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INDONESIA BANK DANAMON DCA GUARANTEE

EVALUATION

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SEPTEMBER 2009

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On the Cover:

Auto tire store, one of the borrowers with Bank Danamon's Danamon Simpan Pinjam (Danamon Savings and Loan) in Aceh. Photo courtesy of Anastasia Liu

Other sectors under the DCA Guarantee: Agriculture and Retail. Photos USAID/Indonesia

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ACRONYMS

BPD	State-owned regional development bank
BRI	Bank Rakyat Indonesia
BPR	Bank Perkreditan Rakyat ("Credit for the people")—mostly rural, privately owned, government-licensed banks (of which there are about 1,800-2,000 in Indonesia), which provide loans to MSEs, sometimes in competition with Bank Danamon's DSP
BTPN	Bank Tabungan Pensiunan Nasional—the competitor private commercial bank to which many DSP managers and staff moved during mid-2007
CAGR	Compound Annual Growth Rate
CMS	Credit Management System
DCA	Development Credit Authority
DSP	Danamon Simpan Pinjam—"Danamon Savings and Loans," Bank Danamon's microfinance lending organization
EGAT/DC	Bureau for Economic Growth, Agriculture and Trade/Office of Development Credit
EIU	Economic Intelligence Unit—a specialist publisher serving companies establishing and managing operations across national borders
GDP	Gross Domestic Product
GTZ	German Technical Cooperation
IMF	International Monetary Fund
MFI	Microfinance institution
MICRA	Microfinance Innovation Center for Resources & Alternatives
MIS	Management Information System—used here in reference to DSP's loan portfolio data system
MSEs	Micro- and small enterprises—some of which received loans under the guarantee
NAD	Nanggroe Aceh Darussalam, a DSP cluster of 8 local lending units in and around Banda Aceh
NGO	Non-Governmental Organization
NPL	Non-performing loan
USAID	United States Agency for International Development

INDONESIA

Yangon
Rangoon
Vientiane
THAILAND
Moulmein
Đà Nang
South China Sea
Baguio
Philippine Sea
Bangkok
Buôn Mê Thuot
Qui Nhon
Manila
Naga
Nha Trang
Bay of Bengal
Port Blair
Spratly Islands (disputed)
M I C R O N E S
Phnom Penh
Iloilo
Cebu
Ho Chi Minh City
PHILIPPINES
PACIFIC OCEAN
Andaman Sea
Nakhon Si Thammarat
Cagayan de Oro
Koror
Alur Setar
Kota Baharu
Bandar Seri Begawan
Kota Kinabalu
Davao
General Santos
Banda Aceh
Ipoh
Kuala Terengganu
Medan
ASIA
Celebes Sea
Kuala Lumpur
Singapore
Kuching
Manado
Equator
Pekanbaru
Padang
Jambi
Pontianak
Samarinda
B O R N E O
Palembang
Fakfak
PAPUA
Banjarmasin
INDONESIA
Ambon
Bengkulu
Banda Sea
Java Sea
Jakarta
Makassar
SUNDA ISLANDS
Tanjungkarang-Telukbetung
Surabaya
Cirebon
Yogyakarta
JAVA
Raba
Denpasar
Waikabubak
Kupang
INDIAN OCEAN
Darwin
AUSTRALIA
NORTHERN


Map of Aceh, Indonesia
SABANG
Banda Aceh
Sigli
ACEH BESAR
Lhokseumawe
PIDIE
BIREUEN
ACEH UTARA
[NORTH ACEH]
ACEH JAYA
ACEH TENGAH
[CENTRAL ACEH]
ACEH TIMUR
[EAST ACEH]
ACEH BARAT
[WEST ACEH]
Takengon
Langsa
NAGAN RAYA
ACEH
TAMIANG
Meulaboh
GAYO LUES
ACEH
BARAT DAYA
[SOUTHWEST ACEH]
INDIAN
OCEAN
Medan
ACEH
TENGGARA
[SOUTHEAST ACEH]
Tapaktuan
ACEH
SELATAN
[SOUTH ACEH]
SUMATERA
UTARA
[NORTH SUMATRA]
ACEH
SINGKIL
SIMEULUE
0 25 50 100 Kilometers
INDONESIA
Provincial Capital
Other Towns
District Boundaries
Note: Simeulue, Sabang, Lhokseumawe, and Langsa all have district status.
Note: Map boundaries and locations are approximate. Geographic features and their names do not imply official endorsement or recognition by the UN.
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EXECUTIVE SUMMARY

On December 26, 2004, a huge earthquake and tsunami caused massive flooding, destruction, and loss of an estimated 167,540 lives in the coastal areas of Indonesia's Aceh and North Sumatra Provinces. Approximately 80,000 micro-, small and medium enterprises were destroyed, and many more were indirectly affected by the disaster. Prior to the tsunami, microfinance institutions (MFIs) were virtually absent in Aceh Province, which was still suffering from decades of civil war. Among those few that were providing modest levels of microfinance to micro- and small enterprises (MSEs), many were destroyed or seriously damaged by the disaster. In effect, the tsunami not only sharply increased the demand for microfinance among MSEs but also seriously reduced the supply.

In response to the massive devastation caused by the earthquake and tsunami, the U.S. Government embarked on a major Indian Ocean Tsunami Relief, Rehabilitation and Reconstruction effort in Aceh and North Sumatra. As part of that initiative, USAID/Indonesia provided substantial technical assistance and grants—as did hundreds of other donors and non-governmental organizations. In addition, USAID/Indonesia's Economic Growth Office asked USAID/Washington's Office of Development Credit in the Bureau for Economic Growth, Agriculture, and Trade (EGAT/DC) to establish a loan portfolio guarantee in order to stimulate the quick resumption and expansion of lending to the thousands of MSEs directly and indirectly affected by the tsunami. USAID/Indonesia also envisioned a guarantee as complementing its assistance activities under the mission's nationwide strategic objective, "Economic Growth Strengthened and Employment Created."

On September 26, 2005, USAID established a loan portfolio guarantee with Bank Danamon, one of the largest and most profitable private commercial banks in Indonesia, and the first to have entered the microfinance arena. The bank's microfinance arm, Danamon Simpan Pinjam (DSP), had already been engaged in lending to MSEs nationwide for over a year and a half, with modest operations in Aceh and North Sumatra, but its lending in those areas had been seriously disrupted by the tsunami. USAID and DSP saw the guarantee as meeting three mutual objectives: (1) to resume lending to MSEs in Aceh and North Sumatra as quickly as possible; (2) to enable DSP to enter new sectors and lend to new types of clients in addition to its usual clientele among traders, retailers, and small-scale service providers; and (3) to expand DSP's MSE lending nationwide. The first of these objectives was the most important from USAID's point of view, as stated in the Action Package of April, 2005.

The guarantee was not typical of most DCA guarantees in that it was established in direct response to a natural disaster. Table 1 presents basic details of the seven-year guarantee, which currently has three years to go.

TABLE 1. CHARACTERISTICS OF THE BANK DANAMON/DSP DCA LOAN GUARANTEE IN INDONESIA

Starting and Ending Dates	Maximum Cumulative Disbursements	USAID Guarantee Percentage	Guarantee Ceiling (Maximum USAID Liability)	Maximum Cumulative Principal Amount of Qualifying Loans to Any One Qualifying Borrower	Qualifying Borrowers and Loans
9/2005-9/2012	$16,400,000	50%	$4,100,000	$500,000	MSEs with fewer than 50 employees or annual sales of no more than 2 billion Rupiah (about $219,780); primarily, but not restricted to, unsecured loans

Source: Guarantee Agreement, September 26, 2005

Initially, USAID wanted a much larger guarantee and *all* the guaranteed loans in Aceh and North Sumatra, and it was willing to extend USAID liability to 80 percent. Bank Danamon/DSP would agree only if USAID would accept 100-percent liability. The two parties struck a compromise, in which the guarantee liability would remain at 50 percent, but 40 percent of all the guaranteed loans had to be in Aceh and North Sumatra. (Although not mentioned in the agreement, Yogyakarta, an urban area of Java, which was also struck by an earthquake in early 2005, was added to the target areas covered by the 40-percent requirement.) In addition, the guarantee facility would be a revolving one, which would allow DSP to pay the same amount in origination fees on an authorized amount of $8.2 million that could be outstanding at any given time, not on the maximum cumulative disbursement of $16.4 million. This allowed DSP more capacity and helped alleviate its concern about the risks of lending in the tsunami-affected areas, especially Aceh, where the civil war had not officially ended.

Although DSP is one of over 50,000 MFIs in Indonesia, it has played a disproportionately large role in the microfinance sector.[1] According to Bank Indonesia, Indonesia's central bank, which had the most up-to-date and comprehensive data available, there were an estimated 50 million MSEs in Indonesia as of early 2009.[2] The amount of MSE credit outstanding rose from $18.84 billion in 2004 to $56.48 billion in March, 2009—an increase of 300 percent. During essentially the same period, DSP's total value of outstanding loans to MSEs rose from $0.054 billion to $1.100 billion, an increase of 1,937 percent. Viewed another way, while DSP has been one of 50,000 MFIs, its share of the total credit outstanding in Indonesia has ranged from 1.3 percent to 2.4 percent over its four full years of operation (2005-2008).

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[1] Estimate is based on numbers provided by Ikatri M. Sihombing, Executive Director, Microfinance Innovation Center for Resources & Alternatives, in a May 5, 2009 interview.

[2] The Bank defines micro-enterprises as businesses with a maximum net worth (excluding land and buildings) of Rp. 50 million (USD 5,000) and maximum annual sales of Rp. 300 million (USD 30,000). Small enterprises are defined as having net assets of Rp. 50-500 million (USD 5,000-50,000) and annual sales of Rp. 300 million-2.5 billion (USD 30,000-250,000). (The Guarantee Agreement defined Qualifying Borrowers as having annual sales of no more than Rp. 2 billion [USD 200,000]).

EVALUATION OBJECTIVES, QUESTIONS AND METHODOLOGY

Evaluation Questions in Brief

Output level – What additionality, especially in the disaster-affected areas, did DSP achieve through use of guarantee?

Outcome level – How has the guarantee influenced DSP lending behavior outside the guarantee?

Impact level – Has DSP's MSE lending experience during the guarantee period influenced the behavior of other MFIs in the SME sector, especially in the disaster-affected areas?

In mid-April, 2009, EGAT/DC commissioned SEGURA/IP3 Partners LLC to conduct an evaluation of the Bank Danamon/DSP guarantee. This evaluation—the third of an estimated 20 evaluations over four years—aimed to assess the performance of the guarantee at three levels of lender behavior: the Output level, which looks at how DSP used the guarantee to achieve additionality in terms of increased access to credit among MSEs in the disaster-affected areas; the Outcome level, which looks at changes in DSP's overall lending behavior *outside* the guarantee and the extent to which those changes, if any, can be attributed to the guarantee; and the Impact level, which looks at any effects that the guarantee may have had on MSE lending in the microfinance sector writ large, but especially in the disaster-affected areas. In addition, the evaluation was expected to assess the extent to which factors in the environment, i.e., exogenous factors, have affected performance at all three levels. The scope of the evaluation did not include an assessment of USAID/Indonesia's or EGAT/DC's management of the guarantee, the impacts of the loans on borrowers, or USAID/Indonesia's economic growth strategic objective. Per EGAT/DC's request, the evaluation was expected to present only findings and conclusions, not recommendations or lessons learned.

A two-person team conducted the evaluation between late-April and early-September, 2009.[3] During this period, the team planned the evaluation in consultation with EGAT/DC; conducted a two-week field visit to Indonesia, including a three-day visit to Aceh Province; and analyzed all the data and drafted the report. Our key data sources and methods included the review and analysis of available documents and secondary data from a variety of sources, especially EGAT/DC and DSP, and key informant interviews with USAID and DSP managers and knowledgeable persons in the microfinance sector in Washington, Jakarta, and Aceh.[4]

We attempted to answer a total of 15 specific evaluation questions—four at the Output level, four at the Outcome level, five at the Impact level, and two dealing with exogenous factors at all three levels. (The questions are listed both in Annex C and in sections of Chapter IV of the main report.) Due to external limitations in our data collection efforts, we had mixed success in answering all of the evaluation questions—and in a few cases, very little success. The most significant limitations on data collection included the unavailability of DSP data on MSE lending before and outside the guarantee; our inability to talk to the Jakarta-based DSP managers who had been there from the outset of the guarantee and when most of the loans were placed under the guarantee, due to their having left DSP in mid-2007 to set up a competing MSE lending operation; our inability to obtain any but the slimmest

[3] Larry Beyna, MSI, served as Team Leader for this evaluation. Given the other individuals who assisted with pre-site visit preparations and data collection in the field, for the sake of easier reading, we use the term "we" to refer to the evaluation team in the remainder of this summary and the report as a whole.

[4] The documents reviewed, the evaluation framework and usable indicators, the interview guides developed for the evaluation, and a list of contacts made during the evaluation are presented in Annexes B-E, respectively.

quantitative and qualitative data on MSE lending volume and practices in Indonesia overall—and in the specific target areas—that may have changed during the four years that the guarantee has been in place, and that may be attributable to guarantee demonstration effects; and lack of awareness among most of our key informants of DSP's lending operations or of the guarantee.

Our conclusions and some of the key findings that support them are summarized in the next section. Given the methodological constraints mentioned above, however, some of the findings and conclusions are limited in nature.

KEY FINDINGS AND CONCLUSIONS

Output Level

Conclusions:

- Given the initial alignment between USAID's objectives for the guarantee and, reportedly, those of Bank Danamon/DSP—i.e., to resume and expand lending in the tsunami-affected areas, to enter new sectors, and to expand MSE lending nationwide—the guarantee fit neatly into Bank Danamon's ongoing strategy at the time of its inception.
- Although DSP had resumed its post-tsunami SME lending in Aceh prior to the guarantee's inception, lending expanded significantly during the period of the guarantee; and available evidence indicates that the guarantee played a role in that expansion.
- Limited qualitative evidence suggests that the guarantee played a role in increasing access in North Sumatra.
- We cannot determine whether expansion of lending occurred in Yogyakarta, the third target area, and, if so, whether the guarantee influenced expansion.
- DSP has exceeded the guarantee's requirement that at least 40 percent of all guaranteed loans be provided in the disaster-affected areas.
- Available evidence suggests that DSP has recently expanded lending to the agricultural sector—a sector outside its traditional market of traders, retailers, et al.—and the guarantee may have influenced this move.
- During the guarantee period, DSP has significantly increased lending to MSEs nationwide, in terms of loan portfolio volume and number of local lending units; however, aside from the guarantee's influence on expansion in Aceh and North Sumatra, we cannot determine the extent to which this increase might be attributed to the guarantee.
- The guarantee enabled DSP to give underperforming local lending units the opportunity to improve performance and avoid such drastic consequences as suspending the units' lending or even firing their loan officers and/or managers; aside from this significant use of the guarantee, DSP has not made any other substantial changes to its lending program since the period prior to the guarantee.
- DSP's approach to placing loans under the guarantee (i.e., headquarters' designation of loans on the basis of poor-performing, riskier lending *units* after the loans had been made) appears not to have been in keeping with the general spirit of DCA guarantees.
- DSP has satisfied the Guarantee Agreement's requirement that the loans be primarily unsecured loans; however, given DSP's approach to assigning loans to the guarantee, it is unlikely that, with the exception of Aceh and North Sumatra, it would have made any fewer unsecured loans without the guarantee.

- DSP's borrower-friendly approach to giving loans can be seen as providing improved access to MSEs, but that approach existed prior to the commencement of the guarantee.

Key Findings:

According to the Action Package, the guarantee appeared at the outset to mesh neatly with DSP's stated strategy—and intentions of using the guarantee to support that strategy—to quickly resume and expand MSE lending to Aceh and North Sumatra, to enter new sectors and lend to new types of borrowers (e.g., farmers, agro-processors, and fishermen in the rural sector and small street vendors), and to expand MSE lending nationwide.

Prior to guarantee negotiations in April-May, 2005, DSP had already reestablished in Aceh its one pre-tsunami local lending unit, which had been destroyed by the tsunami. DSP was the first private commercial bank to resume lending in Aceh, and it had plans to open a second unit later that year. Prior to the guarantee's inception in September of that year, DSP actually opened *two* more units, *after* it knew that it would be receiving a guarantee. Between the start of the guarantee and the time of the evaluation, DSP opened five more units in the Banda Aceh area and had a total of 17 units in the province as a whole. At the time of the evaluation, the eight units in the Banda Aceh area had Rp. 133 billion in outstanding loans and 2,500 borrowers. This represented a 531-fold increase in outstanding loan value and a 356-fold increase in borrowers over the one unit's Rp. 250 million in outstanding loan value and seven borrowers in mid-2005. By all accounts, the guarantee played a major role in this speedier resumption and significant expansion. Although similar data were not available for North Sumatra, former and current USAID staff expressed the opinion that the guarantee had influenced increased lending in that area as well.

Table 2 presents data on use of the guarantee from its inception to DSP's latest posting of loans as of March 31, 2009. (Note that virtually the entire utilization amount of $16.4 million has been accounted for with three years left to go under the guarantee agreement.) A total of 4,805 (51.4 percent) of the guaranteed loans and a total of $8,368,395 (51.4 percent) have been made in the three target areas, thereby exceeding the agreement's 40-percent requirement. Ninety-two percent of all the guaranteed loans in the three target areas (and 85 percent of all guaranteed loans nationwide) were made during the first year and a half of the guarantee period; after that there were no additional loans posted to the guarantee until the most recent period ending March 31, 2009.[5]

[5] We asked several key informants why no new loans had been placed under the guarantee between the end of March, 2007, and the time of the evaluation field visit in April, 2009, despite the fact that that there was additional capacity to do so. (Subsequent to the field visit, we learned that additional loans were indeed placed under the guarantee with DSP's submission for the semi-annual period ending on March, 31, 2009, but our DSP-Jakarta interviewees either had not yet posted those loans or were unaware that they were being posted.) In response to our question, DSP's Jakarta managers stated that they were now doing more lending in East Indonesia, and they had been told by USAID that the guarantee was *limited* to Aceh, North Sumatra and Yogyakarta. We were unable to confirm whether anyone in USAID had indeed told them this, but it seems very unlikely, given that the agreement terms do not include such a restriction, other than that 40 percent of the guaranteed loans must be in those areas. At any rate, DSP-Jakarta appeared to feel constrained by the 40-percent target-area requirement.

TABLE 2. TOTAL NUMBER AND VOLUME OF LOANS UNDER THE GUARANTEE TO DATE, BY TARGET AREA

Number and Value of Loans and Percentage of Total Utilization	Aceh	North Sumatra	Yogyakarta	Other, Non-Target Areas	Total
Number of Loans (Percentage of Total)	793 (8.5%)	3,717 (39.8%)	295 (3.2%)	4,543 (48.6%)	9,348 (100%)
Value of Loans	$1,188,754	$6,433,832	$745,809	$7,920,144	$16,288,539
Percentage of Total Utilization	7.2%	39.2%	4.5%	48.3%	99.3%

Sources: Semi-annual data submitted by DSP to EGAT/DC and data recently submitted by DSP in response to an EGAT/DC request

Despite DSP's original intention to use the guarantee to start lending to new sectors and new types of borrowers, it has not done so with loans under or outside the guarantee until, possibly, very recently. In its March 31, 2009, semi-annual report to EGAT/DC, DSP placed under the guarantee 33 loans (0.004 percent of total loans under the guarantee) in the "agriculture, hunting, and related services activities." This was the first time DSP has used a sector designation in the agricultural area and any sector designation outside its traditional areas of retail, trading, etc. We were unable to ascertain the types of borrowers among these 33 loans, particularly whether any were farmers.

Since the guarantee was established, DSP has significantly expanded its lending nationwide, in terms of volume of outstanding loans and numbers of local lending units. Its nationwide volume of outstanding loan value increased by 231 percent, from Rp. 3.32 trillion at the end of 2005 to Rp. 11.00 trillion at the end of April, 2009. Its number of local lending units nationwide increased from a DSP-reported 200 units in 2005 to 801 in May, 2009.

We were unable to determine whether the guarantee had any influence on DSP's expansion of overall nationwide lending to MSEs beyond the expansion in Aceh and North Sumatra reported above, but several facts suggest little, if any, influence. First, the overall and annual volumes of loans placed under the guarantee represent very small proportions of DSP's overall and annual increases in lending nationwide (e.g., only 4 percent for 2006). Second, although many more of the guaranteed loans were made in 2006 than in 2005 or 2007, DSP had a smaller increase in nationwide outstanding loan value in 2006 (23.8 percent) than in 2005 or 2007 (26.7 and 26.8 percent, respectively). Finally, DSP made virtually no changes in its loan products and lending practices under the guarantee, and it used the guarantee to reduce the risk of loans already made under its standard lending approach.

The local DSP managers in Aceh whom we interviewed were aware of the guarantee from the beginning, but they have never made loans with the guarantee in mind, e.g., in terms of giving loans to riskier-than-normal borrowers who might not have received loans otherwise. They also reported that they were no longer orienting new loan officers to the guarantee, because the guarantee had no impact on their operations. They did report—and this was confirmed in our discussions with DSP's Jakarta managers—that, in recent months prior to our visit, Jakarta allowed lower interest rates on some products in order to match the growing competition and told local units to stop giving unsecured loans (except "top-up" loans to borrowers with good repayment behavior) in response to the global economic crisis. Our available evidence, however, suggests that a cessation in giving unsecured loans may not have actually occurred.[6]

The approach used by DSP to assign loans to the guarantee was unusual—and not what we might have expected given our understanding of the spirit and intention of DCA loan guarantees. After a brief early period during which local unit managers were recommending which loans made in their units should be placed under the guarantee and DSP-Jakarta was making the final decisions, DSP-Jakarta assumed total responsibility for the process of placing loans under the guarantee. It first identified local lending *units* that had a history of low performance in terms of repayment among borrowers (not only in the target areas but also nationwide). From the lists of unsecured loans already made in those units, DSP chose loans for placement under the guarantee and informed USAID of its decisions on a semi-annual basis. If, after several months, a borrower was doing well in terms of repayment, DSP removed his/her loan from the guarantee in order to save utilization fees.

The only noteworthy DSP use of the guarantee to modify its standard lending policy was its provision of some relief to non-performing local units. By placing loans from those units under the guarantee, DSP allowed the units more time than usual to correct its lending and collection operations before resorting to cutting off their ability to make more loans.

Although USAID's primary concern with additionality was the quick resumption and expansion of lending in the disaster-affected areas, which did occur, the Guarantee Agreement also stated that the loans to be placed under the guarantee were "primarily, but not restricted to, unsecured loans." Our review of all the semi-annual loan reports that DSP has submitted to EGAT/DC to date showed that 93.7 percent of all the loans placed under the guarantee were unsecured loans (i.e., only 6.3 percent had amounts in the column for collateral value).

DSP takes pride in its user-friendly approach to MSE lending and repayment, for which it was cited by both the borrowers we interviewed and a few knowledgeable observers in the microfinance sector. According to DSP managers in Jakarta and Aceh, "service, convenience, and speed" are hallmarks of DSP's approach, and these characteristics were cited by most of the small sample of six borrowers we interviewed in Aceh. More specifically, DSP units are typically located in the marketplace, close to where borrowers do business; applying for loans requires little paperwork; loans are issued within a matter of days; and DSP's agents collect payments from borrowers at the latter's places of business and as frequently as daily if the borrower so desires. This access-enhancing approach was in place before the guarantee, however, and has not changed over time.

[6] DSP's March 31, 2009, semi-annual report to EGAT/DC indicates that 319 of 1,370 new loans placed under the guarantee were made during January-March, 2009. Of those 319, 245 were made in Aceh and North Sumatra. As it appears that all of the new loans were unsecured loans, these data appear to contradict the report that DSP stopped units from giving unsecured loans in early 2009.

