



Progress  
Report and  
Implementation  
Plan

Strengthening  
Agricultural  
Finance in Rural Areas

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## List of Abbreviations

AIP-Rural	Australia-Indonesia Partnership for Rural Economic Development
ARISA	Applied Research and Innovation Systems in Agriculture
AUD	Australian Dollar
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BPDs	Bank Pembangunan Daerah (Provincial Development Banks)
BPRs	Bank Perkreditan Rakyat (Regional Banks)
BNI	Bank Negara Indonesia
BRI	Bank Rakyat Indonesia
CU	Credit Union
DCED	Donor Committee for Enterprise Development
DFAT	Australian Government's Department of Foreign Affairs
EJ	East Java
FSPs	Financial Service Providers
GDP	Gross Domestic Product
Gol	Government of Indonesia
IP	Intervention Plan
ISD	Intervention steering document
KPI	Key Performance Indicator
KUR	Kredit Usaha Rakyat
M4P	Making markets work for the poor
MIS	Management information system
MRM	Monitoring and results measurement
MoU	Memorandum of Understanding
MTR	Midterm review
NPL	Non Performing Loan
NTB	Nusa Tenggara Barat (West Nusa Tenggara province)
NTT	Nusa Tenggara Timur (East Nusa Tenggara province)
OJK	Otoritas Jasa Keuangan (Bank Regulator)
PFI	Partner Financial Institution
PRIP	Progress Report and Implementation Plan
PRISMA	Promoting Rural Income through Support for Markets in Agriculture
RFS	Rural Finance Specialist
RMM	Results Measurement Manager
SAFIRA	Strengthening Agricultural Finance in Rural Areas
SMEs	Small and Medium Enterprises
TIRTA	Tertiary Irrigation Technical Assistance
VCF	Value chain financing
WEE	Women's Economic Empowerment

## Executive Summary

**Operating Environment:** The anticipated slowing growth of the Indonesian economy was confirmed in 2015. The actual GDP growth figure was 4.8% which was below the GoI forecast. The major policy change relevant to SAFIRA over the last year has been an increase in the target lending by the banks under the Kredit Usaha Rakyat (KUR) program. Since there is no specific target for agri-finance as part of KUR, the result could be that agri-finance (especially lending to smallholder farmers) may suffer from this change, as the KUR products are not tailored to seasonal cash-flow based occupations like agriculture. Recent statistics on bank NPL rates, which have increased to an average of 3.1% from 1.5% in 2014, would suggest that banks will remain cautious, particularly in regard to perceived high risk sectors such as agriculture.

**Current Portfolio:** SAFIRA has signed three MOUs to date. Prior to that, Letters of Intent were signed with six potential partners at a high profile OJK event, five of whom are now covered by the three MOUs. The expected outreach for existing and new interventions by 30 June 2017 is 420 farmers with increased income and 2,400 with access to finance, with the first results to be achieved this semester. This is based on the three MOUs already signed and the expectation of one more by the end of the calendar year. The geographic distribution of the current portfolio is two in EJ and one in NTB.

**Intervention Development:** SAFIRA has established targets for its intervention portfolio development, with 9 to 13 forecast for the life of the project. The six step intervention design process for SAFIRA is set out in the project Strategy, finalised in June. The key element is, based on initial analysis of the potential partners and joint research on the intervention idea, SAFIRA and the partner will agree an appropriate VCF model or models. Based on this, SAFIRA and the partner will design and budget an actual intervention, typically in the form of technical assistance, in order to overcome the barriers or shortcomings for increased lending activities.

The likely breakdown of interventions at this stage would appear to be 4-6 Financial Service Providers (FSPs), 3-4 agricultural corporates and 2-3 with PRISMA and other AIP-Rural projects. The three MOUs signed to date have all been with financial institutions, namely a wholesale bank working with rural banks and two commercial banks. In addition, SAFIRA has entered into collaborations with all three other AIP-Rural projects.

**Challenges and Lessons:** One key challenge was the lack of resources of SAFIRA, which has been addressed to some extent by the addition of a consultant for a maximum of 2 weeks a month. Another issue for SAFIRA has been the targeting of appropriate partners. With the corporates and SMEs, progress has been slower, as these partners need to be convinced of the need for smallholder farmers to obtain finance and the mechanisms that can be utilised to do so. Thirdly, some of the PRISMA interventions, where SAFIRA examined whether it could contribute assistance, have subsequently been closed by PRISMA. This is not necessarily a bad thing as the less successful interventions bring lessons that can be applied in the future, notably that guarantee based finance is not necessarily sustainable.

**Management Response and 12 Month Projections:** SAFIRA provided its first report on progress for the period to the end of February. This contained an overall assessment of progress against the Mobilisation Plan, finding that SAFIRA was generally in line with its initial workplan. Since then, SAFIRA has made progress in many areas identified for subsequent work.

In terms of future interventions, SAFIRA is forecasting to have 7 active interventions, drawn from the three categories of partner, by 30 June 2017. Based on the fact that three are already operating, we regard this assumption as quite reasonable. SAFIRA has already approached all of the large national banks. The best prospect for new MOUs is Bank Mandiri. SAFIRA has, to date, been unable to make significant progress in its discussions with the sharia lenders although there may now be a prospect with Mandiri Syariah. The other key categories among the FSPs are the rural banks (or BPRs) and Credit Unions and discussions are taking place with entities from both categories. In regard to PRISMA, SAFIRA is actively pursuing one joint activity (Maize in Sumbawa) and others are also being investigated. The best prospects for potential collaborations appear to be Coffee in NTT and Pigs in Flores. For corporates, an intervention with Syngenta for rice farmers in EJ is being explored.

**Cross-Cutting Issues:** Development of the SAFIRA Monitoring and Result Measurement System is on schedule to be designed and completed this year, with a DCED results measurement audit in mid 2017.

