

# QUARTERLY REPORT

28 July – 30 September 2011

## INDONESIA DISASTER RISK REDUCTION PROGRAM FINANCIAL ACCESS

### Indonesia Liquidity Facility After Disasters (ILFAD)

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



COUNTRY CONTACT	HEADQUARTERS CONTACT	PROJECT SUMMARY
Erynn Carter Director of Programs Mercy Corps Graha STK, F Floor Suite F01 Jl. Taman Margasatwa No 3 Ragunan, Pasar Minggu South Jakarta, 12550 Phone: +61.21.788.42686 <a href="mailto:ecarter@id.mercycorps.org">ecarter@id.mercycorps.org</a>	Laura Bruno Senior Program Officer Mercy Corps 45 SW Ankeny Street Portland, OR 97204 Phone: +1.503.896.5833 <a href="mailto:lbruno@mercycorps.org">lbruno@mercycorps.org</a>	<b>Award no.:</b> AID-OFDA-G-11-00134-00 <b>Start date:</b> July 29, 2011 <b>End date:</b> July 28, 2011 <b>Report date:</b> October 31, 2011 <b>Total award:</b> \$375,000

## 1. Executive Summary

In post-disaster environments, MFIs can serve as a critical and immediate vehicle to provide much needed financing for community members to repair damage to businesses, homes, and family assets, as well as deal with injury and trauma to family members. But MFIs themselves are affected by the same disasters that increase the vulnerability of their clients.

In this Indonesia Liquidity Facility After Disasters (ILFAD) program, Mercy Corps will help key MFIs prepare for emergencies; this will include providing stabilizing liquidity and developing product support options for MFIs immediately after a disaster. This will allow disaster-affected MFI clients to access much-needed savings during that critical period, while enabling the MFIs to expand lending in their community to support recovery efforts. As short-term deposits are repaid after the crisis passes, they will form a long-term emergency liquidity facility for supporting MFIs following subsequent disasters. The key first step in this process is identifying MFIs in the target areas.

### **Achievements:**

In the first quarter of implementation Mercy Corps essentially had two weeks to initiate program activities (see explanation in the following challenges section). During those weeks of implementation Mercy Corps hired a qualified Program Manager, Mr. Alfi Syahrin, who is experienced in financial access and financial services, particularly in the aftermath of emergencies. Mr. Syahrin worked for Mercy Corps in Aceh Province following the devastating 2004 Tsunami, first leading a financial access project in West Aceh, and then as the senior manager for Economic Development in Banda Aceh (Aceh Besar). He has over 13 years of experience, including five years in the banking industry and the last 5 years working at International NGOs for economic development programs and small business development. Recruitment of additional staff is underway; please see the staffing section later in this report.

The other key achievement is the initiation of collaboration with the local partner organization, Microfinance Innovation and Resources for Alternatives (MICRA). Initial planning meetings have been held to prepare for the rapid start-up of implementation in the second quarter; including identification of MFIs for participation in the ILFAD project, development of tailored post-disaster loan products, the development of the Disaster Risk Reduction (DRR) toolkit for MFIs, and plans to visit the Emergency Liquidity Facility (ELF) in San Jose, Costa Rica for a learning visit to adapt and apply ELF approaches, tools and methods to the Indonesian context with the ILFAD project.

### **Challenges:**

The initial start-up for the ILFAD project has been slower than expected for a number of reasons. First, the grant was issued in early August and back dated to 29 July start date. In other times of the year, this would not have been an issue; however August this year was the start of the month of Ramadhan and the Idul Fitri holiday season. The month of

August is particularly challenging because it is also the month when the Independence of the Republic of Indonesia (17 August) is celebrated. Therefore, this year in the month of August it extremely difficult to implement program activities - particularly meetings with key stakeholders whose schedules were consumed with holiday obligations and who had shortened working days. Right after the fasting month of Ramadhan came the Idul Fitri holiday that was a particularly long holiday this year, from 29 August until 5 September 2011; although business officially resumed on September 8th most businesses in Indonesia did not return to normal operating until mid-September. Therefore, ILFAD was able to fully initiate program activities in mid-September (two weeks prior to the end of quarter).

