

**AGENCY FOR INTERNATIONAL DEVELOPMENT
PPC/CDIE/DI REPORT PROCESSING FORM**

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

1. Project/Subproject Number

497-0357

2. Contract/Grant Number

497-C-00-98-00045-00

3. Publication Date

December 2001

4. Document Title/Translated Title

The Malukus and its IDPs, Economy, Financial System, and Prospects

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6. Contributing Organization (s)

Nathan/Checchi Joint Venture/PEG Project

7. Pagination

6

8. Report Number

PEG 101

9. Sponsoring A.I.D. Office

ECG, USAID/Jakarta

10. Abstract (optional - 250 word limit)

11. Subject Keywords (optional)

1. Indonesia
2. Financial system
3. Malukus
4. Small & medium enterprises (SMEs)
5. Internally displaced persons (IDPs)
6.

12. Supplementary Notes

13. Submitting Official

C. Stuart Callison, Chief of Party

14. Telephone Number

011-62-21-520-1047

15. Today's Date

January 24, 2003

.....DO NOT write below this line.....

16. DOCID

17. Document Disposition

DOCRD [] INV [] DUPLICATE []

The Malukus and its IDPs, Economy, Financial System, and Prospects

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December 2001

There is no question that the dominant factor in the future economic development of the Malukus and the welfare of its internally displaced persons (IDPs) is the establishment of physical and political security. Without such security any development efforts will simply be palliative. Nonetheless aspirin as a palliative helps, and steps to assist the functioning of the financial system are also possible and ongoing even while the present turmoil and balkanized economy persists.

The present report consists of several sections as follows:

1. A description of the Maluku Formal Financial System and what potential it has.
2. A description of how this system relates to the enterprise economy -- or the real economy as pretentious macroeconomists often have it.
3. A description of the balkanization of the Malukan economy
4. How all of this relates to Malukan IDPs
5. What to Do

1. A description of the Maluku Formal Financial System and what potential it has.

There are 10 commercial banks with 60 branches, 25 of them Unit Desa of BRI in all of Maluku. There is one BPR (rural bank) the data for which is generally reported together with that for the commercial banks. Commercial banks and BPR have, as of July 2001 1.4 trillion of third party deposits, 1.7 Trillion of assets, and 185 billion of credit outstanding. This represents a 90% decline in credit from early 1998 before the riots. All of this is shown in Table I below.

The residual credit is mostly for consumption purchases and typically secured against the salaries of government employees. What business credit is outstanding is overwhelmingly from the Government Banks (Mandiri, BNI, BTN, BRI, and the BPD). The business credit may be mostly to SME, but some clarification is required. It is heavily for agriculture and trade, and industrial credit has almost disappeared.

¹ The Partnership for Economic Growth (PEG) is a United States Agency for International Development (USAID)-funded Project with the Government of Indonesia. The views expressed in this report are those of the author and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

The radical decline in credit is clearly connected, to a significant extent, with the transfer of NPL to IBRA as well as the overall decline in economic activity. The BPD has been completely recapitalized. Despite the transfer of bad loans to IBRA, NPL levels have risen during the conflict.

A survey of SME recently conducted by UNPATI for Bank Indonesia shows that of a sample of 97 SME, 15 had received institutional credit.²

There is one category of credit which has shown an upward trend -- the KUPADES, microcredit program of BRI, which accounts for a large part of SME lending. KUPADES reports 20 billion of outstanding loans as of the end of September 2001.

In addition to bank credit there is one BPR which has 17 billion of assets and extends roughly 9 billion of credit mostly to consumers. This BPR is highly professional, runs branches in both Christian and Muslim areas, and has plans for opening new subsidiaries in other sections of Maluku and eastern Indonesia.

There are a number of Savings and Loan Cooperatives with a reported level of credit of 692 billion rps in September 1999. These overlap to a certain extent with the numerous NGO Microfinance institutions (MFI). NGO programs are often run through registered or unregistered cooperatives. Though some of these NGO MFI have government sponsors, in distinction from many other areas of Indonesia they are more typically "owned" by independent NGOs, many with some religious coloration. Even the religious NGOs, even with the conflict, frequently serve those of both religions. Of 600 NGOs registered with the Mercy Corps NGO Center of which 100 are quite active, more than 25 work in both communities.

