QUARTERLY REPORT

1 April – 30 June 2015

INDONESIA DISASTER RISK REDUCTION PROGRAM
FINANCIAL ACCESS

"Indonesia Liquidity Facility After Disaster" (ILFAD)

Funded by
USAID / Office of Foreign Disaster Assistance (OFDA)

COUNTRY CONTACT	HEADQUARTERS CONTACT	PROJECT SUMMARY
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Glossary

ABSIGAB	Association of Disaster Preparedness Rural Banks
ACA	Central Asia Insurance
Aswata	Wahana Tata Insurance
BNPB	National Agency for Disaster Management
BPBD	Regional Agency for Disaster Management
BPR/BPRS	Rural Banks/Sharia Rural Banks
ILFAD	Indonesia Liquidity Facility After Disaster
IFC	International Finance Corporation
LAPENKOP	National Institution on Cooperatives Education
MFI	Microfinance Institutions
MoU	Memorandum of Understanding
OJK	Financial Service Authority
Perbarindo	Association of Rural Banks
TAPESIAB	Disaster Savings Product

1. Executive Summary

During this quarter, the Indonesia Liquidity Facility After Disaster (ILFAD) program implemented an online backup data system (or cloud computing system) for nine microfinance institutions (MFI) located in four disaster prone provinces (Aceh, West Sumatera, Yogyakarta and West Nusa Tenggara). The cloud system is aimed to store and secure MFIs' databases in an online system in case of a disaster.

The program also launched the Disaster Savings in Meulaboh, West Aceh, a savings product that is bundled with disaster micro-insurance that protects MFI clients from fires and earthquakes. As an at risk area, Meulaboh and its residents were directly affected by the Aceh Tsunami in 2004. Consequently, the availability of such a product is considered an innovation that can minimize the economic impact caused by similar disasters.

In accordance with product development, the reinsurance company, Swiss Re, in collaboration with a local insurer, Aswata, held a socialization of an index-based insurance product that protects MFIs' credit portfolios against disasters. The socialization took place in Aceh and West Sumatera and received a great deal of positive feedback from participants. The BPRs (rural banks) responded positively because as there were previously no similar products available that are able to cover a BPR's assets when a disaster strikes. Current insurance products give protection only to the MFI's clients, not to the institution. With the new product offered by Swiss

Re becoming available, it can guarantee MFIs the ability to provide financial services even after a disaster.

The Central Asia Insurance (ACA) also developed a new micro-insurance product that protects MFI clients from volcanic eruption. This product is a pioneer in its field and has received positive responses from MFIs in Yogyakarta, particularly those which are located in areas prone to eruption. The socialization of the product was held in one of the MFIs located in Mount Merapi, which is the area most affected by eruptions in Indonesia.

The Financial Service Authority (OJK), in collaboration with five partner BPRs in Aceh, organized a People's Financial Market during this reporting period. This event was used to educate micro business entrepreneurs about the purpose and function of financial institutions. Mercy Corps sponsored the activity by cost sharing with Aswata and the five BPRs.

Finally, Mercy Corps, in collaboration with Lapenkop, socialized the cloud system and built the capacity of MFIs in Lombok.

2. Program Activity Details

1) Product Development by Swiss Re and Aswata in Aceh and West Sumatera

As a follow up activity to develop portfolio insurance products for MFIs against disaster developed by Swiss Re, on April 1st and 2nd 2015, ILFAD, along with Swiss Re and Aswata, visited Aceh and West Sumatera to introduce their new product. In Aceh, Swiss Re socialized the product to four BPRs. In West Sumatera, 15 BPRs, whom are also members of ABSIGAB (Association of Disaster Preparedness Rural Banks Association of Disaster Preparedness Rural Banks), attended the event. Swiss Re delivered their final product to the BPRs with a premium rate adjusted to the BPR's ability to pay. The product is intended to protect MFI's credit portfolio during a disaster. The benefits of the product are so keenly needed that all the participating BPRs expressed interest. In order for the product to be officially distributed, Swiss Re and Aswata submitted the product to be legalized by OJK. This process will be reported on in the next quarterly report.

2) Supporting BPRs to attend People's Financial Market in Aceh

In order to empower micro business entrepreneurs, on April 11th 2015, OJK held a "People's Financial Market" program in collaboration with regional financial institutions. The event took place in Taman Sari, Banda Aceh, and was aimed to introduce the duties and functions of OJK as well as other financial service institutions to micro business entrepreneurs. Additionally, the People's Financial Market was intended to observe communities' problems concerning financial matters and facilitate OJK financial counseling, as well as to improve financial access by educating people about the products/services available for micro business entrepreneurs provided by financial service institutions. Five BPR ILFAD partners in Aceh were involved, including BPRS Baiturrahman, BPRS Hikmah Wakilah, BPR Mustaqim Sukamakmur, BPRS Hareukat, and BPR Ingin Jaya. Mercy Corps and Aswata sponsored those BPR through a cost sharing mechanism.

