APED

Aceh Partnerships for Economic Development

ACEH BANK LENDING

DRAFT FINAL REPORT

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APED PROJECT
a collaborative project between:
UNDP & BAPPEDA ACEH

2008

DRAFT FINAL REPORT- ACEH BANK LENDING

Executive Summary

Bank lending to agricultural **production** in Aceh is in essence non-existent: a history of non-repayment, high costs of servicing the number of small loans and inability to recapture collateral in the event of non-payment make the production sector unattractive

Bank lending to the 5-10 agribusiness firms accounting for the majority of **trade** is available: these companies have assets, a history of paying their debts, and influence far beyond the capacity of the farmer. Both trade financing and capital financing are freely available to these firms, especially the top 5

The ability to facilitate credit and influence production will depend on the ability to organize cohesive famer groups /cooperatives with professional management preferably directly linked to buyers and processors , both within Aceh and without. Credit guarantees may be required where organizations do not have long experience.

- Commercial bank lending in Indonesia is asset based, and banks consider only collateral in their lending practices
- This is especially true in Aceh where lending is considered "extra risky"
- In Indonesia lending to agriculture is considered too risky and lending to agriculture in Aceh is considered "out of the question"
- Bank lending to agriculture in Aceh accounts for less than 3% of commercial bank lending in Aceh
- Banks currently require collateral in the form of land and real estate, not moveable assets, and generally expect collateral of 140% and an interest rate in the high teens.
- Current bank practices are all justified on the basis of past experience of default, high costs and length of time recovering loans, cost of servicing, etc.

- A major function of commercial banks is to preserve depositors' capital: lending to agriculture in Aceh would not appear to be prudent

- Commercial banks have little or no incentive to lend: the purchase of Indonesian government bonds with 10% of more interest and little or no attendant risk is too attractive

- Trade finance for recognized agricultural commodities is more generally available, but only to established customers with a multiple year (generally a minimum of 3) track record

- Most farmer/producers are resigned to an absence of commercial bank credit and perceive it as impossible due to bureaucracy, lack of access to bank facilities, time and expense involved, difficulty in providing proof of land registration/ownership

- Farmers who do own land are reluctant to pledge that asset as the risk of default is too great: banks are seen not as partners, but as predators

- This report recommends a pilot project overcoming these real/perceived problems through "value chain financing," recognizing that different stages of the value chain are appropriate for micro-finance institutions, commercial banks and non-bank financial institutions, but that the value chain factor with the greatest demand (probably the processor/exporter) is needed to coordinate the various elements of lending and technical support

- Discussions with banks indicate a lack of knowledge of lending to agriculture in general, and a lack of understanding of the risks undertaken should they undertake such loans.

- In all cases, banks were insistent that their risks would have to be reduced through a combination of collateral, guarantees, and technical assistance even in the face of confirmed orders from reputable buyers

- The author's previous experience providing risk reduction to a bank through putting other funds at risk, providing education and training to bank staff, while combining that with technical assistance and support for borrowers and support for educational institutions and a trade association indicates that commercial bank objections can be overcome with the correct package of incentives

Introduction

The Aceh Partnerships for Economic Development Project (APED) has been funded by UNDP through the Decentralization Support Facility to work jointly with Bappenas and Bappeda NAD to create productive jobs and raise household incomes for the people of Aceh. This is to be accomplished through the formation of public private partnerships associated with export clusters (where exports are defined as sales outside of Aceh) involving representatives of government, business, and other organizations. APED is continuing work begun in the coffee sector in 2005, expanding into the cacao sector, and will subsequently expand into other sectors.

APED has identified a problem in obtaining loans from commercial banks both for investment in production and for purchasing supplies for processing and sale to third parties.

The purpose of this consultancy is to further analyze the problem and recommend actions to ameliorate constraints and encourage banks to increase lending for export oriented agricultural production, processing and trade.

The objectives of the assignment are to:

- Assess the extent of current lending by commercial banks
- Identify commercial banks interested in business loans
- Recommend a program of support from APED, the government and business partners
- Facilitate discussion between interested banks, APED, government and business partners

n.b. this report exceeds the strict mandate above by including bank and non-bank lending to cooperatives and production units

1. Overview

a. Clusters included

The focus of this report was on coffee, as initial interviews with banks indicated that talking about agricultural credit in general terms was non-productive. Limiting discussions to specific commodities also indicated that banks' appetite for risk depended on perceived profitability of the commodity: the potentials for lending to oil palm are considered great, while the potential for lending to aquaculture or livestock was far less so.

Commodities covered included oil palm, cacao, rubber, coffee, livestock, and aquaculture.

A review of the current literature revealed that the lack of agricultural credit is a widespread problem in the province (and probably throughout Indonesia). Cited below are quotations or paraphrases from specific studies. These are taken directly from the references cited and may thus be repetitive, but this only further emphasizes the problem of lack of access to credit and its effects at all levels of Acehnese agriculture.

Aceh Palm Oil: (6)

1. Little or no access to working capital for farmers to purchase ag inputs in a timely manner
2. Farmers lack capital to purchase fertilizer and other agri-chemicals needed to improve production and manage pests and diseases
3. Smallholders lack capital to purchase quality oil palm seedlings
4. Access to finance does not appear to be freely available in Aceh
5. Local banks will not lend to farmer clients due to poor loan performance in the past
6. Local banks lack an understanding of rural finance requirements and approaches to secure loans with assets other than land
7. Farmers have difficulty accessing finance

Aceh Cocoa: (4)

1. Fertilizer and compost use is very low due to knowledge and working capital constraints
2. Farmers have no access to working capital to purchase necessary agri-inputs
3. (Farmers) rely on traders who may provide limited inputs and finance in return for all produce, all at the trader's price
4. Poor access to capital to purchase agri-inputs such as fertilizer, agrichemicals for pest and disease control, improved seedlings
5. Inputs such as fertilizer, pest and disease control and higher labor costs are necessary to improve farm gate returns
6. Farmers lack ability to purchase inputs
7. Access to finance program for credible farmer groupings, including development of savings programs to capture irregular income payments for improved cash flow management

A Value Chain Assessment of the Rubber Industry (3)

1. Absence of village or even district level financing mechanisms for smallholders …has resulted in inability of smallholders to obtain a better share of price
2. Recommendation: Setting up micro credit systems/linkages for producers
3. Producers frequently finance their consumption expenses through loans from collectors

4. The main role of the collector is financing producers and other collectors down the chain and providing transport

5. Main source of financial support for smallholders comes from advances paid by collectors. Interest charged on these loans is nearly 2-3 times commercial bank rates and are based on perceived risk and financial needs of the smallholder

6. Financial support for replanting /new planting is available in the form of subsidies

7. One of the main issues is the lack of micro credit financing for small holders which makes them vulnerable to exploitation by middlemen

8. Setting up micro credit systems/ linkages for producers: Potential partnerships: GAPKINDO, banking system

A Review of the Aceh Coffee Industry: (2)

1. Independent microfinance for farmers is not readily available

2. Up to 20% of coffee may be captured by a range of kiosk owners and traders who provide loans and credit to farmers in the non-harvest season – farmers are then required to sell coffee to repay these loans at prices lower than market prices

3. A program of ….access to fair and equitable credit not linked to coffee buyers is required

Marine Fisheries Masterplan for Redevelopment in Aceh Indonesia (14)

1. Credit is perceived as the means of generating loyalty from the producers to middlemen.

2. Access to finance uses all available means …local family and businessmen, fish agents and processors: the banking system is rarely used as a source for finance. Fish agents appear to extract fairly high margins in trade

3. Banks require producers to have collateral for a loan, a condition that many farmers and fishers cannot fulfill

4. Some credit problems were noted in Nias where middlemen were reported to be charging interest rates of 20% per month

What the above mentioned studies, all recent in origin, indicate, is that for these five commodity value chains, **access to credit is a major impediment to expansion of production, and thus to processing and export.** Further literature searches would be redundant, since there is ample evidence that the conditions above apply to a greater or lesser degree to all of Indonesia and to all agricultural commodities.

Banks, on the other hand, and in their defense, can cite many reasons for their unwillingness to lend as will be discussed below.

b. Methodology

The methodology for this study is described in the workplan, attached as Annex A but generally consisted of literature review, peer discussions, lending institution discussions, and interviews and discussions with stakeholders in the value chain from growers to US importers. The latter were generally specialty coffee importers with world wide experience in practices in other countries. For banks, the interviews and discussions were held with a broad range of institutions from state owned banks, to private commercial banks, syariah lenders, etc. The report was influenced by the author's previous experience in lending to agriculture and agribusiness in Eastern Indonesia in conjunction with a major state bank.

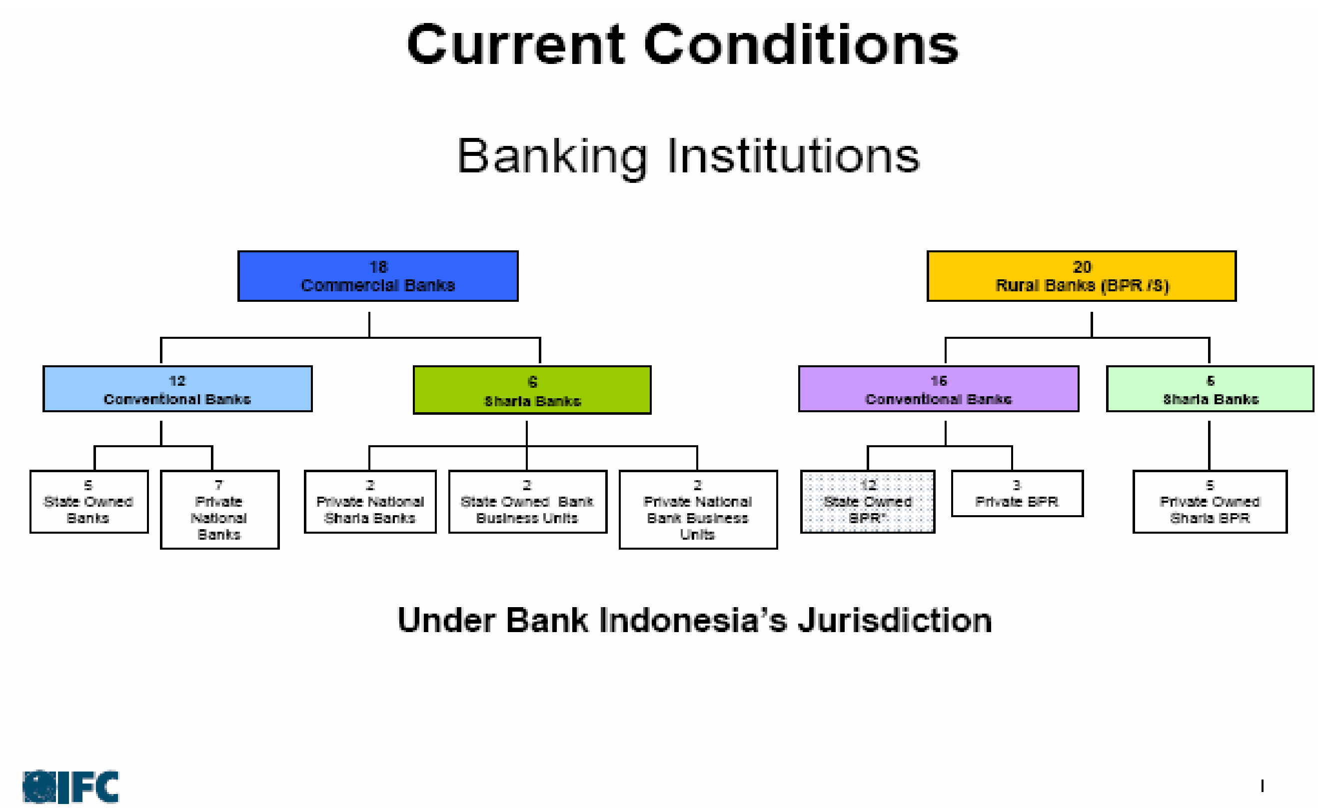
2. Current Lending to Aceh and Lending for Agriculture

a. Commercial Banks:

Outstanding Credits in Billions of Rupiah								
	Jan 2000	Jan 2001	Jan 2002	Jan 2003	Jan 2004	Jan 2005	Jan 2006	Jan 2007
Aceh	890	1212	1284	1979	2518	3503	4433	5515
Indonesia	136816	149564	198429	265671	335127	435518	555414	620040
Aceh %	.65%	.81%	.64%	.74%	.75%	.80%	.80%	.89%

Source: Bank Indonesia [(16)]

While bank credits in Aceh are growing, Aceh accounts for less than 1% of all commercial bank loans in Indonesia. Loans to agriculture are in Aceh are miniscule: as can be seen below, perhaps 5% of the less than 1% of total Indonesian commercial credit. The implications are that while less than **.2** % of all loans are to Aceh agriculture, the area accounts for almost 2% of the population, a severe imbalance.



more than one quarter of them are located in the two largest cities. This indicates that most **rural people and commercial enterprises have limited or no access to banks**, and that their “transaction costs” of dealing with a bank are very high. Again as of late 2007, Aceh banks had a total of Rp 19.2 trillion in deposits to support loans of Rp 5.3 trillion, a loan to deposit ratio of 27%, very low by Indonesian standards. If government and NGO deposits are excluded from the total, however, the LDR returns to 60%, which is closer to the normal range for Indonesia. Of the 5.3 trillion in loans, 70% are private credits, 17% are to public corporations and 11% are to State owned enterprises. The private credits are overwhelmingly for consumption.

