YOUR IMPACT THROUGH MICROFINANCE: INDONESIA

IMPACT REPORT, OCTOBER 2020

STRATEGIC DIRECTION

With economic growth expected to slow dramatically and two million people having lost their jobs in six weeks due to the economic fallout caused by the response to COVID-19, Indonesia's Finance Minister, Sri Mulyani Indrawati, told parliament, "All of our achievement in reducing the poverty rate between 2011–2020 is reversed". Unfortunately, his dire predictions have come to pass with Indonesia's economy shrinking by 5.32 per cent in the first half of 2020 to the weakest position in two decades as investments and household spending contracted as public health measures to contain the spread of COVID-19 hit the economy, starting when schools and offices were closed in late March.

Opportunity International Australia's microfinance partners responded to the crisis with a two-week repayment holiday for clients when operations were closed down in March. Opportunity's partners responded to the crisis by disseminating information about how to prevent the spread of COVID-19 to staff and clients. Hand sanitiser, masks and disinfectant spray to clean surfaces were distributed to staff and clients. Further relief was provided to clients such as food packages and subsidies for electricity costs.

Terms of the loans were eased—for example repayment frequency decreased—to give clients relief as business income plummeted. In turn, Opportunity's partners also requested relaxed loan terms from their creditors. Opportunity was able to provide relief to our partners by rolling over existing loans and suspending the bulk of interest repayments until next year.

Until the end of 2020, Opportunity's microfinance partners in Indonesia will focus on rescheduling loans for borrowers who had viable businesses before the pandemic. Effectively, the loan terms will be extended to stimulate the recovery of their livelihoods as restrictions are eased and the economy recovers. Efforts will be made through training to build the capacity of borrowers to recover from the economic shock of COVID-19. For example, clients have been trained in how to produce and sell masks, and training will be provided to borrowers to equip them to facilitate transactions online so that they can adapt to the loss of face-to-face selling.

1,214,407
families in Indonesia are currently accessing small loans and financial services

100%
operational sustainability*

5.1%
portfolio at risk (PAR)*

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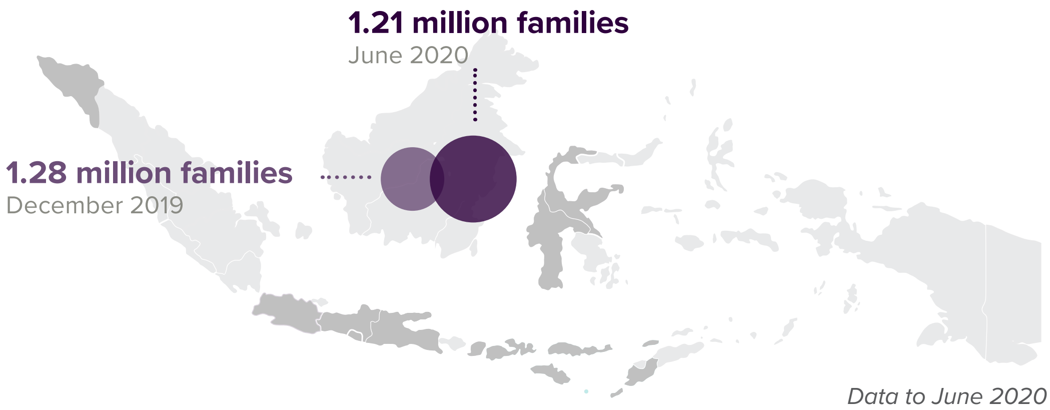

PARTNER PERFORMANCE

For more than five years, Opportunity International Australia's four microfinance partners in Indonesia have maintained a 30 per cent growth in the number of people they serve. By June 2020, they were **reaching 1,214,407 families** with small loans and financial services. This has decreased by 66,207 families since December 2019 and the reduction in number of active borrowers is directly attributable to the negative economic impact due to COVID-19. Efforts will be made in the second half of 2020 to reinstate borrowers that had viable businesses before the economic downturn due to COVID-19.

Overall, Opportunity's microfinance partners in Indonesia have maintained an **operational self-sustainability of 100 per cent**, meaning they have managed to cover the cost of their lending programs with the revenue earned from its lending program. During this period of pressure on their revenue due to borrowers not being able to make their repayments on time or in full, the microfinance institutions have been able to reduce their operating expenses and negotiate delayed repayments to their creditors, including Opportunity.

Some of Opportunity's partners cut operating expenses by instituting reduced working hours (including alternating three-day and four-day work weeks). Even so, some staff have been laid off, and travel allowances were reduced when travel restrictions were put in place and loan officers were unable to travel to group meetings with borrowers. Collections were facilitated through the group leaders and the loan officers so that community contact was kept to a minimum. As restrictions are eased, collections at group meetings are resuming.

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Indicating the amount of outstanding loans that may not be repaid, **Portfolio at Risk (PAR) has worsened to 5.1 per cent** compared with only two per cent in December 2019.