SAFIRA has finalised a working draft of its Gender Inclusion Strategy and Guidelines which provide strategic direction for the inclusion and empowerment of women in SAFIRA programming, subject to future adaption.

SAFIRA has produced its Communications Strategy on its specific activities, in collaboration with the Communications Head for AIP-Rural. SAFIRA engaged in a number of key communications activities in the last 6 months. SAFIRA has identified four key risks, with steps having been taken to address all of them.

**Stakeholder Relationships:** SAFIRA is working closely with the GoI, particularly Bappenas as its main counterpart. SAFIRA will also stay abreast of GoI support for the sector in order to identify possible engagement opportunities and understand the government programs' potential impact on project partners. Private sector partners are key to SAFIRA's activities: the FSPs are private sector entities and companies are the second category of partner for SAFIRA. Other AIP-Rural Projects are the third category of partner for SAFIRA and it has already entered into relationships with all three projects.

**Operations:** SAFIRA is being implemented through PRISMA, in order to minimise the management burden and for strategic reasons. Collaboration with AIP-Rural support functions has generally been good but additional resources may be needed to negotiate, document and execute a total of 11 interventions by the end of 2017. SAFIRA's relatively small team is able to implement and monitor its current portfolio of interventions and that anticipated for the next 6 months, but as additional projected interventions come to fruition, the team will likely start to be constrained. In regard to reporting and project documentation, SAFIRA is obliged to follow the PRISMA protocols, which has imposed a disproportionately large burden on SAFIRA, and will continue to do so, compared to the other three AIP-Rural projects which have larger human resources.

## 1. Policy and Institutional Context

**The anticipated slowing growth of the Indonesian economy was confirmed in 2015.** The actual GDP growth figure was 4.8% which was below the GoI forecast of 5%. However, the outlook for 2016 is better, with the Asian Development Bank forecasting 5.2% GDP growth, based on infrastructure and policy reforms. The strong El Niño effect has ended with La Nina now having an impact with high unseasonal rains in many regions, bringing increased opportunities for out of season cropping in dryland regions but also increased risk of flooding events and disease and pests in many crops.

**The major policy change relevant to SAFIRA over the last year has been an increase in the target lending by the banks under the Kredit Usaha Rakyat (KUR) program.** It provides subsidies for loans to small enterprises and has recently been increased from IDR41 trillion in 2014 to IDR 103 trillion for 2016 and from four participating banks to 19 partners. However, previous government support programs for agriculture finance have been suspended, such as Kredit Usaha Pembibitan Sapi (for Cattle Breeding Credit). Since there is no specific target for agri-finance as part of KUR, the result could be that agri-finance (especially lending to smallholder farmers) may suffer from this change, as the KUR products are not tailored to seasonal cash-flow based occupations like agriculture. SAFIRA is working with some of its actual and potential partners to adapt the KUR product for agricultural lending. For other FSPs, the lack of a specific agriculture lending product has created an additional challenge in the expansion of VCF.

**At the broader economic level, the central bank cut its main policy interest rates in early 2016, and also lowered the deposit and lending facility rates, in attempts to encourage bank lending.** However, this has not yet been transmitted to lower domestic lending interest rates. Growth in bank lending to commercial and rural sectors is now just 10% pa compared to 25% pa in 2012. Recent statistics on bank NPL rates, which have increased to an average of 3.1% from 1.5% in 2014, would suggest that banks will remain cautious, particularly in regard to perceived high risk sectors such as agriculture. Whilst this has made it more difficult to attract banks to the concept of lending to smallholder farmers, for those willing to partner with SAFIRA, VCF can overcome some of the cost and risk issues confronting the sector.

## 2. Portfolio Management

### 2.1 Portfolio Analysis (existing and new interventions)

**SAFIRA has signed three MOUs to date.** Prior to that, Letters of Intent were signed with six potential partners at a high profile OJK event, five of whom are now covered by the three MOUs. In addition, SAFIRA has entered into collaborations with all three of the other AIP-Rural projects. The table below summarises the status.

Table 1: Current Partnerships

Entity	Activities
Bank Andara*+	VCF for maize farmers in NTB through BPR Pesisir Akbar*, ACA* and others
BRI*+	Replicate and expand its models for agriculture lending in EJ, eg goat fattening
Bank Sinarmas*+	Expand AgFinance beyond its current exposure, initially to beef fattening in EJ
BTPN*	Potential partnership relating to VCF for maize and coffee in NTB and NTT
PRISMA*	Assistance on developing new maize intervention in Sumbawa
TIRTA*	Study on access to finance for pump lift irrigation operators
ARISA*	Assistance on accessing finance for maize farmers in Lombok

\* Signed LoI

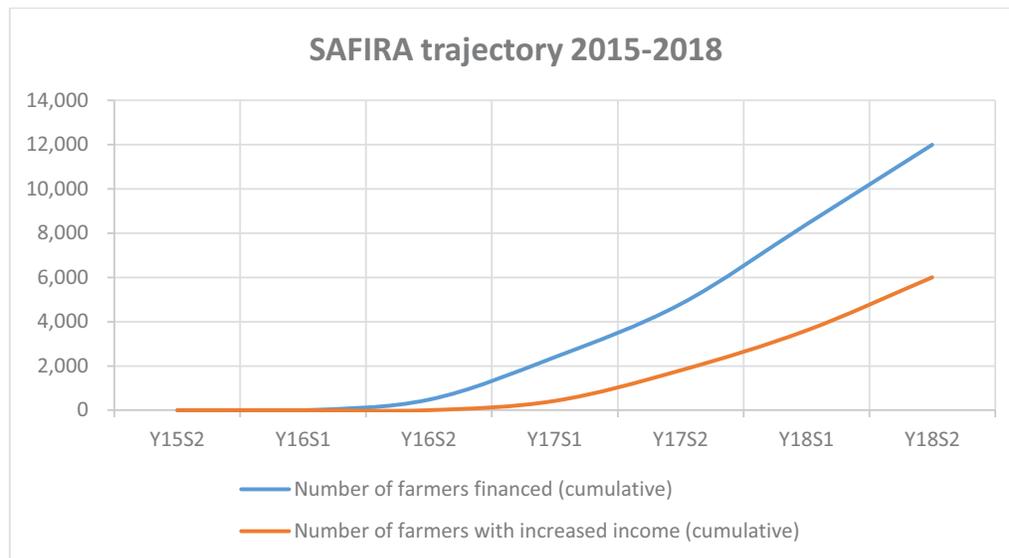
+ MOU signed

**The expected outreach for existing and new interventions is 420 farmers with increased income and 2,400 with access to finance by 30 June 2017.** This is based on the IPs developed for the three MOUs