3) ILFAD Phase 3 Socialization for Cloud System and Capacity Building in Lombok, West Nusa Tenggara

On April 14th 2015, ILFAD, together with Lapenkop, held a socialization event for a number of BPRs in Lombok regarding Lapenkop's capacity building activities for MFIs. The event took

place in Hotel Lombok Raya, Mataram, West Nusa Tenggara, and was attended by seven BPRs in the province (BPR Mataram, BPR Graha Lestari Mataram, BPR Mitra Harmoni Mataram, BPR Narpada Nusa, BPR Pitih Gumarang, BPR Lombok Barat and BPRS Tulen Amanah), four representatives from Lapenkop and one representative from Mercy Corps. The socialization began with a presentation from Mercy Corps explaining ILFAD's Phase 3 program. The presentation emphasized the key activities such as: 1) Technical assistance for MFIs regarding disaster risk management; 2) Plans for launching disaster saving products in West Nusa Tenggara and; 3) Cloud system implementation. Subsequently, Lapenkop shed some light on some of their services including providing technical assistance for MFI-based disaster risk and hazard mapping, establishing disaster risk management standard operating procedures for MFIs, and providing technical assistance for marketing and business plans.

4) Disaster Savings Product Launch in Meulaboh, Aceh

The Bina Usaha Cooperative finally launched the Disaster Savings Product (TAPESIAB) packaged with disaster micro-insurance on April 25th 2015. The Regent of West Aceh, HT Alaidinsyah, opened the launching event held at the cooperative's office. During his speech, he mentioned that this product was indeed required by the community in Meulaboh. He was also honored that Bina Usaha Cooperative became the only MFI in the province to distribute the bundling product. He expressed appreciation for USAID/OFDA and Mercy Corps Indonesia for their efforts. The launching event was also attended by the head of BPPD of West Aceh (Saiful AB), head of Regional Planning Agency of West Aceh (HT Ahmad Dadek), head of Perbarindo Aceh (Sugito), head of Regional Cooperative Agency of West Aceh (Adami), head of Lapenkop Aceh (M Ikhsan) and a representative of Mercy Corps Indonesia. During the product launch, an Memorandum of Understanding (MoU) between Mercy Corps Indonesia and Bina Usaha Cooperative and ACA Insurance was signed. The MoU commits each party to develop and promote the disaster savings product bundled with disaster micro insurance. About 100 MFI clients including the Regent himself signed up for the savings account. To date, a total number of 136 TAPESIAB clients were reached and the number continues to grow. An evaluation of the product's sustainability will be conducted during the next quarter to analyze the trend of product utilization following three months after the launch.

The first 10 clients who signed up for a TAPESIAB account received gifts from Bina Usaha Cooperative

5) Cloud System Implementation[1] in Four Provinces

The cloud system was implemented after the MoU was finalized between Mercy Corps Indonesia, Indonesian Cloud and 14 selected MFIs. The cloud system will store and secure MFIs' databases in an online system when a disaster occurs.

During this quarter, nine MFIs were selected in four provinces. The remaining five MFIs will be selected during the next quarter.

5.1 Aceh

Cloud computing system was implemented without any issues in two BPRs, Hikmah Wakilah on May 27th and Ingin Jaya on May 28th 2015.

5.2 West Sumatera

The implementation activity in the province was performed on June 1st - 8th 2015 in five BPRs, which are BPR Cempaka Mitra Nagari, BPR Raga Dana Sejahtera, BPR Mutiara Pesisir, BPR Pembangunan Nagari, and BPR Sipora. BPR Sipora replaced BPR Lubuk Raya Mandiri due to a scheduling overlap with an OJK inspection.

5.3 West Nusa Tenggara

The cloud system was implemented in West Nusa Tenggara on June 16th - 17th 2015 in two BPRs, Pitih Gumarang and Lombok Timur. However, the activity experienced a setback that resulted with BPR Lombok Timur being the sole receiver of the cloud system in the province. BPR Pitih Gumarang requested to ILFAD a recommendation letter from OJK in the region stating that the proposed activity was allowed. Because time was limited and such a request was not part of the agreed activities, the ILFAD team decided to postpone implementation in BPR Pitih Gumarang. To follow up this activity, the team will further discuss this matter with Lapenkop and Indonesian Cloud.