Additionally, there have been some management changes in Mercy Corps Indonesia, including the Country Director moving to a regional management role, the recruitment of a new Country Director, and the hiring of a new Director of Programs. These transitions have primarily taken place in August, and likewise affected the start-up of ILFAD specifically related to quick recruitment of the Program Manager.

As a result of these delays to start-up, and given the very ambitious timeframe proposed to deliver the program objectives, Mercy Corps is requesting a no-cost extension for three months, to ensure a full 12-month implementation period is available to the ILFAD team (revised, updated workplan and NCE request accompany this report submission).

## **2. Program Overview**

ILFAD will build the capacity of Indonesian microfinance institutions to reduce the economic impacts of disasters and speed recovery efforts for affected communities.

Mercy Corps will work with MICRA to develop loan products specific to emergencies. To select and prioritize the types of products, Mercy Corps will draw on its own experience in disasters; hold workshops with key MFIs to determine their perceived needs; and also solicit ideas and lessons learned from the ELF.

MICRA will train MFIs in these loan products, allowing them to implement them smoothly after disasters. Mercy Corps and MICRA will also develop a locally appropriate disaster risk reduction toolkit for MFIs—including coursework, manuals, self-guided tutorials, and workbooks—adapting existing tools as appropriate. The toolkit is intended to mitigate the impact disasters have on the operational capacity of MFIs themselves, and will include simple, practical approaches to protecting assets, information, and functional capacity.

In order to reach the scale that will have an impact on restarting damaged economies, ILFAD will offer a loan guarantee mechanism to encourage the use of these products and the expansion of services to new clients during and after emergencies. The mechanism will offer protection to MFIs, while allowing them to operate publically in as normal a manner as possible. Details of the mechanism's design will be determined during the workshops and discussions with key MFIs, and refined by MICRA's experts.

The loan guarantee facility will be permanently housed in Bank Andara, which fits in with the Bank's role as a wholesale lender and service provider to the Indonesian microfinance sector.

While emergency liquidity funds serve a crucial twofold purpose, preventing the collapse of the local micro-finance sector while enabling a quick start to the locally driven recovery process, these funds are far more effective if combined with capacity building measures to help MFIs prepare for, and respond more effectively to, disasters. Identifying and pre-qualifying MFIs, following the ELF model, will speed approval and disbursement of loans in the chaotic aftermath of an emergency, while ensuring that the loans target the most appropriate institutions. MICRA and Bank Andara have already compiled an extensive listing of MFIs in Indonesia, with assessment and ratings of their capacities.

The geographic focus for the initial twelve months will be: the greater Yogyakarta area, which has a sophisticated MFI industry that is still recovering from the continuing Merapi eruptions; urban Jakarta, where floods and fires are a common strain on community financing options; and West Sumatra, which is extremely vulnerable to earthquakes, tsunamis, and landslides.

### 3. Performance Summary

<b>Sector #1: Economic Recovery/Market Systems</b>				
Beneficiaries targeted:	36 MFIs, 72,000 direct individuals; 360,000 indirect			
IDP Beneficiaries targeted:	35,000			
Beneficiaries reached:	0			
Geographic Area(s):	DKI Jakarta; Yogyakarta, Central Java; Padang, West Sumatra			
<b>Sub-Sector 1.1.: Microfinance Institutions (MFIs)</b>				
<b>Objective 1:</b> MFIs providing emergency financial services to disaster affected clients				
	<b>Baseline</b>	<b>Target</b>	<b>Progress to Date</b>	<b>Date</b>
# of disaster affected households replacing household and livelihood assets using loans and savings from MFIs benefiting from the ILFAD	To be determined	35,000	Nil	10/31/2011
# of MFI clients in disaster-prone	To be determined	To be determined	Nil	10/31/2011

areas reached with new post-disaster loan products				
# of MFIs receiving time-deposits	To be determined	36	Nil	10/31/2011
# of new specialized products offered for emergency recovery	To be determined	5	Nil	10/31/2011
# of MFIs trained on disaster risk reduction and recovery practices	To be determined	36	Nil	10/31/2011
% progress toward full capitalization of the Emergency Liquidity Facility Indonesia	To be determined	50%	Nil	10/31/2011