already signed and the expectation of one more MOU by the end of the calendar year. However, whilst all appropriate analysis has been done, it needs to be borne in mind that the SAFIRA project is only in its 9<sup>th</sup> month of operation with the full staff contingent has been in place for only five months.

**The expected outreach of existing and new interventions alone does not yet provide a sufficient basis to reach the targeted projections for 2018.** Nonetheless, SAFIRA is confident, based on the assumptions summarised below, that the project targets will be met. In particular, the estimated targets for the three MOUs already signed would contribute approximately half of the numbers of farmers financed for the period up to semester 1 of 2018. It is expected that the remaining interventions (4, bringing the total to 7) forecast for the next 12 months would contribute the balance. The strategy for achieving these targets is set out in Section 3.

Figure 1: Outreach Projections



	Y16S2	Y17S1	Y17S2	Y18S1	Y18S2
Number of farmers financed (cumulative)	480	2,400	4,800	8,400	12,000
Number of farmers with increased income (cumulative)	0	420	1,800	3,600	6,000

	Y16S2	Y17S1	Y17S2	Y18S1	Y18S2
Number of intervention (cumulative)	4	7	11	12	12

Detailed information about the current SAFIRA interventions is provided in Annex 1:

**The geographic distribution of the current portfolio is two in EJ and one in NTB.** The two interventions for EJ includes the MOU with BRI for which the Intervention Plan is being finalised.

## 2.2 Intervention Development Progress

**SAFIRA has established targets for portfolio development, with 9 to 13 forecast for the life of the project.** The six step intervention design process for SAFIRA is set out in the project Strategy, finalised in June. The key element is, based on initial analysis of the potential partners and joint research on the intervention idea, SAFIRA and the partner will agree an appropriate VCF model or models. Based on this, SAFIRA and the partner will design and budget an actual intervention, typically in the form of technical assistance, in order to overcome the barriers or shortcomings for increased lending activities. The main areas of activity could include:

(a) sector and geographic research and assessments; (b) product development and market testing; and (c) modifications in the systems and tools used by the financial institutions.

After agreeing the actual intervention for collaboration, including the results chain and projected outreach, SAFIRA will sign with the partner an MOU describing the intervention, the investment to be made and the workplan. (In some cases, an interim MOU may be signed that sets out the work to be done in order to complete all the elements of the intervention plan to be contained in the final MOU; this was the case with BRI.) The results for each intervention will be monitored and measured through the AIP-Rural Intervention Steering Document (ISD) process, as adopted for SAFIRA.

**The likely breakdown of interventions at this stage would appear to be 4-6 Financial Service Providers (FSPs), 3-4 agricultural corporates and 2-3 with PRISMA and other AIP-Rural projects.** The three MOUs signed to date have all been with financial institutions, namely a wholesale bank working with rural banks (Bank Andara) and two commercial banks (BRI and Bank Sinarmas). The focus is on those that are interested to develop their agricultural lending portfolio. The project will help them understand the dynamics of the agricultural sectors in their market areas, identify appropriate VCF models that can be designed and/or replicated, and assist them in developing the competencies required to take advantage of the opportunities that this sector can provide to them.

With the corporates and SMEs, progress has been slower, as these partners need to be convinced of the need for smallholder farmers to obtain finance and the mechanisms that can be utilised to do so. This is a harder argument to make than with financial service providers; see section 2.4 for more on lessons and challenges. SAFIRA is also working with each of the other AIP-Rural projects (see section 2.1). In anticipation of a detailed IP, SAFIRA has signed agreements to collaborate with all three of the AIP-Rural projects. At this stage the actual interventions, including the impact numbers and other indicators, are still being agreed.

### 2.3 Progress of Key Performance Indicators

**In the project Strategy, SAFIRA confirmed its KPIs.** Apart from the project adoption KPI, ie farmers financed, and its outreach indicator (see KPIs 1 and 2 in the Table below), SAFIRA has four other indicators relating to loan use, SMEs impacted and Partner Financial Institution performance.

Table 2: Key Performance Indicators

Category	Target
1. Project Adoption	12,000 farmers financed
2. Farmer Poverty Outreach	6,000 farmers increase income by 30%
3. Utilisation of Loans	10,000 farmers benefit from inputs purchased
4. SMEs Benefitting	250 SMEs in VCs receive finance and on-lend
5. Additional Lending Volumes	80% of Partner Financial Institutions (PFIs) increase Ag lending by a significant amount <sup>1</sup>
6. Quality of PFI Loan Portfolios	Non Performing Loans < 6%

**As shown in Figure 1, the first results of SAFIRA interventions will be achieved this semester.** Comments on progress will be made in the next PRIP.