Outcome Level

Conclusions:

- DSP significantly increased nationwide access to credit among MSEs *outside* the guarantee, but much of this overall increase is more likely attributable to DSP's aggressive growth strategy and profitability than to influence from the guarantee. However, given our Output-level conclusion that the guarantee helped DSP expand MSE lending in Aceh, it stands to reason that the guarantee had a positive impact on increased lending in Aceh outside the guarantee as well as under the guarantee.
- We cannot make any conclusions as to whether access to credit increased in North Sumatra or Yogyakarta and, if so how much of that increase occurred outside the guarantee and why.
- We cannot determine whether DSP made any loans to new sectors or new types of borrowers outside the guarantee.

Key Findings:

As reported above, DSP's overall nationwide lending to MSEs has grown substantially over the years since the guarantee was put in place. As only an estimated four percent of that growth can be attributed to loans placed under the guarantee, most of the nationwide increase occurred *outside* the guarantee. However, DSP has consistently used the same approach for all its lending—for loans given prior to the guarantee, loans placed under the guarantee and loans outside the guarantee.

In EGAT/DC's biennial review in April, 2007, it was reported that "the microfinance market in Indonesia has proven highly lucrative for the bank." This observation was recently confirmed by DSP's local managers in Aceh and recent statements by Bank Danamon (see text box).

"…Danamon has also experienced growth in its microfinance program….(M)icro-lending accounts for 65 percent of Danamon's profit and…Danamon has an 8 percent market share in microfinance loans. DSP was launched in 2004 as the bank's official microlending program and, in 2005, offered an average loan of USD 1,877. Microfinance has gradually become a more prominent part of Danamon's operations. Mr. Paredes (Danamon's President Director) tells The Asian Banker, 'This transformation is very relevant because these areas offer higher level of returns and interest rate yields, thus giving Danamon the capacity to sustain higher volatility and also higher levels of cost of credit.' He adds, 'The area that has been most resilient to the downturn is actually the micro-lending space.' Microloans have grown 20 percent…for the past one year, reaching USD 1.02 billion and accounting for 17 percent of Danamon's total loans. In 2008 alone, DSP granted USD 225.25 million in loans."

--Peter Hoflich, "Danamon Gears Up for Microfinance Push," *The Asian Banker*, April, 2009

Also, as reported above, DSP expanded overall lending in Aceh during the guarantee, and we have concluded that the guarantee contributed to that growth, particularly with respect to the establishment of new local lending units.

Impact Level

Conclusions:

- DSP's approach to MSE lending has served as a model for some competitor banks, both in Aceh and elsewhere; and, to the extent that the guarantee has helped DSP expand the use of its successful model in Aceh and, perhaps, elsewhere, we can conclude that the guarantee played a role in this demonstration effect.
- DSP's phenomenal nationwide growth and profitability has served both to expand the market and stir market competition, both nationwide and in Aceh; and, to the extent that the guarantee has played a role in DSP's success, it has also influenced market expansion and competition.

Key Findings:

Several key informants reported that other MFIs are entering the microfinance sector, some in Aceh and some in direct response to DSP's pioneering microfinance experience. Bank Tabungan Pensiunan Nasional (BTPN)—the private commercial bank to which many DSP managers and staff moved during mid-2007—is using essentially the same model as DSP's in direct competition with DSP, nationwide and in Aceh. It is possible that BTPN's managers, who managed DSP during the first year and a half of the guarantee period, were influenced by that experience, especially by the guarantee's role in the growth of MSE lending in Aceh. We were unable to explore this possibility, however.

In addition to BTPN, competitor banks in Aceh include Bank National Indonesia, Bank Rakyat Indonesia (BRI), and Bank Mandiri, the latter two of which are government-owned. According to our key informant at the Microfinance Innovation Center for Resources and Alternatives (MICRA), Bank Mandiri had entered the microfinance market in response to DSP's experience.

According to Ratna E. Amiaty (Bank Indonesia), DSP is good for the microfinance industry because it "opens people's eyes to the potential for commercial banks in microfinance." At the time of the evaluation, CMB-Niaga, an international private commercial bank with operations in Indonesia, was considering opening a microfinance arm. The bank stated that a key factor in making its final decision would be DSP's experience in the market and its profitability. Standard Chartered Bank, another international commercial bank, was considering moving into the microfinance market based on its success in India.

We asked several key informants whether other MFIs were changing their lending behavior in response to DSP's lending approach during the guarantee. B. S. Kusmulijono, Chairman of Indonesia's National Committee for Microfinance Development, noted that DSP's lending model is essentially the same as the scheme that Bank Indonesia and six state-owned partner banks with linkages to MFIs are using with a loan guarantee. He observed that DSP is very "market-friendly," in that it aggressively goes after clients, offers daily repayments and uses technology to record transactions on-line. He expected that, in the future, other banks would adopt DSP's basic model and approach. Ashok Malkarneker, German Technical Cooperation (GTZ) echoed the opinion that DSP's ability to use information technology efficiently is a major strength, which sets an example for other MFIs to follow.

The Influence of Exogenous Factors on Performance of the Guarantee

Conclusions:

- Given conflicting evidence from DSP, we cannot ascertain whether the global economic and banking crisis had any impact on DSP lending under the guarantee (at the Output level) or outside the guarantee (at the Outcome level), either nationwide or in the disaster-affected areas.
- Growing competition in Aceh in the early months of 2009 appears to have had a positive effect on MSEs' access to loans, in terms of better interest rates, under the guarantee (at the DSP Output level), outside the guarantee (at the DSP Outcome level), and among other lenders (at the Impact level).

Key Findings:

The major financial crisis that hit the U.S. in mid-2008 quickly became a global financial crisis. In response to a DCA survey of partner lenders on the impact of the crisis in April, 2009, DSP reported that the global financial turmoil, coupled with a higher interest rate environment in the banking sector in the fourth quarter of 2008, had had only "slight" impact on its lending operations because it had effectively made moderate adjustments on pricing. Its loan portfolio continued to grow during that quarter, but the growth was somewhat slower than the previous nine months. In response to slower growth prospects in 2009, DSP tightened cost controls and strengthened its collection systems.

DSP's portfolio grew by only 0.4 percent during the first four months of 2009. That represents an average monthly growth of Rp. 0.01 trillion, which is far lower than the average monthly growth of Rp. 0.20 trillion for 2008.

In May, DSP's Jakarta managers told us that, in response to the economic downturn, they have turned toward a more conservative lending approach in late 2008-early 2009. Most significantly, they reportedly instructed all their units to stop giving unsecured loans (except "top up" loans for borrowers with good repayment track records). As a result, they noted that their overall loan portfolio was more secure in mid-2009 than it had been before. The value of unsecured loans as a percentage of their entire portfolio went down from 18 percent in 2008 to 15 percent in 2009.

This policy directive to stop giving unsecured loans was confirmed by the local DSP managers in Aceh, but we cannot reconcile the directive with DSP's recent placement of new loans under the guarantee. Of 1,370 new loans posted to the guarantee in its semi-annual report for October 1, 2008, to March 31, 2009, 319 loans—all unsecured, we believe—were issued to borrowers during the months of January, February, and March. Furthermore, all 245 of the new loans made in Medan Region (which includes Aceh and North Sumatra) were made during those months.

In our interviews with the three local DSP managers in Aceh, they reported that, in addition to the early 2009 Jakarta directive to suspend giving unsecured loans, they have been allowed to lower interest rates on some of their products in order to match the growing competition in their area. Although improved loan terms was not a focus of the evaluation, we can infer from this that potential borrowers had more options besides DSP and were possibly experiencing better access to credit among lenders, at least in terms of interest rates.

I. INTRODUCTION[7]

On December 26, 2004, a very strong earthquake (the most severe since 1964), occurred off the western coast of the island of Sumatra, Indonesia, and created tsunamis that caused massive flooding, destruction and loss of life in the coastal areas of Aceh and North Sumatra. In March, 2005, another earthquake hit the islands of Semeule and Nias, west of Aceh. The combined catastrophe resulted in a total of 167,540 deaths (including those missing) in all the countries affected, with approximately 80 percent of the deaths in Aceh Province. Almost half of the USD 9.9 billion in losses occurred in Aceh. Already in disarray due to three decades of civil conflict between the Government of Indonesia and the Free Aceh Movement, Aceh's economy was devastated by the tsunami. According to an analysis by the World Bank in January, 2005, damages and losses amounted to an estimated 97 percent of Aceh's GDP. Particularly hard hit were thousands of micro- and small enterprises (MSEs) in the informal sector, which were affected directly or indirectly by the disaster. In another World Bank document, it was estimated that approximately 80,000 small and medium-sized enterprises, providing employment to an estimated 140,000 people, were destroyed.[8]

> "The microfinance sector in Indonesia is one of the largest in the world with over 50,000 microfinance institutions (MFIs), some in existence over 100 years. However, nearly 40 million low-income people in Indonesia still lack access to financial services and over 70% live on under $1 per day. The majority of MFIs in Indonesia are characterized by low growth in outreach and inefficient systems, citing lack of access to affordable capital as their main constraint. There is vast potential for growth in the sector if key inputs can be effectively provided on a wide scale in Indonesia."
>
> —Internet website for Microfinance Innovation Center for Resources & Alternatives (MICRA)

Prior to the disaster, microfinance institutions (MFIs) were virtually absent in Aceh Province as a result of the conflict. The state-owned Bank Rakyat Indonesia (BRI) and the state-owned regional bank (BPD) provided some microfinance, and a few non-governmental organizations (NGOs) and cooperatives had small lending operations. Many of those were destroyed by the tsunami and their post-tsunami efforts were focused more on restoring their organizations than on resuming microfinance activities. After the natural disasters, Aceh witnessed the influx of more than 400 NGOs to help with relief and reconstruction. Most of these NGOs and some multilateral organizations—including the Asia Development Bank, the International Labor Organization, Save the Children, Mercy Corps, the Grameen Foundation, and the German

> "Despite a long history of microfinance activity in Indonesia, other than BRI, there has been little progress with regard to achieving scale and commercialization of the sector. The key gaps that have hindered this growth and commercialization include: (1) There are few credible retail MFIs. Many continue to demand collateral and are disguised 'loan sharks.' (2) There is inadequate legal cover for all types of institutions…. (3) There is insufficient protection for all micro-depositors…. (4) There are regulatory constraints for scaling up by BPRs. (5) There are weak institutional capacities of retail institutions. They often have a narrow range of financial products and they lack innovation to address the underserved segments of the market. (6) There are poor systems and organizational processes for retail institutions. (7) There is weak capacity of support structures to support microfinance."
>
> —Banyan Global, for the World Bank – International Finance Corporation, August, 2005, p. 2

7 Unless otherwise cited, the information in this introduction is taken from EGAT/DC's Credit Review Board's Action Package, dated May 26, 2005; the Guarantee Agreement of September 26, 2005; a March, 2005, Trip Report from Alison Eskesen, EGAT/DC; an October, 2008, report from Cordaid; and discussions with Alison Eskesen. Several economic indicators for Indonesia, drawn from World Bank and Economic Intelligence Unit [EIU] reports are provided in Annex A.

8 "Project Appraisal Document on a Proposed Grant in the Amount of US $50 Million to the Republic of Indonesia for the Aceh-Economic Development Financing Facility Project," World Bank, December 5, 2008.

Technical Cooperation (GTZ)—provided reconstruction and rehabilitation grants to many affected persons, including MSEs directly affected by the disaster. Several organizations began to implement imported or pre-designed financial products for post-tsunami microfinance in 2005.

Despite these efforts, however, the MSE demand for microfinance was much greater than the supply. In addition to those directly affected by the disaster, there were hundreds of thousands of other bankable MSEs that were *indirectly* affected, through destruction of marketplaces, disruption in road access, loss of credit, etc. These MSEs would likely be ineligible for grants but would still need working capital and in some cases long-term financing for capital investments. Only a few months after the disaster, MFIs in Banda Aceh were reporting that clients were already seeking finance. For example, in her March, 2005, trip report to Indonesia, Alison Eskesen (EGAT/DC) noted that BPD, a state-owned regional bank in Aceh, had a monthly demand for loans averaging Rp. 30 billion prior to the tsunami, but the demand had increased to Rp. 50 billion after the disaster. Many MFIs were facing capital shortages and loss of records, infrastructure, and key personnel. Even prior to the tsunami, most of the MFIs in Aceh Province had been suffering from weak management capacity and poor portfolio quality.

In response to the tsunami, the US Government embarked on a major Indian Ocean Tsunami Relief, Rehabilitation and Reconstruction effort. As part of that effort, USAID/Indonesia provided significant technical assistance and grants through its NGO partners and contractors. The mission also proposed a loan portfolio guarantee aimed at mobilizing increased lending to MSEs in Aceh and North Sumatra Provinces, to complement but not supplant the efforts already underway. In addition to responding to the disaster, the proposed guarantee was seen as supporting USAID/Indonesia's Strategic Objective 11, "Economic Growth Strengthened and Employment Created."

In response to the mission's request for a guarantee, USAID's Office of Development Credit in the Bureau for Economic Growth, Agriculture and Trade (EGAT/DC) held discussions and negotiations with officials from the mission, several Indonesian banks, and other organizations in Jakarta, Medan, and Banda Aceh in early 2005. The result of those discussions and follow-up actions was a decision to enter into a loan portfolio guarantee agreement with Bank Danamon. At that time Bank Danamon was the fifth largest bank and the second largest private bank in Indonesia, with about 800 offices nationwide. It was also one of Indonesia's most profitable banks.

Significantly, Bank Danamon was the first private commercial bank to enter the microfinance arena. Prior to the tsunami, it had already begun a nationwide microfinance operation through its Danamon Simpan Pinjam (DSP), which was devoted exclusively to serving MSEs. DSP was targeting viable businesses (i.e., not start-up businesses) with a monthly income of Rp. 500,000 to 5 million (US$ 50-530), and providing loans with a tenor of one-five years (average two and one-half years) and initial loan sizes ranging from Rp. 100,000-500,000 (US$ 11-53), with possibly larger subsequent loans for borrowers with good payment histories. Having started with six local lending units in March, 2004, DSP had grown to 4,900 employees and 450 units nationwide by May, 2005, when the Action Package was approved. DSP had one unit in Aceh and 16 in North Sumatra. As of March, 2005, DSP had loans outstanding in the amount of Rp. 1,098 billion (about $109,800,000) nationwide, with Rp. 18 billion (about $1,800,000) in Aceh and North Sumatra.

DSP had established its one local unit in Aceh Province prior to the tsunami, but the unit was destroyed by the tsunami and was reopened in March, 2005. DSP had plans to open another Aceh unit later in the year.[9] That DSP re-entered Aceh so soon after the tsunami—especially when so many other pre-tsunami MFIs in the area, such as the BPRs (privately owned, government-licensed banks, which were weak even before the tsunami) were struggling to resume operations—was also a significant factor in USAID's decision to provide DSP with a loan guarantee.

Although DSP had been in operation for about one year and had reestablished its foothold in Aceh, it was by no means a sure bet for achieving the amount of lending that USAID wanted to see in the tsunami-affected areas, and for doing it quickly. In essence, DSP was a start-up microfinance institution, which had relatively little exposure and operating history in those areas. However, USAID's confidence in choosing DSP for the guarantee was bolstered by DSP's sound approach to lending, its access to sufficient capital, its management capacity to begin responding immediately, and the overall strong performance of Bank Danamon, its parent organization.

The short-term targeted enterprises for the loan portfolio guarantee included persons and businesses directly and indirectly affected by the disasters. Those indirectly affected would likely be ineligible for direct grants from the many organizations that offered assistance. Because USAID anticipated that many people would turn to micro-enterprise activities to generate income during the rehabilitation phase, the mission expected the demand for microfinance services to increase over the medium-term, once grant monies had been spent. As well, the guarantee was seen as helping mobilize financing nationwide over the medium-term and long-term to support USAID/Indonesia's strategic objective for economic growth. According to sources cited in the 2005 Action Package, the demand for microfinance throughout Indonesia, not just in the tsunami-affected areas, far exceeded the supply; and since then, the demand-supply imbalance has continued into 2009, the time of this evaluation.[10]

On September 26, 2005, USAID entered into a loan portfolio guarantee agreement with Bank Danamon. Table 3 presents a summary of the terms of the agreement. The guarantee is a seven-year guarantee, which, at the time of the evaluation, still had more than three years to go. It is very important to note here—and to remember when reviewing the results of the evaluation—that the guarantee to Bank Danamon is not typical of most DCA guarantees. It was established in direct response to natural disasters, and USAID's primary reason for establishing it was to resume and increase access to microfinance services in the areas directly affected. During guarantee negotiations, USAID proposed a much larger guarantee than the one eventually established and that *all* the guaranteed loans be in the tsunami-affected areas of Aceh and North Sumatra. USAID even offered to deviate from standard policy to provide DSP with an 80-percent guarantee instead of 50 percent if the bank would focus the guarantee entirely on the tsunami-affected areas or increase the total facility amount.

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[9] As it turned out, DSP had three units operating in Aceh by September, 2005, when the guarantee was established.
[10] Titus Kurniadi, our key informant at the Indonesia Movement for Microfinance Development, reported that the Indonesian Ministry of Cooperatives estimated that there were 43,000,000 micro-enterprises in 2009, and, in his opinion, 60-70 percent of those enterprises would take credit if they could access it.

TABLE 3. SUMMARY OF THE DCA GUARANTEE TO BANK DANAMON

AUTHORITY	USAID (DCA)
TYPE	Loan Portfolio Guarantee (LPG)
GUARANTEED PARTY	PT Bank Danamon Indonesia, Tbk.
GUARANTEE PURPOSE	To strengthen the Guaranteed Party's ability to finance loans to microenterprises and small businesses operating in Indonesia, particularly in the provinces of Aceh and North Sumatra, thereby stimulating economic growth facilitating reconstruction in such areas affected by the tsunami of December 26, 2004. *Section 9.10 of the Guarantee also specifies the following:* The Guaranteed Party shall target on a best effort basis that 40% of the aggregate principal amount of all Qualifying Loans are to Qualifying Borrowers whose primary location or operations are located in the Aceh and North Sumatra Provinces upon completion of five (5) years from the date of this Agreement. If at any time after the first year of this Agreement the Guaranteed Party fails to meet this 40% target, USAID may suspend or terminate this Agreement, provided that such termination on suspension shall not affect the validity of the Agreement on the portion of the Qualifying Loans that have been disbursed prior to the date of the termination or suspension.
MAXI. AUTHORIZED PORTFOLIO AMOUNT	$8,200,000
MAXIMUM CUM. DISBURSEMENTS	$16,400,000
USAID GUARANTEE PERCENTAGE	50%
GUARANTEE CEILING (MAXIMUM USAID LIABILITY)	$4,100,000
TERM OF GUARANTEE	7 years (September, 2005 – September, 2012)
ORIGINATION FEE	0.25% of guarantee ceiling ($10,250)
UTILIZATION FEE	0.85% per annum of the average outstanding principal amount guaranteed by USAID
MAX. CUM. PRINCIPAL AMT. OF QUALIFYING LOANS MADE TO ANY ONE QUALIFYING BORROWER	$500,000
QUALIFYING BORROWERS	Non-sovereign Indonesian microenterprises and small businesses located in Indonesia and having fewer than 50 employees or annual sales of no more than 2 billion Rupiah.
QUALIFYING LOAN	A loan made to a Qualifying Borrower not to exceed the Maximum Cumulative Principal Amount. Loans are primarily, but not restricted to, unsecured loans. A Qualifying Borrower includes any affiliate of that borrower, including parent or subsidiary companies having the same or substantially similar ownership as such borrower. Any question regarding who is a Qualifying Borrower may be resolved in consultation with USAID, and USAID may waive in writing this restriction on loans to affiliates.
TENOR	No later than 5 years from the date of the initial disbursement of the Qualifying Loan
OTHER TERMS	The loan must be made at interest rates and on terms consistent with those generally prevailing among private commercial lenders in the borrower's country (standard provision)

Source: Guarantee Agreement between USAID and PT Bank Danamon Indonesia, Tbk , September 26, 2005

Bank Danamon/DSP refused these terms. DSP was concerned about resuming operations after the tsunami and noted that if they experienced significant losses, even with an 80-percent guarantee, they would shut down lending entirely. They were also concerned about what might happen to business in the post-tsunami period, since, at that time, peace had not yet been declared in Aceh. In short, DSP was unwilling to restrict all loans under the guarantee to the tsunami-affected areas unless the guarantee covered 100 percent of the values of the loans made.

Eventually, USAID and Bank Danamon struck the following compromise: a minimum of 40 percent of all the loans placed under the guarantee, with 50-percent coverage, would be loans made in Aceh and North Sumatra. Please note that Section 9.10 of the original agreement (quoted under the Guarantee Purpose in Table 3), did not include Yogyakarta, on the Indonesian island of Java—which was hit by an earthquake in March, 2005—as among the target areas included in the 40-percent provision. However, a subsequent agreement between USAID and DSP included that part of Java under the 40-percent requirement.

Also as part of the compromise, the guarantee facility would be a revolving one, which would allow DSP to pay the same dollar amount in origination fees while having more capacity. The origination fee would be paid on the authorized amount of $8.2 million that can be outstanding at any given time, not on the maximum cumulative disbursement amount of $16.4 million. This concession from USAID, which would reduce DSP's costs under the guarantee, helped alleviate DSP's concern about the risk of lending in the post-tsunami areas, especially in conflict-affected Aceh.

The microfinance context in which DSP had been operating since early 2004 and in which the guarantee has been in place since late 2005 is both huge and complex. According to recent statistics from Bank Indonesia (BI), the nation's central bank, there are an estimated 50 million MSEs in Indonesia—48 million micro-enterprises and two million small enterprises. BI defines micro-enterprises as businesses with a maximum net worth (excluding land and buildings) of Rp. 50 million ($5,000) and maximum annual sales of Rp. 300 million ($30,000). Small enterprises are defined as having net assets of Rp. 50-500 million ($5,000-50,000) and annual sales of Rp. 300 million-2.5 billion ($30,000-250,000). These definitions approximate USAID's definition of Qualifying Borrowers under the Guarantee Agreement with DSP, i.e., those having annual sales of no more than Rp. 2 billion ($200,000).

Estimated at over 50,000, microfinance institutions in Indonesia include formal MFIs (banks, cooperatives, credit unions, and pawnshops), semi-formal MFIs (local credit institutions, village-level financial institutions, institutions that lend under Islamic principles, and NGO MFIs), informal MFIs at the community level, and government poverty-related programs that include microfinance components. Viewed from that perspective, Bank Danamon's DSP is but one of many micro-financiers in Indonesia. However, as one of the few private, commercial banks engaged in microfinance in Indonesia—and the first to start a microfinance operation—DSP has clearly been a significant actor in the arena since it started lending to MSEs in 2004. Table 4 presents Bank Indonesia estimates of total "Credit Outstanding" for all MSEs in Indonesia for 2004 through March, 2009, and data from DSP for its total outstanding loan value for the same years (except that the DSP data for 2009 are as of April, not March). Using the data in the table, we calculate that DSP's share of the total MFI credit outstanding for its four full years of operation (2005-2008) ranged from 1.3 percent in 2005 to 2.4 percent in 2008. As one of 50,000 MFIs in the country (representing 0.00002 percent of all MFIs), DSP has clearly played a huge role in Indonesia's microfinance sector. (We will return to the data in Table 4 in Chapter IV, when we discuss findings and conclusions at the impact level.)