84% of the deposits are held by the 5 state owned banks, 10% by private national banks and 6% with Syariah Banks. Rural banks have only **.14%** of deposits, and are thus ineffective as mobilizers of capital for investment.

There were 158,519 credit accounts in Aceh – 39 per 1000 people and of these 98% were conventional credit accounts while 2% were syariah accounts. Syariah accounts increased 64% in 2006 and 35% in the first 9 month of 2007.

According to the IFC study, state banks lend to trade, industry and construction, private banks to business services, and BPRs to small businesses in both big cities and rural areas. Commercial banks other than BPD and BRI only lend to businesses in Banda Aceh and

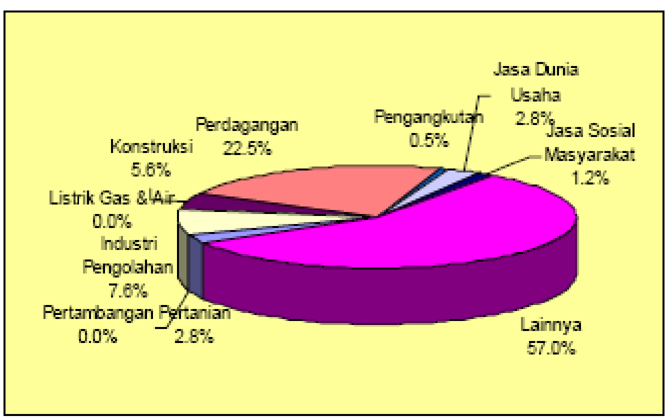
Lhokseumawe. The report explicitly notes that **banks do not give loans to agribusiness (fisheries and farmers**) **as they are considered too high risk.**

It was estimated by IFC that lending to agriculture and agribusiness amounted to about 200 billion Rp, out of 5.3 trillion in loans outstanding. This is less than 4% of loans within Aceh, and echoes figures reported in such reports as "Proposed Grant Assistance for Aceh: Assistance for Restoration of Microenterprise and Microfinance in Aceh".[20] That report noted that BRI and BPD accounted for 73% of the total lending of $339 million to Aceh pre-tsunami. The report also noted that loans from BRI were asset based (collateral) and that the Bank does not even attempt to analyze cash flow. In other words **bank lending in Aceh and indeed in Indonesia does not depend on the inherent value of the project and its ability to repay, but rather on the borrower and the ability both to repay from current cash flow in other businesses or through the seizure of easily resalable collateral.**

Alling and Jensen [13] in work for BPD, found that "bank loans to the agriculture sector (in Aceh) account for less than 6% of lending."

BII, in another report, notes that lending to agriculture in Aceh accounts for less than 3% of total Aceh lending by commercial banks and a slightly higher percentage (3.3%) of syariah lending in Aceh, though syariah lending is a much smaller portion of total lending amounts.

Grafik 3.8 Alokasi Kredit Bank Umum Prov. NAD Menurut Sektor Ekonomi



Sumber : LBU/LBUS

The Aceh Economic Update for Nov 2007 [5] notes that while agriculture and fisheries accounted for 21.2% of the Aceh economy, employment in agriculture has decreased from 62% of employment to 57%, as employment opportunities arising from construction and services associated with reconstruction have increased. As reconstruction activities wind down and conclude, the proportion of employment in agriculture will again increase.

We are left with a picture of well capitalized state banks, and to a lesser extent private commercial banks, serving the population of the 2 major cities, while the major employment generator in Aceh, agriculture and agribusiness, is left to survive while being underserved by undercapitalized banks. While there would appear to be a large number of branch banks in the provinces and at district level they have no funds to loan and do not mobilize local savings.

b. Investment

In the Rural Investment Climate Survey of 2006, 46% of the micro- and SME firms contacted indicated that credit availability was an obstacle to growth. The same survey showed that impediments to growth were high interest rates, too complicated bank lending procedures, and a fear of not being able to pay the installments when due. Other surveys have suggested that SMEs and households that have received credit from other sources don't approach banks because they don't understand the procedures, think they are too complex, have no or insufficient collateral, or they just weren't interested.

The Aceh Economic update cited above also notes that nationally 30% of credit is for consumers, but in Aceh that figure is 44%. The report also notes that government owned and foreign banks are lending to the consumer sector while national private banks are predominantly lending to businesses.

c. Trade – about Rp 1.4 trillion in loans, or 26% went into the trade sector.

Processors in agribusiness are often large enough commercial entities that they are well served by commercial banks for trade finance, but this generally occurs in Medan, the major export port. As noted above, the SMEs wishing to expand into coffee trading and processing have little or no access to credit.

Since green coffee is generally sold on fob terms, large firms generally have access to the limited term capital need between purchases from the producer/processor, while smaller SME type firms are squeezed out of the market with an inability to access trade finance, regardless of the length of time.

3. Constraints to Commercial Bank Lending to Agriculture

Collateral requirements: until the end of 2004, moveable assets did not qualify as collateral and banks required either land, buildings, certificates or cash as collateral. Four years later banks are still requiring immovable assets as collateral and are unwilling to consider receivables, contracts, etc, but this is no different from other sectors of the economy.

In many cases the required collateral is far in excess of the loan sought – typically 140% of the loan amount. This is understandable in a country where it takes more than 500 days to pursue a contract, costs 122% of the loan value to pursue a claim, and then results in a settlement of 22 cents on the dollar. (see below)

Bad perceptions among borrowers: banks are perceived as profit seeking, rather than as business partners

Certification processes especially for land, are too bureaucratic and expensive due to unofficial fees. There is also a requirement that the applicant have legal business status (SIUP, Company registration) and for a loan of more than Rp 50 million, a taxpayer number (NPWP). For some potential borrowers the unwanted attention of government officials brought about by legalization is a deterrent to registration and thus to borrowing.

Farmer groups lack internal trust, and are seen as being "leader dependent," with the majority of benefits accruing to a close knit circle of acquaintances of the leader.

Commercial banks have resources but little reach, while BPRs have reach but no/limited human and financial capability.

Loan losses were significant in the early 90s, and poor implementation created a "grant" rather than a loan mentality.[13]

Local banks lack experience and worry that farmers can't manage loans

Since "banks are unlikely to lend to small landholders a key recommendation is organizing farmers through a cooperative concept that can serve as the delivery channel for banks to lend to individual farmers." [13]

The World Bank publication "Doing Business in Indonesia" [10] lists Indonesia as 121st out of 178 countries in the time it takes to register property, and 141st in the time it takes to enforce contracts. On average it takes 7 procedures and 42 days to register property and costs 10.5% of the property value. To enforce contracts it takes 39 procedures, 570 days and 122.7% of the cost of the claim to enforce. Other studies show that when banks do recover on their loans, it is on average at 22 cents on the dollar. It is no wonder that banks are averse to lending in general and to agriculture in particular.

Since the deposit base of the Aceh banking sector is falling as NGOs depart and other bi and multilateral institutions wrap up their work, it is to be expected that the loan to deposit ratio in the future will rapidly increase, from the current mid 20% range probably to the 70% range.

The difficulty and cost of accessing credit information on prospective borrowers has been partially overcome through the establishment of a registry.

A recent study by the World Bank [22] Revitalizing the Rural Economy: An Assessment of the Investment Climate Faced by non-farm Enterprises at the District Level, notes, however, that such information is especially weak at the SME level and that employment in the rural non-farm employment sector is stagnant. The report continues, noting that accessing formal credit is one of the most important constraints facing rural non- farm enterprises and is the second most often cited constraint in surveys with 37% (the first being marketing, with 39%). The major constraints cited include collateral requirements, perceived complexity and cost of compliance with loan requirements, and the legal standing of the enterprise.

From BPS data it is revealed that the major sources of rural nonfarm farm credit are

- Informal loans from non-family members (33%)
- Banks (24%)
- Family (20%)
- Other (20%)

In a survey of those firms that obtained credit from non bank sources the reasons for not going to banks included:

- Lack of collateral (31% of respondents)
- Ignorance of procedures (17%)
- Complexity of loan procedures (31%)

While it was estimated that 50% of all RNFEs need additional financing almost half of those are unwilling to apply because of fear of debt, fear of an inability to repay, and, finally, high interest rates

Many SMEs do not apply for loans because they are of doubtful legal status and the funds to correct that both increase loan costs and make borrowers fearful of attracting unwanted attention from civil authorities.

From the banks' side, commercial banks that would like to offer loans feel constrained by a lack of information, an inadequate number of loan officers, and the fact that they are located in urban areas making them unfamiliar with the character of the borrower and with the risks associated with lending to agricultural enterprises.

There is an anti-competitive monopoly grated to BPDs because of their privileged positions of serving the captive civil service market and BPDs are reluctant to move out of this sheltered market into the more competitive market for loans to micro and SME enterprises.

A notable exception to the poor record of rural bank lending occurred with the implementation of the P4K program, where agricultural extension workers carried out group formation activities that were later qualified for lending by BRI. This program at its peak was reportedly lending to more than 200,000 marginal farming and fishing programs, and is **worthy of emulation/continuation in Aceh under the auspices of UNDP and APED.**

The World Bank report notes that for household enterprises, 48% are dominated by collectors, 21% do their own marketing, 19% sell to retailers, 5% sell on consignment and **less than .2 percent market through cooperatives.** The authors' experience is that cooperatives in Indonesia are generally buying cooperatives: marketing cooperatives are rarely found. This is an area for emphasis by UNDP and APED in the development of future programs.

Finally, the report notes that trading non- farm enterprises dealing in both processed and unprocessed products tend to sell more than half their product in the same village, and about 40% sell in the same district. This paints a picture of many middlemen selling to each other but little product leaving the immediate area, and also points to the importance of **linking local producers and traders to non-local markets, a specific goal of APED.**

4. Overcoming Constraints: Commercial Bank Interest in Lending for Processing and Trade

Even before the recent boom in commodity prices, agricultural marketing was changing from supply driven to market or demand driven, especially for former commodities such as coffee and cacao which can now be differentiated at the consumer level. Supply driven markets are characterized by high transaction costs relative to the value of the product, and have uncoordinated market channels while demand and market driven supply chains encourage the production of higher value more specialized goods , improved quality control and product specifications, reduced costs, and longer term relationships with buyers, who in turn provide the seller with mixed inputs in the form of information, a stable marketing relation, and sometimes finance or the provision of inputs. (See diagram below)

Market driven value chains also tend to be more differentiated, with the demand end of the value chain specifying or seeking highly differentiated products in terms of flavor, handling characteristics, variety, intermediate processing steps, etc. In the face of a lack of contractual relationships, this has the effect of increasing farmer (and bank) risk, but in the face of **a formal relationship between the producers/sellers and the buyers, has the effect of increasing bank confidence in all the steps from production through to consumption.**

As has recently been shown, the prices of all commodities are on the rise, and the prices of differentiated products more so. **Banks are increasingly becoming interested in lending to the agricultural sector, but lack the experience and knowledge with which to properly evaluate the risks to which they are exposing themselves and their depositors.**

The advent of market-pull driven value chains has also meant that, increasingly, importers seeking quality, consistency and reliability are willing to “leapfrog” whole layers of a formerly lengthy supply chain in order to secure supplies of the products they and their customers want. In the case of coffee in particular, this is known as “relationship coffee”, where the importing company, or in some cases the larger roasters, are willing to invest in the establishment of long term relationships with groups of growers. This is used as a marketing tool, a quality assurance tool and a company social responsibility tool.