### 2.4 Challenges and Lessons learned

**One key challenge was the lack of resources of SAFIRA which has been addressed to some extent.** The intervention planning, negotiation, execution and monitoring approach for SAFIRA has been agreed, with certain simplifying modifications to the model created by PRISMA. This is only appropriate, given that SAFIRA is a \$4m project with 4 staff and nearly all of its 12 MOUs will come in the next 12 months; that is about 50% of the number of (albeit much larger) IPs that PRISMA executes every year. To bolster SAFIRA's resources,

<sup>1</sup> The actual amount would be set in negotiations with each PFI as part of agreeing the detailed partnership

Frida Rustiani from PRISMA has joined SAFIRA and is being retained as a consultant for a maximum of 2 weeks a month, to assist the SAFIRA work on designing M4P VCF interventions. The Palladium-appointed international expert (Philippe Lyssens) arrived in Surabaya on 23 June to provide technical M4P oversight to SAFIRA for approximately 1 day a week. However, before he was able to provide any input to SAFIRA, he was re-assigned to be Interim Team Leader for TIRTA. Instead, another adviser has been hired through the PROMARK facility (Dirk Lebe) to assist SAFIRA in expanding its portfolio. Both appointments will be reviewed as part of the Mid Term Review in September. See Section 6.1 for a further discussion on resources.

**Another issue for SAFIRA has been the targeting of appropriate partners.** The MOUs to date have been signed with two commercial banks and a wholesale bank. Whilst the take up of national banks has been encouraging, it is not expected that all the FSP partners will come from this category due to a number of issues. Firstly, a highly centralized decision-making process in Jakarta rather than eastern Indonesia, with less concern for agriculture finance; and secondly, the relatively small size of funds made available by SAFIRA to large banks that have other sources they can access.

Even with the national banks, it is likely that the entry point should be at the regional level, where there is a greater focus on agriculture finance. This was the case with the BRI MOU, where negotiations with the Malang regional office were more successful than those in Jakarta. However, to date, the approaches to the rural development banks (BPDs) have not been successful, as their focus lies less in agriculture than their development mission would suggest. Nonetheless, we continue to pursue these entities and are making progress with Bank Jatim (via the regional government), Bank NTT (a meeting regarding coffee and cocoa took place in Flores last week) and Bank NTB (a possible partner for ARISA). On the other hand, it is expected that marketing to the BPRs, such as Pesisir Akbar (to whom the SAFIRA partner, Bank Andara, provides wholesale funding) will bear more fruit and sooner. See section 3 for more detail.

With regard to the Corporates and SMEs, the second category of partner for the SAFIRA strategy, SAFIRA is in discussion with companies such as Syngenta, PT NASA and Nestle. To overcome issues raised in Section 2.2, SAFIRA is working through PRISMA and the Secretariat to help identify new potential partners. In terms of partnering with SMEs who may on-lend (SAFIRA KPI #4) it was considered best to reach those entities via corporates or others that can act as facilitators or amalgamators. SAFIRA is currently looking into possible interventions involving on-lending by SMEs in the cassava, coffee and coconut sectors, the latter being a potential model previously considered by PRISMA. Any such interventions will include appropriate safeguards around transparency of lending terms, ability to monitor impact, effective cost to the farmer and sustainability of the finance.

**Some of the PRISMA interventions, where SAFIRA examined whether it could contribute assistance, have subsequently been closed by PRISMA,** for example Fish, due to limited outreach, and Cashews, due to partner capacity. This is not necessarily a bad thing as the less successful interventions bring lessons that can be applied in the future, notably that guarantee based finance is not necessarily sustainable. SAFIRA will continue to explore other opportunities to collaborate with PRISMA in the next semester. Going forward, the best opportunities for collaboration will be a jointly designed intervention and that is what is now occurring regarding maize in NTB.

**SAFIRA has not yet determined whether it should have a specific geographic focus.** The market analysis it has conducted suggests that the greatest need for agriculture finance lies in EJ, due to the large number of farmers there that do not have access to finance. On the other hand, NTT exhibits the lowest penetration of agriculture finance as a percentage of the total lending. To date, SAFIRA has not executed an MOU relating to NTT, nor Papua and West Papua. Whilst the Strategy did not adopt geographic targets, SAFIRA would ideally like to construct a portfolio with at least one MOU in each of the 5 AIP-Rural provinces. However, Papua and West Papua throw up issues that PRISMA is still confronting, and from which SAFIRA can learn; any MOU for SAFIRA in Papua will likely follow the other three provinces, with an initial scoping mission to take place in the next quarter.

### 3. Management Response and Projections for the Next Twelve Months

**SAFIRA provided its first report on progress for the period to the end of February.** This contained an overall assessment of progress against the Mobilisation Plan, which was that SAFIRA was generally in line with its initial workplan.

Since then, SAFIRA has made progress in many areas identified for subsequent work including:

- a. **Finalise 3 Year Strategy:** This was submitted to DFAT in approved form at the end of June.
- b. **Secure initial MOUs with external partners:** This has occurred already with three MOUs having been signed. Discussions are underway with other potential partners: see below.
- c. **Capacity Building:** SAFIRA has conducted sessions in VCF for both potential FSP partners (a total of over 300 people from 5 banks, 6 BPRs and 33 credit unions) and AIP-Rural staff. These trainings also allowed SAFIRA to build its existing relationships with partners, and discuss key issues on the side of the events, and market to new potential partners.
- d. **Interventions with AIP-Rural projects:** see section 2.1.
- e. **Results Measurement System:** SAFIRA has established its own system and it is operational, with an operating manual being completed. A DCED audit will take place in mid-2017.
- f. **Recruit and induct staff:** Since the 6months report, the only human resources added is the consultant mentioned in section 2.4. There is room in the budget for one more staff member but that will depend on whether Frida Rustiani is retained after the MTR.
- g. **Participate in first Strategic Review Panel visit:** This occurred in March and one recommendation was for the additional resources secured for SAFIRA: see section 2.4.
- h. **Develop communications strategy:** This has been completed and SAFIRA has its own page on the AIP-Rural website.
- i. **Guidelines for Gender Empowerment:** These have been prepared and are in use.