5.4 Yogyakarta

This activity was held without obstacles in Adil Cooperative on June 17th 2015.

6) Micro-Insurance Socialization by ACA in Yogjakarta

This event was organized in partnership with ACA Insurance and MFIs in Central Java and Yogyakarta on June 11th 2015. It took place in Merapi Mulia Cooperative and was intended to promote a personal accident insurance program offered by ACA. Six MFIs were involved in the event, namely Merapi Mulia Cooperative, Anna Cooperative, BPR Madani Sejahtera Abadi, Kartini Cooperative, BPR Nusamba Temon, dan Adil Cooperative. Ten insurance products were presented at this event[2], four of which offer protection against natural disasters: 1) Dana Pribadi (Personal Fund), 2) Dana Gempa (Earthquake Fund), 3) Stop Usaha Erupsi (Business Interruption due to Eruption), and 4) Stop Usaha Gempa Tsunami (Business Interruption due to Tsunami). Some MFIs in West Sumatera and Aceh have used these products as protection for their clients. At this event, four cooperatives and one BPR signed a Personal Accident Insurance Quotation Slip of "Dana Pribadi." The document states that the MFIs are willing to be ACA distribution agents for the micro-insurance product.

7) MoU with International Finance Corporation (IFC)

[1] Please see Annex 2 for details of implementation result

[2] Refer to Annex 3 for details of products features and premium rate

In accordance with the partnership between Mercy Corps and IFC previously concerning the development of MFIs' portfolio-level index insurance against disaster, on May 18th 2015 a MoU between both parties was signed. As a follow up to this agreement, IFC was to fund ILFAD activities to develop a related insurance product in ILFAD working areas, while ILFAD was to facilitate and support IFC and Maipark[3] in data collection and product development as well as marketing to MFIs as ILFAD partners. ILFAD will submit a proposal to IFC in the next reporting period.

8) Update Pooling Fund in West Sumatera

The current disaster liquidity fund pooled by 20 BPR as ABSIGAB members has reached IDR 47.900.000 (USD 4,790). This money will continue to escalate as the number of ABSIGAB members increases. Meanwhile, from the private sector, ACA and Japan Risk have agreed to participate as liquidity committee members and to each place a fund of IDR 100.000.000 (USD 10,000). A draft of the MoU is being reviewed by ACA legal department. The pooling fund will be disbursed to the members (MFIs) when liquidity is needed due to a disaster.

9) Follow-Up OJK and BPR Problems in West Sumatera

With regards to the temporary suspension of Disaster Savings Product in a BPR by OJK as mentioned in the previous quarter, to date, the status of the product's legal submission is still waiting for OJK response. In April 2015, BPR Raga Dana Sejahtera submitted the product for approval to OJK of West Sumatera. The regional OJK has been waiting for feedback from OJK headquarters in Jakarta. Regardless, other BPRs that already have the product continue to get new clients.

10) Follow Up to OJK

Following the internal discussion with Mercy Corps Indonesia DRR/CCA Program Director, as an action point of the meeting concerning the obstacles regarding regulation for implementation on liquidity facility from bank to MFI during a disaster and on insurance distribution regulations by MFI-rural bank[4], the ILFAD team will take one of two approaches to make BPR-rural bank to distribute insurance products through:

a. Judicial review submission to Constitutional Court regarding MFI-rural bank to distribute insurance product. Currently, only Sharia BPR is allowed to become an insurance agent.A further study will be conducted to explore the possibility of applying judicial review for a bank to provide liquidity facility for MFI-rural bank when a disaster occurs.
b. Negotiations with parliament on ongoing process of financial law revision to ensure that articles that allow a bank to provide liquidity facility to MFI-rural bank during a disaster and for a MFI-rural bank to distribute insurance products. The challenge in the lobying process is the uncertain timeframe and achievement from the lobby.

Coordination

- **ABSIGAB in Padang, West Sumatera, May 5th - 14th 2015**

[3] Maipark is a reinsurance company consisting of all insurers and reinsurers in Indonesia specialized in disaster risk reinsurance, such as earthquakes and tsunamis.

[4] Exisiting law prohibit MFI-rural bank to distribute insurance products, however it allow cooperatie and rural bank-syariah to distribute it.

The meeting with ABSIGAB was to discuss the request from an additional seven BPR to become ABSIGAB members. Of the seven BPR, five are from West Sumatera (BPR Sipora, BPR Harau, BPR Tilatang Kamang, BPR Nagari Kasang dan BPR Balerong Bunta) and the other two are from Aceh (BPR Hikmah Wakilah dan BPR Ingin Jaya). Nonetheless, neither BPR from Aceh has officially become an ABSIGAB member because they have not paid the membership fee.