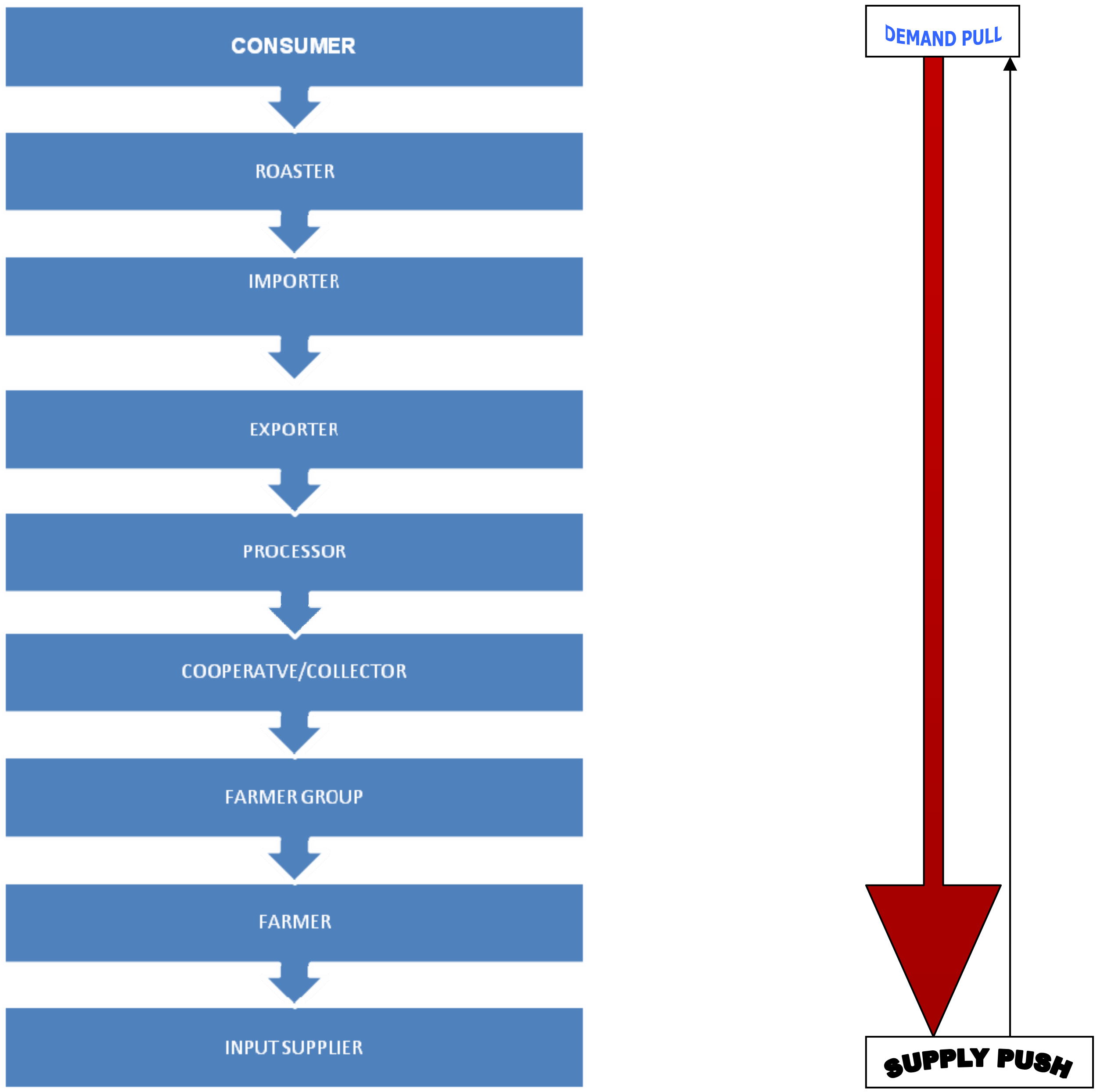
It is important to establish, when looking at value chains, the relative power of the links in the chain. In the case of coffee and cacao, note that one of the sources of power in the value chain is that at the very beginning of the chain, before minimal processing, there is a fair degree of perishability: the collectors and traders to some extent exert unfair power because the farmer is offering a perishable product and if he does not sell quickly runs the risk of spoilage through improper or prolonged fermentation or other spoilage. In addition the farmer has little control over his cash flow, with income being concentrated in a relatively short harvest period, making him vulnerable to accepting the first offer. This gives collectors and traders a temporal advantage they can (and do) use to keep prices low at the farm gate.

A confidential report indicates a fair degree of concentration in the exporters of Arabica coffee from the Port of Medan, as well as a fair degree of concentration in the export destinations. Fifty five % of the Arabica coffee shipped from Aceh and North Sumatra is destined for the US, 10% for Germany, 10% for Japan and 9% for Singapore. It is likely that the 9% destined for Singapore is transshipped.

On an exporter basis, the top 5 exporters of Aceh coffee account for 47% of the Arabica shipped and the top 10 for more than 68%, while the top 20 (out of 52 exporters) account for 87% of the Arabica shipped.

These concentrations would appear to offer a fair degree of control of the exporters over the producers and would appear to limit the marketing possibilities of the producers. With limited opportunities for the sale of their product, there is ample opportunity for exploitation of the farmers by the exporters and middlemen in the value chain. Fortunately, in a period of shortage, when the end markets are very strong, exporters are more interested in selling all the Arabica coffee they can procure than in attempting to exploit their marketing strengths in an effort to extract the maximum profit. As shown below**, the current demand pull effect for coffee far outweighs the supply push**: this is partially because of the unique characteristics of N Sumatra and Aceh coffees which are heavily used as blender coffees due to their heavy body qualities.

THE COFFEE VALUE CHAIN



In financing the value chain, it should be noted that the commercial banks tend to concentrate their activities at the top end of the chain, rarely going deeper than the cooperative, while the lower parts of the chain tend to be the purview of the microfinance institutions.

The above implies that **any attempts to increase the availability of agricultural credit at the farmer or SME level will have to rely on interventions at the processor or farmer group/cooperative level**. In addition, the above implies that such interventions will only be enabled through the provision of loan guarantees or the provision of direct injections of risk capital, again at the farmer group or processor level.

5. Some Existing and Planned Programs

Fisheries Revitalization Program:

The authors' recent experience with this program indicates that it is highly politicized; there are neither application forms nor procedures of which the Bank HQ (BRI) is aware. Repeated attempts to access this large fund were of no avail. It is suspected that this and the sister Agriculture Revitalization Program below are thinly disguised attempts at shoring up bank balance sheets.

Agriculture Revitalization Program

A March editorial in the Jakarta Post by H.S. Dillon (11) noted that the "Revitalization of Agriculture Initiative …….has yet to find its way into government instructions, let alone to resource allocations in the field" and adds: "none of the regional legislatures are allocating more than 5% of their budgets to agriculture" while "the share of agriculture in GDP has increased from 16% to 24%..our national agriculture budget has inched from .7 to 1.01 percent. Finally, "while total credit extended has multiplied by 370% from 2000 to 2005 agriculture investment credit has declined from 7.08% to 2.07 percent.

Warehouse Receipts Program

This program, implemented by the Ministry of Trade, is in the incubator stage but opens interesting possibilities for the banking system and the farmers of Aceh. The system allows farmers to place produce on deposit in certified warehouses as collateral for loans. This allows farmers and cooperatives the ability to obtain what are effectively short term loans while waiting for the market to turn to their advantage in terms of price. Thus, instead of selling into the market at the absolute bottom of the price cycle which is the current case since farmers sell on harvest, farmers or more importantly farmer groups can deposit product and manage their cash flow by selling after the harvest period, when prices are typically much higher. The system is just being introduced into Java and shortly in Sulawesi. **The system is under the Commodity Futures Exchange Supervisory Board** and reportedly has signed warehousing agreements with several companies and is working under operating agreements with BRI, Bank Mandiri, Bank Jateng and Bank Jabar. Critical to the success of this system will be the ability of the warehouses to value the products correctly, and trust in the warehouse operator by both the farmer and the banks. This fledgling system operates under the auspices of the Ministry of Trade.(31) While enabling legislation to allow banks to participate in financing through warehouse credit is very recent, the author believes **this nascent program, if carefully managed, has the potential of revolutionizing agricultural credit at the farmer group level, and is worth the support of UNDP and APED.**

The Amarta Project under USAID recently completed an excellent assessment of microcredit schemes available.[58] Applicable portions are extracted and quoted below. Sources of information were micro finance institutions, government organizations and multilaterals. The three researchers came to similar conclusions to this report, namely that commercial banks were not a significant source of lending, that government guarantee programs were generally necessary to make credit available and that guarantee programs sometimes depended on multilateral sources of aid.

Micro Finance

KKP/KKP-E
Channeling Ministries: Ministry of Agriculture
From January 2008, the KKP program is gradually being phased out and replaced by the KKP-E program. This program falls under the Center for Budgeting, Secretariat General Office of the Ministry of Agriculture. The main changes implemented by the KKP-E program as opposed to the KKP program are:

- Larger crop coverage
- higher credit limit (Rp 15 million for KKP vs. Rp 25 million for KKP-E)
- larger land area credit coverage (4Ha vs. 2Ha)
- longer credit period (3 years for KKP vs. 5 years for KKP-E)
- annual budget of Rp 10.863 trillion for KKP-E vs. Rp 2.038 trillion for KKP

This is an interest subsidy scheme, where GoI pays a portion of the interest rate. The level of subsidy is dependent on the crop (lower subsidy for sugarcane, higher subsidy for other crops). The interest rate as of October 1, 2007 was 13.25% for sugarcane and 14.25% for other crops. The loan is made by the participating bank to a farmer's group or cooperative, from where the funds are disbursed to the individual group/cooperative members.

The KKP-E program is divided into 5 divisions with budgets as follows:

- KKP-E Food Crops (Production): Rp 3.915 trillion
- KKP-E Food Crops (Purchasing): Rp 294.845 billion
- KKP-E Horticulture: Rp 1.477 trillion
- KKP-E Livestock: Rp 2.241 trillion
- KKP-E Sugarcane: Rp 2.933 trillion

GoI also funds this scheme for farmers and fishermen as KKPA Fishermen and KKPA Poultry.

KPEN-RP
Channeling Ministries: Ministry of Agriculture
This is an interest subsidized credit scheme program similar to KKP/KKP-E discussed above, but is aimed at the revitalization of estate crops and energy. The interest rate is currently 13.25%, of which the farmers pay a maximum of 10%, the remaining 3.25% being subsidized by GoI. The crops covered by this program are Palm Oil, Rubber and Cocoa.

KUR
Channeling Ministries: Ministry of Finance, Ministry of Agriculture, Ministry of Marine Affairs and Fisheries, Ministry of Forestry, Ministry of Cooperatives and SMEs.
This is the latest credit scheme to be implemented by the GoI, and is a follow-on of the SP-3 credit scheme (See below).

Essentially, KUR provides working capital and investment credit specifically aimed at productive business units through a guaranteed credit program, thereby allowing prospective loan recipients with sustainable businesses but no bankable collateral the opportunity of applying for loans. Individuals, groups and cooperatives are eligible to access this program with a maximum credit limit of Rp 500 million per recipient. The source of funds is the executing banks. No collateral/guarantee is required from the loan recipients.

GoI provides guarantee up to 70% of the loan value through the government guarantee institutions listed below, and pays the 1.5% premium for this service, while the implementing bank assumes the remaining 30% risk. (This assumes a guarantee requirement of 100% of the loan value). The interest rate for these loans is the per annum effective market interest rate, with a ceiling rate of 16 %.

The objectives of the KUR Program are to:

- accelerate the development of primary sectors
- empower small-scale businesses
- improve accessibility to credit and financial institutions
- reduce poverty levels
- expand job opportunities

For agribusiness, the sectors eligible for these loans range from production inputs to the procurement of agricultural tools and machineries, on-farm activities, and processing and marketing of the agricultural products.

P3KUM AND PERKASSA

Channeling Ministries: Ministry of Cooperatives and SMEs
P3KUM and PERKASSA differ only in the fact that the latter is restricted to women recipients only, while the P3KUM scheme is open to both men and women. One of the objectives of these programs is to reduce poverty through providing working capital in micro-scale ventures in, amongst other, the agriculture, fisheries and livestock sectors. The program also aims to improve the institutional and working capital capacity of cooperatives.

A revolving fund to the value of Rp 100 million is set up through a loan from the GoI to the respective cooperative. The money is deposited into an account at one of the participating banks. The loan is repayable by the cooperative over a period of 10 years with an additional 16% management fee. The cooperative disburses the loans to its members, and collects payment.

PEMP

Channeling Ministries: Ministry of Marine Affairs and Fisheries
Started in 2001, this program is specifically aimed at coastal communities, supporting fishermen, fish farmers, supporting fish-related trading, processing and services, marine tourism and other supporting business in coastal areas and small islands. The aim of the program is to improve the welfare of coastal communities by promoting self-dependency, economic development, skills development and the promotion of partnerships between the coastal communities, private sectors and GoI.
PEMP lodges a lump sum in a current account of an executing bank which acts as collateral for a loan to the recipient group/community level MFI. From there, the funds are disbursed to the members of the MFI/group. This program is now in its third phase, and is scheduledto run through 2009.

PNPM-Mandiri

Channeling Ministries: Ministry of Finance, Ministry of Agriculture, Ministry of Marine Affairs and Fisheries, Ministry of Forestry, Ministry of Cooperatives and SMEs.

The former P2KP (Urban) [One source referred to it as UPP] and KDP (rural) programs have been combined under one umbrella, PNPM. The program is channeled through a number of ministries, each with their own PNPM-affiliated program, and the objective of the fund is to empower communities through job creation and poverty alleviation. ADB, World Bank, JBIC and GoI are sources of funds for this program. Under the Ministry of Agriculture, this program is called PUAP (see section below).

PUAP

Channeling Ministries: Ministry of Agriculture

This is a part of PNPM-Mandiri as set out above, implemented by the Ministry of Agriculture. The aim of the program is to reach 10,000 Gapoktans (federation of farmer groups) in poor villages across Indonesia, developing small-scale agribusiness activities that have daily, weekly and seasonal cycles. This includes both on-farm activities (food, horticulture and estate crops; livestock) and off-farm activities (agriculture-based businesses, including micro marketing activities). The program objective is to reduce the poverty and unemployment levels in rural areas by increasing product quality, productivity levels and stimulating the expansion of agribusiness activities. Furthermore, it aims to improve the performance of Gapoktans as economic institutions established and managed by farmers.

Indicators suggest that the program has resulted in the increased availability of capital to land owners or small-scale farmers, improved technical capabilities of Gapoktans, and increased profitability for agribusiness activities.