TABLE 4. MSE CREDIT OUTSTANDING (2004-MARCH 2009)

	2004	2005	2006	2007	2008	3/2009
Total MSEs	Rp.188.4 trillion ($18.84 billion)	Rp. 259.7 trillion ($25.97 billion)	Rp. 298.1 trillion ($29.81 billion)	Rp. 357.3 trillion ($35.73 billion)	Rp. 455.7 trillion ($45.57 billion)	Rp. 564.8 trillion ($56.48 billion)
DSP	Rp.0.54 trillion ($0.054 billion)	Rp. 3.32 trillion ($0.332 billion)	Rp. 5.80 trillion ($0.580 billion)	Rp. 8.59 trillion ($0.859 billion)	Rp. 10.96 trillion ($1.096 billion)	Rp. 11.00 trillion ($1.100 billion) 4/2009

Sources: Bank Indonesia, May 15, 2009; DSP, May 22, 2009

II. PURPOSE OF THE EVALUATION

The Indonesia DCA loan guarantee evaluation is the third in a series of about 20 evaluations of Development Credit Authority (DCA) guarantees, which are being conducted over a four-year period.[11] Each individual evaluation addresses the performance of a particular guarantee or set of guarantees. An annual meta-evaluation will synthesize results from the individual evaluations to address questions regarding the overall performance of DCA guarantees. According to an original evaluation framework (i.e., a "generic" evaluation design) developed by EGAT/DC officials and contractor staff in late 2008, each evaluation and the meta-evaluation synthesis are intended to provide EGAT/DC with information to (1) demonstrate and communicate to DCA stakeholders (OMB, Congress, USAID Missions, etc.) the contributions of DCA loan guarantees to the achievement of development results in the countries in which guarantees are provided; (2) contribute to the dialogue about how to engage financial sector institutions as partners in development; (3) strengthen USAID's application of DCA as a tool for achieving development results, and (4) influence the design of new guarantees. This report, however, focuses solely on the individual Indonesia DCA guarantee, which, as already mentioned, is unique among DCA guarantees.

The unit of analysis for the individual evaluations is the lender. The evaluations address the guarantees' performance with respect to lending at three levels – output, outcome, and impact—which are outlined in Figure 1 below.

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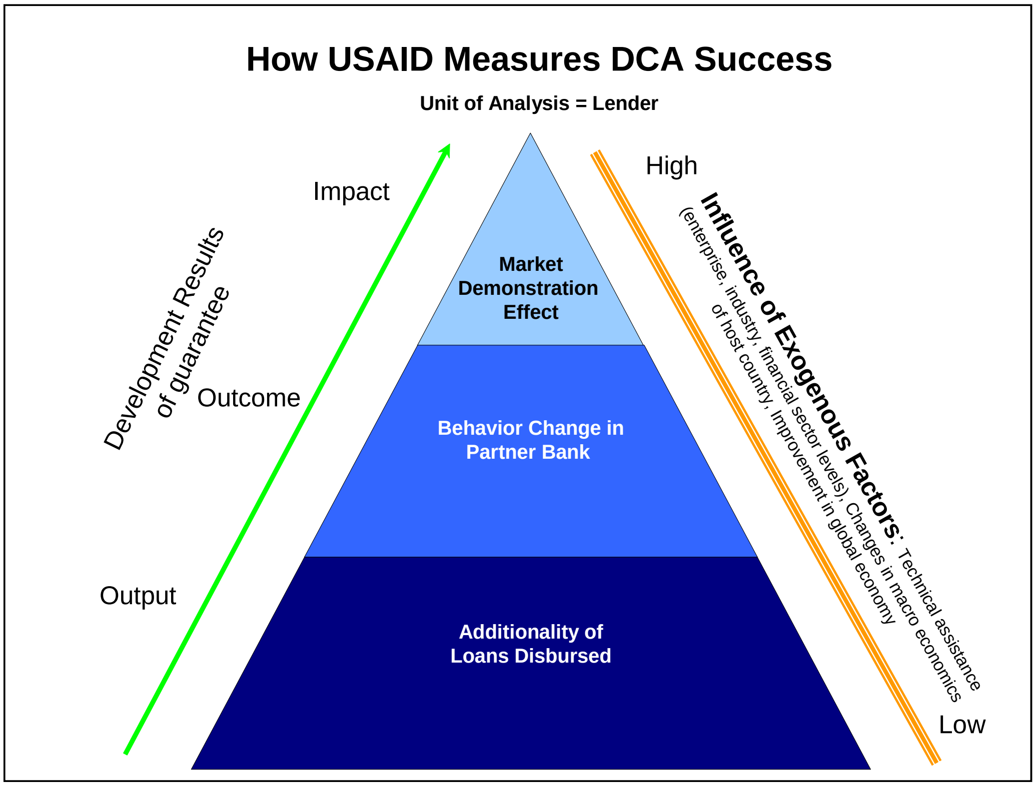
[11] The first two evaluations covered guarantees in Ghana and Honduras. A fourth evaluation was conducted in Russia while this report was being written.

FIGURE 1. USAID'S CONCEPTUAL MODEL FOR EVALUATING DCA GUARANTEES



The evaluation team was charged with answering the following major questions related to the Bank Danamon/DSP guarantee's performance at the three levels:

- Output level – To what extent, and how, has Bank Danamon's DSP used the guarantee to achieve "additionality" primarily with respect to the loans disbursed in the disaster-affected areas (Aceh, North Sumatra, and Yogyakarta), and secondarily with respect to loans disbursed nationwide and loans to new sectors and borrowers?

- Outcome level – How has the guarantee influenced DSP's behavior with respect to lending outside the guarantee and will the guarantee influence its lending after the guarantee?

- Impact level – Has DSP's activity in the microfinance sector influenced other microfinance lenders' behavior, particularly in the target areas (Aceh, North Sumatra, and Yogyakarta)?

In addition to exploring guarantee results at the three levels described above, the evaluation team was charged with exploring the role of exogenous factors (e.g., changes in macro-economic conditions in Indonesia, and changes in the global economy) that may have affected the extent to which changes at the three levels can be attributed to the guarantee.

The scope of this evaluation extends, therefore, only to the guarantee partner's behavior at the output and outcome levels and on the behavior of the broader lending sector at the impact level. Per direction from EGAT/DC, the evaluation does not examine EGAT/DC's management of the guarantee nor does it attempt to assess the impacts of the loans on borrowers or on achievement of USAID/Indonesia's strategic objective in economic growth.

III. EVALUATION METHODOLOGY

A two-person team conducted the evaluation between late-April and late-August, 2009.[12] During this period, we did the following: (1) conducted a Washington-based desk review of available documents and developed a work plan, framework, potential indicators, and interview guides for the evaluation (late April); (2) conducted a two-week field visit to Jakarta, Indonesia (including a three-day site visit to Banda Aceh, Aceh Province) (May 4-15); (3) conducted post-field-visit analysis of data (late-May to mid-August); and (4) drafted and finalized the report (May 15-early September).

Prior to the field trip to Indonesia, we conducted a desk review of documents available at the time, and then reviewed additional documents and secondary data during and after the field work. In all, 24 documents or sets of documents were reviewed. They are all listed in Annex B.

Prior to departure for Indonesia the team developed a Work Plan for conducting the evaluation, both in Washington and in Indonesia. The team also developed a refined evaluation framework for the Indonesia Bank Danamon DCA and a set of proposed evaluation indicators, which was reviewed and approved by EGAT/DC prior to the field work. The framework lays out the evaluation questions, the intended pre-field- and field-activity data sources and data-collection methods for answering the questions, and the intended DCA uses of the evaluation findings and conclusions. During the reporting phase of the evaluation, the evaluation questions in the framework were further refined at EGAT/DC's request to better suit the unique purpose of the Indonesia guarantee, i.e., to respond to the tsunami. Given the limited amount of data we could collect during the evaluation, most of the initially proposed indicators, especially at the Outcome and Impact levels, could not be used. Annex C includes the revised framework and the indicators we were able to use.

Annex D includes seven interview guides developed for use during the evaluation with the following stakeholder groups/organizations: USAID staff (including EGAT/DC and USAID/Indonesia's Economic Growth Office), Bank Danamon officials, borrowers, microfinance institutions, banking associations, donors, and Bank of Indonesia officials.

During the two-week field visit to Indonesia, we scheduled and conducted key informant, group, and structured interviews with a total of 36 persons—USAID officials, DSP headquarters managers in Jakarta and local managers in Aceh, borrowers in Aceh, and officials from donor agencies, microfinance associations/NGOs, a competitor bank, Bank of Indonesia, and the Indonesian Ministry of National Development Planning. A full list of all the contacts made is provided in Annex E. During the field visit, we also collected additional documents and secondary data.

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[12] The team included Larry Beyna, Management Systems International, as Team Leader. During part of the first week of the two-week field visit to Indonesia (June 1-12), Alison L. Eskesen, EGAT/DC, and COTR for the broader evaluation project at that time, joined the team for several interviews. Throughout the field visit, Raya Soendjoto, in USAID/Indonesia's Economic Growth Office, who had recently been assigned to monitoring the guarantee, and Anastasia Liu, EGAT/DC, accompanied the team in almost all of the interviews, including those conducted in Banda Aceh. Yuhelmy Kaban, a member of staff in USAID's Aceh Reconstruction and Rehabilitation Office in Banda Aceh, provided Acenese-English interpretation during the team's interviews with borrowers in Banda Aceh. Kornelius Yap, an Indonesian national and employee of Management Systems International, made appointments and provided other logistic support for the team prior to and during the entire field visit. Finally, Melissa Brinkerhoff and Anne-Sophie Samjee of SEGURA/IP3 Partners LLC and Adam Saffer and Nazrawit Medhanie of Management Systems International assisted the team with technical and administrative support throughout the evaluation.

We encountered several limitations—some of them significant—on the types and quality of data available to conduct the evaluation. These limitations, which significantly constrained the team's ability to create credible findings and conclusions with respect to several of the evaluation questions, are as follows:

- DSP officials did not provide the data needed to answer several key evaluation questions at the Output and Outcome levels. Most notably, we did not receive data on DSP loans to MSEs made *outside* the guarantee, both before the guarantee was established and during the guarantee period.
- In mid-2007, there was a huge exodus of senior DSP managers and staff to Bank Tabungan Pensiunan Nasional (BTPN), another private commercial bank. That bank is now competing with DSP in the same market and with essentially the same products as included under the guarantee. As a result, the DSP officials with whom we met were unable to answer many of our questions about the period from inception of the guarantee until mid-2007—the period during which most of the loans under the guarantee had been made. We made several attempts to set up a meeting with the original managers, but they refused to speak with us.
- Although a few of our key informants had anecdotal information on various parts of the microfinance sector in Indonesia, only Bank Indonesia officials had estimates on the sector as whole. As a result, our information on the context and exogenous factors affecting lending nationwide and in the target areas was scant.
- Aside from USAID and DSP staff and one NGO official, none of our key informants was aware of the DCA guarantee and, therefore, could not offer observations or insights regarding the effect of the guarantee on DSP or other lenders. Some informants were aware of DSP's MSE lending, but only a few were able to comment, and only anecdotally, on the impact of DSP's lending approach on other lenders. We were able to talk to only one other lending institution doing essentially the same kind of lending as DSP, as some of the expected interviews were canceled by the key informants at those institutions.[13]
- Aside from our analysis of secondary data, most of our findings and conclusions are derived from qualitative interviews with key informants, and relatively few of them from each type of organization. Much of our information is single-source information and, in many cases, anecdotal at best.

[13] These cancellations, the refusal of former DSP officials to speak with us, and DSP's own reluctance to share needed data confirmed what we heard from several key informants: microfinance lending has become a highly competitive business in Indonesia. We formed the distinct impression that the competitors felt ill-advised to share any information that was not already in the public domain.

IV. FINDINGS AND CONCLUSIONS

This chapter reviews evaluation findings and conclusions for a total of 15 evaluation questions: four at the output level, four at the outcome level, five at the impact level, and two on the role of exogenous factors (i.e., non-guarantee factors) affecting (a) access to credit in the targeted areas and (b) performance of the guarantee at the output, outcome and impact levels. This chapter has four sections, one each devoted to the evaluation questions at the output, outcome, and impact levels, and one addressing the exogenous factor questions. The specific evaluation questions are listed in each section.

OUTPUT-LEVEL FINDINGS AND CONCLUSIONS

At the output level, the evaluation asked the following major question: To what extent, and how, has DSP used the guarantee to achieve "additionality" primarily with respect to the loans disbursed in the disaster-affected areas (Aceh, North Sumatra, and Yogyakarta), and, secondarily, with respect to loans disbursed nationwide and loans to new sectors and borrowers? In this section, we address the following four specific output-level questions:

Question 1: How did the DCA guarantee fit into Bank Danamon/DSP's ongoing strategy, particularly with respect to resuming and expanding lending in the tsunami-affected target areas? What market potential did the guarantee help open for DSP?

Question 2: How did DSP implement the lending program that the loan guarantee was targeted to support (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?

Question 3: What additionality was achieved with DSP's use of the loan guarantee? Additionality is defined as improved/increased access to credit for MSEs, primarily in the tsunami-affected areas of Aceh and North Sumatra and the earthquake-affected area of Yogyakarta, but also in new sectors and nationwide.

Question 4: How did DSP's portfolio in the target areas perform (i.e., comparing baseline with performance during the DCA guarantee)?

FINDINGS AND CONCLUSIONS FOR QUESTIONS 1and 2

Conclusions:

(1) Given the initial alignment between USAID's objectives for the guarantee and, reportedly, those of Bank Danamon/DSP—i.e., to resume and expand lending in the tsunami-affected areas, to enter new sectors, and to expand MSE lending nationwide—the guarantee fit neatly into Bank Danamon's ongoing strategy at the time of its inception. (2) The guarantee enabled DSP to give underperforming local lending units the opportunity to improve performance and avoid such drastic consequences as suspension of their lending or even dismissal of their loan officers and/or managers; aside from this significant use of the guarantee, DSP has not made any other substantial changes to its lending program since the period prior to the guarantee. (3) DSP's approach to placing loans under the guarantee (i.e., headquarters' designation of loans on the basis of poor-performing, riskier lending *units* after the loans had been made) appears not to have been in keeping with the general spirit of DCA guarantees.

Findings:

The Guarantee and Bank Danamon/DSP's Strategy

According to the Action Package, DSP had three objectives for use of the guarantee:

- To resume its microfinance lending in the tsunami-affected areas in and around Banda Aceh. As described in the introduction, DSP had established one local unit in Aceh Province prior to the tsunami, but the unit was destroyed by the tsunami. That unit was reopened in March, 2005. During discussions with EGAT/DC regarding a potential guarantee, DSP reported its plan to open another unit in July.

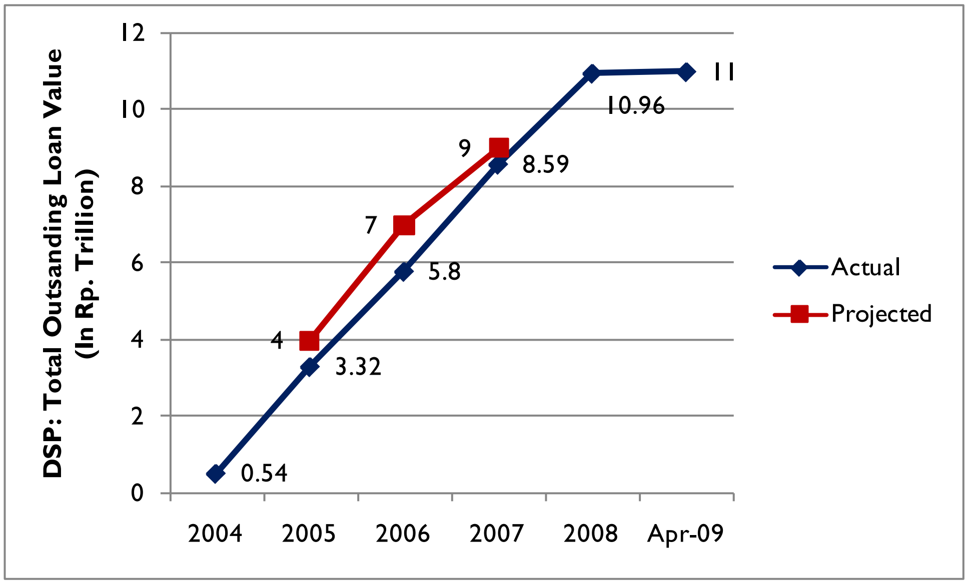
- To enter new sectors and expand its type of clients by building on existing experiences in related professions. DSP was already lending to fish traders, but wanted to use the guarantee to begin lending to fisherman. It was also interested in expanding to small street vendors, farmers and agro-processors.

- To expand its lending nationwide. At the time the guarantee was being developed, DSP had a very aggressive expansion and growth strategy, with a commitment to expanding its portfolio of loans to MSEs. As shown in Figure 2 on the next page, DSP planned to increase its outstanding loan value from Rp. 0.54 trillion in 2004 to Rp. 9.00 trillion in 2007. This represented an expected compound annual growth rate (CAGR) of 155 percent for the three years of projections. Similarly, DSP projected growth in the number of customers from an actual 46,711 in 2004 to 600,000 in 2007, a CAGR of 134 percent. (We will return to Figure 2 later in this section.)

From USAID/Indonesia's and EGAT/DC's perspective, the primary objective for the guarantee was to resume microfinance lending in the tsunami-affected areas, especially in and around Banda Aceh. This objective was explicitly included in the Guarantee Agreement's statement of the guarantee's purpose: "to strengthen the Guaranteed Party's ability to finance loans to microenterprises and small businesses operating in Indonesia, particularly in the provinces of Aceh and North Sumatra, thereby stimulating economic growth facilitating reconstruction in such areas affected by the tsunami of December 26, 2004."

USAID/Indonesia's Economic Growth Office also viewed DSP's objective of expanding MSE lending nationwide as helping support its strategic objective of strengthening economic growth and creating employment. Although expansion to other sectors and types of borrowers was not explicitly mentioned in the Guarantee Agreement, subsequent documents, including the Biennial Review of April, 2007, reflect USAID's interest in seeing the guarantee used for that purpose, as well.

FIGURE 2. DSP'S PROJECTED AND ACTUAL OUTSTANDING LOAN VALUE NATIONWIDE, 2004 - APRIL 2009



DSP's Implementation of the Guarantee

DSP had been operating its well-defined microfinance program for a year and a half before the guarantee was put in place in late September, 2007. Except for some early but discontinued "socialization" (i.e., orientation) of local managers regarding the guarantee, use of the guarantee to relax somewhat DSP's policy with respect to non-performing lending units, and a few minor changes in loan terms,[14] the program remained essentially the same between inception of the guarantee and the time of the evaluation. More specifically, we found the following:

- There were no specific marketing campaigns associated with the guarantee.
- In the early days of the guarantee, DSP provided "socialization" (i.e., orientation) regarding the guarantee to local cluster managers, who, in turn, did the same for their respective unit managers. Syaukani, the Cluster Manager for NAD[15] Cluster (which, among a total of eight units, includes the two units we visited in and near Banda Aceh), reported that he had been socialized by his superintendent at the end of 2005, while he was working for Bank Danamon in another province. He subsequently joined the DSP operation in 2006 and, in April, 2007, he learned more from EGAT/DC's Sasha Selvendran and USAID/Indonesia's Dina Syarifa when they visited Aceh for the Biennial Review. He used to socialize his unit managers about the guarantee but, as he came to see no benefits accruing to his cluster or units—such as the return of any paid claims for defaulted loans made in his units—he stopped the practice. At the time

[14] EGAT/DC did not expect the guarantee to effect changes in loan terms, such as tenor, interest rates, and collateral requirements. Therefore, in this report we do not focus on changes in loan terms, of which there were a few: a reduction in maximum tenor from the beginning and a very recent reduction in one loan product's interest rate.
[15] Nanggroe Aceh Darussalam

of field visit, six of his eight units were relatively new and had not been socialized with respect to the guarantee.

- Dudy Hendrawan, unit manager for Pasar Neusu Unit, reported that he and some of his credit officers knew about the guarantee but, since his unit was not selling any more unsecured loans per a DSP directive in early 2009, he did not socialize his two new credit officers to the facility.

- In the Action Package (May 26, 2005), several anticipated and ongoing USAID technical assistance efforts were identified.[16] At that time, it was expected that all technical assistance in Aceh and greater Sumatra would support and complement the proposed guarantee. It further stated that DSP was aware of USAID's technical assistance proposals and was interested in cooperating with USAID technical assistance activities "to ensure that synergies are realized" (p. 7). We found no evidence from our discussions with USAID/Indonesia and DSP managers that any synergies between the guarantee and the various technical assistance efforts have occurred. According to Raya Soendjoto, Program Management Specialist in USAID/Indonesia's Economic Growth Office, USAID/Indonesia tried to link its agriculture program with DSP, but DSP showed no interest in doing so.

The manner in which DSP has been using the guarantee is curious at best, and perhaps not in keeping with the spirit of DCA loan portfolio guarantees at worst. As we understand it, guarantees are intended to encourage the partner lender, *a priori*, to provide loans to borrowers who might not otherwise obtain loans. If our understanding is correct—and given that the main purpose of the guarantee was to resume and expand lending in Aceh, North Sumatra, and Yogyakarta—then one could have expected DSP to have used the guarantee, *purposefully*, to promote more lending in those areas and, perhaps, more lending to those who might not have obtained loans otherwise, from DSP or other lenders. As described later, there is evidence that the guarantee helped DSP move more quickly and more extensively into Aceh on the heels of the tsunami and possibly to a small number of borrowers in non-typical sectors; however, our evidence, much of which is based on our visit to Aceh in May, 2009, also indicates that the manner in which DSP used the guarantee was not as one might have expected:

> "It (how loans are made) is basically the same policy, guarantee or not."
>
> —Syarifuddin, Pasar Lambaro Unit Manager

- When asked if the guarantee has had any impact on how or to whom loans are made, the NAD Cluster Manager stated that it has not. He noted that the guarantee would be effective if DSP headquarters followed "USAID standard" (which he did not explain), but they have followed DSP standard, and, as a result, nothing has changed in how loans are given. (He also stated that other cluster managers, with whom he meets occasionally, had the same view as his.)

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[16] Among them were a nationwide competitiveness program, an agricultural capacity-building program, and a renewable energy and rural electrification project—all planned for the next four years and aimed at helping borrowers by forging industry clusters and linkages, providing business development services, and strengthening the policy and regulatory environment; a planned effort called the Aceh Technical Assistance Recovery Project, a policy-development effort aimed at supporting the longer-term economic recovery of Aceh and North Sumatra; a project to develop an alliance of public, private and nonprofit organizations to improve the quality and quantity of smallholder-grown cocoa and maintain a regular source of income for cocoa farmers in Indonesia's main cocoa areas; and grant money for reconstructing a major road and providing other infrastructure development in the tsunami-affected areas.

- Both of the unit managers with whom we met also confirmed that the guarantee had no influence on how or to whom they issued loans. One, Syarifuddin (Pasar Lambaro Unit), noted that knowing about the guarantee made him feel safer and more comfortable with respect to unsecured loans, but it did not affect how he and his staff sold loans. He was still very cautious about giving all loans, per standard DSP practice.

- We learned from Dina Syarifa (USAID/Indonesia's technical officer managing the guarantee until recently), and got confirmation from DSP's managers in Jakarta, that, for a brief period in the early months of the guarantee, unit managers were involved in designating loans for placement under the guarantee, with final approval from DSP-Jakarta. DSP headquarters managers told Ms. Syarifa that they stopped that practice because posting loans to the guarantee at the unit level posed a "moral hazard" for unit managers—i.e., the temptation to give loans to overly risky borrowers, many of whom they would know personally, with the knowledge that claims could be made for the loans that went bad. During the Biennial Review (April, 2007), DSP offered a different reason: a lack of response from loan officers when the guarantee was first issued and the time-intensive task of designating loans for the guarantee deterred loan officers from using the guarantee. We heard a similar reason from the DSP-Jakarta informants during our interview, i.e., that DSP stopped the practice of posting loans to the guarantee at the unit level because it was "administratively too burdensome."

- After that brief period of local unit involvement, all loans put under the guarantee have been designated by DSP headquarters in Jakarta. Their process has been essentially a five-step one: (1) Based on historical information in their management information system (MIS), they identify units that have had a history of low performance in terms of repayment of loans; (2) they look at the relatively old but still active loans made at those units and determine the purpose of the loans (i.e., working capital vs. consumption, the latter not being allowed under the guarantee); (3) they place the unsecured loans for working capital under the guarantee;[17] (4) every semester, they inform USAID through the CMS as to which loans have been placed under the guarantee; and (5) if, after several months a borrower is doing well with respect to repayment, they remove the loan from the guarantee, in order to save on utilization fees. (In some cases, they give good borrowers "top-up" loans, but, because they cannot add the top-up amounts to the guarantee, they remove the entire loan.) During the process of selecting units and placing and removing loans under the guarantee, they have paid attention to the 40-percent rule with respect to Aceh, North Sumatra, and Yogyakarta.