### Sector Summary

Activities during the first quarter of implementation were focused primarily on setting-up the ILFAD team, and secondarily on refining the program strategy and detailed work plan for the following quarters. Preliminary discussions have also been held on the design of baseline and program monitoring processes.

Mercy Corps began drafting an MoU with MICRA in September. In October there will be a series of meeting with MICRA to kick-off the project and to discuss and finalize the MOU and subgrant agreement, MICRA's scope of work and the final implementation timeline. Mercy Corps plans to have the MoU and subgrant signed no later than mid-November. Mercy Corps and MICRA will work immediately to finalize selection and reach out to the 36 identified MFIs in the three target areas, to socialize the program and initiate the development of loan products and the DRR toolkit.

Moving forward there will be monthly coordination meetings between Mercy Corps and MICRA, and eventually Bank Andara.

## 4. Monitoring and Evaluation

During the first quarter, the ILFAD program has started preliminary work on preparing and designing monitoring plans and tools for a baseline survey that will allow the team to identify targets for its monitoring indicators and track progress during program implementation. The recruitment of an M&E officer will take place early in the next quarter.

## 5. Coordination

As program activities get underway more fully in the coming quarter, Mercy Corps and our local partner, MICRA will develop specialized loan products in coordination with local MFIs and local government disaster committees in the target provinces of Jakarta, Central Java, and West Sumatra. ILFAD will also reach out to peer agencies, such as the MFI rating agency Ukabima, and the government associated MFI technical assistance organization, PNM, to ensure their input and buy-in to the process of developing these loan products.

As mentioned, ILFAD plans to coordinate with the Emergency Liquidity Facility (ELF) for Latin America and the Caribbean. With over five years of operational experience, the ELF will provide valuable lessons for adaptation and application to Indonesia through ILFAD. Mercy Corps will send a team to the ELF to learn from their staff and build linkages between the two facilities in the coming quarters (either Quarter 2 or in early Quarter 3, depending on schedules and preference of the ELF).

Mercy Corps is also implementing a USAID- funded Climate Adaptation and Disaster Resilience/Stakeholder Coordination, Advocacy, Linkages, and Engagement for Resilience (CADRE/SCALE Resilience) Program. Through this program Mercy Corps works closely with the Indonesian Government's Disaster Management Agency at the national and regional levels. Mercy Corps' CADRE/SCALE Resilience team will connect ILFAD to the relevant local, regional and national stakeholders with whom we have existing strong relationships, to ensure appropriate coordination and socialization of ILFAD as activities get underway.

Activities to network with relevant local and regional donors for investment in the Liquidity Facility have not yet been established for obvious reasons. These activities will be discussed and with Bank Andara in the coming quarter, the details of these discussions and plans will be updated to OFDA in the subsequent quarterly report.

## **6. Staff**

Recruitment of the ILFAD Program Manager began in September. The new PM was hired at the end of September, to start working during the second week of October. The new PM worked for Mercy Corps in Aceh after the Tsunami. He has over 13 years of relevant experience.

The positions of Project Officer and M&E Officer are being recruited in the early part of Quarter 2.

## **7. Conclusion**

The ILFAD program has experienced a slow start due to factors beyond the project's control. However, the program is now underway with a Program Manager hired and plans in place to move forward quickly in the coming quarter. However, given the slow start, Mercy Corps is requesting a 3 month no cost-extension with the submission of this quarterly report in order to have 12 full months of implementation (see also updated workplan attached).