Undoubtedly a variety of sources of funds are involved and a variety of levels of performance are experienced but microfinance has benefited from three large financial infusions. Mercy Corps has provided roughly 1 billion rps to 10 or so programs with a reported repayment rate of 98% and annual interest rates of 60% more or less. The Ministry of Cooperatives has provided considerable sums each year, primarily to cooperatives, 448 million in 2000, 1.4 billion in 2001 - they say 75% as credit fund, the rest for administration. The Community Reconstruction Project, a UNDP funded effort, run by a consortium of the country's larger NGOs and chaired by Emil Salim has provided funds for as many as 40-80 microfinance programs in Maluku. An evaluation of 20 of these should be forthcoming in the next several weeks. Most of these programs work as grants in response to applications from local NGOs, who are then reviewed and post-evaluated.

² "Hasil Penelitian Kemungkinan Pemberian Bantuan Teknis Kepada Perbankan Dalam Rangka Pengembangan Usaha Kecil," Bank Indonesia-UNPATI, 2001. The sampling procedure is unclear but it appears to include a total survey of SME (probably registered SME with Depperindag) in particular areas of Ambon City and Island. Thirty units were industrial, 56 commercial and 9 involved in fisheries and agriculture. Eight of the units had credit from BRI, 2 from NGOs, and one each from BNI, Mandiri, the Post Office, the Phone Company, and a Savings and Loan Coop. On BRI borrower received credit of 750 million Rps but the others were all under 100 million and seven 10 million and under. One NGO client received 40,000 Rps. 44 of the units involved only self-employment and 32 less than 2 employees. One had more than 10 employees.

The credit has, so far, been somewhat concentrated in Ambon Island. The exception is CRP for whom only 30% of the grants (and roughly of the money) have been in Ambon, 30% in Southwest Maluku, 15% in North Maluku, 7% in Buru, and 18% in Seram.

Mercy Corps has so far only operated in Ambon, but is about to start operations out of Tual in the Kai Islands in the Southwest and has advanced plans for other southerly regions. BRI is planning to open units in Banda and Saparua (off Ambon) in 2002.

One feature is the presence of PUKK funds, 5% of the profits of state owned enterprises including funds from Bank Mandiri (600 million), BNI, the post office, the phone company, and the electric company. Typically for PUKK funds, the Mandiri funds are lent at 6% a year. PUKK funds tend to be lent at subsidized rates and experience high arrearage. A recent article in *Bisnis Indonesia* reports that more than 50% is in arrears.

Table I Small Credit in Maluku, July 2001 except as noted and in trillion rps

Name	Total Credit	SME incl. Consumer Lending	Consumer Lending	SME Business Lending	Deposits
Banks	.185	.094	.075	.019	1.4
Gov Banks	.123	.085	.068	.015	.9
S & L Coops	.692 (1999)	Almost All			
CRP	.006 (Oct 01)	Almost All			
Mercy Corps	.0009 (Oct 01)	Almost All			
BBM/Menn egKop	.000448 (2000) .0014 (2001)	Almost All			

Date	Deposits	Credit	SME	Consumption	SME Bus
1 st qtr 1998	1.7	2	.285	.118	.167
July 2001	1.4	.185	.094	.075	.015

Area	Credit	Deposits	SME		
Ambon 98	1.8	1.8	.150		
2000	.115		.061		
N. Maluku	.162	.161	.083		
2000					
SW Maluku	.023	.023	.020		
	.024	.024	.017		
Other	.100.050	.050	.032		
	.180.046	.046	.017		

SOURCE: Statistik Ekonomi Keuangan Daerah Propinsi Maluku dan Maluku Utara. Bank Indonesia, Ambon, July 2001 and Regional Profiles in Microfinance, Irfan Abdullah and Tom Timberg, September 2001.