- Apparently, USAID had not been aware that DSP was using this approach to placing loans under the guarantee until the April, 2007, Biennial Review, after DSP had posted 7,978 loans under the guarantee. The report from that review noted that DSP chose to place all loans in units with poor portfolio quality under the guarantee, regardless of the characteristics of the borrower. (In the Biennial Review discussions with DSP, USAID clarified its position as to how the guarantee should be used.)

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[17] Our review of all loans placed under the guarantee over time shows that 42 loans (0.4 percent of all loans) were collateralized loans, so DSP-Jakarta's statement regarding unsecured loans was slightly inaccurate.

- DSP did use the guarantee to relax its standard practice with respect to the low-performing units identified in the first step mentioned above. Since before the guarantee, DSP has been monitoring unit productivity and quality with what the Jakarta-based managers call a "traffic signal" approach. As described in the May, 2005, Action Package, the process at that time was as follows: each of DSP's loans were reviewed and approved by both the sales officer and the unit manager; then the loans were monitored at the sales-officer level with a three-color marking system—"green," if the sales officer's loans were performing (i.e., experiencing good repayments from the borrowers), "orange," if performance was beginning to fall, and "red," if defaults were above a pre-set benchmark for acceptable default levels. If a sales officer was downgraded to orange, his or her loan-approval level was cut in half and, if red, it was taken away entirely. If a sufficiently high percentage of a whole unit's total loans were red, the unit was designated as "red," and the unit would temporarily lose its authority to make new loans other than "top-up" loans to good borrowers. (In May, 2005, seven percent of all DSP units were red, five percent orange and 88 percent green. To ensure that they stayed in the green zone, sales officers would start monitoring their clients' loans before they even came due. If a borrower did not have sufficient funds in his or her savings account to cover a loan payment three days before it was due, the sales officer would visit the borrower to find out why and to work out a plan for ensuring the installment would be paid.)

  During the evaluation, we learned that DSP was still using essentially the same quality-control monitoring system described above, except that, with the advent of a DSP-wide MIS in 2006, with direct provision of data by units on a daily basis, DSP-Jakarta was continuously monitoring unit performance. By placing loans from "red," or poor-performance, units under the guarantee, DSP was using the guarantee to give those units more time to take corrective action before cutting off their ability to make more loans or taking more drastic action, such as firing their loan officers or managers. This use of the guarantee was the only case of the guarantee's influence on DSP lending operations that we found.

- Our discussions with the three cluster and unit managers in Aceh gave us the distinct impression that how the guarantee is managed in DSP headquarters is a veritable "black box" from their perspective. Early on, before DSP started using a portfolio MIS with links to the clusters and units, the NAD cluster manager would report the loans by type of loan products to headquarters and the latter would decide which loans to put under the guarantee.[18] After the advent of the MIS, however, he stopped reporting because DSP headquarters was now getting the information it needed. When asked if he knew which loans from his units were covered under the guarantee, the NAD Cluster Manager stated his early and current belief that *all* loans would be covered under the guarantee, which is clearly not the case. The Pasar Neusu unit manager stated his belief that some unsecured loans from his unit were covered by the

[18] DSP has consistently offered four different loan products, both prior to and during the guarantee period: unsecured Dana Siaga (DP10) loans for up to Rp. 10 million, collateral-required Dana Talangan (DP 20) for up to Rp. 20 million, collateral-required Dana Pinjam (DP 50) for up to Rp. 50 million, and DP 200 for up to Rp. 200 million. All these types except DP 200 are allowed for placement under the guarantee.

guarantee, but he did not know which ones and what percentage of his unit's portfolio they represented.

Similarly, none of the local managers knew how claims for non-performing loans (NPLs) were made to USAID or what happened to the money received from USAID. The cluster manager and one of the branch managers noted, with frustration, that they had never received any reclaimed funds at their levels of the operation, despite significant losses. When asked why units were not receiving any of the funds paid by USAID for valid claims, DSP-Jakarta managers stated that they *could* do that if the units paid the utilization fees, but apportioning utilization rates and calculating the percentages of claims payments to units would be an "administrative nightmare." (DSP headquarters pays the utilization fees for all the loans under the guarantee.)[19]

We asked several key informants why no new loans had been placed under the guarantee between the end of March, 2007 and the time of the evaluation field visit in April, 2009, despite the fact that that there was additional capacity to do so. (Subsequent to the field visit, we learned that additional loans were indeed placed under the guarantee with DSP's submission for the semi-annual period ending on March, 31 2009, but our DSP-Jakarta interviewees either had not yet posted those loans or were unaware that they were being posted.) According to Sashi Selvendran, DSP's managers told her in April, 2007, that the guarantee was no longer useful. When she visited a few local units in Aceh, however, those managers expressed the belief that the guarantee was indeed useful, in that it covered some of their losses.

In response to our question, DSP's Jakarta managers stated that they were now doing more lending in East Indonesia, and they had been told by USAID that the guarantee was *limited* to Aceh, North Sumatra and Yogyakarta. We were unable to confirm whether anyone in USAID had indeed told them this, but it seems very unlikely, given that the agreement terms do not include such a restriction, other than that 40 percent of the guaranteed loans must be in those areas. At any rate, DSP-Jakarta appeared to feel constrained by the 40-percent target-area requirement, which they asked USAID to relax.[20]

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[19] After 180 days of non-payment, loans automatically become non-performing loans (NPLs), and DSP can make a claim to USAID after another 60 days.

[20] The Guarantee Agreement specifies that, "if at any time after the first year of this Agreement the Guaranteed Party fails to meet this 40% target, USAID may suspend or terminate this Agreement…" Alison Eskesen, EGAT/DC, told us that the agreement cannot be modified to relax this requirement.

FINDINGS AND CONCLUSIONS FOR QUESTIONS 3 and 4[21]

Conclusions:[22]

(4) Although DSP had resumed its post-tsunami SME lending in Aceh prior to the guarantee's inception, lending expanded significantly during the period of the guarantee; and available evidence indicates that the guarantee played a role in that expansion. (5) Limited qualitative evidence suggests that the guarantee played a role in increasing access in North Sumatra. (6) We cannot determine whether expansion of lending occurred in Yogyakarta, the third target area, and, if so, whether the guarantee influenced expansion. (7) DSP has exceeded the guarantee's requirement that at least 40 percent of all guaranteed loans be provided in the disaster-affected target areas. (8) Available evidence suggests that DSP has recently expanded lending to the agricultural sector—a sector outside its traditional market of traders, retailers, et al.—and the guarantee may have influenced this move. (9) During the guarantee period, DSP has significantly increased lending to MSEs nationwide, in terms of loan portfolio volume and number of local lending units; however, aside from the guarantee's influence on expansion in Aceh and North Sumatra, we cannot determine the extent to which this increase might be attributed to the guarantee. (10) DSP has satisfied the Guarantee Agreement's requirement that the loans be primarily unsecured loans; however, given DSP's approach to assigning loans to the guarantee, it is unlikely that, with the exception of Aceh and North Sumatra, it would have made any fewer unsecured loans without the guarantee. (11) DSP's borrower-friendly approach to giving loans can be seen as providing improved access to MSEs, but that approach was not influenced by the guarantee.

Findings:

Table 5 presents summary statistics on DSP's use of the loan guarantee to date. It is worth noting that, as of March 31, 2007, after only the first one and one-half years of the seven-year guarantee, the cumulative utilization percentage was at 83 percent. According to EGAT/DC's biennial report of April, 2007, the utilization figures were higher than historical DCA utilization trends for similarly-structured loan portfolio guarantees. At that time, full utilization of the guarantee was projected to occur by the September, 2007, reporting period; however, no additional loans were placed under the guarantee until the October, 2008–March, 2009 period. Finally, as of this writing, a total of 9,348 loans have been placed under the guarantee, with a cumulative utilization rate of 99.3 percent.

[21] As we were unable to obtain any baseline information for the target areas, we were unable to answer Question 4.
[22] Conclusions for all the evaluation questions are numbered sequentially in this chapter.

TABLE 5. SUMMARY OF GUARANTEE STATISTICS[1]

Period Loans Were Posted to the Guarantee	No. and Amt. of Loans and Utilization Amounts	Aceh	North Sumatra	Yogyakarta	Others	Total
10/01/05 – 3/31/06	Loans This Period	36	80	0	112	228
	Util. Amt. (and % of total) This Period	$39,016 (14.6%)	$115,629 (43.3%)	0 (0%)	$112,699 (42.2%)	$267,344 (100%)
	Percentage of Total Available Utilization Amt. This Period	0.2%	0.7%	0%	0.7%	1.6%
4/01/06 – 9/30/06	Loans This Period	508	2,371	138	1,337	4,354
	Cum. No. of Loans	544	2,451	138	1,449	4,582
	Util. Amt. (and % of total) This Period	$874,430 (10.0%)	$4,845,171 (55.6%)	$304,935 (3.5%)	$2,695,528 (30.9%)	$8,720,064 (100%)
	Cum. Util. Amt.	$913,446	$4,960,800	$304,935	$2,808,227	$8,987,408
	Cum. Percentage of Total Available Utilization Amt.	5.6%	30.2%	1.9%	17.1%	54.8%
10/01/06 – 3/31/07	Loans This Period	233	1,037	0	2,126	3,396
	Cum. No. of Loans	777	3,488	138	3,575	7,978
	Util. Amt. (and % of total) This Period	$231,340 (5.0%)	$873,470 (19.0%)	0 (0%)	$3,480,845 (75.9%)	$4,585,655 (100%)
	Cum. Util. Amt.	$1,144,786	$5,834,270	$304,935	$6,289,072	$13,573,063
	Cum. Percentage of Total Available Utilization Amt.	7.0%	35.6%	1.9%	38.3%	82.8%
4/01/07 – 9/30/07	No additional loans were placed under the guarantee.					
10/01/07 – 3/31/08	No additional loans were placed under the guarantee.					
4/01/08 – 9/30/08	No additional loans were placed under the guarantee. (DSP erroneously posted several "consumer" loans, but EGAT/DC disallowed them.)					
10/01/08 – 3/31/09	Loans This Period	16	229	157	968	1,370
	Cum. No. of Loans	793	3,717	295	4,543	**9,348**
	Util. Amt. (and % of total) This Period	$43,968 (1.6%)	$599,562 (22.1%)	$440,874 (16.2%)	$1,631,072 (60.1%)	$2,715,476 (100%)
	Cum. Util. Amt.	$1,188,754	$6,433,832	$745,809	$7,920,144	**$16,288,539**
	Cum. Percentage of Total Available Utilization Amt.	7.2%	39.2%	4.5%	48.3%	**99.3%**

Sources: Semi-annual Excel files submitted by DSP to EGAT/DC and data recently submitted by DSP in response to a request from EGAT/DC

[1]Of the two sets of data mentioned above, the semi-annual Excel files were the most complete. The only exception was the absence of disaggregation of loans between Aceh and North Sumatra for the 10/01/08-3/31/09 period. To complete those cells, we used the recent data DSP sent to EGAT/DC. We found discrepancies between the data sets for several cells in the table. For example, for specific numbers of loans per period, discrepancies ranged from less than one percent for relatively large numbers of loans to 23 percent for relatively small numbers (e.g., 138 vs. 106 loans in Yogyakarta for the period 4/01/06-9/30/06). Overall, the Excel files show that a total of 9,348 loans were put under the guarantee, but the recent data from DSP show a total of 9,228 (for a difference of 1.3 percent). Given that the semi-annual Excel files were more complete and, we had reason to believe, more accurate, we chose to use the Excel files.

Resumption and Expansion of Lending to MSEs in the Tsunami-affected Areas, Especially in and Around Banda Aceh[23]

According to DSP-Jakarta officials, there were 17 DSP units in Aceh Province at the time of the evaluation. This is a significant increase since May, 2005, when DSP had only one unit, and there were plans to open another in a matter of months. In fact, DSP opened two more units prior to establishment of the guarantee in September, 2005. When discussing growth in the NAD cluster, which included his unit, the manager of the Pasar Lambaro unit on the outskirts of Banda Aceh confirmed that, prior to the guarantee's inception in September, 2005, there were three existing units in Aceh: the Pasar Neusu Unit, which re-opened in March and which was referred to in the Action Package; the Pasar Lambaro unit, which opened in June; and a third unit, which opened in July.

Between the time of the start of the guarantee and the time of the evaluation, five more units were opened in the NAD cluster—two in May, 2006; one in August, 2006; one in September, 2006; and one in October, 2008. The Pasar Lambaro Unit Manager stated his belief that DSP opened new branches in Aceh in response to a request from the Director of Bank Indonesia (Indonesia's Central Bank) to help address the need for loans precipitated by the tsunami.

It is significant that the two additional units that opened prior to the guarantee in 2005, one of which was not in DSP's original plan for that year, were established *after* DSP knew in early 2005, that it would be getting a loan guarantee later that year. It stands to reason—although we did not confirm this with DSP-Jakarta officials—that knowledge of the impending guarantee provided additional impetus for expanded lending in the Aceh area sooner than originally intended.

> "Business was good (in Aceh) because of no competition."
>
> —Manager of DSP's Pasar Neusu Unit

The manager of the NAD Cluster reported that his eight units had Rp. 133 billion in outstanding loans and 2,500 borrowers at the time of the evaluation. Although we did not have any data for the other nine of a total of 17 units in all of Aceh Province at the time of the evaluation, these numbers for half the Aceh units alone reflect a huge increase in volume over the Rp. 250 million and seven borrowers at the single branch in Banda Aceh reported in the May, 2005, Action Package.

Also significant is the fact that Bank Danamon's DSP was the first private commercial bank to resume lending in Aceh after the tsunami. According to Dina Syarifa, the former USAID/Indonesia staff member who had been responsible for monitoring the guarantee during part of the guarantee period, expressed the belief that, without the guarantee, DSP would have "thought twice" about expanding into Aceh and North Sumatra. In her view, the guarantee was very useful to Bank Danamon, in that it enabled DSP to re-enter Aceh after the tsunami. She also felt that, although DSP would have made the total of 7,978 loans nationwide that had been placed under the guarantee by the time of the evaluation, not as many in Aceh would have been made without the guarantee. This opinion—that the guarantee was instrumental in DSP's quick and deeper re-entry into Aceh—was echoed by John Pennell, Director

[23]Although there were three disaster-affected areas targeted by the guarantee, this sub-section focuses almost exclusively on Aceh Province and, more specifically, on the area in and around Banda Aceh, which the evaluation team visited during the evaluation. Other than an analysis of available loan data on all three target areas (which are presented in Table 5 above) and what we learned about DSP and the guarantee nationwide, we collected very little information on North Sumatra and none on Yogyakarta.

of USAID/Indonesia's Economic Growth Office at the time of the evaluation, and by DSP's Jakarta-based managers.

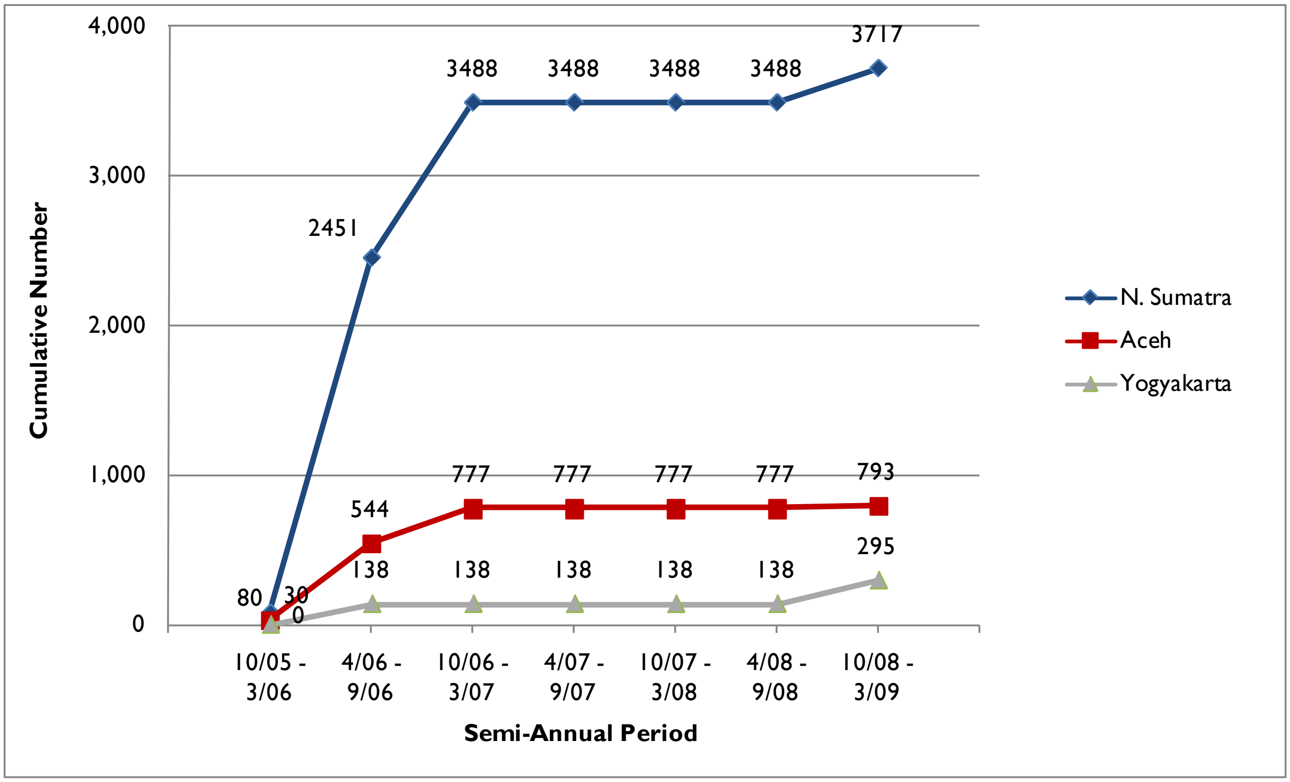
Using the data in Table 5, we calculate that DSP has given a total of 4,805 loans under the guarantee to borrowers in the three target areas of Aceh, North Sumatra, and Yogyakarta. These loans comprise 51 percent of all loans under the guarantee. The total amount of those loans is $8,368,394, also 51 percent of the total for all loans. Over the course of the four periods in which DSP posted new loans to the guarantee, the cumulative percentages of all loans and loan amounts represented by the target areas has always been above 51 percent. If we remove from this analysis the loans made in Yogyakarta (which was added to the two tsunami-affected areas after the guarantee went into effect), the cumulative numbers and amounts of loans made in Aceh and North Sumatra have consistently been above 46 percent.

We recently received from DSP data on all the Aceh loans placed under the guarantee, by year and by unit. Those data, which are provided in Annex F, show that all the guaranteed loans in Aceh Province were made in six units, including the two units we visited (Pasar Lambaro and Pasar Neusu). All the units are on the northern and eastern coasts of Aceh Province. Of the total 772 guaranteed loans made in Aceh[24], per-unit totals ranged from 79 to 181.

Based on the data in Table 5, Figure 3 on the next page shows the cumulative numbers of loans in the three targeted areas posted under the guarantee by semi-annual posting periods. During the first six-months, a relatively small number of loans were posted—116 (2.4 percent of the total 4,805 for the three areas). During the next six-month period, however, the cumulative number increased dramatically—to 3,133 (65.2 percent of the total). By the end of the third six-month period, i.e., by March, 2007, the vast majority of loans—4,403 (91.6 percent of the total) were posted. Then there were another three six-month posting periods during which no new loans were placed under the guarantee. Finally, during the most recent reporting period, another 472 loans were posted (most of them in North Sumatra and Yogyakarta) for a cumulative total of 4,805 loans.

[24] In the Aceh unit-specific data recently received from DSP, the reported total of 772 loans placed under the guarantee differs from the total of 793 reported by DSP in its semi-annual Excel files submitted to EGAT/DC. We do not know the reason for this discrepancy.

FIGURE 3. CUMULATIVE NUMBER OF LOANS PLACED UNDER THE GUARANTEE IN THE TARGETED AREAS OVER TIME



Entry into New Sectors and Expansion of Types of Clients

According to DSP's Jakarta-based managers and USAID staff involved with the guarantee, DSP had not moved into any new sectors or types of clients under the guarantee between the beginning of the guarantee period and the time of our discussions in May, 2009, despite its early stated objective to use the guarantee for that purpose.

> "Agriculture and fisheries is where microfinance has to go in Aceh, because there is very little else."
>
> —Interviewee Asia Development Bank's Extended Mission in Sumatra

As reported in the April, 2007, Biennial Review, DSP stated that it had not entered the rural sector, one of the target areas for new-sector entry, because of high operational costs. Dina Syarifa, who was at USAID/Indonesia at the time and participated in the biennial review visit, reported DSP as saying that they had received requests for loans from some farmers, but felt that the loans were too risky and the number of requests was too small to warrant action. Several of our key informants noted the reluctance of private commercial banks to lend to small-scale farmers because of the high risk involved. (The major source of such loans is rural cooperatives.)

In early 2008, DSP started giving some loans in non-traditional sectors (agriculture, crude palm oil, and rubber), but stopped in mid-year because of debtor restructuring in response to market movements, such as a drop in crude palm oil prices during that year. DSP's total write-off for those loans was Rp. 30 billion. To our knowledge, none of those loans had been put under the guarantee. At the time of the evaluation, DSP had re-opened lending in the palm oil sector, but only to traders, not farmers.

Among other possible new types of borrowers, DSP had originally included fishermen. However, in our interviews with DSP managers, they reported that they had done a feasibility study on lending to fishermen and concluded that repayment capacity was too weak to warrant such a move.

Firman B. Aji reported that USAID/Indonesia's Economic Growth Office had been discussing a loan portfolio guarantee with Bank Danamon in 2004, *prior* to the tsunami. The original idea at that time was to use a guarantee to encourage Bank Danamon to lend to different borrowers besides their typical ones, such as agricultural/seasonal borrowers. The bank, however, was not interested unless the guarantee would cover 100 percent of those loans. Once the tsunami hit, USAID's priorities shifted and the guarantee discussions focused on the tsunami-affected areas rather than on new types of borrowers.

> "Jakarta told us to focus only on the upper end of the chain."
>
> —Syaukani, NAD Cluster Manager in Aceh, when asked why DSP has not moved into lending to sectors other than traders.

Anna Juliastuti, USAID/Indonesia's COTR for the Agribusiness Market and Support Activity, which seeks to improve the quality of agricultural products and access to markets, reported having heard from her colleagues that DSP has many clients in Aceh and Yogyakarta, but none of them are farmers. Reportedly, farmer groups think that DSP does not trust them and considers farmers to be high-risk borrowers. She also suggested that, if DSP went into the rural areas—which would be beneficial—it might be expensive because interest would have to be high in order to cover high operational costs, including those for a substantial amount of outreach.

At the time of the Biennial Review, DSP stated that it was building partnerships with MFIs in the rural market and had developed a mobile banking program to increase outreach. It does not appear that DSP has built or used MFI partnerships, but it did start using mobile teams in 2007. At the time of the evaluation, DSP's Jakarta managers stated that 198 DSP units had mobile teams, which reach out beyond 10 kilometers of their unit offices, but the teams sell only lower-risk loans. We confirmed the use of mobile lending units when we visited Aceh, but there was no evidence that those units were giving loans to other types of MSE customers (e.g., farmers, agro-processors, and fishermen) besides DSP's traditional customers in the retail and service sectors. We are not sure why DSP had not used its mobile lending units—and the guarantee—to reach out to other types of borrowers in the rural areas, especially in heavily rural Aceh, up to the time of the evaluation. We can only speculate that they did not do so for the same reasons they have always chosen not to lend to farmers and fishermen, i.e., the relatively risky nature of such loans.

