensure that fieldwork is completed within a period of no more than 9-12 months.

h) **Supervisor and enumerator training**: This will include a pilot survey to test enumerators' readiness to go to field in terms of having mastered the questionnaire, as well as the sampling approach.

i) **Conduct a pilot survey:** At the end of the enumerator training a pilot survey will be conducted to test the ability of the enumerators to conduct the fieldwork in terms of:

- Implementation of survey methodology (selection of EAs, correct listing, selection of right respondent); and
- Administration of the questionnaire.

j) **Conduct the fieldwork** for the survey on the following basis:

- Obtaining the EA maps for the selected EAs in the sample from BPS;
- Systematic random selection of households from each sampled EA;

[6] In order to ensure that nothing is lost in the process of translating the final questionnaire, the subcontractor will also undertake a translation back into English of the questionnaire (from the Bahasa translation).

[7] While it will be important to determine the income and asset levels of survey respondents (something which financial institutions are particularly interested in), the inclusion of a full consumption and expenditure module (to determine respondents' incomes) in the survey could mean that interviews can take up to two hours or more.

- Listing all household members in the selected household and selecting one qualifying individual;
- Conducting face-to-face interviews with each of the selected respondents (duration of the interviews is about 75 minutes);
- Implementing necessary quality control measures to ensure the validity and accuracy of the data collected:
    - Having adequate supervision teams and processes in place;
    - Ensuring that adequate back-check procedures as well as questionnaire checking processes are in place.

k) **Data processing to** produce a **clean dataset**. Quality control measures should include:

- Data management training - ensuring inter alia a thorough understanding of the questionnaire;
- Data checking procedures and data validation programs.

l) Produce a **final clean dataset e.g. in SPSS** for the purpose of data weighting and analysis. It is important that this dataset should be clean and in a user-friendly format, to enable financial institutions and other stakeholders to mine the dataset.

m) Produce a **technical report** addressing the sampling approach, the fieldwork and quality control process; as well as data processing and cleaning processes

n) **Analyse the survey data**

o) **Present the topline findings** of the data to the Steering Committee for contextual input.

p) **Produce a launch presentation and written report** on the topline findings of the survey.

D. Final deliverables

14. **Final deliverables are to be submitted by September 2016 (TBC) and consists of the following documents:**
    - **Clean, weighted dataset e.g. in SPSS** (in English)
    - **Technical report** (as described above)
    - **Topline findings**
    - **Launch presentation**
15. **In addition, regular progress updates and an interim brief** should be provided by the subcontractor in a format agreed with the AIP-Rural Secretariat.

E. Governance

16. **The Steering Committee (SC) will provide high-level strategic guidance to SOFIA**. The SC will provide advice to ensure that:
    - the survey receives strong buy-in from and meets the main requirements by the key stakeholders;
    - the results of the survey can be practically used by policy makers, regulators, and commercial financial institutions; and
    - SOFIA, if proven useful and beneficial, will be repeated periodically (e.g. every 2-3 years) in the future.

    As such, the SC will provide inputs and recommendations throughout the design, implementation, and final presentation of SOFIA.

17. **The SC will be co-chaired by BAPPENAS and DFAT** and may include members from OJK, Bank Indonesia, PIS-Agro Agrifinance group, bank associations, or representative from contributing financial institutions, etc.

F. Technical and financial proposals

18. Subcontractors are invited to submit technical and financial proposals that address the scope of work outlined above within the suggested timeframe.
    a) **Timeline:** The anticipated timing of the project is twelve months from the time of selection of the subcontractor. The subcontractor should provide a detailed timeline for executing the project activities as outlined above, including perceived project risks and contingency plans.

    b) **Budget:** The financial proposal should provide a detailed costing for the scope of work and deliverables described above.

    c) **Required skills and qualifications:** Proposals from interested research suppliers must provide evidence of the technical capacity of the subcontractor to undertake this exercise. This includes capacity to deliver the results in the timeframe provided, as well as an indication of prior experience in conducting a survey of this magnitude within the financial services sector. Given that the subcontractor is responsible for sampling and weighting the data, statistical capacity is required.

19. The application must identify the core management and technical team, their technical expertise in sample design, statistical analysis, fieldwork, questionnaire design, and overall project management.

