QUARTERLY REPORT

1 January – 31 March 2014

INDONESIA DISASTER RISK REDUCTION PROGRAM
FINANCIAL ACCESS

Indonesia Liquidity Facility After Disaster (ILFAD)

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COUNTRY CONTACT	HEADQUARTERS CONTACT	PROJECT SUMMARY
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1. Executive Summary

In the past three months, several natural disasters have hit the ILFAD program's working areas, including Mount Sinabung's volcanic eruption in North Sumatra, Mount Kelud's eruption in East Java and flooding in Jakarta[1]. The total financial losses from these three disasters are estimated to have reached IDR 7.2 trillion (approximately USD 700 million). The ILFAD team actively communicated with partner MFIs (and MFIs with their clients) within the affected areas in regards to liquidity facility needs and withdrawals. To date, there has been no indication of massive withdrawals that could lead to a liquidity deficit within an MFI.

During this quarter, the program held three Disaster Preparedness trainings and four Liquidity Management trainings for MFIs in 11 provinces. The trainings were conducted smoothly and of high quality in delivery methods and training contents, as reported in the evaluation[2]. In this quarter, the ILFAD team and LAPENKOP have mutually agreed that East Java and West Nusa Tenggara be chosen to be the in-depth partners[3]. Product development activity will be carried out, starting with market research in both provinces.

In this reporting quarter, ILFAD recorded an increase in MFIs' clients by 14.5%, while the capital increase was recorded at 8.6%. This data indicates that increase in clients does not necessarily boost the capital significantly since most of the clients belong to low-income groups[4].

The development of the ILFAD Training Manual on Disaster Management is undergoing, and is currently in the design and layout stage. The ILFAD team is working closely with a graphic designer and the manual book is planned to be in its production stage by the next quarter.

Coordination with stakeholders such as OJK/Otoritas Jasa Keuangan *(Financial Authority Service)*, Kementerian Koperasi dan UMKM *(Ministry of Cooperative and SMEs)* and BNPB/Badan Nasional Penanggulangan Bencana *(National Agency for Disaster Management)* has also been intensified. In the case of OJK, ILFAD has had two meetings with Mr. Dumoly Pardede and Mr. Firdaus Jaelani[5]. The first meeting was held to discuss liquidity facility after disaster, while the second meeting focused more on MFIs' capacity in selling disaster-specific microinsurance products.

In this quarter, the ILFAD team also held several meetings and discussions with PT. RAM/Raden Ayu Mas regarding the company's interest in providing an after-disaster liquidity fund for MFIs[6].

[1] See Annex 1
[2] See Annex 1
[3] Provinces/regions selected for more in-depth work in order to lay a solid foundation to start the cycle of Apex institutions, working more closely with MFIs and their clients.
[4] See Annex 2
[5] One of OJK commissioners, who also held a position as the chief executive of IKBN Supervisory division/Industri Keuangan Non Bank *(Non-Bank Financial Industry).*
[6] See Annex 1

2. Program Overview

The following table illustrates the seven Disaster Management and Liquidity Management trainings facilitated by the program this quarter:

a. Disaster Management and Liqudity Management for MFIs

Disaster Management Training		
Date	**Total Participants**	**Training Location**
21-24 January 2014	24 participants from Maluku	Maluku
4-7 February 2014	15 participants from Bandung 5 participants from Jakarta	Bandung
11-14 February 2014	16 participants from Jogja 4 participants from Central Java 11 participants from East Java	Jogja
Liquidity Management Training		
18-20 February 2014	9 participants from Sumbar 4 participants from Sumut 9 participants from Aceh	Medan, North Sumatra
19-21 March 2014	20 participants from East Java 12 participants from NTB	Mataram, Lombok NTB
25-27 March 2014	7 participants from Jogjakarta 9 participants from Central Java 2 participants from East Java	Jogjakarta
25-27 March 2014	22 participants from NTT	District Sikka, NTT

Participants were managers and/or decision makers within the represented MFIs. Several outputs achieved during the trainings are as follows:

- **Improvement in knowledge, specifically in understanding disaster preparedness within the financial sector:** All participants stated that they have never attended such training before.
- **Behavioural change and policy adjustment:** As a result of the training, there has been an increase in awareness to actualize and integrate disaster management concepts and related tasks and responsibilties within the institution's rules and regulations, including budgeting for disaster management in MFI's operational acitivities. One example of this in practice is Kopdit (cooperative) Bina Keluarga in Maumera – East Nusa Tenggara, which has adopted disaster management concepts into their rules and regulation of its cooperative. Under the rules No. 05/RAT/XXXII/08032014, it is stated: *"To build disaster preparedness fund in which the institution will be responsible for the cost, as an anticipation of the possibility of any upcoming disasters in the institution".* Several other MFIs have also established awareness towards disaster such as modifying their rules and regulation, developing disaster-specific saving products, and forming MFI's emergency team.