There is some recent evidence, however, that suggests DSP is changing this policy. Since the evaluation field visit in May, DSP has reported in its March 31, 2009, submission to USAID that it has placed 1,370 new loans to the guarantee. Table 6 on the next page presents the sectors DSP listed for those loans. The most noteworthy entry in the table is 33 loans for "Agriculture, hunting, and related services activities." This is the first time that DSP has used an agriculture and hunting sector designation for loans placed under the guarantee.

The total and average values of the 33 loans are $75, 768 and $2,296, respectively. The average is 16.3 percent higher than the $1,974 average for all the other 1,337 loans placed under the guarantee during the period. Nine of the 33 loans were made in Medan Region, which includes Aceh and North Sumatra, and six were made in Region Solo, which includes Yogyakarta. We were unable, however, to disaggregate the Medan loans between Aceh and North Sumatra, or to determine if any of the Solo loans were made in Yogyakarta.

Nationwide Expansion

Figure 2 on page 22 shows not only DSP's projected growth in its loan portfolio over time but also its *actual* growth from baseline at the end of 2004 to April, 2009.[25] For the three years for which a comparison between projected and actual growth can be made (2005-2007), growth in the actual value of outstanding loan value was significant (a CAGR of 151.5 percent), albeit slightly less than the projected 155 percent. Clearly, overall DSP expansion in terms of value of outstanding loans occurred, and some of that expansion occurred during the period from late December, 2005, through March, 2007, when loans placed under the guarantee were issued during 2005-2007.

As for whether the guarantee actually played a role in DSP's nationwide growth, none of our informants provided any evidence or opinion that it did or did not. A rough analysis of available data suggests, however, that the guaranteed loans represented a small proportion of DSP's expanding loan portfolio.

TABLE 6. NEW LOANS PLACED UNDER THE GUARANTEE BETWEEN OCTOBER 1, 2008, AND MARCH 31, 2009, BY SECTOR

Number	Sector
636	Retail Trading
199	Trading and Distribution
97	Hotel and Restaurant
90	Manufacturing
54	Business Services
33	Agriculture, hunting, and related services activities
31	Social Society Services
6	Transportation, warehousing, and telecommunications
224	221 Others (plus one each for Construction, Energy, and "LISTRIK, Gas Dan Air")
Total: 1,370	

To develop a rough estimate of the relative proportion of growth in overall DSP loan value represented by loans issued and placed under the guarantee, we compared the total value of all the loans that were issued and placed under the guarantee in 2006—about $10,835,914, according to CMS records—to the increase in DSP's overall value of outstanding loans from the end of 2005 to the end of 2006 from Figure 2—about $271,929,824.[26] Using these numbers, which are not exactly comparable, we estimate that the value of additional loans made in 2006 and placed under the guarantee represented only about four percent of DSP's total growth in loan value during that year. Even if the entire US $16,400,000 that could have been disbursed under the guarantee had been disbursed in 2006, that amount would have been less than six percent of the total outstanding loan value during that year.

25 The data on actual growth were provided by DSP's Jakarta-based managers during our second meeting with them.

26 From the CMS, we counted up the total value of all loans issued during calendar year 2006 and placed under the guarantee—Rp. 98,823,535,680. Based on the exchange rate of Rp. 9120 to the dollar at the time, this figure equals $10,835,914. From Figure 2, we calculated the increase in overall value of DSP outstanding loans by subtracting Rp. 3.32 trillion from Rp. 5.8 trillion—Rp. 2.48 trillion—which, using the same exchange rate, equals $271,929,824.

TABLE 7. DSP ANNUAL INCREASES IN TOTAL OUTSTANDING LOAN VALUE – 2005-2008

Year	Increase in Value from Prior Year	Percentage of Total Increase in Value for 2005-2008
2005	Rp. 2.78 trillion	26.7%
2006	Rp. 2.48 trillion	23.8%
2007	Rp. 2.79 trillion	26.8%
2008	Rp. 2.37 trillion	22.7%
All Four Years	Rp. 10.42 trillion	100%

The data in Figure 2 also allowed us to calculate the annual increases in DSP total outstanding loan value during the full years of 2005-2008. This analysis yielded the data in Table 7. It is interesting to note that the increase in 2006 was lower than the increase in either 2005 or 2007. Based on CMS data, we estimate that about two-thirds of the loans placed under the guarantee during 2005-2007 were made in calendar year 2006. If there was a relationship between the guarantee and increased DSP lending to MSEs, one could expect that the increase in DSP's portfolio in 2006 would be *higher* than the increases in 2005 and/or 2007; but that was not the case.[27]

Lending to MSEs has been profitable for DSP. For example, the manager of DSP's NAD Cluster in and near Banda Aceh—which has eight units, two of which we visited—noted that all of his units are profitable, even though, as of April, 2009, his cluster had Rp. 1.1 billion in bad loans. In 2008, Bank Danamon (the entire bank, not just DSP) delivered Rp. 1.5 trillion consolidated net profit after tax and return of average equity of 14.6 percent.[28] More to the point with respect to MSE lending is the following excerpt from an article by Peter Hoflich in *The Asian Banker*, April, 2009:

> …Danamon has also experienced growth in its microfinance program….(M)icro-lending accounts for 65 percent of Danamon's profit and…Danamon has an 8 percent market share in microfinance loans. DSP was launched in 2004 as the bank's official microlending program and, in 2005, offered an average loan of USD 1,877. Microfinance has gradually become a more prominent part of Danamon's operations. Mr. Paredes (Danamon's President Director) tells The Asian Banker, 'This transformation is very relevant because these areas offer higher level of returns and interest rate yields, thus giving Danamon the capacity to sustain higher volatility and also higher levels of cost of credit.' He adds, 'The area that has been most resilient to the downturn is actually the micro-lending space.' Microloans have grown 20 percent…for the past one year, reaching USD 1.02 billion and accounting for 17 percent of Danamon's total loans. In 2008 alone, DSP granted USD 225.25 million in loans.

Expansion might also be defined in terms of numbers of customers or numbers of local lending units established over time. We did not have data to assess overall DSP expansion in terms of number of customers. As for unit growth, DSP-Jakarta managers reported the following rough numbers: about

[27] To our knowledge, there were no exogenous factors that may have caused relatively less growth in 2006 than in 2005 or 2007. There is at least one possible, but unlikely, explanation for the relatively lower growth in 2006 than in 2005 or 2007. According to the Guarantee Agreement, only loans for up to Rp. 50 million could be placed under the guarantee, while much larger loans up to Rp. 500 million could not. It is possible, therefore, that the relatively higher increases in 2005 and 2007 compared to 2006 can be attributed to differences in the relative distributions of loans by size made during those three years. That is, it is possible that the increases in 2005 and 2007 could be attributed to relatively more large loans than in 2006. However, given what we learned from DSP headquarters and local managers—i.e., that DSP did not change its lending behavior during the guarantee—this explanation seems quite unlikely.

[28] "Feedback from Bank Danamon in response to the Development Credit Authority Survey on Financial Crisis" (from Linda Kirana, Bank Danamon to Amanda Hawkins, USAID), sent via email April 2, 2009.

200 units in 2005, about 500 in 2006, about 630 in 2007, about 700 in 2008, and, as of May, 2009, 801 units.[29] The increase in units from 200 in 2005 to 801 in mid-2009 was 400 percent.

Two Other Possible Measures of Additionality: Number of Unsecured Loans and Borrowers' Ease in Obtaining Loans

USAID's primary concern with additionality was the quick resumption and expansion of lending in the disaster-affected areas, which was achieved. However, the Guarantee Agreement stated that the loans to be placed under the guarantee "are primarily, but not restricted to, unsecured loans." Our review of all the semi-annual loan reports that DSP has submitted to USAID to date showed that only 590 loans placed under the guarantee had any amounts in the columns for collateral value. These loans, which represent 6.3 percent of the total 9,348 loans placed under the guarantee to date, were among the first two batches of loans reported (March and September, 2006).

Although most of the loans placed under the guarantee have been unsecured—and, generally, relatively riskier—loans, two facts already mentioned earlier indicate that the guarantee, as used by DSP, did not influence the loans being made. First, our interviews with the unit and cluster managers in Aceh indicated that DSP's lending practices and choice of borrowers were not affected by the guarantee. Secondly, and more compelling, is the fact that DSP placed the loans under the guarantee on the basis of relatively risky *units*, not borrowers, and did so only *after* the loans had been made at the unit level.

The DSP-Jakarta managers also reported that, in response to the economic downturn over the past year, they have turned toward a more conservative lending approach in late 2008-early 2009. They noted that their overall loan portfolio was more secure than before. The value of unsecured loans as a percentage of their entire portfolio went down from 18 percent in 2008 to 15 percent in 2009. At the start of 2009, they told units to stop giving unsecured loans, except for "top-up" loans to borrowers with good repayment histories. They reported, with frustration, however, that USAID has told them that top-up loans cannot be placed under the guarantee.[30]

Besides numbers of unsecured loans to relatively risky borrowers, improved access to credit—or additionality—might also be defined in terms of borrowers' ease in obtaining loans. DSP's Jakarta and Aceh managers expressed pride in the fact that, in addition to loans being offered with competitive terms and the practice of "topping up" loans to borrowers with good repayment, DSP's competitive edge lies in offering "service, convenience and speed," both in the loan-making process and in repayment by borrowers. In addition to making the loan application process simple and fast, DSP facilitates repayment by visiting the borrowers at their place of business as

> "Bank Danamon service is very good. They come to me daily to collect payments."
>
> "When Bank Danamon opened the branch here (in the market), they invited all the local traders to a meeting and explained their program and loan availability."
>
> "I trust Bank Danamon—they are honest."
>
> —Comments from three borrowers

[29] The number of units for 2005 (i.e., 200) is significantly different from the figure of 450 for May, 2005, which was reported in the Action Package.

[30] According to the Guarantee Agreement, the maximum cumulative principal amount of qualifying loans made to any one qualifying borrower is the Rupiah equivalent of $500,000. We are not sure, therefore, why "top-up" loans would not be allowed so long as this ceiling is respected.

frequently as daily, depending on the borrowers' preferences.

To get a sense of borrowers' experience with obtaining loans from DSP and DSP's approach to lending, we conducted brief interviews with a non-random sample of six borrowers from the Banda Aceh area (four from the Pasar Lambaro Unit and two from the Pasar Neusu Unit) who had loans under the guarantee at the time of the evaluation or had completed payment on guaranteed loans prior to the evaluation.[31] The six borrowers included five males and one female, representing a small convenience kiosk, an auto tire store, a household implement and supply shop, a dry goods shop, a small restaurant, and a bed and mattress store. Four of the six had had their establishments destroyed by the tsunami; this happened to three of them in other locations and they had since moved to their present locations. None of the six borrowers had received grants of any kind prior to or during their loan experiences. The six borrowers had had a total of 17 loans since the tsunami—13 from DSP, three from relatives, and one (a mortgage) from Bank Mandiri, a government-owned bank that competes with DSP at the MSE level.

Two of the six borrowers had sought loans elsewhere before obtaining a loan from DSP—one from a regional bank and Bank Rakyat Indonesia (BRI), and the other from an Islamic system bank. When asked why they had chosen to get loans from DSP, all six of the borrowers mentioned speed in getting a loan, five mentioned ease and minimum paperwork in applying for a loan, three mentioned liberal collateral requirements, and three mentioned the unit's convenient location. The borrower who had looked into loans at BRI and a regional bank noted that those banks had better interest rates and higher loan ceilings than DSP, but it was DSP's speed and easy application process that led him to choose DSP. Two other borrowers mentioned interest rates. One stated that DSP's interest rate was acceptable, but he wished it were lower, and the other noted that DSP's interest rate used to be good but was now "high" at 2.5 percent per month.

DSP-Jakarta managers reported that DSP's "service, convenience and speed" approach to lending has always been a hallmark of the bank's standard practice nationwide, since before the guarantee was established.

OUTCOME LEVEL FINDINGS AND CONCLUSIONS

At the outcome level, the evaluation tried to address whether DSP's experience with the guarantee improved access to credit for micro and small enterprises in the target sectors *outside* the coverage of the guarantee. Specific evaluation questions were as follows:

[31] We acknowledge that one cannot generalize to all borrowers under the guarantee or even all borrowers under the guarantee in Aceh, based on a non-random sample of six individuals. The data are suggestive at best. The information gleaned from these six interviews is offered here primarily to corroborate DSP's description of their standard lending approach

Question 5: To what extent has access to credit to the target areas (Aceh, North Sumatra, and Yogyakarta) increased *outside* the guarantee?

Question 6: What factors at Bank Danamon/DSP were responsible for achieving desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management, etc.)?

Question 7: Has DSP moved into new sectors/industries and types of borrowers with loans *outside* the guarantee?

Question 8: If so, to what extent did the guarantee influence these decisions? How?

Conclusions:

(12) DSP significantly increased nationwide access to credit among MSEs *outside* the guarantee, but much of this overall increase is more likely attributable to DSP's aggressive growth strategy and profitability than to influence from the guarantee. However, given our Output-level conclusion that the guarantee helped DSP expand MSE lending in Aceh, it stands to reason that the guarantee had a positive impact on increased lending in Aceh outside the guarantee as well as under the guarantee. (13) We cannot make any conclusions as to whether access to credit increased in North Sumatra or Yogyakarta and, if so, how much of that increase occurred *outside* the guarantee and why. (14) We cannot determine whether DSP has made any loans to new sectors or new types of borrowers *outside* the guarantee.

Findings:

Almost all the information we have to help answer the Outcome-level evaluation questions is the set of qualitative and quantitative findings presented in the Output-level section of this chapter. Findings that are relevant to the Outcome level are summarized here.

- DSP's overall, country-wide lending to MSEs has grown substantially and rather consistently over the years since the guarantee has been in place, including 2006, the only full year during which loans were put under the guarantee. The only exception is the slow growth during the first four months of 2009. Our DSP key informants in Jakarta and in Aceh attributed this recent slow growth to the effects of the global economic crisis and DSP's conservative approach to lending in response. Our analysis suggests that the proportion of the overall growth that can be attributed to loans placed under the guarantee was about four percent.

- According to DSP managers in Jakarta and in Aceh, the basic package of loan products and terms has remained virtually unchanged since before the guarantee and has been used consistently for all DSP lending—across all locations and across all loans, guaranteed or not. The minor changes that did occur were due to DSP's responses to changes in the market or changes in how loans were performing. According to DSP's Aceh managers, the guarantee had no influence on how and to whom loans were given. DSP's policies and directions to local lending units were consistent across the board and based on factors unrelated to the guarantee.

- During the guarantee period, DSP has expanded lending in Aceh, in terms of increased local units and volume of loans, well beyond the number of loans placed under the guarantee.

- Lending to MSEs has been profitable for DSP, both nationwide and in Aceh.

In our discussion about DSP and the microfinance sector as a whole with Ratna E. Amiaty, Director of Bank Indonesia's Directorate of Credit, Rural Bank and MSME, she acknowledged DSP's role as a major actor in the microfinance arena. She also noted with some dismay, however, that DSP has yet to "go down market and rural" to serve riskier borrowers. Her challenge for DSP would be to do so and lower its interest rates, but acknowledged that there is no pressure for it to do so. She noted that DSP did start going down to very small loans a while back, but the global economic crisis and a resultant increase in NPLs pushed it back toward larger loans.

IMPACT LEVEL FINDINGS AND CONCLUSIONS

At the impact level, the evaluation asked whether the guarantee, through a demonstration effect, improved access to credit for MSEs in the target areas from the broader banking sector.[32] This section provides our findings and conclusions for five evaluation questions at the impact level.

Question 9: Did other, non-partner, banks initiate or increase MSE lending to the target areas, especially Aceh, North Sumatra, and Yogyakarta?

Question 10: If so, to what extent was the guarantee to Bank Danamon/DSP responsible? How and why?

Question 11: Did access to loans improve in the target sectors?

Question 12: If so, how and why?

Question 13: If so, to what extent was the Bank Danamon/DSP guarantee responsible?

Conclusions:

(15) DSP's approach to MSE lending has served as a model for some competitor banks, both in Aceh and elsewhere; and, to the extent that the guarantee has helped DSP expand the use of its successful model in Aceh and, perhaps, elsewhere, we can conclude that the guarantee played a role in this demonstration effect. (16) DSP's phenomenal nationwide growth and profitability has served both to expand the market and stir market competition, both nationwide and in Aceh; and, to the extent that the guarantee has played a role in DSP's success, it has also influenced market expansion and competition.

Findings:

According to all our key informant discussions and data related to the Impact-level questions for this evaluation, the MSE market for lending in Indonesia is huge, and the lending supply, although also huge, has not been adequate to meet demand. Specifically, we learned the following:

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[32] Unlike at least one other guarantee that has been recently evaluated—i.e., the 2005 guarantee in Ghana—there is no language in either the Action Package or the Guarantee Agreement for the DSP guarantee that specifically addresses USAID's intention that the guarantee would provide a demonstration effect to other lenders in the sector. However, EGAT/DC's model of intended guarantee results includes impact on the broader lending sector and the evaluation framework includes these questions.

- According to Titus K. Kurniadi, Deputy General Secretary of the Indonesian Movement for Microfinance Development,[33] the Indonesian Ministry of Cooperatives estimates that in 2009 there are 43 million micro-enterprises, and he estimated that 60-70 percent of those enterprises would take credit if they could get it. BPRs, BRI, MICRA, and commercial banks cannot meet the microfinance needs of the "poorest of the poor" because their costs would be too high for so many small loans. In his view, too many borrowers go to traditional money-lenders (under the Shariah model), where the actual costs to borrowers are relatively high compared to other sources of microfinance.

- B.S. Kusulijono, Chairman of the Republic of Indonesia's National Committee for Microfinance Development, stated that banks need not worry about competition in the microfinance sector because the market for credit is huge.

- Rio Sandi and Freddy Tamira, PT Bina Insan Sejantera Mandiri [BISMA], offered the opinion that microfinance in Indonesia will continue to grow over time because demand is high, especially outside Java. Demand in Aceh is still high in 2009, as micro-borrowers move from grants to loans. It is hard to explain to them, however, that they must repay their loans because they have become grant-dependent. In other areas of Indonesia, e.g., eastern Indonesia, people are more knowledgeable about working capital loans.[34] This point was echoed by Tim Anderson, Director of USAID's Aceh Reconstruction and Rehabilitation Office. In his view, the challenge in Aceh during the past four years has been to break people away from grant dependence.

Using the data from Table 4 on page 16 (i.e., BI data on nationwide "Credit Outstanding" for the years 2004 to March, 2009 and DSP data on its total outstanding loan value for the same period), we compared the increase in amount of nationwide MSE credit outstanding over time to the increase experienced by DSP. While the nationwide amount increased by 300 percent between the end of 2004 and March, 2009, DSP's outstanding loan value increased by 1,937 percent. DSP's increase was more than *six times higher* than the nationwide increase. Given the huge demand for credit, confirmed by many of our key informants, it is unlikely that DSP's growth in lending has displaced any other lenders in the market.

There is evidence that MSE lending is expanding and improving nationwide. For example, Ikatri M. Sihombing, Executive Director of MICRA, reported that MICRA has been working with Bank Andara (formerly Bank Sri Partha, a local commercial bank based in Bali) and other partners to establish a "bank of banks." One of the first wholesale banks in Indonesia in the microfinance sector, Bank Andara will focus on providing credit and other services to MFIs such as cooperatives, rural banks and rural credit agencies.

The "bank of banks," with funding from both local and international investors, will target much of its effort on BPRs, many of which are weak in governance, sustainability, mobilization of savings, and loan

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33 The Indonesia Movement for Microfinance Development (GEMA PKM Indonesia--Gerakan Bersama Pengembangan Keuangan Mikro Indonesia) is a "forum" with loose participation of eight types of stakeholders, who are working to get government to stop retail microfinance lending and focus only on policy and regulation.

34 As reported earlier. DSP wants to expand MSE lending in eastern Indonesia.

product development. Ratna E. Amiaty, Director of Bank Indonesia's Directorate of Credit, Rural Bank and MSME, noted that BPR expansion is also hampered by many legal and regulatory demands, especially their geographical restrictions. In her opinion, DSP and other private commercial lenders would have more competition from the 1,800 BPRs in Indonesia if the BPRs could operate on a level playing field vis-à-vis the private commercial banks. Ashok Malkarneker, Technical Advisor at GTZ's ProFI project, reported that his available anecdotal information suggests that DSP and other commercial banks provide competition to BPRs in the urban and peri-urban market, but BPRs cannot offer the full spectrum of services that DSP and others like DSP can offer.

Bank Tabungan Pensiunan Nasional (BTPN)—the private commercial bank to which many DSP managers and staff moved during mid-2007—is using essentially the same model as DSP's in direct competition with DSP, nationwide and in Aceh. Both of the DSP unit managers in Aceh, mentioned the competition from BTPN, which started operations in their area in March, 2009. According to Dudy Hendrawan, the Neusu unit manager, BTPN is very aggressive, and it has essentially the same products as DSP. It has already stolen away some good clients from DSP, but Hendrawan was confident that DSP could get new clients, and some of the clients who moved to BTPN were coming back to DSP. DSP-Jakarta's managers reported that BTPN is more aggressive than DSP with respect to issuing unsecured loans. It is possible that BTPN's managers, who managed DSP during the first year and a half of the guarantee period, were influenced by that experience, especially by the guarantee's role in the growth of MSE lending in Aceh. We were unable to explore this possibility, however.

Both of the unit managers in Aceh whom we interviewed mentioned that competition has been getting more intense over the past year or so. One of them noted that one bank started giving loans in 2006, but it focused on small and medium-sized businesses, not micro-businesses. Currently, in addition to BTPN, competitor banks include Bank National Indonesia, Bank Rakyat Indonesia (BRI), and Mandiri Bank, the latter two of which are government-owned. He reported that the most aggressive with respect to interest rates is BRI. DSP-Jakarta managers confirmed that, in addition to BTPN, DSP's main competitor is BRI.

At the same time as the evaluation team's field visit, Alison Eskesen, EGAT/DC, met on another matter with an official from CMB-Niaga, an international private commercial bank with operations in Indonesia. In that discussion, she learned that the bank was considering opening a microfinance arm. A key factor in their final decision is Bank Danamon/DSP's experience in the market and its profitability. Ms. Eskesen also mentioned that Standard Chartered Bank, another international commercial bank, was considering moving into the Indonesian microfinance market based on their success in India.

Ms. Sihombing (MICRA) mentioned that both BTPN and Bank Mandiri, a state-owned bank, had entered the microfinance market *in response to DSP's experience*.

Dina Syarifa, the former USAID official who was monitoring the guarantee until recently, expressed the belief that DSP has been a pioneer in microfinance among private commercial banks, and now many other commercial banks are following suit.

We asked several other key informants whether other MFIs were changing their lending behavior in response to DSP's lending approach during the guarantee. B. S. Kusmulijono noted that DSP's lending model is essentially the same as the scheme that Bank Indonesia and six state-owned partner banks with linkages to MFIs are using under a loan guarantee (through the PT Asuransi Kredit Indonesia or ASKRINDO). He observed that DSP is very "market-friendly," in that it aggressively goes after clients, offers daily repayments and uses technology to record transactions on-line. He expected that other banks will adopt DSP's basic model and approach in the future.

According to Ratna E. Amiaty (Bank Indonesia), DSP is good for the microfinance industry because it opens people's eyes, e.g., those of the state-owned Bank Mandiri, to the potential for commercial banks in microfinance. She also mentioned BTPN, the private commercial operation established by former DSP managers. In her view, there is nothing genius about DSP's model, which is basically a BPR model. DSP can compete successfully with BPRs because it can hire away BPR employees, who know the customers in the local area; it is more efficient; and it can open a unit easily with no geographical restrictions and without as many legal and regulatory demands as those imposed on BPRs. She noted that, despite high levels of NPLs, DSP is still profitable. Another one of DSP's strengths, according to Ashok Malkarneker, is its ability to use information technology efficiently.