G. Reporting

20. The team leader of the Subcontractor reports to:
    - Program Director AIP-Rural
    - Senior Adviser Rural

H. Management of Contribution

21. **SOFIA will received funding from a number of sources**. On top of the funding by DFAT and SECO through PRISMA, contributions from commercial banks are expected in regard to additional data for selected districts (see above). While PRISMA will be managing and ensuring the full amount of the contract with the Subcontractor, the Subcontractor will produce invoice or payment receipts to contributing commercial banks. Anticipated payment might be in the form of purchasing a study (SOFIA) with access to the raw data.

ANNEX 1 Key Areas of Interests / Questions by Consulted Stakeholders

The consultations with stakeholders revealed that there is sufficient interest in a financial access (demand-side) survey. The table below outlines the responses of the institutions during the consultation meetings in July and September regarding their key areas of interest – i.e. the questions they would like such a survey to address.[8]

Table 1.1 Summary of stakeholder responses: areas of interest

Government stakeholders (BAPPENAS, Bank Indonesia, and OJK)
• What is the overall level of financial inclusion? (There was interest in collecting data that would allow for cross-country comparisons and tracking of performance over time for this and other questions. Government stakeholders were particularly interested in having periodic surveys to track progress over time.) • What is the situation in terms of people's access to and usage of low-cost products (e.g. Tabunganku accounts) – especially (a) low income people, (b) youth, (c) those with disabilities, (d) the agricultural sector, especially smallholder farmers, and (e) the creative sector? How do poor people manage their money? What are the types of financial products needed? • What does demand side evidence indicate about the impact of certain financial sector policies and regulations on the level of financial access? For example – ➢ In terms of SMEs' access to finance, is the SME lending policy working? ➢ What policies would help increase access to finance in the agricultural sector? ➢ Have financial education initiatives helped to address financial literacy and capability barriers to accessing services from banks and other formal financial institutions? Are people satisfied with the financial education they have received as part of public and private sector initiatives? ➢ What is the impact of government lending programs on financial access? What has been the impact of these programs on people's behaviour and attitudes towards financial services? ➢ What is the impact of cash transfer programs on financial access? Are there ways of increasing the impact of such programs on financial inclusion? ➢ Is there adequate protection for consumers of financial services? Are people (especially low-income segments of the population) satisfied with the services offered by banks and do they feel their data is kept safely by the banks? ➢ How can we improve the take-up of existing financial products on offer (especially among unbanked segments) – e.g. the Tabunganku account, insurance products being rolled out through Jasindo, Islamic finance, etc.? • What products and services can we encourage financial institutions to develop to meet the needs of the unbanked or those who face constraints in accessing financial services – especially to encourage savings among young people? • Are there cultural and religious considerations in developing more accessible financial services (e.g. to better understand the significance of "religious branding")?
Banks and other financial service providers

[8] The participants of the consultation meetings were furnished on 22 September 2014 with a summary of the discussions and consensus from the consultation meetings.

- What are the patterns in income and production/economic activity among the unbanked (that might better inform banks' financial analyses of loan applications from micro and small enterprises or other prospective clients in the rural / agricultural sector especially considering the lack of traditional collateral)?
- What are the income levels and the frequency of receiving income? What assets are held, and how are they used/perceived? What are the implications on the propensity to save and overall savings behaviour?
- What are the attitudes, behaviour and preferences that could inform the development of more accessible financial products? Are there opportunities for banks to offer other fee-generating products? Likewise, what improvements can be made to existing financial products that have not been as successful as anticipated (in terms of take up from various targeted groups of clients)?
- How can the financial services industry better understand the "microenterprise" market? Which segments within this broad market can be considered bankable?
- What can be done to increase bank finance for the agricultural sector (currently 5%)? What is the demand potential in this sector?
  - How do people finance their other economic activities (income sources), alongside the production of the main crop?
  - What are the characteristics of the relationships / links between farmers and other value chain actors (e.g. input providers, traders, processors and buyers) – and how can these be incorporated into financing arrangements?[9]
- What considerations do people have when using informal vs. formal financial services? In terms of the value proposition, which is most important: the speed of delivery (of the service), the interest rate / price of the service, or the location (accessibility)?