SP-3

Channeling Ministries: Ministry of Agriculture

This scheme is the precursor to the KUR scheme discussed earlier. It is an agriculture sector revitalization-financing plan providing a guarantee service for loans to farmers or farmer groups in horticulture, animal husbandry and plantation sectors. Micro scale farmers do not need to provide collateral/guarantee. Financing is to both individuals (larger scale) and to village level MFIs. Category UM1 allows credit up to Rp 10 million and UM2 allows credit from Rp 10 million to Rp 50 million. Small business credit has a limit of Rp 500 million.

Multilateral Development Organizations and NGOs:

The research conducted indicated that most NGOs and MDOs working in micro finance in the agricultural and fisheries sectors concentrated on technical assistance, rather than direct financial input. The exception to this, though, is the World Bank and ADB, which are two of the sources of funds for the PNPM program. Most MDOs and NGOs tended to have links with MFIs operating at community level.

Generally, NGOs and MDOs provide technical assistance in terms of staff training for MFIs and Banks, and negotiating access to finance programs between lending institutions and potential loan recipients/recipient groups. Technical assistance is often also provided in proposal preparation and setting up of informal group cooperatives. Occasionally, partial seed funding would be provided for the cooperative, which would then be combined with other funds (such as funds raised through forced savings) to make up the revolving fund.

The role played by the NGO/MDO in the procurement and management of loans through access to finance schemes has created a more reliable loan recipient structure. Even though loans affiliated with access to finance schemes may be offered through banks, these loans have localized coverage, and take a number of seasons/loan cycles to build up the trust between the credit institution and recipient community. Any defaults by loan recipients in the repayment of the loans can potentially lead to the discontinuation of the loan program. There is also no guarantee that the program will continue once the mediating organization withdraws or discontinues operations.

Banks:
Other than GoI funded programs channeled through the banks as set out in the Government section above, limited loan programs were identified that banks specifically aim at farmers and fishermen. The fact that so few schemes were identified may also be associated with the lack of response to frequent meeting requests with the banks, and the general impression that officials did not want to meet and share information with the research team. However, the team did manage to arrange meetings with Bank Bukopin,Bank Danamon, and Bank Indonesia. Other data gathered are from websites and bank leaflets.

There are various general micro finance schemes available through banks; however, these are mostly for trade-related loans, where the products/traded goods are considered reliably bankable and where lenders have the required collateral in the form of property/vehicle ownership. Although the agriculture and fishing sectors are not precluded legally from applying for loans under the general micro credit schemes, the requirements set by the lending institutions are such that these sectors would more often than not have extreme difficulty meeting the qualifying requirements.

Furthermore, banks perceive farmers and fishermen to be high risk lenders, some reasons for this being:

- The small size of smallholder farms makes it difficult to sustain a family fully. This may mean that:
    - farmers may not be using loans for purely one purpose (e.g. purchasing croprelated goods (seeds, fertilizer, implements)), and therefore cannot qualify for a loan based on farming activities
    - if farmers are using the loans for purely farming activities, the ability of the farmers to repay the loans may be limited
- The success of agriculture crops are unpredictable at the start of the season, when the loan is needed.
- Generally, repayment schedules for farmers are dependent on a successful harvest; therefore repayment is normally done as a single sum at the end of the harvest. This is neither as reliable nor as profitable as weekly or monthly repayments.
- Fish catches are unpredictable, seasonal and weather dependent.
- Crops (whether agriculture or aquaculture) are influenced by the weather, and can fall prey to unforeseen disease and/or pests.

On the other hand, farmers and fishermen may be reluctant to approach banks for various reasons:
- Banking process obstacles:
    - Absence of required collateral, guarantees or other documentation
    - Lengthy forms to be completed
    - Lengthy bureaucratic approval processes

- Limited literacy capacity, and ability to complete required forms. This may lead to the farmer/fisherman losing his/her sense of dignity.
- The perception that banks are intimidating institutions.
- Physical access to banks.
- They may have access to a family member who can lend the money at no interest.

Bank BRI: Despite various attempts to meet with relevant parties at Bank BRI in Jakarta, the researchers were not able to successfully set up a meeting with any officials or obtain information from the institution.

Bank Bukopin: Bank Bukopin is associated with the Swamitra Cooperatives and MFIs. However, each Swamitra agency is not an outlet of Bukopin, but is a separate economic unit that is owned by each cooperative.

Bank Danamon:Bank Danamon offers various credit schemes, but all these schemes are currently assessed and based on Trading Activities (i.e. recipient must have a trading business). These schemes are:

- DanaPinjam 50
- DanaPinjam 200
- DanaTalangan
- DanaSiaga

The market research team did indicate that they were exploring the Agriculture and Fishermen sectors as prospective loan targets. However, they were not in a position to make any commitments regarding implementation of such schemes and/or a possible implantation time frame.

Bank Mandiri: Despite various attempts to meet with relevant parties at Bank Mandiri in Jakarta, the researchers were not able to successfully set up a meeting with any officials or obtain information from the institution.

Bank Mandiri website lists the following programs available:

- Mandiri Hortikultura Loan
- Micro Loan Project
- Mina Mandiri Loan
- Multiguna Koperasi Mandiri Loan
- Non-Collateral Loan for Micro Business (KUM-LTA)

Micro Finance Institutions/Self Help Groups:

Although this segment is officially beyond the scope of this report, numerous credit schemes offered by MFIs were identified. Generally, MFIs are group/cooperative based and operate at community level throughout Indonesia. Interest rates vary, and groups are often formed as Syariah-based lending institutions, where dues are in the form of dividends or service/facilitation payments. Government, Banks and MDOs all use community level MFIs to various degrees as vehicles for loan disbursement.

These units are considered reliable channeling media as:

- They have close ties with the traditional groups in the areas

- Group pressure plays a very important role in recipients repaying loans
- These institutions are less intimidating to recipients than banks:
  - o Processes are simpler
  - o Peers are part of the groups
  - o Often training is part of the loan process, so communities are empowered beyond purely financial means
- At group level, more people know each other, so:
  - o recipients are easier to physically keep track of
  - o non-performing former recipients are easier to identify

The research found that women form a large target market of these institutions. Various reasons were given for this:

- Women are more reliable to meet repayment requirements.
- Women tend to be more responsible users of funds.
- Women are less mobile, therefore easier to physically keep track of.
- As women are concerned with the good of their children/families:
  - o it is important for them to keep the family name positive, so they are less likely to default
  - o they are more likely to spend additional income on the welfare of their families Inventory of Credit Schemes

KKP/KKP-E

Implementing Ministries: Ministry of Agriculture

Implementing Banks: BRI, Bank Mandiri, BNI, Bukopin, Bank Agroniaga, Bank Niaga, Bank BII, Bank BCA, Bank Danamon; BPDs Sumatera Utara, Barat & Selatan; Jawa Barat, Timur &Tengah; Yogyakarta; BPD Bali; BPD Kalimantan Selatan, BPD Sulawesi Selatan; Papua.

Credit disbursed through farmers' groups/cooperatives

Area of operations: All Indonesia

This is an interest subsidy scheme, where the government pays a portion of the interest rate. The level of subsidy is dependent on the crop (lower subsidy for sugarcane, higher subsidy for other crops). The loan is made by the bank to either an individual or a farmer's group or cooperative, from where the funds are disbursed to the individual group/cooperative members. Source of loan funds is the executing bank.

:

Target Market: Crop and Livestock Farmers

Total amount allocated for Aceh:

As per 2007 manual from Ministry:

Rice, maize, beans soy 51,840 million

Cassava, sweet potato, 14,540 million

Chilies onions, banana, ginger potato 21,275 million

Food Purchases 3,490 million

Maximum Loan amount

(Per hectare for each crop, unless otherwise noted):

Banana: Rp 16.41 mil

Cassava: Rp 3.02 mil

Chilli: Rp 20.34 mil

Corn: Rp 3.6 mil

Ginger: Rp 25 mil

Hybrid Paddy: Rp 5.695 mil
Paddy: Rp 4.985 mil
Peanut: Rp 3.7 mil
Red Onion: Rp 18.75 mil
Soybean: Rp 2.55 mil
Sugarcane: Rp 12.5 mil
Sweet Potato: Rp 4.073 mil
Cattle: Rp 25 mil/breeder
Poultry: Rp 25 mil/breeder
Quail: Rp 15 mil/breeder
Maximum total per farmer: Rp 25 mil
Credit for a maximum of 4 ha of land
Requirements for Loan Application: Must have collateral as required by the implementing bank
Farmer Group: Group can act independently or in conjunction with business
partner. If the latter, present proof of a formal written agreement between the parties
Must be an active organization with leader, secretary, accountant.
Available to Smallholder Farmers and Fishermen
Members must engage in business activities that can be financed by KKP-E
Must have group by-laws
Cooperative: Must have corporate body with active management and members must be farmers
Must fulfill technical banking requirements
Business must be in agriculture sector
Farmer minimum age is 21 years or married
Must have legal identity document and actively working on own land or land owned by third party If not the owner of the land, must have letter from Village head, must be member of farmer group and willing to follow instructions from Technical Advisor or Technical Board and be willing to abide by rules and regulations of KKP-E program
Interest Rates Sugar-cane: 13.25%; GOI subsidizes 5.25%, 8% paid by recipient. Other:14.25%; GOI subsidizes 7.25%, 7% paid by recipient.
Interest rates reviewed 1 April and 1 October every year
Length of Loans: Maximum 5 year cycle
Loan Grace Period before repayment starts: varies according the implementing bank,
Repayment schedule: set out by implementing bank
Penalties for late payments Persuasive approach first
Total amount allocated for loans for
KKP from 2001 – 2007 Rp 2,082.24 bil per year
Total value of Loans Issued for KKP from 2001 – 2007 ;
Percentile of issued loan amount: allocated loan amount
2001: Rp 468.669 bil (22.50%)
2002: Rp 467.662 bil (21.98%
2003: Rp 709.680 bil (34.08%)
2004: Rp 790.634 bil (37.97%)
2005: Rp 900.756 bil (43.25%)
2006: Rp 963.252 bil (46.26%
2007: Rp 735.767 bil (35.33%)
How is the credit scheme socialized to target market: Local government approaches the farmers (Gapoktans) and sets up a meeting to acquaint the farmers with the program; Also mass media
Other comments For 2001 – 2007 the actual total amount of loans disbursed versus the allocated budget was always below 50%. Yet in 2008 the annual budget
increased from Rp 2.082 trillion to Rp 10.863 trillion. Figures for January 2008 show that the amount of funds disbursed in 2008 has dramatically increased:

Allocated annual budget: 10.863 trillion
Disbursed funds: 5.143 trillion

KPEN-RP

Implementing Ministries: Ministry of Agriculture
Implementing Banks Bank BRI; Bank Mandiri; Bank Bukopin, Bank BNI, Bank Agro, Bank Sumut, Bank Nagari (Bank Sumbar), Bank Sumsel, and Bank Papua
Area of operations: All Indonesia
This is an interest subsidy credit scheme, where the government pays a portion of the interest rate. The loan is made by the bank to a farmer's group or cooperative, from where the funds are disbursed to the individual group/cooperative members.
Target Market: Energy Development and Estate Crops Revitalization: Palm Oil, Rubber, Cocoa
Type of Credit Scheme: Normal credit but special for palm oil, rubber and cocoa
Amount allocated for scheme Rp 449 billion for 2008
Collateral required
Credit for a maximum of 4 ha of land per family
Must be member of farmer group
Interest Rates The interest rate covered by the farmers is 10% and the remainder is paid by the government. The average rate of interest is 15% per annum.
Length of Loans Palm Oil and Cocoa: 5 Years Rubber: 7 Years
Loan Grace Period before repayment starts: Set by the implementing banks
Repayment schedule: Set by the implementing banks

Total amount allocated for loans until 2010, Rp 31.772 trillion consists of: BRI (Rp 12 t,), Bank Mandiri (Rp 11.082 t), Bank BNI (Rp 5.0 t), Bukopin (Rp 1.0 t), BPD Nagari/West Sumatera (Rp 966 b), SouthSumatera (Rp 651 b), North Sumatera (Rp 500b), Bank Agro (Rp 300 b), Papua (Rp 250 b)
Total Loans Issued:
1. Number of Loans
1. NA
Performance:
3. Percentage of Loans repaid
4. Percentage of Non Performing Loans
1. NA
2. NA
Part 3: Additional Information:
Socialized through local government officials and also via media.
No cost applied (no bank provision) to anyone who accesses the program.
This program is specifically provided to accelerate the development of certain estate crops. Unused interest subsidy in 2007 was Rp 146 billion while the subsidy allocated in 2008 is Rp 449 billion.

P3KUM

Implementing Ministries: Ministry of Cooperatives and Small and Medium Enterprises
Implementing Banks/ PT. Bank Aceh (Aceh), PT. Bank Sumut (Medan), PT. Bank Nagari (Padang), PT Bank Riau (Pekan Baru), PT. Bank Sumsel
(Palembang), BPD Jambi (Telanapura Jambi), BPD Bengkulu
(Bengkulu), PT. Bank Lampung (Lampung), PT. Bank DKI (Jakarta

Pusat), PT. Bank Jabar (Bandung), PT. Bank Jateng (Semarang), BPD DIY (Yogyakarta), PT. Bank Jatim, PT. Bank Kalbar (Pontianak), BPD Kalsel (Banjamasin), PT. Bank Kaltim (Samarinda), PT. Bank Kalteng (Palangkaraya), PT. Bank Sulsel (Makassar), BPD Sultra (Kendari), PT. Bank Sulteng (Palu), PT. Bankk Sulut (Sulut), PT. Bank Bali (Denpasar), PT. Bank NTB (Mataram), PT. Bank NTT (Kupang), PT. Bank Maluku (Ambon), PT. Bank Papua (Jayapura).