Again, this is directly attributed to borrowers being unable to make their repayments on time mainly due to the economic downturn and their loss of income as a result of public health measures put in place to constrain the spread of COVID-19.

	FAMILIES REACHED	LOANS OUTSTANDING A$'000	OPERATIONAL SUSTAINABILITY*	PORTFOLIO AT RISK >30 DAYS*
KOMIDA	699,317	$157,257	92.76%	4.05%
BAV	377,711	$108,401	112%	5%
TLM Co-operative	102,019	$14,097	104.64%	9.75%
YCAB	35,360	$3,409	99%	36%
	1,214,407	**$283,162**	**100%**	**5.09%**

Data to June 2020

* **Portfolio at risk (PAR)** is a stringent measure of a microfinance institution's loan portfolio quality. The portfolio at risk calculates the total value of outstanding loan balances for loans, for every payment that is overdue by more than 30 days. **Operational self-sustainability (OSS)** is the ability of an organisation to cover the costs of its lending program with the revenue earned from its lending program.

This project is supported by the Australian Government through the Australian NGO Cooperation Program (ANCP).

VOICE FROM THE PROGRAM

VERONIKA'S STORY

Veronika is a single mother of four who lives in East Nusa Tenggara (NTT), the southernmost and third poorest province in Indonesia, where the proportion of people living in poverty hovers around 20–22 per cent – double the national rate.

Two months ago, Veronika received a loan form one of Opportunity's partner microfinance institutions to buy more materials needed to grow her business – weaving traditional cloth that is used to make clothing for special events in the community.

Veronika needed to use some of the loan funds to cover her household's basic needs during the hard times of the COVID-19 pandemic.

While the reported COVID-19 infection rate in NTT is relatively low, the local authorities imposed social restrictions in March to prevent further spread of the virus. These included the prohibition of weddings and other social gatherings, including closing local markets.

These measures had a hugely negative impact on Veronika's income which fell by 50 per cent due to the pandemic.

From April–June, Veronika was able to access income support from the government of IDR600,000 (AUD56) per month to make up for the shortfall in her earnings. Since July, this income support has been halved. In addition, she receives IDR75,000 (A$7.00) per month through another government poverty assistance program because her youngest son was attending primary school until the schools were closed in March to contain the spread of COVID-19.

As NTT is a low-risk area, there is hope that the primary schools will be reopened again by the end of 2020.

Since July, social restrictions have eased in NTT with weddings and other social events permitted again. Veronika holds out hope that her sales will increase as demand for her woven fabric goes up as events resume and her business will get back on its feet with the help of the business financing provided through the microfinance loans.

CASE STUDY

BUILDING RESILIENCE IN OPPORTUNITY'S PARTNERS TO WEATHER THE STORM

Like past external shocks, COVID-19 has had a significant impact on the microfinance sector. These impacts include significant decreases in loan disbursements and collections as restrictions on gatherings and movement make it extremely challenging for loan officers and borrowers to meet; disruptions to growth plans and declines in Operational Self-Sustainability (OSS) of microfinance institutions; significant numbers of borrowers who were unable to make their loan repayments on time as markets shut down and clients' businesses struggled to stay afloat.

Early on in the pandemic, Opportunity's microfinance institutions' (MFIs) operations were suspended for short periods and adjustments were made to operations to respond to the immediate needs of the borrowers, as well as ensuring the safety of staff and clients in the delivery of their services.

However, because Opportunity works with locally-staffed microfinance institutions (MFIs), they are able to continue operating for the most part through the COVID-19 crisis without the disruption of having international staff called back to their home countries.

Opportunity's long history of working with partner MFIs to build their capacity has made those MFIs more resilient to external shocks including COVID-19. For example, Opportunity has supported technical assistance to MFIs in areas including risk management, contingency planning, product design, and credit delinquency management. This has provided our partners with the ability to weather the storm and continue to provide financial services to vulnerable people who need assistance to recover their livelihoods now more than ever.

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Opportunity has been working with our partner MFIs to manage their cashflow through the crisis and ensure their survival. Along with concessions made to the terms of funding we provide. Opportunity has provided support to our partner MFIs to negotiate with their borrowing community to relax some of the conditions of the funding that has been lent to them.

This work is motivated by the hope that our partners will survive and be resilient into the future so that they will continue to provide valuable financial services crucial to the economic recovery of people living in poverty.

"We are far more than lenders to our partners. They look to us because they know we care about them as an organisation. Because we have spent a lot of time with them, we probably know them better than anyone, so we are able to provide capacity building that is targeted on what they really need."

SIMON LYNCH
Community Development and Indonesia Director
Opportunity International Australia

For more information, past reports and client stories, please visit our website:
www.opportunity.org.au/your-impact

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OPPORTUNITY International AUSTRALIA

Don't fight poverty. End it.

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