FINDINGS AND CONCLUSIONS ON THE ROLE OF EXOGENOUS FACTORS IN GUARANTEE PERFORMANCE

Question 14: What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that may have affected access to credit in the targeted areas?

Question 15: How, if at all, have these factors affected the performance of the DCA guarantee? Did they affect Bank Danamon/DSP's lending to the target sector under the guarantees? Did they affect DSP's lending to the target sector outside of the guarantee? Did they affect lending to the target sector by the broader banking sector? If so, how?

Conclusions:

(17) Given conflicting evidence from DSP, we cannot ascertain whether the global economic and banking crisis had any impact on DSP lending under the guarantee (at the Output level) or outside the guarantee (at the Outcome level), either nationwide or in the disaster-affected areas. (18) Growing competition in Aceh in the early months of 2009 appears to have had a positive effect on MSEs' access to loans in terms of better interest rates, under the guarantee (at the DSP Output level), outside the guarantee (at the DSP Outcome level), and among other lenders (at the Impact level).

Findings:

In mid-2008, a major financial and banking crisis hit the U.S. With ripple effects throughout the world, the crisis became a global financial crisis. In response to a USAID survey of DCA partners on the impact of the crisis in April, 2009, Bank Danamon reported that, for the bank as a whole, there had not been any substantial adverse effects on liquidity, deposit generation, or overseas remittances. It did report that the crisis had resulted in a sudden depreciation of the Indonesia Rupiah and collapse of commodity prices, which, in turn led to the failure of some of its commodity export customers to fulfill their obligations under foreign currency forward contracts with the bank.

With respect to the bank's DSP lending operations, the bank reported that the global financial turmoil, coupled with a higher interest rate environment in the banking sector in the fourth quarter of 2008, had had "slight impact" on DSP operations, because DSP had effectively made moderate adjustments on pricing. The bank noted that the DSP loan portfolio grew by 19.5 percent during the first nine months of 2008, and ended the year with a total growth of 27.5 percent since the beginning of the year. In the fourth quarter, therefore, the growth rate was somewhat slower than it had been for the first nine months.

DSP further reported that, in response to slower growth prospects in 2009, it had taken additional initiatives to tighten cost controls and strengthen its collection systems. Among those initiatives, DSP has focused on maintaining lower costs of credit within acceptable limits by improving its credit policy.

Based on the numbers in Figure 2 on page 22, DSP's portfolio grew by only 0.4 percent during the first four months of 2009. That represents an average monthly growth of Rp. 0.01 trillion, which is far lower than the average monthly growth of Rp. 0.20 trillion for 2008.

While DSP provided no specifics with respect to credit policy changes in its response to the USAID survey, the DSP-Jakarta managers told us in May that they have turned toward a more conservative lending approach in late 2008-early 2009 in response to the economic downturn over the past year. Most significantly, they instructed all their units to stop giving unsecured loans (except "top up" loans for borrowers with good repayment track records). As a result, they noted that their overall loan portfolio was more secure in mid-2009 than it had been before. The value of unsecured loans as a percentage of their entire portfolio went down from 18 percent in 2008 to 15 percent in 2009.

This policy directive was confirmed by the manager of the Pasar Lambaro unit, who said that the change was made in response to the global economic crisis and the consequent increase in non-performing unsecured loans. The manager for the Pasar Neusu unit, also confirmed this change when he told us that he was no longer "socializing" his new credit officers to the guarantee because his unit was no longer selling unsecured loans, i.e., the kind of loans that DSP-Jakarta would place under the guarantee.

We cannot reconcile this reported directive to stop giving unsecured loans with DSP's recent placement of new loans under the guarantee, however. Of the 1,370 new loans posted to the guarantee in its semi-annual report for October 1, 2008, to March 31, 2009, 319 loans—all unsecured, we believe—were issued to borrowers during the months of January, February, and March. Furthermore, all 245 of the new loans made in the Medan Region (which includes Aceh and North Sumatra) were made during those months.

In our interviews with the three local DSP managers in Aceh, they reported that, in addition to the early 2009 Jakarta directive to suspend giving unsecured loans, they have been allowed to lower interest rates on some of their products in order to match the growing competition in their area. Although improved loan terms was not a focus of the evaluation, we can infer from this that potential borrowers had more options besides DSP and were possibly experiencing better access to credit, at least in terms of interest rates, among lenders.

V. SUMMARY OF CONCLUSIONS

OUTPUT-LEVEL CONCLUSIONS

(1) Given the initial alignment between USAID's objectives for the guarantee and, reportedly, those of Bank Danamon/DSP—i.e., to resume and expand lending in the tsunami-affected areas, to enter new sectors, and to expand MSE lending nationwide—the guarantee fit neatly into Bank Danamon's ongoing strategy at the time of its inception.

(2) The guarantee enabled DSP to give underperforming local lending units the opportunity to improve performance and avoid such drastic consequences as suspension of their lending or even dismissal of their loan officers and/or managers; aside from this significant use of the guarantee, DSP has not made any other substantial changes to its lending program since the period prior to the guarantee.

(3) DSP's approach to placing loans under the guarantee (i.e., headquarters' designation of loans on the basis of poor-performing, riskier lending *units* after the loans had been made) appears not to have been in keeping with the general spirit of DCA guarantees.

(4) Although DSP had resumed its post-tsunami SME lending in Aceh prior to the guarantee's inception, lending expanded significantly during the period of the guarantee; and available evidence indicates that the guarantee played a role in that expansion.

(5) Limited qualitative evidence suggests that the guarantee played a role in increasing access in North Sumatra.

(6) We cannot determine whether expansion of lending occurred in Yogyakarta, the third target area, and, if so, whether the guarantee influenced expansion.

(7) DSP has exceeded the guarantee's requirement that at least 40 percent of all guaranteed loans be provided in the disaster-affected target areas.

(8) Available evidence suggests that DSP has recently expanded lending to the agricultural sector—a sector outside its traditional market of traders, retailers, et al.—and the guarantee may have influenced this move.

(9) During the guarantee period, DSP has significantly increased lending to MSEs nationwide, in terms of loan portfolio volume and number of local lending units; however, aside from the guarantee's influence on expansion in Aceh and North Sumatra, we cannot determine the extent to which this increase might be attributed to the guarantee.

(10) DSP has satisfied the Guarantee Agreement's requirement that the loans be primarily unsecured loans; however, given DSP's approach to assigning loans to the guarantee, it is unlikely that, with the exception of Aceh and North Sumatra, it would have made any fewer unsecured loans without the guarantee.

(11) DSP's borrower-friendly approach to giving loans can be seen as providing improved access to MSEs, but that approach was in place prior to the commencement of the guarantee.

OUTCOME-LEVEL CONCLUSIONS

(12) DSP significantly increased nationwide access to credit among MSEs *outside* the guarantee, but much of this overall increase is more likely attributable to DSP's aggressive growth strategy and profitability than to influence from the guarantee. However, given our Output-level conclusion that the guarantee helped DSP expand MSE lending in Aceh, it stands to reason that the guarantee had a positive impact on increased lending in Aceh *outside* the guarantee as well as under the guarantee.

(13) We cannot make any conclusions as to whether access to credit increased in North Sumatra or Yogyakarta and, if so, how much of that increase occurred *outside* the guarantee and why.

(14) We cannot determine whether DSP has made any loans to new sectors or new types of borrowers *outside* the guarantee.

IMPACT-LEVEL CONCLUSIONS

(15) DSP's approach to MSE lending has served as a model for some competitor banks, both in Aceh and elsewhere; and, to the extent that the guarantee has helped DSP expand the use of its successful model in Aceh and, perhaps, elsewhere, we can conclude that the guarantee played a role in this demonstration effect.

(16) DSP's phenomenal nationwide growth and profitability has served both to expand the market and stir market competition, both nationwide and in Aceh; and, to the extent that the guarantee has played a role in DSP's success, it has also influenced market expansion and competition.

CONCLUSIONS ABOUT THE INFLUENCE OF EXOGENOUS FACTORS

(17) Given conflicting evidence from DSP, we cannot ascertain whether the global economic and banking crisis had any impact on DSP lending under the guarantee (at the Output level) or outside the guarantee (at the Outcome level), either nationwide or in the disaster-affected areas.

(18) Growing competition in Aceh in the early months of 2009 appears to have had a positive effect on MSEs' access to loans in terms of better interest rates, under the guarantee (at the DSP Output level), outside the guarantee (at the DSP Outcome level), and among other lenders (at the Impact level).

ANNEXES

Annex A – Selected Economic Indicators for Indonesia (from World Bank and Economic Intelligence Unit Data)

	2004	2005	2006	2007	2008 (est.)	2009 (est.)	2010 (est.)
Nominal GDP (US$ bn)	256.8	285.9	364.6	432.0	510.8	392.9	392.0
Nominal GDP (Rp trn)	2,295.8	2,774.3	3,339.2	3,949.3	4,954.0	4,989.1	5,210.6
Real GDP Growth (%)	5.0	5.7	5.5	6.3	6.1	-1.4	0.5
Exchange Rate (Rp./USD)	9,290	9,380	9,020	9,419	10,950	12,995	13,316
Trade Balance ($millions)	20,152	17,532	29,661	33,083	23,309	19,637	19,133
Lending Interest Rate	14.1	14.1	16.0	13.9	13.6	13.6	10.5
Money-market Interest Rate	5.4	6.8	9.2	6.0	8.5	7.0	5.4
Deposit Interest Rate	6.4	8.1	11.4	8.0			
Consumer Price Inflation	6.1			6.4			
Benchmark Interest Rate fixed by Bank of Indonesia (rate for last month of year)		12.75%	9.75%	8.00%	9.25%	7.50% (as of 4/09	
Interest Rate of Rupiah Credit by Group of Banks – Commercial Banks—Investment (last month of year)	14.05%	15.66%	15.1%	13.01%	14.4%	14.37% as of 1/09)	

Sources: EIU Reports, World Bank

Annex B – Documents Reviewed

Biennial Review of the Bank Danamon Guarantee, USAID Office of Development Credit (Reviewer: Sashi Selvendran), April 2007.

"The Challenges of Microfinancing in Southeast Asia," John D. Conroy, Special Consultant, the Foundation for Development Cooperation (for publication in "Financing Southeast Asia's Economic Development" (Singapore: Institute of Southeast Asian Studies, 2003).

"Credit Guarantee: The Role of Bank Indonesia," Bank Indonesia, Indonesia's Central Bank, a Power Point presentation prepared for and presented to the evaluation team, May 13, 2009.

Credit Management System (CMS) data for the guarantee: summary data and six semi-annual data reports, covering the period from 09/26/05 to 9/30/08.

"CRB Recommendation for Approval of Development Credit Authority in Indonesia" (USAID Action Memorandum from David Ostermeyer, Chairman of the Credit Review Board to Lisa Fiely, Chief Financial Officer, May 26, 2005 (informally referred to as the "Action Package" for the 2005 loan portfolio guarantee to Bank Danamon in Indonesia).

"Danamon Gears Up for Microfinance Push," Peter Hoflich, *The Asian Banker*, April, 2009.

EIU Reports for Indonesia: 5a: Country Report, April 2005; 5b: Country Report, April, 2009; 5c: Country Profile 2005; and 5d: Country Profile 2008.

Feedback from Bank Danamon in response to the Development Credit Authority Survey on Financial Crisis (from Linda Kirana, Bank Danamon to Amanda Hawkins, USAID), transmitted via email April 2, 2009.

Guarantee Agreement between USAID and PT Bank Danamon, Indonesia, tbk, September ___, 2005 (actual start date was September 26, 2005).

"Indonesia at a glance," World Bank, September 24, 2008.

"Indonesia's banking industry: progress to date," Dr. Miranda S. Goeltom, Senior Deputy Governor, Bank Indonesia (country paper for BIS Deputy Governor's Meeting, Basel, 8-9 December 2005).

"Indonesia: Selected Issues," IMF Country Report No. 08/298, September 2008.

"Indonesian Movement for Microfinance Development," brochure, no date (but sometime after 2005).

"Managing the Growth of Microcredit Programs: Human Resource Management including Recruiting, Training and Motivating Staff," Bambang Ismawan, General Secretary, Indonesian Movement for Microfinance Development, Indonesia, circa 2002.

"Microfinance Post-Tsunami," Cordaid, October 2008.

"Microfinance Sector Review and Program Assessment—Indonesia," Banyan Global, report submitted to the World Bank-IFC, August, 2005.

"Project Appraisal Document on a Proposed Grant in the Amount of US $50 Million to the Republic of Indonesia for the Aceh-Economic Development Financing Facility Project," World Bank, December 5, 2008.

Promotion of Small Financial Institutions (ProFI) Newsletter, No. 1/2009, German Technical Cooperation (GTZ) and Bank Indonesia, early 2009.

"Public-Private Partnership Policy: System Approach to Microfinancing," Dr. B.S. Kusmuljono, Chairman, Center for Policy Reform (CPR Indonesia) and Chairman, National Committee for Microfinance Indonesia (Komnas PKMI), no date (but very recent).

"A Rapid Assessment of Microcredit Schemes available to Smallholder Farmers and Fishermen," Development Alternatives, Inc. for USAID, May 2008.

"The Role of Microfinance in Rebuilding the MSE Sector in Post-Disaster Situations: Case Studies from Aceh," (research project done for a graduate course at School of Advanced International Studies, Johns Hopkins University; Donika Hristova, Dany Khy, Kimberly Wattrick, and Pippa Zainoeddin; January 25, 2008.

"Trip Report: 3/10/05-3/30/05—Indonesia," Alison Eskesen, EGAT/DC.

"Strategies for Developing Micro, Small and Medium Enterprises (MSMEs)," Rudjito, President Director of BRI, no date (circa 2003).

"USAID Performance—As of March 09," data on outstanding numbers and amounts of loans under the Bank Danamon guarantee as of March, 2009, loan write-offs, claims made and paid off, etc., disaggregated by region and type of loan product; transmitted via email to the evaluation team by Linda Kirana, Credit Policy Analyst, Bank Danamon's Risk Management-SEMM unit; May 22, 2009.

Annex C – Indonesia Bank Danamon DCA Evaluation Framework and Usable Indicators (Revised August, 2009)

NOTE: The framework presented here is a revised version of the original framework for the Indonesia evaluation. Revisions were made on the basis of comments from EGAT/DC. At the end of this annex is a list of The only difference is that the questions have been made specific to the DCA guarantee for Bank Danamon in Indonesia.

USAID is primarily interested in using the findings from this and other evaluations for the following purposes:

(1) to demonstrate and communicate to DCA stakeholders (OMB, Congress, USAID Missions, etc.) what we can say about the contributions of DCA loan guarantees to the achievement of development results in the countries in which guarantees are provided
(2) to contribute to the dialogue about how to engage financial sector institutions as partners in development,
(3) to strengthen USAID's application of DCA as a tool for achieving development results, and
(4) to influence the project design of new guarantees.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
OUTPUT LEVEL (Loans Disbursed, Additionality…):			
1: How did the DCA guarantee fit into Bank Danamon/DSP's ongoing strategy, particularly with respect to resuming and expanding lending in the tsunami-affected target areas? What market potential did the guarantee help open for DSP? 2: How did DSP implement the lending program that the loan guarantee was targeted to support (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices,	(1) DCA documents: Action Package, Guarantee Agreement, Biennial Reviews, (1) or (2) Mission documents (2) Mission/ contractor/ staff (2) Bank Danamon staff	(1) Review of data and documents in Washington/DCA; interviews with DCA staff (1) & (2) Review of documents at USAID/Indonesia (1) & (2) Interviews of cognizant USAID / contractor staff (2) Review of Bank Danamon data (2) Guided interviews with Bank Danamon staff (HQ and branches)	DCA use: Purposes 2 & 4 above and to enhance discussions with potential guarantee partners; to enhance the training that DCA provides to guarantee partners, missions, et al. Other Comments: This is primarily *descriptive* for Bank Danamon.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
etc.)? And why?			
3: What additionality was achieved with DSP's use of the loan guarantee? Additonality is defined as improved/increased access to credit for MSEs, primarily in the tsunami-affected areas of Aceh and North Sumatra and the earthquake-affected area of Yogyakarta, but also in new sectors and nationwide. (MSEs: micro and small enterprises with fewer than 50 employees or annual sales no higher than 2 billion Rupiah) Indicators of improved access may include the following (disaggregated by borrowers in Aceh, North Sumatra, Yogyakarta, and other areas): (a) Value of loans to target sector/region (absolute and in relation to total bank portfolio); (b) Number of loans to target sector/region (absolute and in relation to total bank portfolio; (c) local branch growth in the target areas; (d) Possibly others. 4. How did DSP's portfolio in the target areas perform (i.e., comparing baseline with performance during the DCA guarantee)?	(1) DCA Biennial Review (2) Bank managers/staff (HQ & branches) (2) Bank electronic files (as available) and CMS data (1) or (2) Bank annual reports (1) or (2) Industry/Central bank studies, if available (2) Mission technical officers and guarantee monitoring staff	(1) Documents review (1) Interviews of cognizant DCA staff (2) Guided Interviews of Bank Danamon staff. (1) & (2) Analysis of Bank Danamon electronic files and CMS data on borrowers covered by guarantee	DCA use: To report on loans to stakeholders and Purposes 3 & 4 above. Other Comments: Question 2a is *descriptive* and *comparative* for Bank Danamon, addressing what happened with loans under the guarantee vs. what would likely have happened without the guarantee. Question 2b is *explanatory*, i.e., the extent to which the DCA guarantee influenced change. What we learn can affect what DCA does when talking to potential and actual guarantee partners, e.g., asking them what they would change with a guarantee; encouraging banks to do x, y, or z; and so on in discussions; DCA TA and training to banks; and DCA encouragement of missions to provide TA and training aimed at increasing positive bank policies and behavior.

OUTCOME LEVEL (Partner Bank Behavior Change):			
5: To what extent has access to credit to the target areas (Aceh, North Sumatra, and Yogyakarta) increased *outside* the guarantee? 6: What factors at Bank Danamon/DSP were responsible for achieving desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management, etc.)?	(1) DCA documents: Action Package, CRB minutes, biennial reviews (1) or (2) Mission documents (2) Bank Danamon electronic files (as available) or samples of files (2) Bank Danamon annual reports (2) Mission/ contractor/ staff (2) Bank Danamon staff	(1) Documents review (2) Interviews of cognizant Mission/contractor staff and other stakeholders (2) Guided Interviews of Bank Danamon staff (2) Analysis of Bank Danamon electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio)	DCA use: Purposes 2, 3 & 4 above; to identify ways to achieve desired outcomes when dealing with potential guarantee recipients; to enhance the training that DCA provides to guarantee partners, missions, et al. Other comments: Question 3a. is both *descriptive* and *comparative* (actual outcomes achieved through guarantees vs. intended outcomes). Question 3b is *explanatory* in nature (to identify factors associated with why desired outcomes were achieved or not). Question 3c would be *descriptive*, and cross-cutting. Question 3a has qualitative and quantitative components. It will collect a qualitative assessment of whether access to credit improved. It will also compare quantitative data on portfolio characteristics at the pre-guaranteed (9/2005) baseline to characteristics of the non-guaranteed portfolio during and after the guarantees.
7. Has DSP moved into any new sectors/industries and types of borrowers with loans *outside* the guarantee? 8. If so, to what extent did the DCA guarantee influence these decisions? How?	For both 4a and 4b: (2) Mission technical officers, CTOs and TA providers (2) Bank managers/staff	(2) Guided Interviews	DCA use: Purposes 1 & 3. Other comments: Question 4a is *descriptive*; question 4b *explanatory*. Bank Danamon's guarantee is in the 4th year of its 7-year guarantee, but there have been no new loans under coverage since 2008. Given that fact—and assuming it has not changed-- these questions can

OUTCOME LEVEL (Partner Bank Behavior Change):			
			likely be answered.
IMPACT LEVEL (Market Demonstration Effect):			
9. Did other, non-partner, banks initiate or increase MSE lending to the target areas, especially Aceh, North Sumatra and Yogyakarta? 10. If so, to what extent was the guarantee to Bank Danamon/DSP responsible? How and why?	(1) and (2) Sector/banking reports (if available) (2) Bank Danamon managers/staff (2) Industry/bank associations in the country/sector (2) Other key stakeholders	(1) and (2) Documents review (2) Interviews with key informants (2) Guided interviews of Bank Danamon staff	DCA use: Purposes 1 & 2. Other comments: These questions will be answered qualitatively, for the most part, citing available sectoral data as appropriate.
11. Did access to loans improve in the target areas? 12. If so, how and why? 13. If so, to what extent was the Bank Danamon/DSP guarantee responsible?			
QUESTIONS THAT APPLY TO ALL THREE LEVELS—OUTPUT, OUTCOME AND IMPACT:			
14. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that may have affected access to credit in the targeted areas? 15. How, if at all, have these factors affected the performance of the DCA guarantee? Did they affect Bank Danamon/DSP's lending to the target sector under the guarantees? Did they affect DSP's lending to the target sector outside of the guarantee? Did they affect lending to the target sector by the	(1) Review of World Bank, and other donor or research documents / web sites (2) Cognizant USAID / contractor staff / other donor representatives (2) Bank Danamon managers/staff (2) Key stakeholders (e.g., central banks, banking associations, etc.)	(1) Documents review (2) Interviews of cognizant USAID / contractor staff (2) Guided interviews of Bank Danamon staff (2) Other donor / key stakeholder interviews (TBD)	DCA use: To set in context the Evaluation findings for Questions 1 – 6.

OUTCOME LEVEL (Partner Bank Behavior Change):			
broader banking sector? If so, how?			

Usable Indicators:

Output Level:

- Number (and specific types) of new sectors in which Bank Danamon provided loans to MSEs during the guarantee that it had not been serving prior to the guarantee.
- Number of loans provided in new sectors during the guarantee (disaggregated by type of sector, and, if possible, by Aceh, North Sumatra and all other areas.
- Total value of loans provided in new sectors during the guarantee (disaggregated by type of sector, and, if possible, by Aceh, North Sumatra and all other areas.

Outcome Level: None

Impact Level:

- Number of non-partner banks initiating or increasing lending to MSEs since the guarantee went into effect.

Annex D – Interview Guides

USAID/Indonesia Interview Guide

(NOTE: For this and all the other interview guides, blank space for answers has been reduced to a minimum in the interest of being concise.)

Date of Interview:
Interviewee(s): Name:
Title:
USAID unit.
Interviewer(s):

1: What were USAID's intentions/objectives in providing a loan guarantee to Bank Danamon?
If not mentioned, ask about these from Action Package and Guarantee Agreement:

a. Short-term: facilitate access to credit for businesses (<50 employees or <1 mil Rp sales per month) that were economically affected (directly or indirectly) by the tsunami;
b. Medium-term: help address increased demand for microfinance services in Aceh and N. Sumatra (minimum of 40% of loans to those areas)?
c. Was the following an objective (implicit or explicit)?
Improved terms over prevailing terms: lower interest rate? larger loan size? longer tenor? easier collateral requirements? Other terms?

2: For each of USAID's objectives:

Objective	**Rating (1-5, not-at-all to extremely well)**	**Why the rating? (Evidence?)**	**If relatively successful, to what extent (rating 1-5) would you attribute success to the guarantee?**	**If relatively unsuccessful, what were the constraints to success?**
Short-term: facilitate access to credit for businesses (<50 employees or <2 bill Rp sales per year) that were economically affected (directly or indirectly) by				

Objective	Rating (1-5, not-at-all to extremely well)	Why the rating? (Evidence?)	If relatively successful, to what extent (rating 1-5) would you attribute success to the guarantee?	If relatively unsuccessful, what were the constraints to success?
the tsunami (Qualifying Borrowers);				
Medium-term: help address increased demand for microfinance services in Aceh and N. Sumatra (minimum of 40% of loans to those areas)				
Improved terms over prevailing terms: lower interest rate? larger loan size? longer tenor? easier collateral requirements? Other terms?				
Other:				
Other:				

3. How has USAID monitored/ensured that all the loans under the guarantee have been given to Qualifying Borrowers? (To our knowledge the CMS data do not give that information. Are we missing something here?)