Area of operations All Indonesia

This is a Working Capital Microcredit scheme. P3KUM and PERKASSA differ only in the fact that the latter is restricted to women recipients only,while the P3KUM scheme is open to both men and women. One of the objectives of these programs is to reduce poverty through providing working capital in micro-scale ventures in the agriculture, fisheries and livestock sectors. The program also aims to improve the institutional and working capital capacity of cooperatives. Funds are disbursed by the cooperatives.

Target Market Agriculture, Fisheries, Livestock,Trade Started in 2007

Type of Credit Scheme Group scheme; revolving funds; Working Capital

Total amount allocated for scheme

2008: Rp 150 billion to 1,500 cooperatives

2009: Rp 56.3 billion to 563 cooperatives

Maximum Loan amount:

1. Per Group 100 million
2. Per Member 4 million

Requirements for Loan Application: Must meet requirements from Ministry: provide documented proof that Cooperative is registered

Loan activities must be managed separately from other possible business activities

Must have minimum 25 members

Listed Annual member meeting in most recent report

Must not have previously had a loan from the Ministry

Must present business proposal and financial report

Recipients: Must be group member

Must have a productive business

Must not have a loan outstanding to the cooperative

Must submit proposal for loan

Cooperative approves loan to member

Interest Rates Member: 2% per month effective rate

Group: 16% total (10% to Ministry; 4 % to Bank; 2% to Group)

Length of Loans To Group: 10 years;

Each member: 1 year

Loan Grace Period before repayment

Starts Group: 3 months Member: NA

Repayment schedule Group: monthly or quarterly Member: up to group to decide – weekly/monthly/seasonal

Total amount allocated for loans 2005: Rp 100 bil; 2006: Rp 140 bil; 2007: Rp 200 bil

Total Loans Issued:

Number of Loans - Total Value of Loans

2005: 440 cooperatives - Rp 100 bil

2006: 1,600 cooperatives - Rp 140 bil

2007: 2,000 cooperatives - Rp 200 bil

Performance:

1. Percentage of Loans repaid

2. Percentage of Non Performing
Loans
1.NA
2. NA
Socialized to target market through the central and local cooperative management.
Obtaining performance data (specifically NPL rate) has proved difficult

KUR
Implementing Ministries Agriculture; Fisheries; Cooperatives & SMEs; Industry;
Forestry; Finance
Implementing Banks:BRI; BNI; Mandiri; Syaria Mandiri; Bukopin; BTN
Guarantee institutions: Perum SPU, PT Askrindo
Area of operations: All Indonesia
General background information: This program was formerly named SP-3. This is a credit guarantee scheme in which the GOI accepts 70% of risk and the implementing bank 30%, through guarantee agencies. Through this program, SMEs have the opportunity to gain access to credit without having to provide collateral.
Target Market SME's
Type of Credit Scheme Loan guarantee scheme
Total amount allocated for scheme
No money for loans as guarantee scheme only. GOI 70%;
Implementing Banks 30%
Maximum Loan amount: No money for loans as guarantee scheme only. Maximum
loan amount set by implementing bank
Requirements for Loan Application
No collateral, as GOI covers 70% of risk and Implementing
Bank covers 30%
Terms and conditions are applied without deviation by the banks
Interest Rates Commercial rate with a maximum of 16%
Length of Loans Set by the implementing banks
Loan Grace Period before repayment starts Set by the implementing banks
Repayment schedule Set by the implementing banks
Incentives/Penalties for early repayment of loans:No incentives
Penalties for late payments NA
Total amount allocated for loans
Total Loans Issued:
1. Number of Loans: na
2. Total Value of Loans: na
3. Percentage of Loans repaid: :na
4. Percentage of Non Performing: na
This is the most popular credit scheme at the moment, so media (including the banks, government offices, private sector, NGOs) are very active.

Credit Scheme Name **PEMP**
Implementing Organization: GOI Ministry of Marine Affairs and Fisheries
Implementing Banks: Bank Bukopin; BRI; Bank Pembangunan Daerah Papua; Bank Pembangunan Daerah Maluku; Bank Syariah Mandiri
Area of operations: All Coastal Areas
PEMP was introduced in 2001 and consists of 3 phases:
Phase 1: 2001 – 3: initiation, involving community awareness and encouragement of participation. 197 MFI's were established.

Phase 2: 2004 – 6: institutionalization, focusing on development of cooperatives as MFI's, SPDF's* and Coastal Kiosks
Phase 3:2007 –9: Business Diversification, with further development of cooperatives
Target Market: Informal Microfinance institutions in the form of community groups
at subdistrict level
Type of Credit Scheme: revolving credit at Community Group level
Total amount allocated for loans Rp 434.571 billion for 2007 – 2009
Target 594,450 loans for 2007 - 2009
Maximum Loan amount:
1. Per Loan – varies by group
2. Per Year – varies by group
Requirements for Loan Application: Must be group member, part of coastal community: fisherman; fish farmer; fish product trader; fishery product processor; fishery service entrepreneur; marine tourism provider; other supporting business
Interest Rates: Cooperative pays maximum 6% interest to executing bank
MFI charges member 16 – 20% flat rate interest
Length of Loans: Adjusted to suit needs of member
Loan Grace Period before repayment starts: Adjusted to suit needs of member
Repayment schedule: Adjusted to suit needs of member

Total amount allocated for loans (In Rp Billions)

Totals (Rp Billions)
2001 77.29
2002 69.6
2003 98.633
2004 95.44
2005 120.856
2006 103.974
Total Loans Issued:
1. Number of Loans:843,860 persons from 2001 – 2006
2. Total Value of Loans: see above
1. Percentage of Loans repaid N/a
2. Percentage of Non Performing Loans n/a
Other comments The average income per person in the target group increased
from Rp 365,312 per month at the start of the program to Rp 860,158 at the end of 2006.

PERKASSA
Implementing Ministries Ministry of Cooperatives and Small and Medium Enterprises
Implementing Banks/Institutions PT. Bank Aceh (Aceh), PT. Bank Sumut (Medan), PT. Bank Nagari (Padang), PT Bank Riau (Pekan Baru), PT. Bank Sumsel
(Palembang), BPD Jambi (Telanapura Jambi), BPD Bengkulu (Bengkulu), PT. Bank Lampung (Lampung), PT. Bank DKI (Jakarta Pusat), PT. Bank Jabar (Bandung), PT. Bank Jateng (Semarang),BPD DIY (Yogyakarta), PT. Bank Jatim, PT. Bank Kalbar
(Pontianak), BPD Kalsel (Banjamasin), PT. Bank Kaltim (Samarinda), PT. Bank Kalteng (Palangkaraya), PT. Bank Sulsel(Makassar), BPD Sultra (Kendari), PT. Bank Sulteng (Palu), PT.Bank Sulut (Sulut), PT. Bank Bali (Denpasar), PT. Bank NTB(Mataram), PT. Bank NTT (Kupang), PT. Bank Maluku (Ambon), PT.
Bank Papua (Jayapura).
Area of operations: All Indonesia

Working Capital Microcredit scheme. P3KUM and PERKASSA differ only in the fact that the latter is restricted to women recipients only, while the P3KUM scheme is open to both men and women. One of the objectives of these programs is to reduce poverty through the provision of working capital to micro-scale ventures in the agriculture, fisheries and livestock sectors. The program also aims to improve the institutional and working capital capacity of cooperatives. Funds are disbursed by the cooperatives
Target Market:Women only; Agriculture, Fisheries, Livestock, Trade and Handicraft. Started in February 2007
Type of Credit Scheme: Group scheme;Revolving funds; Working Capital
Total amount allocated
2008: Rp 150 bil to target 1500 cooperatives
2009: Rp 105 bil to target 1050 cooperatives
Maximum Loan amount:
1. Per Cooperative/Group 100 million
2. Per Member 4 million

Requirements for Loan Application
Group must meet following requirements from Ministry:
Provide documented proof that Cooperative is registered
Loan business activities must be managed separately from other possible business activities
Must have minimum 25 members
Listed Annual member meeting in most recent report
Must not previously have had a loan from the Ministry
Must present business proposal and financial report
Recipients: Must be group member, have a productive business, not have a loan outstanding to the cooperative, submit proposal for loan,Cooperative approves loan to member
Interest Rates: Member: 2% per month effective rate, Group: 16% total (10% to Ministry: 4 % to Bank; 2% to Group)
Length of Loans To Group: 10 years;
Each member: 1 year
Loan Grace Period before repayment starts Group: 3 months Member:up to group to decide – weekly/monthly/seasonal
Total amount allocated for loans Rp 25 billion in 2007
Rp 20 billion in 2006
Total Loans Issued:
1. Number of Loans - Total Value of Loans
2007: 250 cooperatives - Rp 25 billion
2006: 200 cooperatives - Rp 20 billion
Socialized to target market through cooperative operated in the fields/regions

PUAP under umbrella of PNPM Mandiri
Implementing Ministriey: Ministry of Agriculture
Implementing Banks: Bank BRI, Bank BTN, Bank Mandiri, Bank BNI, Bank Bukopin, Bank Syariah Mandiri.
Funds disbursed through GAPOKTAN or POKTAN (farmers groups) to farmers
Area of operations: All Indonesia
Launched in 200, this is a poverty reduction program aimed at the agriculture sector in rural areas.
Target Market: Both on-farm activities (food, horticulture and estate crops;livestock) and off-farm activities (agriculture-based businesses, including micro marketing activities)

Total amount allocated for scheme: Rp 1 trillion
Maximum Loan amount: Per Loan. Rp 100 million/village x 10,000 villages
Requirements for Loan Application:
Gapoktan criteria:
Must operate in a PUAP designated village
Must have adequate HR to manage agribusiness sector
Must be a legal organization with an active Board, and managed by the farmers.
If no Gapoktan in village, a Poktan can receive the funding
Interest Rates: Set by the implementing banks
Length of Loan: NA
Repayment schedule: Daily, weekly and seasonal cycles
This is the newest credit scheme under the Ministry of Agriculture (officially issued in February 2008). However, PUAP is currently less popular than the KUR program, as the latter is repeatedly and constantly endorsed by high government officials, including the President and the Vice President.

SP-3
Implementing Ministries Ministry of Agriculture
Implementing Banks: Bank Mandiri; Bank Syariah Mandiri; Bank Bukopin; BPD JawaTimur; BPD Nusa Tenggara Barat
Credit disbursed through PUAP under umbrella of PNPM Mandiri and then disbursed through farmers' groups/cooperatives

Area of operations: All Indonesia

This is an interest subsidy credit scheme, where the government pays a portion of the interest rate. The credit decision rests with the implementing bank while the loan funds are distributed via village level LKM. Source of loan funds is the executing bank.
Target Market Horticulture, Animal Husbandry and Crops
Total amount allocated for scheme: Rp255 billion for 2007
Maximum Loan amount:
Dependent upon credit category:
UM1 (Micro1): Max. Rp 10 million
UM2 (Micro2): Rp 10 million to Rp 50 million
UK1 (Small1): Rp 50 million to Rp 250 million
UK2 (Small2): Rp 250 million to Rp 500 million
Requirements for Loan Application
GoI pays max 1.65% value of loan as guarantee, up to:
90% for UM1
40% for UM2
30% for UK1
10% for UK2
Remainder covered by recipient
Must have collateral as required by the implementing bank
Farmer, Farmer Group or Cooperative need to submit proposal to nearest implementing bank: Bank makes the decision to grant or not
Farmer Group: Members must engage in business activities that can be
financed by SP-3, group must be in existence for at least 2 years, commodity must have a market. Group must have business potential, no bad credit history
Cooperative: Must have corporate body with active management, members must be farmers, and must fulfill technical banking requirements

Business: must be in Agriculture sector
Farmer: Farmers must engage in business activities that can be financed by SP-3
Farming: business must be in existence for at least 2 years, commodity must have a market, farm must have business potential and no bad credit history
Must be actively working on own land or land owned by third party If not the owner of the land, must have letter from Village head
Interest Rates UM1: maximum of 12% per annum
UM2, UK1, UK2: average 2-3% below commercial interest rate
Syariah: dividend equivalent of 15% per annum
Length of Loans: Minimum 1 business cycle
Support businesses: minimum 1 year
Grace Period before repayment starts: Depending on repayment schedule
Repayment schedule Monthly/Seasonal – as set out by implementing bank
Total amount allocated for loans - March 2007 Rp 255 billion
Total value of Loans Issued Rp 32.3 billion issued
Rp 201.99 billion pipeline
Performance:
1. Loans repaid (%) na
2. NPL (%) na

