

Executive Summary of Evaluation

Name of Evaluation	Outcome Evaluation on PT South Pacific Viscose Line IV Project
Date of Final Report of Evaluation	17 December 2013
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Date of this Executive Summary	3 July 2014
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Number of pages of this Executive Summary	2
Modifications from original Executive Summary	Without Modification
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Background

PT. South Pacific Viscose (SPV) is one of the world's largest low-cost producers of high quality viscose staple fiber, a biodegradable fiber that is traditionally used as a cotton substitute for its superior ability to absorb moisture. The Company is located in Purwakarta, Indonesia. In 2008, IFC provided financing to support SPV's production capacity expansion (Line IV) and improvement in resource recovery and energy efficiency. EAP Results Measurement team through an in-depth study conducted in August 2013 found that the Project had achieved several positive outcomes on the local economy and private sector development.

Analysis

The Project benefitted SPV's two main suppliers through an increase in raw material procurement. Their sales to SPV more than doubled while their total sales increased by 23 percent and 15 percent respectively. Seeing the increasing trend, consequently they invested in production capacity expansion. The Project also benefitted SPV's main customers, namely, the yarn manufacturers, through an increase in availability of good quality viscose fiber. Two main customers of SPV tripled their purchase from SPV due to a positive market response. Consequently they were able to expand production capacity and improve productivity. As more yarns were produced, sales to export market and domestic fabric manufacturers also improved. This indicates that fabric manufacturers, both domestic and overseas responded positively to an increase of availability of yarns produced from SPV's fibers.

The Project also created positive impact on employment, directly and indirectly. It created 250 additional direct employment positions and 9500 temporary jobs during the construction. Due to capacity expansion, SPV's customers employed more workers. We estimated at least 3,000 indirect jobs would be created in the yarn manufacturing sector alone. Contribution to community development was also significant. The Company initiated various community development programs such as health, education, micro credit, and social and infrastructure.

The Project also demonstrated positive impact on private sector development by fulfilling the global market demand and catalyzing the growth of textile industry in Indonesia. The Project introduced high tenacity viscose fiber, which was suitable for high-speed vortex spinning process, and had enabled yarn manufacturers to be at least twice as productive. Yarn manufacturers were motivated to expand their spinning capacity and had invested more than \$60 million in high-speed vortex spinning machines. This was a positive response to the stagnant growth of Indonesia's spinning industry which was hampered by

outdated machinery and lagged investment. Indonesia is now a major player in the global viscose fiber market.

Conclusions and Recommendations

Textile in Indonesia was not considered a strategic sector and once considered a sunset industry. However with its superior product, coupled with technical know-how and vast global network, SPV has become a market leader and played a major catalytic role in the viscose fiber market and textile industry in Indonesia. We learned that even though textile was seen as a sector with a stagnant growth trajectory, working with the right partner and sponsor who have the technology and the capacity might result in positive outcomes. The development outcomes were optimized through our long-term partnership with SPV and the Sponsor. Through this study we have also found significant unanticipated effects not measured by the current indicators in Development Outcome Tracking System (DOTS). Despite the positive outcomes, the Project was not set to tell the full impact story at the indicators level. Therefore it is useful to conduct in-depth study to complement our annual monitoring exercise, and for evaluation purposes, especially on the economic impact and private sector development of IFC's projects.

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