4. How has USAID monitored/ensured that at least 40% of the loans under the guarantee have been given in Aceh and N. Sumatra?

5: We understand from the Action Package that BD/DSP wanted to (a) resume lending in tsunami-affected areas; (b) expand to new sectors and types of clients; (c) expand DSP nationwide. For each of those BD objectives:

Objective	Rating (1-5, met not-at-all to a great extent)	Why the rating? (Evidence? Examples?)	If relatively successful, to what extent (rating 1-5) would you attribute success to the guarantee?	If relatively unsuccessful, why?
Resume lending in tsunami-affected areas	Rating:			
Expand to new sectors and types of clients (Eval. Q. 1a)	Rating:		Rating: Also, what constraints did Bank Danamon face in these markets and how did the DCA guarantee help address those constraints?	
Expand DSP nationwide	Rating:			
Other?	Rating:			

6. Did the guarantee help Bank Danamon develop new markets <u>that it would not have entered without the guarantee</u>? (Eval. Q. 1a)

7. If so, what markets and how did the guarantee help?

8. To your knowledge, did BD/DSP actively market guaranteed loans?

9. To your knowledge, did BD/DSP train staff specifically to assess borrowers for DCA-covered loans? If so, how?

10. To your knowledge, did Bank Danamon do anything else to implement the loan guarantee programs? (e.g., revisions in staff structure and responsibilities, communications with branch offices, etc. Describe?

11. As of March, 2007, there were a total of 7978 loans under the guarantee, and no more have been added since then. We also learned from the biennial review (April 2007) and discussion with S. Selvendran, that all the loans under the guarantee had apparently not been marketed by the branch loan officers as such, and that all the 7978 loans under the guarantee had been <u>retroactively</u> placed under the guarantee by BD in Jakarta, AND that loan officers were actually unaware of or did not pay attention to the guarantee when arranging loans. From your point of view, is that correct?

12. Did the terms Bank Danamon offered on guaranteed loans differ from those on loans that were not guaranteed? How did they differ? (Eval. Q. 2a)

BD had four standard loan products, three of which would fall under the guarantee. Did it change the terms of those products for loans under the guarantee? If so, how?

Loan size:

Interest rates:

(According to apparently standard language in the agreement between USAID and Bank Danamon, "The loan must be made at interest rates and on terms consistent with those generally prevailing among private commercial lenders in the borrower's country." Did USAID try to negotiate with BD for rates and terms better than the prevailing rates, in order to increase access? If not, why not? If so, why did that clause stay in the agreement?)

Tenor:

Collateral terms:

Other terms?

13. If there were changes to the terms (i.e., differences between terms for loans under the guarantee vs. loans not under the guarantee), on a scale of 1-5 (not at all to a great extent), to what extent would you say that the DCA coverage was responsible for the difference? (Eval. Q. 2b)

Rating:

14. In your opinion, to what extent would BD/DSP have made the 7978 loans even if there had not been a guarantee? (Rating: 1-5, not at all to a great extent)

Rating:

Why?

15. Are there other factors that might have influenced Bank Danamon to make these loans without the guarantee? What factors?

16. To your knowledge, did BD/DSP increase access to credit in the target sectors (MSEs, Aceh and N. Sumatra) <u>outside</u> of the guarantee coverage? If so, in what respects? (Eval. Q. 3a) 17. If yes to 16, on a 1-5 scale (not at all to a great extent), to what extent was the DCA guarantee responsible for Bank Danamon decisions to lend to targeted borrowers <u>outside</u> of the DCA coverage?

Rating:

18. If yes to 16, are there any other factors, i.e., other than the guarantee, that could have influenced BD to improved access to credit for the target sectors? If so, what are those factors? (Eval. Q. 3b)

Internal: (e.g., staff training, revised bank strategy, improved procedures, or other factors associated with the DCA guarantee)?

External: (e.g., conditions in the external lending environment? Competition? Etc.?)

19. BD has not given any new loans under the guarantee as of CMS entries for March 31, 2007. At that time a total of 7978 loans had been given under the guarantee, the cumulative utilization amount was $13,573,063 and the utilization rate was 82.76%. Why did BD stop?

20. Do you expect BD/DSP to put any more loans under the guarantee between now and September 2012? If not, why not?

21. To your knowledge, have any other banks increased their lending to the target sectors (MSEs, Aceh, N. Sumatra) since the BD DCA guarantee? (Eval. Q. 5a)

a. If so, can you provide any specific details? (Specific banks and what they have done)

b. If so, to what extent has the DCA guarantee to Bank Danamon influenced these banks' decisions? (Rating on scale of 1-5)

   Rating:

c. What other factors, if any, might have been responsible for other banks' increasing lending to the target sectors?

21. Has access to loans, or loan terms, improve for the target sector? (Eval. Q 6a-c)

a. If so, how?

b. If so, to what extent can improved access be attributed to the fact that BD/DSP has had the DCA guarantee? (Rating 1-5)

   Rating:

   Can you explain?

c. What other factors (e.g., changes in the economy, changes in the lending industry, etc.) may have influenced access to credit for the target sector? How?

d. Could Bank Danamon's DCA guarantee have had a greater impact on access to credit in the target sectors? How?

Bank Danamon Interview Guide

To prep for the interview, this is what we think we know from desktop analysis and discussions with USAID/DCA; additional information is embedded in questions for BD, starting on p. 61. Tables for BD to look at during interview are on pp. 71-73.

BD has a microfinance arm, the DSP (Danamon Simpan Pinjam, or Danamon Savings and Loans), which was established in March 2004 specifically to serve MSEs (Micro and Small Enterprises). The DSP targets businesses with about $50-500 (Rp. 500,000—5million) monthly income. As of 2005 (pre-guarantee), the DSP's portfolio had an average loan tenor of 2.5 years. Loan sizes started very small ($11-53, or Rp. 100,000 to 500,000) until the borrower established good record. At the end of 2004, the DSP had a loan portfolio of Rp 544 billion, which was 2 percent of BD's total loan portfolio. In March 2005, it had Rp 1,098 billion in loans outstanding, with Rp 18 billion in Aceh and North Sumatra.

As of May 2005, the DSP had 450 branches nationwide and expected to open another 159 by the end of 2005. Each branch has eight staff members: three sales officers, one credit officer, one operational officer, two tellers and the unit manager. There was 1 branch in Aceh, and 16 in North Sumatra.

As of May 2005, DSP had an aggressive growth strategy. Based on 2004 actual figures, it intended the following increases in from 2004-2007: from 46,711 to 600,000 customers, from Rp 544 billion to 9,000 billion in loans, from 81 billion to 900 billion in deposits, and from (30 billion) to 750 billion in net income. It intended to offer new products during the next two years: lines of credit to existing customers with longer maturity dates, mortgages, motorcycle loans, and a "dream fund" savings plan for customers who want to go to Mecca, and credit cards.

Summary of Bank Danamon Guarantee Agreement (September 2005)

Authority	DCA
Type	Loan Portfolio Guarantee (LPG)
Guaranteed party	PT Bank Danamon Indonesia, Tbk
Guarantee purpose	To strengthen Bank Danamon's ability to finance loans (primarily, but not restricted to, unsecured loans) to micro-enterprises and small businesses operating in Indonesia, particularly in the provinces of Aceh and North Sumatra, thereby stimulating economic growth facilitating reconstruction in such areas affected by the tsunami of December 26, 2004.
Maximum portfolio amount	$8,200,000
Maximum cumulative disbursements	$16,400,000

USAID guarantee percentage	50%
Guarantee ceiling	$4,100,000
Term of guarantee	7 years (till 9/2012)
Origination fee	0.25% of guarantee ceiling ($10,250)
Utilization fee	0.85% per annum of the average outstanding principal guaranteed by USAID, payable semi-annually, as billed
Maximum cumulative principal amount of qualifying loans made to any one qualifying borrower	$500,000
Terms	Tenor of no more than 5 years for each qualifying loan, unless otherwise agreed to by USAID. Interest rates and other terms must be consistent with those generally prevailing among private commercial lenders in Indonesia
Qualifying Borrowers	Non-Sovereign Indonesian microenterprises and small businesses located in Indonesia and having fewer than 50 employees or annual sales of no more than 2 billion Rupiah. A Qualifying Borrower includes any affiliate of a borrower, including parent or subsidiary companies having the same or substantially similar ownership as the borrower.
Qualifying Loan	A loan made to a Qualifying Borrower not to exceed the Maximum Cumulative Principal Amount, i.e., Rupiah equivalent of $500,000. Loans are primarily, but not restricted to, unsecured loans.
Other notes	The loan must be made at interest rates and on terms consistent with those generally prevailing among private commercial lenders in the borrower's country. The guarantee on any individual loan is limited to 50% of the net loss of principle (not including interest, late fees, or penalties) with the total guarantee over all loans not to exceed the guarantee ceiling. Loans under guarantee must mature prior to the maturity date of the guarantee.

In the Action Package, Bank Danamon was described as having a three-fold interest in the guarantee at the time it was being developed:

1) to enter new sectors and expand types of clients by building on existing experiences in related professions (e.g., expand to fishermen, small street vendors, farmers and agro-processors);
2) to expand DSP (its microfinance unit) nationwide; and

3) to resume microfinance lending in tsunami-affected areas in and around Banda Aceh (i.e., open a second branch there by July 2005). By end of 2005, it expected to have four "traditional" consumer and SME branches and two DSP branches in Banda Aceh.

Further, it was expected that several USAID technical assistance interventions in Aceh and greater Sumatra would support and complement the proposed guarantee. DSP was aware of USAID technical assistance proposals and was interested in working in cooperation to ensure that synergies would be realized. From DSP's perspective, USAID's technical assistance to and research on targeted industries made entry into several sectors more attractive.

Summary of Guarantee Statistics

From Biennial Review	
Review date	April, 2007
Cumulative utilization rate	85%
Status	Active
From CMS	
Date of data collection	April 25, 2009 (but there have been no new data, and no new loans since March 31, 2007
Cumulative utilization amount	$13,573,063
Cumulative utilization percent	82.76%
Number of loans	7978
Average loan size	$1,701
Average loan tenure	670 days (approximately 1 year, 10 months)
Number of claims	476 (193 paid; 283 pending)
Value of claims	Paid: $86,656 Pending: $140,410 Total: $227,066

Basic Utilization Data for Bank Danamon's Guarantee (Start Date 9/26/09) (from the CMS)

Date of Posted New Activity—Quarter ending…	**Cumulative Number of Loans**	**Cumulative Utilization**	**Cumulative Utilization %**
3/31/06	228	$267,344	1.63%
9/30/06	4582	$8,984,599	54.78%
3/31/07	7978	$13,571,952	82.76%
No new activity after 3/31/07			

From Biennial Review (April 2007): "Of the three goals (for the guarantee), Danamon has achieved remarkable growth in the microfinance sector nationwide and proven the success of small trader lending, even in the disaster zones. More importantly, DSP found their branches in Aceh had the least portfolio quality problems with strong growth and profitability. However, DSP has fallen short of achieving a significant impact in terms of diversifying into new sectors."

According to Biennial Review, April 2007: When the guarantee was first issued, DSP's loan officers did not use it because it was time-intensive. In response, DSP in Jakarta placed all loans in branches with poor portfolio quality under the guarantee, regardless of borrower characteristics. As of April 2007, all DCA-covered loans were kept in record in Jakarta, and loan officers were often not aware when their loans were covered by the guarantee.

From Biennial Review: As of April 2007, entering the rural finance sector appeared too costly due to operational costs, but the bank was building partnerships with MFIs to reach a lower-income, rural market. Also, to increase outreach, the bank developed a mobile banking unit, which was equipped so that loan officers could conduct complete transactions at the source of the client. According to a survey of banks, Bank Danamon (DSP) was still not lending to the rural sector in early 2008.

March, 2005: Earthquake. Bank Danamon's DSP re-opened its Banda Aceh branch and slowly resumed normal operations, and intended to open a second branch by July.

2005: There was a marked increase in non-performing loans (NPLs), from 5.9 percent of total lending at the start of the year to 8.3 percent at the end of the year (Biennial Review). In the industry at large, NPLs, as a percentage of total lending rose from 1.7 percent in December 2004 to 5.0 percent in September 2005 (Reference 10). Also from Reference 10: In the banking industry, credit growth was targeted to reach 22 percent in 2005, and by September it had reached 20.2 percent. Consumer loans experienced the fastest growth, followed by working capital loans; lending for investment grew relatively slowly. Despite rising uncertainty and risk exposure, banks were predicted to have the capacity to confront risks, as they had ample capital cushions.

Late 2008-present: Major financial crisis in the U.S. and worldwide. In response to a brief DCA survey on the financial crisis (Reference 8), Bank Danamon reported no major impacts on liquidity, deposit generation, and lending operations. Number of Non-Performing Loans did increase, but not sure if related to the crisis:

Non-Performing Loans

Overall Bank Loan Portfolio	12/31/2006	12/31/2007	12/31/2008
Non-performing loans as a % of gross loan portfolio	3.3% (consolidated NPL – gross)	2.2% (consolidated NPL-gross)	2.3% (consolidated NPL-gross)

DCA Portfolio at Risk	9/30/2008 (CMS-Reported Data)	12/31/2008
DCA-guaranteed loans that are more than 30 days in arrears, as a % of total DCA loans as of 12/31/2008	**49.43** %	36.82 %
Number of DCA-guaranteed loans that are more than 30 days in arrears	**899**	566

In 2008, Bank Danamon delivered Rp. 1.5 trillion net profit after tax and return of average equity of 14.6 percent.

Intro: Who we are and why here. We are not evaluating BD/DSP—this assessment is one of many we are doing for USAID/DCA so that they can get an objective picture of what happened with many loan guarantees around the world so that DCA can learn from these experiences, with respect to improving the process and use of future guarantees.

Questions 1a

In the Action Package, Bank Danamon was described as having a three-fold interest in the guarantee at the time it was being developed:

- to enter new sectors and expand types of clients by building on existing experiences in related professions (e.g., expand to fishermen, small street vendors, farmers and agro-processors);
- to expand DSP (its microfinance unit) nationwide; and
- to resume microfinance lending in tsunami-affected areas in and around Banda Aceh (i.e., open a second branch there by July 2005). By end of 2005, it expected to have four "traditional" consumer and SME branches and two DSP branches in Banda Aceh.

1. Did the guarantee help Bank Danamon/DSP generally enter any new sectors and expand to any new types of clients after the guarantee was in place? If yes…

    a. If yes, did the guarantee help BD do that?
    b. What constraints did BD/DSP face in these markets and how did the DCA guarantee help address those constraints?
    c. During her biennial review visit of April 2007, Sashi noted that BD wanted to enter the rural finance sector, but it appeared too costly due to operational costs, but the bank was building partnerships with MFIs to reach a lower-income, rural market. Also, to increase outreach, the bank had developed a mobile banking unit, which was equipped so that loan officers could conduct complete transactions at the source of the client. Did the partnerships with MFIs and/or the mobile unit have any impact on providing loans under the guarantee? (We suspect not, because there have no new loans under the guarantee since that time. But why not?) According to a survey done of microfinance lenders, BD/DSP was still not lending to the rural sector in early 2008.

       Has BD/DSP still not gone into the rural sector as of now? If so, can you offer any details? If not, why not?

2. One of the objectives for the guarantee has been to have a minimum of 40% of the loans provided to borrowers in Aceh and N. Sumatra. How many guarantee loans and what percentage of the cumulative utilization has gone to borrowers in these areas? Is it under 40% or over? If under, why?

3. Did the guarantee help Bank Danamon expand more quickly into markets it was already developing (a) in microfinancing and (b) in and around Banda Aceh and North Sumatra?

a. If yes, what constraints did Bank Danamon face in expanding more rapidly into these markets and how did the DCA guarantee address those constraints?

Questions 1b

4. Did Bank Danamon actively market its guaranteed loans in any way different from how it marketed loans before the guarantee?

5. Did the terms Bank Danamon offered on guaranteed loans differ from those on loans that were not guaranteed? How? Why?

6. Did Bank Danamon train staff – through its Danamon University training center or through other means—specifically to assess borrowers for DCA-covered loans? If so, how?

7. We understand that loan officers' salaries include a fixed portion and an incentive based on loans collected or payments received (not on number of loans established, as do many other banks). Did BD/DSP change this, given that loans under guarantee were supposed to be higher-risk loans?

8. Did Bank Danamon do anything else, specifically to implement the loan guarantee programs? Describe?

Questions 2a 2b

9. Are the following data, which we extracted from DCA's CMS, correct?

Basic Utilization Data for Bank Danamon's Guarantee (Start Date 9/26/09) (from the CMS)

Date of Posted New Activity—Quarter ending…	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
3/31/06	228	$267,344	1.63%
9/30/06	4582	$8,984,599	54.78%
3/31/07	7978	$13,571,952	82.76%
No new activity after 3/31/07			

10. Utilization under the DCA guarantee was rapid, starting with 54% in the first year, up to 83% by the middle of the second year. The utilization figures are higher than historical DCA utilization trends for similarly-structured loan portfolio guarantees. Why, in your case, was utilization so rapid?

11. Is it correct that DSP has issued no new loans under the guarantee as of the CMS data above? If so, why has it stopped issuing loans under the guarantee? Also, does it intend to issue any more loans under the guarantee? If not, why not?

12. We understand (from the biennial review done by Sashi Selvendran in April 2007) that many, if not all, of the loans provided under the guarantee up to 3/31/07 were placed under the guarantee retroactively by BD in Jakarta—i.e., not consciously provided under the guarantee by branch loan officers? Is that correct? If so, how many of those loans? All of them?

13. How does BD/DSP or its loan officers decide whether to put loans under the guarantee coverage? What factors does it consider?

14. We understand that BD/DSP did try more recently to put some new loans under the guarantee coverage, but they were consumer loans, and DCA did not permit this because the loans are supposed to be for productive uses, not consumer uses. Were these loans directed toward the guarantee coverage by your loan officers or by BD/DSP headquarters? If the former, did BD/DSP train loan officers as to the purpose of the guarantee and which kinds of loans to put under coverage?

15. As a matter of course, does BD/DSP make consumer loans outside the guarantee coverage?

16. Here are some data that we have. Can you help us fill in the boxes that are blank?

Pre-, During- and Post-Guarantee Data for Bank Danamon's DSP

	Pre-Guarantee (circa May 2005) (from Reference #1)	**During Guarantee (September 2005-September 2008) (See Note 1)**			
		Overall	**Aceh**	**N. Sumatra**	
Average loan size	Rp 26 million ($2,800)	Loans under guarantee: Average $1,701 Loans not under guarantee: ____ Average for all loans: ________			
Loan tenor	Ranged from 24-60 months, with 78% being 24 months	Loans under guarantee: 670 days (approximately 22 months) Loans not under guarantee: ________ Average for all loans: _______			
No. of borrowers (in 2004)	46,711	Loans under guarantee: 7978 + Loans not under guarantee: Total:			
Loan portfolio	Rp 544 billion	Cumulative			

	Pre-Guarantee (circa May 2005) (from Reference #1)	During Guarantee (September 2005-September 2008) (See Note 1)			
		Overall	**Aceh**	**N. Sumatra**	
value (2004) Loans outstanding (March 2005)	Rp 1,098 billion (in Aceh and North Sumatra Rp 18 billion)	Utilization under the guarantee: $13,573,063 Value of non-guarantee loans: ________ Total: ________			
Interest rate	Ranging from 3.0% per month for smallest loans (<Rp 10 million, or $1,052) to 1.5% per month for largest (Rp 50-500 million, or $5,259 to $52,587) (See Note 2)				
Collateral	For majority of borrowers: title to kiosk. For non-kiosk owners: good character (e.g., good payment history of bills, and ability to repay based on a cash-flow analysis) (See Note 2)				
Note 1: Bank Danamon has not entered any new loans under the guarantee after 3/31/07.					

	Types of DSP Loans to MSEs Prior to the Guarantee (from Reference 1)					**Types of DSP Loans to MSEs Covered Under the Guarantee (from Biennial Review)**		
	DP 10	DP 20	DP 50	DP200		Dana Siaga	Dana Talangan	Dana Pinjam 50
Size	Rp. <10 million (<$1,052) See Note	Rp. <20 million (<$2,103)	Rp. 20-50 million ($2,103-$5,259)	Rp. 50-500m ($5,259-$52,587)		2-4 times saving average balance during prior 6 mos. or Rp. 10mil	Rp. 1-10 million	Rp. 1-50 million

	Types of DSP Loans to MSEs Prior to the Guarantee (from Reference 1)				**Types of DSP Loans to MSEs Covered Under the Guarantee (from Biennial Review)**		
	DP 10	DP 20	DP 50	DP200	Dana Siaga	Dana Talangan	Dana Pinjam 50
Tenor							
Interest Rate	3.0%/mo.	2.5%/mo.	2.0%/mo.	1.5% /mo.			
Collateral	For majority of borrowers: title to kiosk. For non-kiosk owners: good character (e.g., good payment history of bills, and ability to repay based on a cash-flow analysis)						
	None—lending based on character and capacity to pay	land/property title, other assets	land/property title, other assets	land/property title, other assets			
Securitized?	No	No	No	Yes	No	?	Yes
Note: As of May 2005, $1 = 9,508 Rp.							

17. Considering the 7978 loans placed under coverage, would BD/DSP have extended loans to those borrowers without guarantee coverage? Why or why not?

    a. If yes, would the loan have been for a lower value without guarantee coverage? If yes, why did the DCA guarantee affect loan size?

    b. If yes, would the tenor of the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect loan tenor?

    c. If yes, would the interest rate on the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect the interest rate?

18. Can you give us data (or an educated estimate) on how many of the 7978 loans were to new BD/DSP borrowers (i.e., borrowers who had never borrowed from BD/DSP before the guarantee)?

19. Can you give us data (or an educated estimate) on how many of those 7978 loans were multiple loans to same borrowers (i.e., a borrower getting more than one guarantee-covered loan)?

20. Have any borrowers received any loans subsequent to their loan covered by the guarantee that were not covered by the guarantee?
    a. If yes, how many?
    b. If not, why not?

Questions 3a

21. To what extent, if any, did the DCA guarantee increase access to credit in the target sectors within BD/DSP but outside of the guarantee coverage? How?

22. On a scale from one to five where one is "not at all" and five is "a great deal", to what extent was the DCA guarantee responsible for increasing access to credit for the target sectors within BD/DSP but outside of DCA coverage?

Questions 3b (if applicable)

23. What factors associated with the DCA guarantee were responsible for increasing access to credit in the target sector outside of the guarantee coverage? For example, did TA, staff training, revised bank strategy, improved procedures, or other factors associated with the DCA guarantee help increase access to credit? If so, how? How important were each of these factors?

24. Are there other factors, other than the guarantee, that could explain improved access to credit for MSEs, especially those in Aceh and N. Sumatra? If so, what are those factors? Please explain.

25. Could Bank Danamon have done a better job of disseminating DCA guarantee results into its broader portfolio in the target sectors? How?

Questions 4a/4b (not applicable, unless BD/DSP considers the book closed on loans under the guarantee)

26. Has Bank Danamon targeted any new market segments (industries, sectors, or types of borrowers) since the DCA guarantee? Explain.

    a. If so, to what extent did the DCA guarantee influence the decision to target new market segments? How?
    b. On a scale from one to five where one means "not at all" and five means "a great deal", to what did Bank Danamon's DCA guarantee influence Bank Danamon's decision to target new market segments?

Questions 5a/5b

27. Did any banks other than Bank Danamon increase their lending to the MSEs, especially in Aceh and N. Sumatra?

    a. If so, to what extent, if any, did the DCA guarantee to Bank Danamon influence these banks' decisions? How?
    b. What other factors, if any, might have been responsible for other banks' increasing lending to the target sectors? Please explain.

28. On a scale from one to five where one means "not at all" and five means "a great deal", to what extent did Bank Danamon's DCA guarantee influence increased lending to the target sector by other banks?