Sample Banks implementing Government of Indonesia credit schemes
Implementing Organization Bank Mandiri, Micro Loan Project
Credit Scheme Name Micro Loan Project (PKM)
Area of operations Indonesia
Specifically designed for BPRs as additional investment or working capital loans
Target Market: Aimed at BPRs and Individuals/business entities
Type of Credit Scheme BPR: Executing scheme with Aflopend Plafond
Individual: Aflopend Plafond
Total amount allocated for loans NA
Maximum Loan amount:
Per Loan BPR: Maximum twice value of capital issued and paid up /Individual: Rp 5 million
Requirements for Loan Application: No additional collateral in terms of fixed assets
BPR:Performance level indicator: “Quite Sound” for past 3 months
Minimum CAR (Capital Adequacy Ratio) of 8%
Minimum Credit recovery ratio of 80%
Documentation: Tax number; Business Permit Certificate;
Official Business Registration
Individual:
Aged 21 – 60 years
Complies with criteria of micro business owner, including individual, or member of a traditional business group
Documentation: Identity Card; Official Family Card; Marriage Certificate; Salary Slip
Interest Rates Subject to change, but below commercial interest rate

“**Mandiri Hortikultura” Loan**
Area of operations Indonesia
loan scheme specifically designed for Agribusiness and Horticulture segments, through providing loans for Core company and Plasma farmers, and Agribusiness Collective Business Groups.
Target Market: Agribusiness and Horticulture segments:Core company and Plasma farmers Agribusiness Collective Business Groups
Maximum Loan amount:
Per Loan: Core Company: as per proven business needs
Agribusiness Collective Group: Rp 100 million
Plasma Farmer: Rp 50 million
Requirements for Loan Application
Documents: Identity document; Business Licenses
Authorization by: Agriculture Institution or recommended by Ministry of Agriculture
Business minimum in existence for 1 year
Minimum self-financing of project to value of 20%
Main collateral is the project itself.
Additional Collateral required:
25% of loan limit for investment
50% of loan limit for working capital
Interest Rates: Commercial interest rates
Length of Loans: Maximum 36 months

Multiguna Koperasi Mandiri Loan
Area of operations: Indonesia
Designed for Cooperatives and cooperative members
Target Market Cooperatives and cooperative members
Total amount allocated for loans NA
Maximum loan amount of Rp 10 billion
Requirements for Loan Application
Cooperative: Comply with criteria for Small Business
Business: as a legal entity in existence for at least 2 years
Performance indicator level “A”
Recommended by related company/institution
Documents: Tax Number; Business Permit Certificate; Work
Premise Permit Certificate; Official business Registration
Cooperative Member:
Cooperative member for at least 2 years
Aged between 21 and 65 years
Recommended by Cooperative
Proposed by Cooperative to get loan
Length of Loans Cooperative:
Maximum 3 years for Working Capital
Maximum 1 year for Investment Capital
Cooperative Member: Maximum 3 years

Mina Mandiri Loan
Area of operations Indonesia
Aimed to develop sustainable business activities in fishery and other related industries;
Cooperative loans issued through “Multiguna Koperasi Mandiri” Loan scheme
Target Market Aimed at Fishermen and Maritime related business

Garmplasm (core company acts as guarantor; supplier is plasma)
Maximum Loan amount: Cooperative: Rp 1 billion / Individual: Rp 100 million
Requirements for Loan Application
Business in existence for at least one year
Recipient not included in Bank Mandiri Black list of debtors
Identity and business legal documents
Complete relevant loan application forms
Length of Loans Maximum 10 years
Grace Period before repayment starts:NA
Repayment schedule Based on the projected cash flow

KUM-LTA
Non-Collateral Loan for Micro Business (KUM-LTA)
Area of operations: Indonesia
A loan scheme for Micro Business owners (farmer, breeder,fishermen, merchant) and traditional business groups
Target Market Aimed at Micro Business, specifically listing farmers, breeders and fishermen; traditional business groups
Type of Credit Scheme Aflopend Plafond
Total amount allocated for loans NA
Maximum Loan amount:
1. Per Loan a[pp 5 million
2. Per Year na
Requirements for Loan Application:
No collateral
Completion of KUM-LTA application form
Business in existence for a minimum of 1 year
No previous loans received OR good loan repayment record
Documents:
Identity Card
Official Family Card
Marriage Certificate
Interest Rates Subject to change; No Admin Fee
Length of Loans: Maximum 2 years
Loan Grace Period before repayment starts NA
Repayment schedule NA
Incentives/Penalties for early repayment of loans NA

Credit schemes related to Multilateral Development Organizations and NGOs
Asia Foundation
PEKKA
Area of operations Aceh: Aceh Besar, Pidie, Aceh Selatan and Brieun Districts
Group scheme set up by Asia Foundation as part of a women's empowerment project. Structure: one main group in one subdistrict only of each district. Each group comprised of 1 group each from 10 villages. Generally 15 – 25 members per group, with a maximum of 35 members allowed per group at village level. At the end of the project all resources from each village group will be pooled to create one MF group covering all 10 villages. Originally started in all 7 districts of Aceh, but only the above four districts were successful. Discontinued in the other 3 districts.

Target Market: Women who are group members
Type of Credit Scheme: Group revolving credit scheme
Total amount allocated for loans Forced savings + RP12 million per group
Maximum Loan amount:
Per Loan 1 million
Per Year: 2 loans in 18 months
Requirements for Loan Application:
Women only
Must be group member
Forced savings required
Interest Rates/Service Fees 6% per year Service Fee
Length of Loans Varies; normally seasonal (6 – 9 months) for agriculture
Loan Grace Period before repayment starts: Standard is 1 month; For Agriculture, generally one payment at end of harvest
Repayment schedule Standard is monthly payment; For Agriculture, generally one payment at end of harvest
Honor plays an important part in loans being repaid on time.
Total amount allocated for loans: Forced savings + RP12 million per group
Total Loans Issued:
1. Number of Loans na
2. Total Value of Loans na
Performance:
1. Percentage of Loans repaid 95%
2. Percentage of Non Performing 5%
Socialized through women's empowerment group, so specifically for women. Not only aimed at farmers and fishermen.Funds are often used for multiple purposes. In some cases funds have been used in family medical emergencies, and repayment period is then longer.

SWAMITRA
Swamitra – associated with Bukopin Bank (BB)
Credit Scheme Name: Swamitra Mina (Working Capital Loan for Fishermen)
Area of operations: Currently there are 550 Swamitra in Indonesia.Set up in 1997. Each Swamitra branch is set up as a separate legal entity, and is not a part of BB, although BB provides both technical assistance and funds to each Swamitra. As a Microfinance institution, Swamitras fall under the legislation of Cooperatives, and Savings and Loan Businesses.
Target Market Micro and Small Businesses
Type of Credit Scheme Cooperative: Revolving credit funds
Total amount allocated for loans: Rp 300 billion
Maximum Loan amount:
1. Per Loan 100 million per cooperative
Requirements for Loan Application:
Swamitra Cooperative member
Collateral as set out by each Swamitra
Interest Rates Set by the Cooperative under the coordination of Bukopin
Length of Loans Set by the Cooperative under the coordination of Bukopin
Loan Grace Period before repayment starts: Set by the Cooperative under the coordination of Bukopin
Repayment schedule: Set by the Cooperative under the coordination of Bukopin
Total amount allocated for loans Rp 300 billion per year
1. Percentage of Loans repaid 97%

2. Percentage of Non Performing Loans 3%

Socialized to target market through Cooperatives operated in rural/coastal areas
Source of funds both government and member savings; Swamitra systems connected to Bank Bukopin online.Swamitra Mina program has 4 schemes: savings
(unlimited period), periodical saving, daily lending,and repeat lending; cooperative at which Bukopin establishes partnership would manage the program

Cooperative Mitra Dhuafa (YAMIDA)
Area of operations Aceh, West Java
Yayasan Mitra Dhuafa was established in 2004, and operated as a Yayasan until the end of 2007. From January 2008, the organization has been registered as a Cooperative so that money can be disbursed.
Target Market: Farmers and fishermen and fishing related trading activities. The
"poorest of the poor", only women
Type of Credit Scheme: Revolving credit. Group credit but loan to individual
Total amount allocated for loans Rp 9.81 billion
Maximum Loan amount:
1. First Loan: max 2 million; Second loan: max twice value of First loan; Third loan: max twice value of second loan (depending on savings)
2. New branch: Maximum Rp 2 million; Branch of two years and older: Maximum Rp 4 million
Requirements for Loan Application:
No collateral; Must be group member, a woman, complete 5 days of training, and at the same time save Rp1,000 per day. Thereafter need to attend a weekly meeting and save Rp1,000 per week. For second loans onwards: savings needs to be minimum 5% of loan value.
Interest Rates: Aceh Besar, Banda Aceh, Sigli: 18% flat rate, Bogor and Jogyakarta: Syariah system 25% equivalent
Length of Loans 50 weeks
Loan Grace Period before repayment starts 1 week
Repayment schedule Weekly
Total amount allocated for loans Rp 9.81 billion
Total Loans Issued: 6,442 borrowers and total of Rp 9.81 billion
Performance:
1. Percentage of Loans repaid 99.3%
2. Percentage of Non Performing .7%
:
Socialized to target market through traditional village group meetings
Associated Pilot Projects Aceh, Bogor, Yogjakarta
Other comments The group acts as a strong pressure medium for members to
repay the loans. Based on the Grameen Bank System

6. Non bank sources of credit

While beyond the scope and mandate of this assignment it should be mentioned that non bank financial institutions should be investigated as potential longer term sources of finance.

Table 1.1: Structure of the Financial Sector (Rp trillion)

Type of institution and year	Assets (Rp trillion)	Percent of assets	Percent of GDP
Banks (2005)	1,470.0	79.7	53.9
Non-bank financial institutions	374.5	20.3	13.7
Finance companies (2005)	67.7	3.7	2.5
Insurance companies (2005)	75.1	4.1	2.8
Pension funds (2004)	107.1	5.8	4.7
Securities firms (2004)	10.1	0.5	0.4
Pawnshops (pegadaian) (2005)	4.8	0.3	0.2
Rural institutions (2004)	14.7	0.8	0.6
Mutual funds (2005)	29.4	1.6	1.1
Venture capital companies (2005)	2.7	0.1	0.1
Outstanding corporate bonds (2005)	62.8	3.4	2.3
Total	1,844.5	100.0	67.6
Equity market capitalization (2004)	680	N/A	30.1
Equity market capitalization (2005)	801	N/A	29.4

Source: Bapepam & LK, Bank Indonesia

Note: Numbers include some double counting because pension funds, insurance companies, and mutual funds invest in banks. Percent of GDP of each sector is calculated using the GDP of the year corresponding to year of the data. Total as a percent of GDP uses 2005 GDP figure.

Table 1.2: Regional Comparison of Financial Sectors (US$ billion)

Sector	Indonesia		Malaysia		Thailand		Singapore	
	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP
Banks	151.5	53.9	166	159.8	172	114.9	213	233.4
Insurance companies	7.7	2.8	20	19.5	5	3.4	46	49.8
Pension funds	12.0	4.3	58	56.4	7	4.8	60	65.7
Mutual funds	3.0	1.1	21	20.1	18	12.2	18	20.0
Outstanding corporate bonds	6.5	2.3	40	*38.0	19	*12.3	30	*32.4
Others	10.5	3.7	n.a	0.0	n.a	0.0	n.a	0.0
Total	191.2	68.0	305	293.3	221	147.4	367	403.3
Equity market cap	82.5	29.3	168	162.2	119	79.4	148	162.3
GDP	281.3	100.0	104	100.0	150	100.0	91	100.0

Source: Respective central banks, public information, World Bank

Note: Indonesian data as of 2005, the rest as of 2003.

*:2004 data.

Tables 1.1 and 1.2 from a World Bank study[27] show that banks account for almost 80% of the total financial sector in Indonesia. By the estimates of that report, however, that leaves some 375 trillion Rp available in non-bank financial institutions. As the report notes, the NBFIs frequently have long term time horizons for investing but are currently constrained by actual or perceived lack of opportunity, with the result that they mobilize long term capital and employ it in short term time deposits with the commercial banking sector. This is the opposite of what they should be doing, and provides what could be used as a viable alternative source of funding. Also note that from a regional perspective, Indonesia falls short of investing in its' future – Malaysia, Singapore and Thailand each have more than 100% of GDP in bank assets.

7. Recommended Program for Stakeholders to Expand Lending

Aceh, UNDP and APED are fortunate in that the timing of their prospective interventions coincides with rising agricultural commodity prices. This presents an opportunity to develop flattened value chains in which there are fewer markups taken by middlemen who serve little or overlapping purposes. This in turn widens the margin available for capture by the farmers. As can be seen from the fact that **buyers closer to the consumer end of the chain are willing to develop relationships with farmers and farmer groups**, there is evidence that these buyers are convinced that the "value added" by these middlemen is not justified by the price differentials, and that they believe they can perform the same services more cheaply. Thus, for instance, we have a Starbucks willing to establish agronomy and technical service centers in producing areas: this is because they believe they can do a better job, more cheaply, themselves. A combination of shortened demand driven value chains, in which powerful participants in that value chain, in particular end users, are willing to integrate backwards to some extent to secure present and future supplies, would seem to be a recipe for future success. **What is now needed is a guarantor of last resort to entice risk capital into the equation**. That guarantor need not be a long term participant in the process: what is need is participation until a stable situation is reached and all participants in the chain recognize their interdependence. Over the long term, value chain participants acting in their own self-interests will 'police' the chain because they have a proprietary interest in doing so.