**In terms of future interventions, SAFIRA has already approached all of the large national banks.** The best prospect among potential new MOUs is Bank Mandiri. It has been difficult to engage with some, such as BNI, as they have large, centralised management structure, which can be overcome by communicating at the regional level, and are not focussed on agricultural lending. The current environment (see section 1) also makes some of the banks unwilling to expand into new areas of activity.

**After the national banks, the provincial development banks in each province should be good prospects,** as they have more experience with agriculture finance and two (Bank Jatim and Bank NTT) have already worked with PRISMA and other existing VCF models. However, whilst the BPDs have the right general mission, they are often conservative lenders and are generally not targeting an expansion of their exposure to agricultural lending.

**SAFIRA has, to date, been unable to make significant progress in its discussions with the sharia lenders** although there may now be a prospect with Mandiri Syariah. Islamic finance has never really taken off in Indonesia, to the extent of other countries, and has represented consistently less than 5% of all bank lending for many years. As a result, there is lack of understanding of Islamic finance and a poor perception of Syariah products. On the banks' side, there is a lack of willingness of Syariah banks to go beyond simple models, eg microfinance group lending, into more complicated products such as agriculture. The Syariah banks are also capital constrained. This may be remedied through a proposal to merge the subsidiaries of the

four largest commercial banks into two Syariah banks but, in the meantime, this makes the existing players less willing to take major commercial decisions.

**The other key categories among the FSPs are the rural banks (or BPRs) and Credit Unions.** SAFIRA has held meetings with many BPRs, especially those which focus on specific rural areas, and some have indicated interest in partnering with SAFIRA. However, no partnerships have been entered into, other than with BPR Pesisir Akbar through the Bank Andara MOU. Nonetheless, SAFIRA will continue to explore opportunities to work with them.

With the credit unions (CUs), there are potentially suitable candidates in EJ (CU Sawiran) and NTT (CU Obor Mas and CU Pintu Air). The last two CUs were part of the initial phase of the capacity building training in Flores, which has allowed SAFIRA to confirm that they are suitable potential partners.

**In regard to PRISMA, SAFIRA is actively pursuing one joint activity (see section 2.1) and others are also being investigated.** The best prospects for potential collaborations appear to be Maize in Sumbawa, Coffee in NTT and Pigs in Flores.

**For corporates, an intervention with Syngenta for rice farmers in EJ is being explored.** SAFIRA is also pursuing Nestle in regard to financing dairy farmers to buy improved feed. The table below summarises the most promising future partnerships for SAFIRA. However, SAFIRA will also look at partnering with other value chain actors identified through work with the other two categories of partners.

Table 3: Potential Partnerships

Entity	Activities
Bank Mandiri	VCF for sugar cane farmers in EJ, in partnership with large miller
CU Sawiran	Possible finance for providing access to good quality seed for potato farmers in EJ
Bank NTT	Leveraging PRISMA (coffee) relationship, broad partnership to support VCF
Bank NTB	ARISA intervention with maize farmers and agriculture finance generally
Mandiri Syariah	Discussions in regard to finance for beef farmers in Timor
CUs in Flores	Support for loans to pig fattening and other clients
PRISMA	Other potential partnerships, eg maize in Sumbawa
Syngenta	Potential collaboration in regard to VCF for rice farmers in EJ
Nestle	Possible intervention with respect to financing the purchase by dairy farmers in EJ of better feed for their cattle through the Nestle milk centres.

**SAFIRA is forecasting to have 7 active interventions, drawn from the three categories of partner, by 30 June 2017.** The details are shown in Figure 1 above. Based on the fact that three are already operating, we regard this assumption are quite reasonable.

**SAFIRA has been planning for the upcoming midterm review (MTR).** This will be an opportunity to learn and improve the project, by being asked to articulate and reflect upon progress, weaknesses and strategy. However, the MTR and associated work, such as the self-assessment required by the MTR team, has required the input of significant resources which have been unavailable for intervention work.

## 4. Cross-Cutting Issues

### 4.1 Results Measurement

**Development of the SAFIRA Monitoring and Result Measurement System (MRM) is on schedule.** The SAFIRA MRM will be designed and completed this year, led by the SAFIRA Results Measurement Manager (RMM). The supporting Manual will comply with the Donor Committee for Enterprise Development (DCED) Standard for Results Measurement, with technical input from a DCED Standards for Result Measurement

expert. The MRM will be subject to a DCED results measurement audit before the end of the second year of SAFIRA's operations.

In practice, the Manual will adopt PRISMA's Monitoring and Results Measurement Manual, to maintain the coherence between SAFIRA and other projects under AIP-Rural, since SAFIRA will collaborate with the other 3 projects in achieving common goals. Beyond measuring and presenting results, the MRM facilitates learning and program improvement for the SAFIRA team. To achieve this purpose, the System is integrated to program implementation, and MRM will engage with the SAFIRA team in the monitoring and result measurement throughout program implementation.

**SAFIRA is being integrated into the PRISMA management information system (MIS).** This will assist SAFIRA in monitoring its results and will be used for the first time for the next PRIP.

## 4.2 Gender Dimension to Financial Services

**SAFIRA has finalised a working draft of its Gender Inclusion Strategy and Guidelines entitled "Empowering Women through Inclusive Access to Finance".** It provides strategic direction for the inclusion and empowerment of women in SAFIRA programming. This gender strategy and guidelines were developed by SAFIRA based on the overall SAFIRA Strategy, which identified women's economic empowerment (WEE) as a critical cross-cutting theme. The document includes reference to AIP PRISMA's Gender Inclusion Strategy and literature on women financial inclusion.

As a working draft, when new information becomes available and new insights from the program come, the Gender Inclusion Strategy and Guidelines may be further adapted, thereby ensuring a flexible response to the WEE needs of the program.

**SAFIRA has conducted field research on its first intervention between SAFIRA and Bank Andara from the perspective of WEE.** The MOU is focussed on strengthening the loan product for maize farmers in Nusa Tenggara Barat. The research provides more understanding on how women in borrowing households are involved and play an active role in the loan application and agreement process, and in the use of the loan proceeds.