- **Lapenkop in Jatinangor, West Java, June 16th 2015**
  According to the agreed work plan between Lapenkop and Mercy Corps Indonesia, some parts of the implementation schedule needed to be clarified due to the delay of some activities during the past quarter. To accelerate, a meeting was organized in order to:
  a. Determine the work flow; from getting approval from MFIs that will receive assistance to determining the activity schedule for the next 3 months.
  b. Determine the scheme of MFI capacity building; disaster risk mapping and mapping of clients located in vulnerable areas, establish disaster risk management, establish disaster preparedness team in each MFI, disaster simulation in MFI, establish MFI business model for product launch
  c. Determine the reporting scheme between Lapenkop and Mercy Corps Indonesia

- **IFC in Jakarta, June 3rd and 19th 2015**
  In relation to product development of disaster index insurance for MFIs portfolio, ILFAD held a meeting with IFC to discuss the details of the partnership, including the scope of work, potential target areas and the number of MFIs to with partner. IFC also initiated a meeting between Mercy Corps and Maipark Reinsurance on June 19th 2015. During that meeting, each party presented their role regarding the index insurance project. Maipark is the reinsurance partner hired by IFC to help them design the proposed product. Meanwhile, Mercy Corps, through ILFAD, will facilitate IFC in partnering with MFIs as potential customers.

- **Japan Risk and ACA in Jakarta and Yogyakarta, April 20th and May 13th 2015**
  The meeting was held to discuss the product development of eruption insurance in volcanic areas. The first meeting was held in Jakarta between Mercy Corps, ACA and Japan Risk. The meeting discussed the product features, marketing strategy, and target MFIs. The second one took place in Yogyakarta to meet with the MFIs in person. ACA and Japan Risk presented their product to MFIs and received feedback.

- **Aswata in Jakarta, May 8th 2015**
  In this quarter, ILFAD coordinated with Aswata to accelerate product approval submission to OJK for the disaster index insurance product protecting MFI portfolios. The product is a collaboration between Swiss Re and its local partner Aswata. The submission process shows a slow progress time because completing required documents was a lengthy ordeal. During the meeting, it was mentioned that ILFAD will help facilitate product marketing to MFIs once the product is approved by OJK.

- **Bank Syariah Mandiri in Jakarta, May 15th 2015**
  The meeting with Bank Syariah Mandiri (Head of CSR Division, Abdi Irawan) was conducted to discuss potential liquidity funds for MFIs in the event of a disaster (kalimat ini kurang tepat/jelas). Bank Syariah Mandiri manages CSR funds from other companies such as Holcim and Chevron; hence they are interested in placing the funds in ABISGAB (an MFI consortium) liquidity fund. However, the CSR scheme is not aligned with the ILFAD scheme since according to their internal regulation, the CSR fund should be disbursed every year, while the ILFAD

liquidity fund can only be disbursed once disaster hits. A follow up meeting will be held in the following quarter.

Monitoring and Evaluation

The following M&E activities were undertaken during this quarter:

1) Data collection of DRR saving clients from the MFIs. The results from analysis of this data collection are attached on the performance summary, aggregated by sex and age.
2) Collection of verification documents such as minutes of meeting, lists of attendees at meetings, and related reports of activities.
3) Development of the 'achievement tracking system' to monitor and track performance of program activities against targets. The summary of this tracking matrix is included in the annexes.
4) MFI field visit to Koperasi Sumber Rejeki, Koperasi Sumber Jaya and Koperasi Mulya to learn about updates, challenges and stories from the field.

2. Performance Summary

Please refer to *Annex 1* for details of performance summary.

3. Activities for Next Quarter

- MoU signing between ACA Insurance and Japan Risk in relation to the pooling fund contribution of each party;
- Development of index-based disaster insurance product with Swiss Re;
- Evaluation of DRR savings product in Meulaboh following the launch;
- Cloud system implementation in four MFIs in East Java and one MFI in West Nusa Tenggara;
- Implementation of capacity building activity in "Desa Tangguh" areas by LAPENKOP in corporation with National Disaster Management Agency (BNPB);
- Proposal submission to IFC regarding earthquake index insurance product.

Annexes

Annex 1: Performance Summary Tracking Matrix
Annex 2: PowerPoint Presentation of the Cloud System Implementation Result
Annex 3: Product Features of ACA Disaster Micro Insurance