In order to entice banks into lending to the agriculture sector in general and to the agriculture sector in Aceh in particular, a multi pronged approach needs to be taken. The approach will need to address the issues of:

- **Real or perceived risks of lending to agriculture**

  Banks interviewed freely admitted they did not understand the risks undertaken in lending to agriculture, nor did they understand steps they could take to mitigate against those risks through crop insurance schemes, commodity futures to hedge their risks, or even basic understanding of the probabilities of crop failure etc. This could be solved through a combination of **making appropriate technical expertise available to the banks t**o assist them in evaluating their risks and through placing bank lending officers in appropriate agriculturally oriented projects so that with their counterparts on the production and marketing side of the equation, they observe and learn to quantify risks in a real world situation.

- **Real or perceived risks of lending in Aceh**

  While perhaps beyond the scope of this assignment, there are insurance schemes available to underwrite these types of risks (political, civil disturbance, etc) through such programs as MGIC , OPIC, etc. MGIC is a World Bank sponsored insurance scheme while OPIC is a similar US government agency. Both provide insurance against war risk, political disturbance, nationalization, etc

- **Productivity**

  This is primarily an immediate short term technical assistance issue, coupled with a willingness of long term buyers to furnish technical assistance of a more permanent nature . Lack of knowledge of and understanding of the practices which can be undertaken to increase productivity in terms of tons per tree/hectare.etc through proper varietal selection, adoption of Good Agricultural Practices (pruning, fertilizing, etc), reduction of rejection rates (currently running at up to 60% of the harvest, some simple improved techniques could almost double farmer incomes by reducing rejection rates from 60% to say, 30%.)

- **Farmer group, association and cooperative building**

  Since the cost of servicing a small/micro loan is almost the same as servicing a large loan, banks are loath to engage in lending to small farmers. This problem can be overcome by having intermediaries in the value chain act as bank "agents," disbursing loans and collecting payments as product is sold. A properly managed cooperative of sufficient size to justify professional paid management would have a business unit and a technical services unit. The business unit would function in essence as a credit union, from which farmers could borrow in times of need and into which they would repay loans as crops were harvested and sold. The technical services unit would operate hand in hand with the business services unit, monitoring the member/farmers' behavior and practices on a periodic basis (perhaps weekly) and providing the technical advice and inputs when and where they were needed. By having the business and technical services unit linked the group/cooperative would have a better understanding of their likely future crop (and each member's contribution to it). This, in essence, is the BAT (British American Tobacco) model, operating for many years in Lombok.

- **Processor participation**

  In the BAT model cited above, technical assistance reports to the company on farmers anticipated outputs. The company, in turn, provides a guaranteed market, at a guaranteed price, and furnishes much of the required inputs and technical assistance. Any significant variation between expected output and actual delivery to the processing plant results in the exclusion of the farmer from any and all future participation in the scheme. This rule is strictly enforced to ensure there is no side selling. In addition, the government cooperates by forcibly ejecting known outside buyers from the island as harvest season approaches. There is a waiting list of farmers desiring to participate in the scheme, and the waiting list is greater than the existing number of participants.

The essence of the above argument is that in a market with shortages there is an opportunity for the imposition of order and discipline. Once that order is established there is an opportunity for backward vertical integration which is both demand driven and cost/competitiveness driven.

Banks can be induced to lend to the agricultural sector in Aceh through the provision of guarantees until such time as they are comfortable with their knowledge of the risks undertaken. At the same time that that comfort level is developing, the private sector will extend its investment "reach" into Aceh if they in turn have comfort in the ability of the farmers to produce competitively and to organize themselves into a value chain producing a known quality and quantity of product while being consistent and reliable.

The author has extensive knowledge of, and was Chief of Party of, the Indonesia Cold Chain Project sponsored by the USA Department of Agriculture. The project is cited here as an example of a successful combination of public and private sector cooperation that resulted in significant investment in Eastern Indonesia. This was a $5 million project with a $1.5 million loan component, which ultimately resulted in a demonstrable $18 million in new investment in agribusiness and cold storage in a comparatively short period of three years. The project had three "legs":

- an education component which was responsible for working with six

  universities in E Indonesia to educate students and practitioners in food safety and refrigeration, to teach courses in economic and financial evaluation of cold storage projects, and to conduct research projects in extending shelf life and reducing loss of product through the application of simple practicable ideas which could be applied at farm gate level:

- an association component, with chapters in 6 major cities in Eastern Indonesia plus Jakarta to facilitate communication between members (resulting in additional trade), facilitate communication with local and national government bodies (removing impediments to trade and investment), promoting new ideas and projects for funding, and

- a technical assistance and finance/loan component. The technical assistance component increases the banks comfort level that there will be an enhanced ability to repay either though increased productivity, improved quality, stabilization of supply, etc. The $1.5 million in available loan funds was "matched" by a major bank thus producing a loan component of $3 million, but with zero cost of funds for the bank for 50% of the fund.

  Since the author's goal was capital preservation, the loan fund was guaranteed to be returned by the bank at the end of the project, but the bank could keep the entire spread between the cost of funds (0) and the commercial interest rate, at the time app. 18%. Since the project had no banking experience and the bank had no agriculture experience it was agreed to embed two bank officers in the project headquarters: the project taught the bank officers agribusiness while they taught the project financial evaluation, due diligence, etc. Together the bank and the Cold Chain Project proactively sought through the cold chain association chapters, bank branches and through individual promotional efforts, projects and companies that qualified and met the joint lending criteria while promoting the utilization of cold storage infrastructure.

A critical lesson learned in this project is that **it was possible to get private sector companies to guarantee loans to small producers whose product and efforts they needed to fulfill their own business goals.** Thus, a horticultural company guaranteed and administered loans to small farmers for greenhouses while the project furnished technical assistance to these farmers: the bank and the guarantor saw this as a reduction of their risks, while the bank was relieved of the burden of disbursing loans to, and collecting payments from small farmers. Because the horticultural company had a vested interest in assuring the farmers success, they also furnished technical expertise, and not only disbursed the loan funds; they collected and disbursed loan repayment funds from the proceeds of the sales on behalf of the farmers to the bank. This system was also replicated for fishing activities in Kupang, for additional horticultural activities in Nusa Tenggara and N Sulawesi, etc. The critical factor in all cases was to enlist the key player in the value chain who was most market driven in his requirement for the product in question. The key player was the one who could also insist on the introduction of new techniques (such as payment for grade) and who could become the agent for other changed practices in the value chain, such as refrigerated transport.

Both the BAT and the Indonesia Cold Chain models cited above suggest two or three different approaches to be used by UNDP and APED with differing roles for APED dependent on the model chosen.

One model would employ the farmer group or cooperative as the key role player in the value chain. To make this model work would require injection of capital/collateral into the cooperative and the development of a sense of ownership by the farmer members in the cooperative: a realization that they were financial shareholders or stakeholders in the working of the coop and that there were financial and other valuable benefits (such as technical assistance) to being a member. This is an approach favored by Rabobank, a major world factor in agricultural commodity lending. From the commercial lender's standpoint the fact that the cooperative has capital and can thus offer collateral for a loan, reduces perceived and actual risk (assuming collateral can be captured) and provides a vehicle for on-lending to small farmers at little or no additional administrative burden. In this model, **APEDs role would be to select 4-5 farmer groups or coops to demonstrate the model, inject the needed capital to make for a functioning professional group, select and pay for the initial management team consisting of (at a minimum) a business manager and accountant, as well as a technical service team to provide or identify the need for technical assistance and advise. The critical element however would still remain for APED to provide the linkages to market.** This is a production/producer lead model to induce commercial lending by showing that a product produced with quality, consistency, and reliability is a good credit risk.

A second model would emphasize the market linkages, with APED and other Government of Aceh offices developing intimate knowledge of and an ability to talk to buyers and investors from the consuming countries. In this model APED reverses direction: rather than tying producers to consumers, it is tying consumers to producers. APED would thus function in a more business like fashion, becoming the marketing arm for products produced in Aceh. The shift in emphasis would mean that APEDs role would be to develop an understanding of the product characteristics of Acehnese cacao, for instance, and become knowledgeable of industry leaders and their requirements. This is a much more difficult challenge, and is the market driven model. This model induces bank lending after it has been established that there is a market for Acehnese production, and may usefully be viewed as pre-export financing, though admittedly of a longer term.

A third model combines the two above in a fashion similar to current practice. However, it is recommended that commercial specialists in each of the major product areas (coffee, cacao, livestock, etc) be placed in APED. The commercial specialists would require in depth knowledge of their particular value chain from production to consumption, and would be required to participate in major trade events for their product areas, in order to keep abreast of developments in their industry as well as to become familiar with the major buyers and processors of the product. This model induces bank lending through overcoming the lack of knowledge and information on the state of the markets.

A fourth model, and the one favored by the author, would place APED in the role of guarantor, working directly with banks to overcome their objections and using an approach similar to that mentioned for Indonesia Cold Chain. (A copy of the agreement is attached. Under this model, donor assistance would be required, but could be limited by working with existing credit programs identified in previous sections of the report. APED's role here would be to become knowledgeable about existing programs, develop relationships with those in charge of these programs to become a "preferred client" and to facilitate the development of bank lending through experiential/pilot programs. Thus, for instance, where GoI bank guarantees and incentives are insufficient to stimulate lending, APED could "top off" the guarantees to remove the final objections under the condition that this "topping off" would be reduced in succeeding lending. For example under some of the programs currently offered, banks are guaranteed a high percentage of loans to farmers but a much smaller percentage of loans to processors. APED could intervene by providing additional guarantees at levels in the value chain higher than the producer.or by reducing the "cost of funds" to the bank. A "partnership" would also be formed with the bank, with additional "comfort" provided to the bank through APED's guarantee of technical assistance to other participants higher up the value chain: APED for instance could guarantee that in return for the bank's commercial lending, APED would work with selected farmer groups and coops chosen by the processor to improve production, increase quality etc. APED could also intervene by paying cash directly to farmer groups at time of harvest, thus reducing pressure on the processor to pay immediately.

8.Commercial banks to be approached

From the contact list appended it can be ascertained that most major, and some minor, banks were approached. Almost without exception, it was concluded that given the right stimulus banks could be induced to participate in increased lending to Aceh, but that the stimulus might vary by bank.

Banks warranting further discussion would include:

BCA

BRI

BNI

Bank Mandiri (esp Syariah)

Most banks today are organized according to the size of the loan, size of the customer; etc. It would thus be necessary to work with the appropriate department – for our purposes this would usually be the Micro/SME departments. (Note that organizing banks by size of loan removes commodity specialization necessary to understand the risks being undertaken, thus requiring technical assistance from APED or others.)

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Agustus, Ramon, PNM Bank Aceh

Ali, Mustafa, Aceh Coffee Forum

Adrimen, PNM Aceh

Shomad, Abdus, BNI

Nugroho, Agus, BNI Syariah

WORKPLAN

1. Discussions with APED to further define the problem, refine scope
2. Discussions with private sector stakeholders (banks, importers, exporters, producers and processors)
3. Review of the literature and studies to date
4. Define the clusters (it is assumed that concentration will be on coffee, with secondary emphasis on cacao, and other clusters as defined by APED) (In discussions to date the question of ag credit rapidly degenerates to a question of oil palm)
5. Discussions with public sector stakeholders, including NGOs
6. Meet with World Bank , IFC and other interested bi- and multi-lateral institutions
7. Examine non-bank alternatives, if any
8. Interim Report
9. Model Letters of Agreement
10. Workshop
11. Revision and submission of final report

Annex 2: Model Memorandum of Understanding/Letter of Agreement

MASTER COLD CHAIN PROJECT AGREEMENT

BETWEEN
BANK MANDIRI (PERSERO), TBK
Jakarta, Indonesia
and
WINROCK INTERNATIONAL INSTITUTE
FOR AGRICULTURAL DEVELOPMENT
Morrilton, Arkansas

Bank Mandiri Ref : DIR.CMB/014/2003
Winrock Ref :

This Master Service Agreement (the "Agreement") is made and entered into on 1 November 2003 by and between the undersigned:

I. **PT.BANK MANDIRI (PERSERO), TBK**, a company duly organized and existing under the laws of the Republic of Indonesia, having its principal office at Plaza Bank Mandiri, Jl. Jend. Gatot Subroto, kave 36-38 Jakarta, Indonesia, for the purpose of this Agreement duly represented by Mr.XXX, Managing Director and Senior Executive Vice President , (hereinafter referred to as "Bank Mandiri"): and

II. **WINROCK INTERNATIONAL INSTITUTE FOR AGRICULTURAL DEVELOPMENT,** a non-government organization (NGO) and private voluntary organization (PVO) duly organized and existing under the laws of State of Arkansas, the United State of America, having its principal office at 38 Winrock Drive, Petit Jean Mountain, Morrilton, Arkansas, for the purposes of this Agreement duly represented by YYY, Chief of Party (hereinafter referred to as "Winrock").