Group discussion during Disaster Management training in Jogjakarta

- **Establishment of communication forums for alumni of the training in each area:** At the end of the training, participants decided to

establish a means of communication through groups such as in Blackberry Messenger *(for example: group MFIs Jogja-Jatim, group MFIs West Nusa Tenggara-Jatim)* and Facebook.Such groups and forums were independently initiated by participants. However the ILFAD team is considering integrating the separate groups into one large group – accommodating all meeting participants – through Facebook, web blog or other form of social media.

b. Determination of in-depth partner

On January 10, 2014, the ILFAD team and LAPENKOP held a meeting to discuss additional in-depth partners, after West Sumatra. In-depth partners are chosen based on the following criteria:

- Readiness of the local apex bank which include performance in health indicators and financial ratios, as well as their willingness to manage liquidity facilities.
- Willingness of local MFIs to participate in ILFAD activities.
- Support from the local government, Bank of Indonesia (BoI), and the Ministry of Cooperatives and Small and Medium Enterprises (SMEs).

After much deliberation, the team and LAPENKOP mutually agreed to select East Java and West Nusa Tenggara as the next in-depth partners. Other aspects were taken into consideration, including:

- **Support and willingness from MFIs association in both provinces are greater than other provinces.** East Java is supported by Perbarindo Malang (Malang's Association of BPRs (rural banks)), while West Nusa Tenggara is supported by Perbamida (Association of local government-owned BPRs).
- **Participation and contribution of MFIs**. High level of commitment from MFIs in East Java and West Nusa Tenggara are shown through MFIs' participation in trainings and their involvement in ILFAD program activities.

c. Disaster-specific product development for MFIs.

The product development activity in in-depth partner provinces was initiated this quarter, starting with market research. Details are as follows:

Participants of Liquidity Management training in Lombok

- A questionnaire was distributed by LAPENKOP to all sample MFIs. The LAPENKOP team is currently evaluating some questionnaires.
- The team reviews secondary data, derived from literature studies and relevant information. The team then identifies needs of the targeted areas in regards to disaster-specific financial products. Based on the secondary data and other inputs, the team drew up identification of financial products that will be developed into a product prototype in the next quarter. Observations and field surveys were conducted as follows:
    - 16 -18 January 2014, in Malang District of East Java (Partcipants: BPR Gunung Ringgit and BPR Mitra Catur Mandiri)
    - 30 -31 January 2014, in Mataram and East Lombok, West Nusa Tenggara(Participants: PD BPR Lombok Timur, PD BPR Lombok Barat and BPR Tanjung Abdi Swadaya in North Lombok)
    - 10 -13 March 2014, in Malang District of East Java (Participants: BPR Sadya Muktiparama and BPR Pujon Makmur Jaya)

d. Initiation to partner with PT. Raden Ayu Mas as the APEX.

In this quarter, the ILFAD Manager discussed with PT. Raden Ayu Mas, a private Indonesian company about their interest in the ILFAD concept. They are interested in providing liquidity facility after disaster for MFIs. Further details regarding the process are available in Annex 2.

e. Proposal to OJK, regarding BPR as microinsurance agent.

During the Liquidity Management training in Medan, one of the MFIs from Aceh mentioned that the BoI prohibited them to market microinsurance products. This information is yet to be clarified. Further discussion was held, attended by the ILFAD Program Manager and Senior Assistant Vice President of ACA Insurance, Mr. Jakub Nugraha. It was agreed that ILFAD and ACA Insurance will discuss the matter with OJK-IKNB Supervisory division directly to mitigate confusion and clarify expectations. On 20 February 2014, ILFAD and ACA Insurance held a meeting with Mr. Firdaus Jaelani, the chief executive of IKNB Supervisory division. The outcomes of the meeting are as follows:

- As of this report writing, there are no specific rules or regulation regarding rural banks in insurance sales or distribution. The current regulation is that rural banks are not allowed to engage in business of insurance[7].
- Based on this discussion, however, partnership between ACA Insurance and MFIs can proceed, as long as it is reported to OJK-Financial Supervisory division and OJK-IKNB Supervisory division.
- To gain trust from the rural banks, OJK-Financial Supervisory division and OJK-IKNB Supervisory division will coordinate to distribute a formal letter stating that BPRs are allowed to be the agent of sales of microinsurance.