Questions 6a/6b/6c

29. Did access to loans, or loan terms, improve for the target sector?
    a. If so, how?
    b. If so, to what extent was the DCA guarantee to Bank Danamon responsible for the improved access? How?
    c. What other factors may have influenced access to credit for the target sector? How?
    d. On a scale from one to five where one means "not at all" and five means "a great deal", to what extent was the Bank Danamon DCA guarantee responsible for increased access to loans in the target sectors?
    e.
30. Could Bank Danamon's DCA guarantee have had a greater impact on access to credit in the target sectors? If so, how?

Questions about the Defaults:

31. Here are some data on non-performing loans (NPLs) that BD provided in response to a DCA survey on the impact of the global economic crisis in late 2008:

Non-Performing Loans

Overall Bank Loan Portfolio	12/31/2006	12/31/2007	12/31/2008
Non-performing loans as a % of gross loan portfolio	3.3% (consolidated NPL – gross)	2.2% (consolidated NPL-gross)	2.3% (consolidated NPL-gross)

DCA Portfolio at Risk	9/30/2008 (CMS-Reported Data)	12/31/2008
DCA-guaranteed loans that are more than 30 days in arrears, as a % of total DCA loans as of 12/31/2008	**49.43** %	36.82 %
Number of DCA-guaranteed loans that are more than 30 days in arrears	**899**	566

Has the 49.43% of DCA-guaranteed loans that are more than 30 days in arrears increased or decreased since 12/31/08? If so, why?

32. The problem of NPLs under the guarantee were apparently not a problem as of April 2007, when Sashi Selvendran did a biennial review. (As of the March 2007 semiannual report, of the over 4,000 loans under coverage at that time, approximately 4% of loans were past due.) Why, as of 12/31/08, were so many DCA-guaranteed loans more than 30 days in arrears?

33. How does BD/DSP try to recuperate overdue loans?

34. Is that approach any different for the DCA-guaranteed loans compared to loans in general?

For Q. 9

Basic Utilization Data for Bank Danamon's Guarantee (Start Date 9/26/09) (from the CMS)

Date of Posted New Activity—Quarter ending…	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
3/31/06	228	$267,344	1.63%
9/30/06	4582	$8,984,599	54.78%
3/31/07	7978	$13,571,952	82.76%
No new activity after 3/31/07			

For Q. 16

Pre-, During- and Post-Guarantee Data for Bank Danamon's DSP

	Pre-Guarantee (circa May 2005) (from Reference #1)	During Guarantee (September 2005-September 2008) (See Note 1)			
		Overall	**Aceh**	**N. Sumatra**	
Average loan size	Rp 26 million ($2,800)	Loans under guarantee: Average $1,701 Loans not under guarantee: ____ Average for all loans: ________			
Loan tenor	Ranged from 24-60 months, with 78% being 24 months	Loans under guarantee: 670 days (approximately 22 months) Loans not under guarantee: ________ Average for all loans: _______			
No. of borrowers (in 2004)	46,711	Loans under guarantee: 7978 + Loans not under guarantee: Total:			
Loan portfolio value (2004) Loans outstanding (March 2005)	Rp 544 billion Rp 1,098 billion (in Aceh and North Sumatra Rp 18 billion)	Cumulative Utilization under the guarantee: $13,573,063 Value of non-			

	Pre-Guarantee (circa May 2005) (from Reference #1)	During Guarantee (September 2005-September 2008) (See Note 1)			
		Overall	**Aceh**	**N. Sumatra**	
		guarantee loans: ________ Total: ________			
Interest rate	Ranging from 3.0% per month for smallest loans (<Rp 10 million, or $1,052) to 1.5% per month for largest (Rp 50-500 million, or $5,259 to $52,587) (See Note 2)				
Collateral	For majority of borrowers: title to kiosk. For non-kiosk owners: good character (e.g., good payment history of bills, and ability to repay based on a cash-flow analysis) (See Note 2)				
Note 1: Bank Danamon has not entered any new loans under the guarantee after 3/31/07.					

	Types of DSP Loans to MSEs Prior to the Guarantee (from Reference 1)					Types of DSP Loans to MSEs Covered Under the Guarantee (from Biennial Review)		
	DP 10	DP 20	DP 50	DP200		Dana Siaga	Dana Talangan	Dana Pinjam 50
Size	Rp. <10 million (<$1,052) See Note	Rp. <20 million (<$2,103)	Rp. 20-50 million ($2,103-$5,259)	Rp. 50-500m ($5,259-$52,587)		2-4 times saving average balance during prior 6 mos. or Rp. 10mil	Rp. 1-10 million	Rp. 1-50 million

	Types of DSP Loans to MSEs Prior to the Guarantee (from Reference 1)				Types of DSP Loans to MSEs Covered Under the Guarantee (from Biennial Review)		
	DP 10	DP 20	DP 50	DP200	Dana Siaga	Dana Talangan	Dana Pinjam 50
Tenor							
Interest Rate	3.0%/mo.	2.5%/mo.	2.0%/mo.	1.5% /mo.			
Collateral	For majority of borrowers: title to kiosk. For non-kiosk owners: good character (e.g., good payment history of bills, and ability to repay based on a cash-flow analysis)						
	None—lending based on character and capacity to pay	land/property title, other assets	land/property title, other assets	land/property title, other assets			
Securitized?	No	No	No	Yes	No	?	Yes
Note: As of May 2005, $1 = 9,508 Rp.							

For Q. 31

Non-Performing Loans

Overall Bank Loan Portfolio	12/31/2006	12/31/2007	12/31/2008
Non-performing loans as a % of gross loan portfolio	3.3% (consolidated NPL – gross)	2.2% (consolidated NPL-gross)	2.3% (consolidated NPL-gross)

DCA Portfolio at Risk	9/30/2008 (CMS-Reported Data)	12/31/2008
DCA-guaranteed loans that are more than 30 days in arrears, as a % of total DCA loans as of 12/31/2008	**49.43** %	36.82 %
Number of DCA-guaranteed loans that are more than 30 days in arrears	**899**	566

Bank Danamon/DSP Borrowers Interview/Survey Guide

Date of Interview: ___________________   Interviewer(s): ____________________________

Name of Interviewee(s) (optional): ____

If no name: ID number: ___________________

Intro: We are doing a study of loans to small business owners in Indonesia, for the U.S. Agency for International Development. In this part of the study, we are talking to business owners like you to learn about your experience with a loan (or loans) you have received from Danamon Simpan Pinjam (DSP). We are not going to ask you about repayment of the loan, only about your experience with getting a loan (or loans) from DSP.

Whatever you tell us will be confidential. We will not share your specific information or your name with anyone. When we report our results, we will talk about all borrowers, never about you specifically.

This interview will take only about 10-15 minutes, and we appreciate very much the time you are giving to us. Do you have any questions before we begin?

Q 1: After the tsunami, did you get one or more grants from any organization to help you deal with the crisis?
Yes: ____   No: ____

IF YES, GO TO QUESTION 2…

IF "NO," SKIP TO QUESTION 3 ON THE NEXT PAGE.

Q 2: For each grant you received, please tell us who gave you the grant, when you received it, and how much money you received:

GRANT	ORGANIZATION	MONTH/YEAR	AMOUNT
1st grant			
2nd grant (if any)			
3rd grant (if any)			

Q 3: When did you start looking for a loan for your business?
Month/Year: ________________

Q 4: Since the tsunami, how many loans have you received from <u>any lender</u> to help rebuild your business?
Number: _____   Does not know or cannot recall _____

IF ONLY ONE LOAN, SKIP TO Q 9.
IF MORE THAN ONE LOAN, SKIP TO Q 6.

IF DOES NOT KNOW OR CANNOT RECALL, GO ON TO Q 5…

Q 5: DSP records show that you received at least one loan from DSP since the tsunami. Do you remember getting a loan from DSP?
Yes: ____ No: ____

IF "YES," SKIP TO Q 9. IF "NO," END THE INTERVIEW AND THANK THE PERSON FOR HER/HIS TIME.

Q 6. Did you receive all of those loans from Danamon Simpan Pinjam? Yes ___ No ___

IF "YES," SAY "I WOULD LIKE TO TALK ABOUT THE FIRST LOAN YOU RECEIVED FROM DSP AFTER THE TSUNAMI." THEN GO TO Q 9.

IF "NO," GO ON TO Q 7…

Q 7. From what other source(s) did you also receive a loan? Check all that apply:
____ another commercial bank
____ a non-commercial bank organization
____ a friend or relative
____ other Specify: ____

Q 8. Considering the loan from DSP and the other loans you have received, how does your loan from DSP compare to those loans?

	DSP loan was better	DSP loan was neither better nor worse	DSP loan was worse	Don't know/No opinion
Amount of loan I could get to meet my needs				
Length of time to repay				
Interest Rate				
Collateral requirements				
Convenience of location for applying and paying				
Ease in applying for the loan				
Other: ____________________ ________________________ ________________________				

	DSP loan was better	DSP loan was neither better nor worse	DSP loan was worse	Don't know/No opinion

Comments:

GO TO Q 13.

Q 9. Before getting your loan from Danamon Simpan Pinjam, did you go to any other sources to ask about or apply for a loan?

Yes: ____ No: ____

IF "YES," GO TO Q 11. IF "NO," GO ON TO Q 10…

Q 10. Why didn't you go to any other possible loan sources?

Q 11. What other sources did you go to ask about or apply for a loan? CHECK ALL THAT APPLY…

____ another commercial bank
____ a non-commercial bank organization
____ a friend or relative
____ other Specify: ____

Q 12. Why did you end up with a loan from Danamon Simpan Pinjam?

	Check all that apply:	Please explain/give details…
No other lender would give me a loan		
Amount of loan I could get from DSP was better for my needs		
The length of time that DSP allowed me to repay the loan was better		
The DSP interest rate was better		
DSP's collateral		

	Check all that apply:	Please explain/give details…
requirements were better		
DSP's <u>location</u> for applying and paying was better		
It was easier to apply for the loan with DSP		
Other:		

Comments:

Q 13. Do you have any more comments about the process, terms, and your experience with your loan from Danamon Simpan Pinjam?

THANK YOU VERY MUCH. THIS HAS BEEN VERY HELPFUL. WE WISH YOU WELL WITH YOUR BUSINESS IN THE FUTURE.

MFI Interview Guide

1. Can you tell us a little about _____ and what _____ does?
    a. When and why was _____ created?
    b. What is _____'s role with respect to MFIs?
    c. How broadly does _____ represent the MFI sector?

2. How do commercial banks view MFIs – competitors/clients? If clients, how classified (i.e., MSE)?

3. Where do MFIs get their capital – private or donor financing, deposits?
    a. Which banks provide private financing?
    b. What are terms of private financing (interest rates, collateral, tenor)? Has this changed over time from pre-tsunami to the present?
    c. Constraints to accessing capital?
    d. Trends in access to capital in tsunami-affected areas (Aceh, N. Sumatra and Yogyakarta Provinces) from pre-tsunami to the present? Private versus donor.

4. Trends in MFI lending from pre-tsunami to the present– volume, clients, terms, sectors.

5. What factors have most influenced access to credit for MFIs during that period?

6. What role have loan guarantees played in increasing access to credit during that period?

7. Can you tell us what you know about Bank Danamon's operations and policies with respect to lending to micro, small and medium enterprises through its Danamon Simpan Pinjam (DSP)? What role has BD/DSP played vis-à-vis other lenders to MSEs, both nationwide and particularly in the tsunami-affected areas?

8. How familiar are you with a USAID/DCA loan guarantee to Bank Danamon/DSP in response to the tsunami and earthquake (guarantee started in September 2005 and is to end in September 2012)? If you are familiar with it, can you tell us what impact that guarantee has had on access to credit in both the tsunami-affected areas and nationwide?

9. Did MFIs increase their lending to the MSEs in both the tsunami-affected areas and nationwide during the period from September 05 to the present?

10. Do you think that Bank Danamon/DSP's activity – and the fact that it had a loan guarantee -- during that period had any effect on other lenders, i.e., other banks and MFIs?

11. Are there other factors, other than the Bank Danamon guarantee, that could have led to improved access to credit for the target sectors? If so, what are those factors? Explain.

12. Did loan terms (interest rates, collateral requirements, loan tenor, improve for MSEs (particularly in tsunami-affected provinces) from September 05 to the present? If so, how?

13. If so, do you think the DCA guarantee to Bank Danamon had any impact on those changes? What other factors may have influenced access to credit for the target sector? How?

14. Could Bank Danamon's DCA guarantee have had a greater impact on access to credit in the target sectors? How?

Banking Associations Interview Guide

<u>Questions 1b</u>

1. Did Bank Danamon actively market guaranteed loans?
2. Did the terms Bank Danamon offered on guaranteed loans differ from those on loans that were not guaranteed? How? Why?
3. Did Bank Danamon train staff specifically to assess borrowers for DCA-covered loans? How?
4. Did Bank Danamon do anything else to implement the loan guarantee programs? Describe?

<u>Questions 2a 1</u>

5. Are the characteristics of borrowers and loans made under the DCA coverage different than those made outside the DCA coverage (e.g., sectors, interest rates, tenors, collateral requirements)?
    a. If yes, how are they different?
    b. If yes, to what extent was the DCA coverage responsible for the difference and how was it responsible? (scale question?)
6. Are there other factors that might have influenced Bank Danamon to make these loans without the guarantee? What factors? Explain.
7. Could Bank Danamon have improved access to credit to MSEs, especially in Aceh and N. Sumatra more by using the DCA guarantee differently? How? Explain.

<u>Questions 3a</u>

8. To what extent did the DCA guarantee increase access to credit to MSEs, especially in Aceh and N. Sumatra, within Bank Danamon but outside of the guarantee coverage? How?
9. On a scale from one to five where one is "not at all" and five is "a great deal", to what extent was the DCA guarantee responsible for increasing access to credit to MSEs, especially in Aceh and N. Sumatra, within Bank Danamon but outside of DCA coverage?

<u>Questions 3b</u>

10. What factors associated with the DCA guarantee were responsible for increasing access to credit to MSEs, especially in Aceh and N. Sumatra, outside of the guarantee coverage? For example, did TA, staff training, revised bank strategy, improved procedures, or other factors associated with the DCA guarantee help increase access to credit? If so, how? How important were each of these factors?

11. Are there other factors, other than the Bank Danamon guarantee, that could have improved access to credit to MSEs, especially in Aceh and N. Sumatra? If so, what are those factors? Explain.
12. Could Bank Danamon have done a better job of disseminating DCA guarantee results into its broader portfolio in the target sectors? How?

<u>Questions 4a/4b</u>

13. Has Bank Danamon targeted any new market segments (industries, sectors, or types of borrowers) since the DCA guarantee? Explain.
    a. If so, to what extent did the DCA guarantee influence the decision to target new market segments? How?
    b. On a scale from one to five where one means “not at all” and five means “a great deal”, to what did Bank Danamon’s DCA guarantee influence Bank Danamon’s decision to target new market segments?

<u>Questions 5a/5b</u>

14. Did any banks other than Bank Danamon increase their lending to the target sectors?
    c. If so, to what extent did the DCA guarantee to Bank Danamon influence these banks’ decisions? How?
    d. What other factors, if any, might have been responsible for other banks’ increasing lending to the target sectors? Explain.
15. On a scale from one to five where one means “not at all” and five means “a great deal”, to what extent did Bank Danamon’s DCA guarantee influence increased lending to the target sector by other banks?

<u>Questions 6a/6b/6c</u>

16. Did access to loans, or loan terms, improve for the target sector?
    a. If so, how?
    b. If so, to what extent was the DCA guarantee to Bank Danamon responsible for the improved access? How?
    c. What other factors may have influenced access to credit for the target sector? How?
    d. On a scale from one to five where one means “not at all” and five means “a great deal”, to what extent was the Bank Danamon DCA guarantee responsible for increased access to loans to MSEs, especially in Aceh and N. Sumatra?
17. Could Bank Danamon’s DCA guarantee have had a greater impact on access to credit in those sectors? How?

Donors Interview Guide

Questions 3a

1. To what extent did the DCA guarantee increase access to credit to MSEs, especially in Aceh and N. Sumatra, within Bank Danamon but outside of the guarantee coverage? How?
2. On a scale from one to five where one is "not at all" and five is "a great deal", to what extent was the DCA guarantee responsible for increasing access to credit for to MSEs, especially in Aceh and N. Sumatra, within Bank Danamon but outside of DCA coverage?
3. What other factors may have affected access to credit since September 2005?

Questions 5a/5b

4. Did any banks other than Bank Danamon increase their lending to the target sectors?
    a. If so, to what extent did the DCA guarantee to Bank Danamon influence these banks' decisions? How?
    b. What other factors, if any, might have been responsible for other banks' increasing lending to the target sectors? Explain.
5. On a scale from one to five where one means "not at all" and five means "a great deal", to what extent did Bank Danamon's DCA guarantee influence increased lending to the target sector by other banks?

Questions 6a/6b/6c

6. Did access to loans, or loan terms, improve for the target sector?
    a. If so, how?
    b. If so, to what extent was the DCA guarantee to Bank Danamon responsible for the improved access? How?
    c. What other factors may have influenced access to credit for the target sector? How?
    d. On a scale from one to five where one means "not at all" and five means "a great deal", to what extent was the Bank Danamon DCA guarantee responsible for increased access to loans in the target sectors?
    e. Could Bank Danamon's DCA guarantee have had a greater impact on access to credit in the target sectors? How?

Bank of Indonesia (Central Bank) Interview Guide

1. To start with, perhaps you could give us some background on the private sector's access to credit in Indonesia.
    a. Do, or have, banks had sufficient liquidity to serve private sector credit needs?
    b. Are banks willing to lend to the private sector?
    c. What have been the key factors affecting private sector access to credit in Indonesia?
    d. Have interest rates, loan tenors, or collateral requirements changed much over time?
2. We are particularly interested in MSEs and their access to credit. We understand that this is limited. Is this true?
    a. What are the key constraints to MSEs access to credit?
3. Has access to credit for MSE's improved?
    a. If so, what are the key factors responsible for increasing SME access to credit?
4. Do you think USAID's DCA loan guarantee to Bank Danamon had any impact on increasing access to credit for MSEs?
5. Are there any historic data on lending to MSEs, volume and value?
6. I'm trying to put together an historic picture (September 2005-present) of private sector lending in Indonesia using data from the BoI. Which data series would best represent DMB bank holdings of government debt?
7. Are you aware of any data on lending by institutions that are not DMBs?

Annex E – Contact List

Name	Title	Organization
Washington:		
Alison L. Eskesen	Project Development Team Leader	EGAT/DC
Sashi Selvendran		EGAT/DC
Jakarta:		
Walter North	Mission Director	USAID/Indonesia (courtesy call)
John A. Pennell	Director	Economic Growth Office, USAID/Indonesia
Joseph B. Goodwin	Senior Economic Growth Advisor	Economic Growth Office, USAID/Indonesia
Firman B. Aji	Senior Private Sector Development Advisor	Economic Growth Office, USAID/Indonesia
Anastasia Liu	Economist	Economic Growth Office, USAID/Indonesia, on loan from USAID/EGAT (Washington)
Raya Soendjoto	Program Management Specialist	Economic Growth Office, USAID/Indonesia
Anna Juliastuti	CTO for AMARTA Project	Economic Growth Office, USAID/Indonesia
Dina Syarifa	Former USAID/Indonesia official responsible for monitoring the Bank Danamon Loan Guarantee	(formerly in the USAID/Indonesia/ Economic Growth Office, currently at Asia Development Bank)
Juwono Akuan Rokanta	Senior Vice President	Bank Danamon—Head Office: Self-Employed Mass Market Division
Maria Vincensia	SEMM Credit Policy Head	Bank Danamon—Mass Market Division
Andre Setiawan	Credit Policy & Alignment Manager	Bank Danamon—Head Office: Self-Employed Mass Market Division
Linda Kirana	Credit Policy & Alignment	Bank Danamon—Head Office: Self-Employed Mass Market Division
Ikatri Meynar Sihombing	Executive Director	Microfinance Innovation Center for Resources & Alternatives (MICRA)
Sidqy L.P. Suyitno	Director	Directorate of Financial Services and Monetary Analysis, The State Ministry of National Development Planning/National Planning Agency
Rio Sandi	Senior Manager	PT Bina Insan Sejantera Mandiri (BISMA)

Name	Title	Organization
Freddy Tamira	Investment Manager	PT Bina Insan Sejantera Mandiri (BISMA)
Titus K. Kurniadi	Deputy General Secretary	GEMA PKM Indonesia (The Indonesian Movement for Microfinance Development)
Ratna E. Amiaty (and four staff)	Director, Directorate of Credit, Rural Bank and MSME	Bank Indonesia
Ashok Malkarnekar	Technical Advisor, Promotion of Small Financial Institutions (ProFI)	German Technical Cooperation (GTZ)
B.S. Kusmuljono	Chairman	National Committee for Microfinance Development, Republic of Indonesia (INCEM); also Independent Commissioner, PT Bank Rakyat Indonesia (Persero) Tbk.
Aceh Province (Banda Aceh and Surroundings):		
Tim Anderson	Director, Aceh Reconstruction and Rehabilitation Office	USAID/Banda Aceh
Yuhelmy Kaban	Program Management Assistant	USAID/Banda Aceh
Pieter Smidt	Head of Extended Mission in Sumatra	Asia Development Bank
Richard Beresford	Implementation…., ADB Tsunami Restructuring Program	Asia Development Bank
Rizal (did not get his last name)	Microfinance…	Asia Development Bank
Syaukani	Cluster Manager	Bank Danamon, NAD Cluster (which includes Pasar Lambaro, Neusu, and six other Units/Branches)
Syarifuddin	Unit/Branch Manager	Bank Danamon, Pasar Lambaro Unit (Branch), in Aceh
Dudy Hendrawan	Unit/Branch Manager	Bank Danamon, Pasar Neusu Unit (Branch), in Aceh
Six borrowers with loans under the DCA guarantee	Two from Pasar Neusu Unit; four from Pasar Lambaro Unit	Various micro-enterprises

Annex F – Aceh Loans Placed Under the Guarantee

Loans under the guarantee in Aceh, by unit and year[1]

Unit		10-12/ 2005	2006	2007	2008	1-3/ 2009	Total
PSR Bireuen	**No. of Loans**	0	50	40	0	1	91
	Value of Loans[2]	0	$125,495	$40,983	0	$3,132	$169,610
PSR Kuala Simpang NAD	**No. of Loans**	0	109	71	0	1	181
	Value of Loans	0	$137,747	$56,593	0	$2,143	$196,483
PSR Lambaro NAD	**No. of Loans**	0	70	6	0	3	79
	Value of Loans	0	$166,782	$5,824	0	$11,440	$184,046
PSR Langsa NAD	**No. of Loans**	0	138	32	0	4	174
	Value of Loans	0	$202,692	$27,582	0	$2,527	$232,801
PSR Lhokseum Awe NAD	**No. of Loans**	0	74	42	0	3	119
	Value of Loans	0	$140,549	$47,637	0	$3,846	$192,032
PSR Neusu Banda Aceh	**No. of Loans**	0	82	42	0	4	128
	Value of Loans	0	$136,813	$57,136	0	$2,088	$196,037
Total	**No. of Loans**	**0**	**523**	**233**	**0**	**16**	**772**
	Value of Loans	**0**	**$910,078**	**$235,755**	**0**	**$25,176**	**$1,171,009**

Source: Data recently submitted by DSP in response to a request from EGAT/DC (August, 2009)

[1] There are discrepancies between these data and those provided in Table 5 on page 28 of the main report. For example, the total number of guaranteed loans in Aceh is 772 here vs. 793 in Table 5. Both sets of data were created by DSP staff. Given that the data in Table 5 are based on detailed semi-annual Excel files that DSP submitted to EGAT/DC and the data here were quickly assembled in response to a request, we have more faith in the accuracy of the former. We suspect, however, that the number of branches here is accurate, as it seems unlikely that the missing 21 loans would have come from another branch, given the much larger numbers of loans per branch reported here.

[2]DSP reported value in Rp. Conversion rates varied slightly overtime; we used Rp. 9,100 = $1 for all values in the table.