Bank Mandiri and Winrock collectively are hereafter referred to as "the Parties"

WITNESSETH:

Whereas, Bank Mandiri is a commercial bank:

Whereas, Bank Mandiri has the overall goal of enhancing its shareholder value through providing financial services in Indonesia;

Whereas, Winrock has a goal to improved the agribusiness and cold chain industry in eastern Indonesia;

Whereas, the Parties have discussed accomplishing the mutual goal by initiating a joint program to provide financial support to projects in the agribusiness and cold chain industry;

NOW, THEREFORE, the parties hereto agree to enter into this Agreement based on the terms and conditions as hereinafter set forth:

ARTICLE 1: DEFINITIONS

The capitalized terms used in this Contract, except otherwise expressly defined, shall mean as follows:

a. "Cold Chain Project borrower" means any borrower who borrows funds to support in the agribusiness cold chain industry.
b. "Agreement" means the terms and conditions set forth in this agreement, including amendments, if any, and any and all appendices which are approved in writing by the Parties of this agreement.
c. "Services" means the activities and obligations to be prepared by Bank Mandiri within the terms of this agreement.

ARTICLE 2: PERIOD OF AGREEMENT

This Agreement shall commence on the dates of the signing of this agreement and will be valid and effective until xxx for the Services performed pursuant to the Agreement and may be extended upon the mutual written agreement of the Parties. Notwithstanding the preceding sentence, the terms and conditions of this Agreement shall apply regardless of whether the completion date for the Services extends beyond the period of this Agreement.

ARTICLE 3: GENERAL SCOPE OF PROGRAM

3.1. The overall goal of the program is to jointly promote and facilitate public and private cooperation in economic development of the agricultural cold chain processes in eastern Indonesia and to jointly explore, design, and implement specific lending projects in the agricultural cold chain processes in eastern Indonesia.
3.2. The Parties both identify potential projects and borrowers.
3.3. Bank Mandiri has the right to review loan application of the Projects and Borrowers and determine the amount of the financing under Bank Mandiri's standards and procedures for which the Projects and Borrowers qualify. The approval of the loan application is an authority of Bank Mandiri under its assessment and its discretion.
3.4. Winrock determines if projects and borrowers qualify for the Cold Chain Project.
3.5. Bank Mandiri lends one hundred percent (100%) of the funds to the program borrower at commercial interest rates and with a commercially acceptable repayment schedule.
3.6. Winrock provides Bank Mandiri with a deposit equal to fifty percent (50%) of the total loan disbursement in US dollars at zero percent interest rate with a repayment schedule proportionally identical to the repayment schedule of the Cold Chain Project borrower.

3.7. Bank Mandiri receives all principal and interest payments from the borrower.

3.8. Winrock reduces the interest free deposit with Bank Mandiri according to the repayment schedule. Failure of the program borrower to repay their loan to Bank Mandiri will in no way effect the deposit reduction schedule by Winrock.

ARTICLE 4: FUNDS DEPOSITED AT BANK MANDIRI BY WINROCK

4.1. Winrock will open two standard current accounts (giro accounts) at Bank Mandiri.
   a. One account will be an interest bearing account and will pay interest of 0.25% above the published US dollar 3 month time deposit account interest rate. The initial rate will be determined on the date of the signing of this agreement.
   b. The second account will be non-interest bearing.

4.2. Winrock will deposit ZZZZ dollars the interest bearing giro account at Bank Mandiri according to the following schedule:
   a. Upon signing of this agreement, (33%) ZZZZ
   b. Upon drawdown at the first Cold Chain Project loan, (33%) ZZZZ
   c. Upon disbursement of five hundred thousand US dollars in Cold Chain Project loans ZZZZZ

4.3 Winrock will transfer funds from the interest bearing account to the non-interest bearing account at the time that Bank Mandiri disburses funds to an approved Cold Chain Project borrower. At the time of those disbursements, Winrock will transfer fifty percent (50%) of the principal value of the approved Cold Chain Project loan to the non interest bearing account.

4.4. Winrock will transfer funds from the non-interest bearing back to the interest bearing account equal to fifty percent (50%) of the loan according in amounts proportionally equal to the payment schedule the loan to the approved Cold Chain Project borrower.

ARTICLE 5: APPROVAL OF COLD CHAIN PROJECT BORROWERS BY WINROCK

5.1 Winrock will review loan applications that have been approved by Bank Mandiri and make a final determination if the borrower qualifies for the Cold Chain Project.

5.2. If the borrower qualifies, Winrock will formally authorize to Bank Mandiri to transfer fifty percent of the loan amount from Winrock's interest bearing current account to the non-interest bearing account. Formal authorization will be executed by completion of the Cold Chain Project Loan Authorization form in Appendix 1.

5.3. At the time of loan authorization, Winrock will specify the time and the amount of the transfers back from the non-interest bearing account to the interest bearing account. The schedule from those transfers will be identical to the repayment schedule and equal to 50% of the repayment amounts of the Cold Chain Project borrowers' loan agreement. The scheduled and amounts will be detailed in the Cold Chain Project Loan Authorization form in Appendix 1.

5.4 Winrock authorized signers for approving transfers between the Winrock interest bearing and non-interest bearing accounts are listed in Appendix 2.

5.5. In the event that a Cold Chain Project Loan is repaid prior to the original schedule of the loan, Winrock will transfer the funds corresponding to that loan from the non-interest bearing account to the interest bearing account according to the actual payments of the loan.

ARTICLE 6: DISCLOSURE BY BANK MANDIRI

Upon request for approval of a Cold Chain Project loan by Winrock, Bank Mandiri will provide a signed disclosure statement for the purpose of declaring any potential conflicts of interest in the loan resulting from loans to parties directly related to employees of Bank Mandiri. (See sample in Appendix 6 – Disclosure Statement).

ARTICLE 7: RESOURCES PROVIDED BY BANK MANDIRI

7.1. Bank Mandiri will second two (2) qualified officers to the Winrock offices in Bali during the term of the agreement commencing upon the signing of the contract.
7.2. Bank Mandiri will submit candidates to Winrock for approval by Winrock.
7.3 Winrock will provide travel and incidental expenses related to the Cold Chain Project for the seconded Bank Mandiri employees.
7.4 Winrock will compensate Bank Mandiri for the direct salary paid to the two seconded Bank Mandiri employee. All benefits and other indirect compensation (housing, special allowances, medical, etc) to the seconded employees will remain the responsibility of Bank Mandiri.
7.5 Winrock will issue payment instruction for salary reimbursement to Bank Mandiri upon receipt of invoice from Bank Mandiri.

ARTICLE 8: REPORTING BY BANK MANDIRI

8.1 Bank Mandiri shall submit to a monthly progress report within the first ten (10) business days of the following month.
8.2. The progress report shall describe in reasonable detail:
  a. Prospective Cold Chain Project borrowers.
  b. Progress of the Cold Chain Project loans applications received.
  c. Status of Cold Chain Project loans disbursed
8.3. The formats for reporting are detailed in Appendix 3, 4, and 5.

ARTICLE 9: EXCLUSIVITY

The extent of funding under this program can be reduced by Winrock if Winrock determines and agreed by Bank Mandiri, in conditions that Bank Mandiri fails to meet industry standards in (a) credit risk management, (b) in the timing of credit approval, (c) or in identifying sufficient potential borrowers.

ARTICLE 10: TERMINATION

10.1 Either party may terminate for its convenience by giving the other party sixty (60) days written notice.

10.2 In such event, Winrock shall be entitled to repayment for all loans rendered in accordance with repayment schedules prior to the effective date of the termination.

ARTICLE 11: GOVERNING LAW AND SETTLEMENT OF DISPUTE

11.1 This Agreement shall be construed, interpreted and governed in accordance with the laws of the Republic of Indonesia. The parties hereto agree that they will use their best efforts to resolve all controversies or disputes arising out o f this Agreement amicably by mutual agreement. Any controversy that cannot be resolved between the Parties shall be finally and conclusively resolved through the Indonesian National Board of Arbitration (BANI) to be held in Jakarta, in the Indonesian language under the Rules of Arbitration of the Indonesian National Board of Arbitration (BANI).

11.2 A holding of any arbitration tribunal that any provision of this Agreement is invalid or unenforceable shall not result in invalidation of the entire Agreement. Instead, this Agreement shall be construed, if possible, in a manner to give effect by means of valid provisions to the intent of the parties to the particular provision or provisions held to be invalid, and, in any event, all other terms shall remain in full force and effect.

ARTICLE 12: CORRESPONDENCE

Any communication or notice by either party toe the other shall be in writing and shall be deemed to have been duly given if delivered personally, or sent by facsimile transmission, overnight mail, prepaid registered mail or internationally recognized courier addressed to the other party as set forth below or at such other address as such party hereto may hereafter specify in writing in accordance with the terms of this provision.
If to Bank Mandiri;

PT Bank Mandiri (Persero), Tbk
Plaza Bank mandiri
Jl. Jend. Gatot Subroto kav 36-38
Jakarta, Indonesia
Attention: Mr. Ventje Rahardjo

If to Winrock

Winrock International
Jl By Pass Ngurah Ray No.88
Denpasar, Bali 80227
Indonesia
Attention: Mr. Henry Harmon

ARTICLE 13: APPENDICES

This Agreement contains the following appendices:

Appendix 1 – Cold Chain Project Loan Authorization form
Appendix 2 – Winrock Authorized Signers
Appendix 3 – Monthly Prospects Report
Appendix 4 – Monthly Application Status Report
Appendix 5 – Monthly Loan Status Report
Appendix 6 – Disclosure Statement

ARTICLE 14: FORCE MAJEURE

In the event of any failure of this Agreement issued hereunder due to any force majeure event such as war, acts of terrorism, hostilities, strike, labor dispute, fire, natural disaster, change in law or regulation or other action of government which has a direct effect on the obligations of any party hereto, or any other cause whatsoever beyond the control of the parties hereto, the party so failing shall, to that extent, be exempted during the period of such happening from the liabilities that would otherwise result from its failure. Upon the occurrence of the events constituting force majeure, the party being affected by such event shall, without delay, give notice in writing of the same to the other party. If a force majeure event happens for a period of more than 60 days, either party reserves the right to terminate this Agreement for its convenience in accordance with the provisions of Article 10 “Termination”.

ARTICLE 15: ASSIGNMENT

Neither party may assign or transfer all or any part of its rights under this Agreement, without the prior written consent of the other.

ARTICLE 16: NON-WAIVER

Neither party shall be deemed to have waived any right or remedy unless such waiver is made expressly and in writing signed by authorized representative of the party making the waiver.

ARTICLE 17: NO THIRD-PARTY BENEFICIARIES

Winrock and Bank Mandiri mutually agree that this Agreement is intended by them to be solely for the benefit of the parties hereto and that no third parties (including affiliates of such parties) shall obtain any direct or indirect benefits from the Agreement, have any claim or be entitled to any remedy under this Agreement or otherwise in any way be regarded as third-party beneficiaries under this Agreement

ARTICLE 18: PUBLICITY

The parties hereto may not use or refer to each other's name in any advertisement or public announcement or otherwise without its express, prior written consent. Bank Mandiri agrees not to disseminate any summary or excerpt or any deliverable, advice or conclusion provided hereunder to third parties without the prior written consent of Winrock except where required by government regulations.

ARTICLE 19: HEADINGS AND CAPTIONS

Heading and captions in this Agreement are to facilitate reference only, do not form a part of this Agreement and shall not in any way affect the interpretation hereof.

ARTICLE 20: INDEMNIFICATION

Each party shall indemnify and hold the other harmless against losses, claims, liabilities or damages (including costs, reasonable attorney's fees, and amounts actually paid in reasonable settlement thereof) which are sustained as a result of the negligent acts, errors, or omissions of the other, its employees and agents, or for improper performance or nonperformance relating to activities hereunder.

ARTICLE 21: LANGUAGE

This Agreement is made in the English language and any interpretation of this Agreement shall be based on the English language.

ARTICLE 22: U.S. EXECUTIVE ORDER 13224

Bank Mandiri acknowledges that U.S. Executive Order 13224 and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. Bank Mandiri will do everything reasonably possible under Indonesian law to ensure lending is not provided to individuals or organizations known to be associated with terrorism.

ARTICLE 23: ENTIRE AGREEMENT

23.1. This Agreement, including Appendices, constitutes the entire agreement between Bank Mandiri and Winrock concerning the subject matter hereof. All previous documents, undertakings and agreements, whether verbal, written or otherwise between the parties concerning the subject matter hereof shall not affect or modify any of the terms of obligations set forth in this Agreement, except as the same may be made part of this Agreement in accordance with its terms.

23.2. This Agreement may be amended solely by a writing addendum signed by both Parties.

ARTICLE 24: AUTHORITY

Each party hereto represents wan warrants that:

a. It has obtained all necessary approvals, consents and authorizations of third parties and governmental authorities to enter into this Agreement and to perform and carry out its obligations hereunder.
b. The person(s) executing this Agreemetn on its behalf have express authority to do so, and in so doing, to bind the party thereto.
c. The execution, delivery, and performance of this Agreement does not violate any provision of any bylaw, charter, regulation, or any other governing authority of the party.
d. The execution, delivery and performance of this Agreement has been duly authorized by all necessary relationship or corporate action and this Agreement is a valid and binding obligation of such party, enforceable in accordance with its terms.

IN WITNESS WHEREOF, this Agreement is made and executed in Jakarta by authorized representatives of both parties on the date as written above.

For and on behalf of,	For and on behalf of,
PT.Bank Mandiri (Persero) Tbk	***Winrock International Institute***
	For Agricultural Development
Ventje Rahardjo	Henry C. Harmon
MD & SEVP Commercial Banking	Country Representative