The ILFAD team informed MFIs of the meeting outcomes through emails and phone calls.

Coordination

The ILFAD team held several meetings with stakeholders, as detailed below:

- **Meetings with LAPENKOP in Garut, West Java (10 January 2014)**
  Purpose of the meetings was to discuss plans and follow up activities for Disaster Management and Liquidity Management training, training modul finalization, in-depth partner determination (in addition to West Sumatra) and market research and product development activities.
- **Meeting with Ministry of Cooperatives and SMEs in Jakarta (13 February 2014)**
  Meeting with Ministry Secretary of the Ministry of Cooperatives and SMEs (Mr. Agus Muharam) and Deputy of Institutional Field (Mr. Setyo Heriyanto) to discuss the ministry's support and the regulations regarding cooperatives in disaster-prone areas. The ministry stated that there is no specific program scheduled for cooperatives in disaster-prone areas and perhaps the ILFAD team can arrange a mini workshop to further discuss the subject.
- **Meeting with BNPB in Jakarta (19 February 2014)**
  Meeting with Director for Community Empowerment (Ms. Any Isgiaty) to discuss the possibilities of MFIs under the ILFAD program to collaborate with Desa Tangguh *(Resillient Villages)* managed by BNPB. Such collaboration can positively contribute in funding for communities within Desa Tangguh. Ms. Any suggested a cross-sector coordination that will allow ILFAD's funding mechanism to comply with local government's rules and regulation.

[7] Insurance refers to the equitable transfer of the risk of a loss, from one entity or an individual to another in exchange for payment. It is a practice or arrangement by which a company or government agency provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium.

- **Meeting with ACA and OJK in Jakarta (January – February 2014)**
  ILFAD organized two meetings with OJK, where the first meeting discussed the concept of liquidity facility after disaster where an APEX bank will be involved to provide such facility, as stated under BoI rules and regulations. OJK, as represented by Mr. Dumoly Pardede felt this is a good concept, however it would be a tough job because new rules and regulations will have to pass several stages, including trials and errors testing. In the second meeting, participants discussed rules and regulations for rural banks to sell insurance products. Mr. Firdaus Jaelani attended the meeting and he assured the team that rural banks can engage in sales of microinsurance and he will coordinate with OJK-Financial Supervisory division to establish a specific rule to support the activity.
- **Meeting with LAPENKOP, Perbarindo Malang and Bank Andara in Surabaya (14 March 2014)**
  Meeting wih Bank Andara Surabaya's Head of Branch (Mr. Iwan Herlambang) was held to discuss concept and mechanisms that would allow Bank Andara to become an APEX bank for MFIs in disaster-prone areas in East Java and West Nusa Tenggara. In the meeting, Bank Andara Head of Branch agreed with the concept presented by ILFAD program. However, since Bank Jatim already became the APEX bank for East Java, Bank Andara is indecisive that being an APEX bank during a disaster period might contradict BoI rules and regulations. Therefore, the matter will need to be discussed further.
- **Meeting with Bank Andara in Jakarta (18 March 2014)**
  Meeting with Senior Vice President of Bank Andara (Mr. Supriyono) was organized to follow up the plan for Bank Andara – East Java as an APEX bank during emergency. During the meeting, the ILFAD team suggested Bank Andara to develop regulation and concept that can accommodate partnership between Bank Andara - East Java and MFIs in Malang. Both parties agreed to have a follow up meeting in the next quarter.

Challenges

- Training Zones: Training implementation based on zones was deemed to be less effective for participants. This is because OJK has stepped up socialising their existence and regulations affecting MFIs, both at national and regional levels. It is learned that OJK invites committees of MFIs Assosciations and even their officers pay visit to each and every MFI. This had hampered MFIs participation in the ILFAD training. As a solution, participants who were unable to attend training in their respective zones were allocated seats to same training in different zone, which allowed them to participate in the training more conveneintly.

3. Performance Summary

For ILFAD program performance summary details, refer to *Annex 1 and 2*.

4. Activity for Next Quarter

- Hold two Liquidity Management Trainings in Maluku and Jakarta.
- Launch the DRR product in West Sumatra, East Java and West Nusa Tenggara.
- Distribute the ILFAD Training Manual on Disaster Management.
- Extension on MoU between ILFAD and LAPENKOP since there are several incomplete activities due to the field dynamics. Several government-related activities prevented MFIs' directors to attend ILFAD training, hence training schedules needed to be planned carefully.