Donors and development partners

- Demand-side data that can support (a) policy development more broadly, and (b) engagement of the private sector?
  - How can we improve the services of existing financial institutions to better meet the needs of the unbanked? Is there scope to improve the take up of existing services?
  - Is it possible to offer financial services in rural areas viably and in a sustainable way?
  - What is the marginal propensity to save among unbanked segments? Are they willing and able to pay for services from the formal / banking sector?
  - What are the options for solving the problem of identifying customers, especially for those that do not have standard identification cards?
  - What is the potential for mobile/branchless banking and the use of digital payments? Which agents are customers comfortable to work with?
- How do people access and use financial services especially (a) low-income populations and marginalised segments (including the disabled), (b) those in the agricultural sector, (c) those who remain unbanked, and (d) those in marginalised areas (e.g. in Eastern Indonesia)?
  - How do people manage their money? Do they have a bank account? If yes, how do they use these accounts? If not, why not?
  - Some donors have an interest in the poorest segments of the population: how do they save, access cash transfers and remittances, protect themselves against risks, etc.?

[9] Some banks have expressed an interest in specific types of commodities and the value chain actors (not necessarily farmers/producers themselves) operating within these commodity chains.

- How do people use informal finance and is there scope to link them to formal financial services?
- Are there severe constraints in terms of financial literacy?
- How does access to finance affect the productivity / capacity of farmers? Does access to finance affect farmers' willingness to invest in new/better production techniques and technology? How do farmers access finance to support requirements for medium-term finance (e.g. for re-planting of new trees), to meet working capital requirements (e.g. to purchase inputs)?
- How do micro-enterprises outside the agricultural sector (e.g. small scale artisans) access finance?
- How do women access financial services? Are there improvements that can be introduced to better facilitate their access to financial services?

There was a consensus among all types of interlocutors that a national level survey would be ideal, since (a) it would cover all potential financial service clients and (b) it would facilitate comparison between provinces. There was also acknowledgement, however, that this would be very costly. On the other hand, people thought that a survey covering only five provinces (i.e. the provinces covered by AIP-PRISMA), while more affordable, would be of limited value for most stakeholders.[10] **The general consensus, including among Government stakeholders, was that the best solution would be a first survey covering Eastern Indonesia and East Java**.[11] If this proved to be as useful as was hoped, then it would be less difficult to find finance for a second survey (that is national in scope) two to three years after the first.

In terms of level of significance, everyone agreed that a survey significant down to district (kabupatan/kota) level would be ideal, but again a recognition that this would be prohibitively expensive, even for a survey covering only Eastern Indonesia.[12] A survey down to provincial level would be very useful to Government stakeholders and donors; for banks, although they could benefit from such a survey, a more granular survey would be of much greater use. **The compromise option that appeared to be most acceptable was a survey in Eastern Indonesia and East Java significant down to provincial level, but with results significant to district level for a pre-identified selection of districts**.

So there is clearly a strong consensus among Government, industry and donor stakeholders in Indonesia in favour of conducting a demand-side financial sector survey in Eastern Indonesia and

[10] A demand-side survey covering only the five provinces in which AIP-PRISMA operates (i.e. East Java, NTB, NTT, West Papua and Papua) would be useful to the program, but there are clearly advantages in a wider survey. Firstly, from AIP-PRISMA's perspective, it would be useful to cover a wider area for purposes of benchmarking and comparison. Secondly, as indicated in this section, there is strong interest among a number of stakeholders in a wider survey, in terms of both geography and the topics covered. Thirdly, there is to some extent a diminishing marginal cost to widening the scope of the survey.

[11] A question was raised about whether taking a small representative sample of the remaining provinces, say 500-600 respondents, and could result in a nationally representative survey. In practice, this would present a number of difficulties, arising from the huge differences in the size of the samples being drawn for Eastern Indonesia and the rest of the country. A sample of 500-600 would be too small to be statistically representative of the remaining provinces of Indonesia, resulting in estimates from the sample being measured with such a large error that there could be no confidence on the accuracy of the estimate itself. This is further complicated by the survey sample weights, a necessary part of the analysis of survey data. Respondents from the sample of 500-600 would have relatively very high survey weights applied to them because each individual in that sample would be 'representing' a relatively much larger population. These large weights would further increase standard errors and further reduce the accuracy of the estimates from the sample.

[12] Most stakeholders thought the survey should be significant down to district (*kabupaten*)/city level. Some would like sub-district (kecamatan) level but recognized that the cost would be likely to be prohibitive.

East Java. There are areas of interest that are common to all stakeholders, but also issues specific to each category. There are of course practical limitations to the possible length of a questionnaire, and therefore to the range of issues that can be covered. No survey can cover all the questions that everyone might want to ask. Assuming that the survey is to be implemented, therefore, it will be important to establish a mechanism through which relevant stakeholders can be consulted on the prioritisation of issues to be covered in the survey.