**Going forward, SAFIRA will mainstream gender into its interventions and monitor gender effects by studying the roles of men and women in each intervention.** In all of its gender work, the RMM will collaborate with the PRISMA Gender and Social Inclusion Specialist.

## 4.3 Communications

**SAFIRA has produced its Communications Strategy on its specific activities, in collaboration with the Communications Head for AIP-Rural.** SAFIRA's communications goal is to develop a positive perception and attitude towards the program. The overarching goal is to influence key stakeholders' commitment to partner with us and improve SAFIRA's ability to reach its goals and objectives.

**SAFIRA engaged in a number of key communications activities in the last 6 months:**

- A short story based on the field research on its first intervention (see section 4.2).
- Three press releases, relating to the three MOUs signed by SAFIRA. The one with BRI generated a substantial amount of media coverage and publicity.
- The Team Leader spoke at two high profile events: a two-day event (2-3 June) organized by OJK and hosted by BRI in Malang; and a well-attended conference (15-16 March) on Financial Inclusion in Jakarta. At the latter, the organizers, OJK, invited SAFIRA to sign letters of intent with the Bank Andara partners and BTPN, Bank Sinarmas and BRI on the first morning.

These and other marketing activities have generated considerable interest from other potential partners, which is a major focus of SAFIRA's current communications strategy.

Working with the GoI more generally (see section 5.1) will also help SAFIRA promote its program and allow the program to have influence on relevant government policies, where it is strategic and appropriate to do so.

**The AIP-Rural website is now live and contains a page for SAFIRA.** A detailed Market Mapping study has been posted there and the website is now being used for recruitments.

#### 4.4 Risk Management

**SAFIRA has identified four key risks.** They relate to: staff capacity for project execution and internal procedures; coordination with other AIP-Rural projects; and results achievement. Low staff capacity has been addressed, in part, through recruitment of a new part-time consultant, but more resources may be needed. Steps have also been taken to address the other risks.

## 5. Stakeholder Relationship Management

### 5.1 GoI and Sub-National Agencies

**SAFIRA is working closely with the GoI, particularly Bappenas as its main counterpart and, as mentioned, OJK.** SAFIRA recently presented to the PCC for the first time and BAPPENAS has indicated an interest to make a field trip to a SAFIRA project. SAFIRA will also stay abreast of GoI support for the sector (see section 1) in order to identify possible engagement opportunities and understand the government programs' potential impact on project partners. Whilst influencing government policy is not a target of SAFIRA, the results of the SOFIA study will provide an opportunity to do so at the broader AIP-Rural level.

At the provincial and district levels, as part of the Government of Australia aid program which has a broader goal of catalyzing positive policy changes, SAFIRA will consult with all relevant stakeholders. In addition, SAFIRA will participate, as decided appropriate by DFAT, Bappenas and AIP-Rural, with all levels of government.

### 5.2 Private Sector Partners

**Private sector partners are key to SAFIRA's activities.** Most notably, the FSPs are private sector entities. Moreover, agribusinesses are the second category of partner for SAFIRA and the project will also reach out to SMEs. There are some examples of SMEs providing finance to smallholder farmers but most of this finance is, by definition, informal and is more in the nature of credit terms than actual lending. The large numbers of such entities in Indonesia also makes it difficult to assess those that are focussed on providing finance to smallholders.

One avenue to access SMEs would be through PRISMA where SMEs may be a better agent for their interventions than for SAFIRA's. The best entry point could be larger corporates who may be a source of access for and understanding of SMEs because they provide inputs to many of these smaller companies and can act as facilitators and accumulators. Therefore, the focus of SAFIRA to date has been on major corporates along the value chains.

**Increasingly, SAFIRA is able to attract larger companies.** Some of the key players with whom SAFIRA has already engaged include Syngenta and Nestle (see section 3). Approaches have also been made to Unilever, EWINDO and Charon Pokphand. Details of the private sector partners involved in SAFIRA interventions are included in Annex 1.

**SAFIRA attends the PisAgro Agri-finance Working Group.** This is an interesting forum and has been helpful in building relationships with some private sector parties, although the large commercial banks do not generally attend.

### 5.3 Collaboration with other AIP-Rural Projects

**Other AIP-Rural Projects are the third category of partner for SAFIRA.** PRISMA is the most logical partner for SAFIRA in that many of the former's existing interventions involve finance or have the potential to do so. SAFIRA will provide assistance to PRISMA in areas including: to identify value chain financing opportunities; advice on structuring loans for SME intermediaries; and guidance on how to broker these loans successfully with financial institutions.

**SAFIRA has already entered into relationships with all three AIP-Rural Projects:** see Table 1 above. These are in the nature of collaborations to investigate whether interventions by the three projects are sensible, whereupon a more detailed relationship would come into effect. The PRISMA team has agreed to involve SAFIRA in any discussion with banks and FSPs.

## 6. Operations

### 6.1 Operations

**SAFIRA is being implemented through PRISMA and within PRISMA's AUD77 million budget.** This decision was made in line with DFAT's drive to consolidate its programs and to minimise the management burden. There is also a strategic rationale for SAFIRA being connected with PRISMA, as the finance sector can be seen as another value chain/cross-sector alongside fertilizers, maize, mangoes etc, and that financial inclusion was already included within PRISMA's scope of services and its Subsidiary Arrangement with Bappenas. Therefore, it was agreed that Palladium would directly implement SAFIRA through the competitive recruitment of a small number of specialized personnel, with no Finance Administration and Personnel managers and no junior staff.

**SAFIRA's relatively small team is able to implement and monitor its current portfolio of interventions and that anticipated for the next 6 months, but as additional projected interventions come to fruition, the team will likely start to be constrained.** It is estimated that the Rural Finance Specialists will each be able to effectively manage three interventions, while an MRM Manager should be able to monitor up to six. Therefore, as at least 12 interventions are planned for SAFIRA, the programme will likely have to recruit additional resources (at least two more Rural Finance Specialists and one more MRM resource) to meet this need as required. Given the significant increase in research analysis that will occur as SAFIRA begins to work with more and varied partners and outside those of the PRISMA domain, it may also be worth considering hiring a programme resource that is devoted to analysis. The current budget provides only for one junior person this financial year, with recruitment to occur in the next quarter. Therefore, the budget may need to be amended after the MTR deliberations to expand the team in 2017.

**Collaboration with AIP-Rural support functions has generally been good.** PRISMA supports SAFIRA in regard to complying with operating requirements in areas such as finance, budgeting, HR, travel, procurement, partnership agreements, consultant contracting and work permits. In order to boost the resources needed to comply with the substantial design requirements of M4P VCF interventions, a consultant has joined from PRISMA: see section 2.4. This has helped but additional resources may be needed to negotiate, document and execute a total of 11 interventions by the end of 2017: see Figure 1.

**In regard to reporting, SAFIRA is obliged to follow the PRISMA protocols.** It has produced and, where appropriate, will continue to produce the following: an initial project Proposal; a Mobilization Plan; monthly emails to DFAT; a first 6 Months Report and 6 monthly PRIPs; documents for 6 monthly SRP visits and the upcoming MTR including the required self-assessment; a presentation for the 6 monthly PCC meeting; input into DFAT PPAs; and other ad hoc meetings with DFAT, Bappenas and other stakeholders. SAFIRA has also produced a 3 Year Strategy and separate strategy documents for: Results Measurement; Gender; and Communications. Given the full-time SAFIRA team is only the Team Leader and three managers, this has imposed a disproportionately large burden on SAFIRA, and will continue to do so, compared to the other three AIP-Rural projects which have larger human resources.

## Annex 1: Summaries of Intervention Plans

### Bank Andara: Maize, NTB

#### Overview of the subsector

Maize is one of Indonesia's primary food crops. According to USDA data, around 9 million MT<sup>2</sup> are grown each year in Indonesia on three to four million ha of farmland; more than half is used to cater to the ever-increasing demand for animal feed. It is a seasonal crop, with a surplus during peak harvest months and a severe undersupply the rest of the year.

At the national level the price of maize has been increasing steadily over recent years. However, the province of NTB has experienced no growth in its maize production, despite productivity being above the national average at 5.8 MT per ha. Most farmers there plant their crop during the wet season on dry farmland, with only a small number having the capacity to irrigate their land during the dry season. Poor post-harvest handling and lack of storage facilities add to the problem of inconsistent supply.

Around 127,000 ha of land in NTB is given over to maize farming, with approximately 87,700 maize farming households living below the poverty line. Just over half of these (43,900) are in Bima, Dompu, West Lombok and North Lombok.

#### Challenges and constraints

Analysis of the market reveals a number of problems that currently constrain the ability of NTB farmers to take advantage of this market opportunity:

- **Limited provision of good agricultural practices and extension services because of weak public provision and lack of private alternatives.** There are few reliable sources of information for maize farmers. Government extension services are not able to satisfy the need for technical information, and it is rare for input suppliers and traders to provide embedded information on maize cultivation. When input suppliers do provide information services, these are geared towards promoting their own products.
- **Few commercial providers of fertilizer, post-harvest equipment, and irrigation services, particularly given the strong government presence in these areas.** In addition to lower than optimal yields, farmers' production costs are high because they are producing hybrid maize, which requires more investment. Since farmers have limited access to affordable credit, many farmers will borrow from moneylenders and collectors at high interest rates. This increases farmers' production costs and reduces their margins. Finally, farmers also receive low prices because of poor post-harvest practices that affect the quality of maize. There are few commercial or government providers of quality post-harvest services.
- **Limited affordable options for finance, particularly given the difficulties in accessing bank loans.** The use of hybrid seed requires a sufficient supply of other inputs such as fertilizer, agro chemicals (e.g. herbicide, pesticide) and labour, as well as careful and informed treatment and maintenance. Poor farmers have little money to support these, and no access to external financial resources. Some farmers rely on moneylenders who provide loans at exorbitant rates of interest.

#### Vision of change

SAFIRA's vision of change is that, by 2018, maize farmers in NTB, through inputs paid for with credit, will have increased the volume and quality of their maize production, in ways which are sustainable and increase their income.

#### The SAFIRA approach

To achieve this vision, SAFIRA has partnered with Bank Andara, a private bank focusing on agriculture finance for many years. It has established a model for maize farmer financing in Bima and Dompu NTB. In order to increase the maize farmers' access to finance and by collaborating with the main players in maize, they entering the market with a linkage model that provides for lending by a BPR or MFI in local areas. Bank Andara started the maize finance program in 2014 with BPR Pesisir Akbar involving 200 farmers as borrowers. However, the

<sup>2</sup> The Ministry of Agriculture claim annual production of 20 million MTs against USDA data of 9million MTs. The reason for this discrepancy is that MoAg obtains a substantial portion of their budget based on high production figures.

BPR and some local banks need support to enhance their credit process system and monitoring tools, with capacity building to the staff especially for Agriculture Value Chain Finance (VCF).

BPR Pesisir Akbar needs support to increase their capability to expand VCF in following areas:

1. **Risk Assessment:** This includes the credit analysis system and training of bank staff in the system.
2. **Improve Loan Monitoring:** This focuses on sales and monitoring tools, and standard operating systems.
3. **Management Information System (MIS):** The intervention will enhance the operating system for credit including financial reporting administration.

SAFIRA is funding the work of a consultant, Financial Access, which will provide the credit systems and capacity building needed by the bank to address the above issues. It is a global leader in the analysis and implementation of the Simbuka MIS. In return, Bank Andara will continue to support the BPR, notably in regard to wholesale funding, and the BPR will provide the loans to farmers.

Once installed, the BPR will be in a position to grow its loan portfolio for small maize farmers. This intervention will not only strengthen BPR Pesisir Akbar for providing loan to farmers, but also strengthen Bank Andara to scale up this business model to other BPRs and, at the end of the day, there will be an incremental number of farmers will have access to value chain finance.

### The Business Model and Partners

Collaboration will occur with the following private sector partners:

- **Bank Andara:** A wholesale bank providing funding to BPRs, and the signatory to the MOU with SAFIRA
- **BPR Pesisir Akbar:** Leading local bank providing the loans to farmers
- **Syngenta:** A global input supplier, with whom PRISMA has already worked, providing inputs to farmers through its retail chain
- **Local grain traders:** Act as buyers and agents for the bank in loan repayment collection, out of maize sale proceeds
- **PT Asuransi Central Asia (ACA):** Insurance company providing credit insurance to farmers.

### Intervention Target

By the end of 2018, an additional 1,300 farmers will receive loans, of whom 50% will improve their income by 30% or more.

### Contribution of other programs

Mercy Corps, an NGO, designed the program and provides free assistance to the farmers, in terms of GAP and market information, some of which is delivered through its AgriFin mobile phone enabled platform.

## Bank Sinarmas: Beef EJ

### Overview of the subsector

Indonesia is the largest beef producer in Southeast Asia; the country nevertheless is experiencing a shortfall in production. At the same time, national demand cannot depend on imports; since 2010, the government has been tightening import quotas with the aim of creating 90% self-sufficiency in beef. These two factors together have significantly increased the demand for locally sourced beef. PRISMA's research indicates that increasing the availability of feed and artificial insemination services will enable cattle farmers to meet export standards and increase their volume of production.

East Java is Indonesia's biggest cattle producing province; in 2014 it accounted for 29% of the national total. It is also the largest exporter of live cattle between the provinces; local consumption is a significant driver of East Java's cattle and beef sector. There exists however a national demand gap, currently being filled by imports.

East Java's poor are slightly higher in number than the national average. Most farmers here raise cattle as a family asset and a source of ready cash, rather than by making a conscious decision to participate in national production.

Beef productivity in East Java is low, particularly during the dry season (May to November). This is caused by a) lack of supplementary feedstock, and b) limited awareness of the benefit of supplementary feeding. Farmer reliance on native grass to feed their cattle results in a fattening period of 11 to 12 months; this is halved in a feedlot, where the use of concentrate or complete feed means only three to four months is needed before slaughter.

### Challenges and constraints

Lead farmers have applied PRISMA's program for cattle rearing (quality steer, concentrate feed, and GRP) but do not have the finance to increase the number of cattle; other farmers do not have the finance to apply PRISMA's program. Smallholder farmers do not have the collateral to get financing from the bank; many are not even informed on how to access finance from the bank. This problem prevents farmers from purchasing quality cattle and better feed despite their willingness to do so.

### Vision of change

SAFIRA's vision of change is that, by 2018, the recipient cattle farmers can access credit to purchase better calves, increase use of better inputs and improve the market prices for the fattened cattle, as a result of which smallholder farmers increase their incomes.

### The SAFIRA approach

To achieve this vision, SAFIRA has partnered with Bank Sinarmas and will collaborate with the private sector, as follows:

- 1. Bank Sinarmas and SAFIRA develop a specific loan product for cattle farmers in Tuban.** The loan will be provided 'in-kind', in the form of quality cattle and feed.
- 2. To deliver such a loan product, Bank Sinarmas collaborates with other value chain actors.** SAFIRA will work with companies who supply cattle and feed.

Specifically, SAFIRA will support the Bank to:

- conduct further market analysis;
- develop the loan product for farmers;
- build capacity of key staff in the partner on product, including staff to act a VCF Focal Points;
- design a business plan for the loan product;
- expand MIS for VCF including a risk management system for the loan product working with the Partner's IT Division as appropriate;
- re-engineer loan sales and monitoring tools and standard operating procedures; and
- develop SMEs' knowledge on the loan product, standard operating procedures and their contribution/incentive.

## The Business Model and Partners

Collaboration will occur with three private partners (in 3 different models): Models 1 and 2: PT Dua Berlian (for the purchase of calves) and PKM (to promote concentrate feed for cattle fattening); and Model 3: Wahyu Utama (to promote supplementary feedstuffs for cattle fattening). Their roles in regard to expanding finance to farmers will be:

- **PT Dua Berlian**
  - Provide calves to farmers and purchase fattened cattle
  - Deduct loan amount from proceeds before paying the farmers, for which bank pays an agent fee.
- **PKM**
  - Provide concentrate feed and inputs to farmers
  - Accept payment from farmers in the form of vouchers, subsequently redeemed by the Bank.
- **Wahyu Utama**
  - Provide calves and supplementary feed to farmers and purchase fattened cattle
  - Accept payment from farmers in the form of vouchers, subsequently redeemed by the Bank
  - Deduct loan amount from proceeds before paying the farmers, for which bank pays an agent fee

## Targets for Change

Market Potential: 1,675 farmers who feed cattle with concentrate feed could be targeted by the loan product to increase the number of cattle fattened. 6,700 farmers who feed cattle with crop residue and grass could be targeted by the loan product to rear quality cattle and provide them with either supplementary feed produced by CV Wahyu Utama or concentrate feed produced by PKM.

Intervention Targets: By the end of 2018, 1,550 farmers will receive loans, of whom 640 will improve their income by 30% or more.

## Contribution of other programs

Holcim, a Swiss cement company, have a CSR program in relation to cattle farmer development, one strand of which is to produce concentrate. This concentrate production is managed by PKM through their business unit, KSU ('Business Cooperative'). Its current production can be up to 50 MT month and supplies the needs of cattle farmers surrounding Tuban.