2. A description of how this system relates to the enterprise economy -- or the real economy as pretentious macroeconomists often have it.

Despite the obvious inert credit market and the somewhat more buoyant microcredit market, the economy of Maluku continues to function. The official provincial income statistics actually continue to rise, even in real terms, but that may tell us more about the statistics than the economy. Industry has declined. All sorts of exports have declined as well. This can be clearly seen in Table II below. The plywood plants, which were the economic poles for certain areas are closed, as are most of the fish processing facilities. One cannery in North Maluku is reported to still operate. The general impression is that those fishermen who serve local markets are doing reasonably well, but the lack of transport makes even regional markets inaccessible. Internal transport has frequently disappeared and is always more expensive than previously.

Table II Non Petroleum Exports from Maluku in Million US Dollars

Quarter or Year	Value of Exports	
1996/97 Last Qtr	93	
1998/99 I	118	
II	93	
III	85	
IV	23	
1999/2000 II	16	
III	9	
IV	6	
2000 I	3	
II	7	
III	13	
IV	5	

Commodity	Year 2000	First Quarter of 1997/8
Fish	1	47
Wood	9	61
Ore	17	5
Misc	1	5
Total	28	118

SOURCE: Statistik Ekonomi Keuangan Daerah Propinsi Maluku dan Maluku Utara. Bank Indonesia, Ambon, July 2001. Obviously, there is a shift of the sequence for the quarters occurring.

3. A description of the balkanization of the Malukan economy

More generally, the balkanization of the region because of security problems means that travel is often impossible and always dangerous -- the owners of the launches and speedboats which hold the 1000 islands of the Malukus together expect to be paid for their risks.

Because of the problems of movement of goods, markets have been relocated and frequently bifurcated (duplicated for each religious community). The new and relocated market participants have still to organize their networks. Bankers are reluctant to make loans because the new businessmen do not yet have substantial structures and fixed locations. In the city of Ambon, for example, the many Muslim businessmen from Christian areas have had to relocate and have frequently transferred their businesses to Christians (including the local Padang restaurants). Most of the banks have duplicated their facilities in both areas, but the volume of credit they are extending as noted above is quite small.

Obviously, the reconstruction of a credit system is part of what is needed, but the re-establishment of secure marketing sites, transport, and communication is clearly primary.

4. How all of this relates to Malukan IDP

In all of this it is impressive how seamlessly IDP fit into the new economy. Most have moved small distances and settled with friends and relatives. All NGO MFI sources reported large numbers of IDP borrowers. BRI would generally only loan to them in exceptional circumstances because of its requirement for collateral. Thus more so than in many other areas, even in Indonesia, the social networks for re-establishment of IDP are already in place, and there is little need for special targeting. In fact, though IDP are clearly affected persons, their neighbors are often more affected. Think of two persons, one person a teacher who has had to change her residence but can still commute to the same government school, and a trader who is in place but can no longer access the goods he sold.

5. What to Do

Clearly the priority has to go to re-establishing physical security, transportation and communications connections, and market locations. The reconstruction of financial markets can be forwarded in the following ways:

1. The success of Mercy Corps microfinance efforts suggests that they might be supported to expand -- and expansion is under way. Other international NGOs with experience of microfinance have some interest but have generally not started programs yet. There are exceptions -- particularly the Dutch Cordaid and as noted below.
2. On further evaluation some of the CRP and Cooperative efforts can perhaps also be assisted - perhaps through Mercy Corps.
3. BPR Modern Express and the BRI Unit Desa clearly have room to expand, though it would appear that they are presently focused on consumption credit.

4. Several of the recommendations in this section point to possible synergies with other ECG USAID activities in the Maluku area. Because of the critical nature of certain now closed larger enterprises (plywood factories and fish canneries) perhaps USAID can consult with IBRA and the commercial banks on how they could be revived and used to leverage other especially SME growth. I propose to explore this aspect.
5. In addition, finance for motorboats and other transportation infrastructure is already ongoing (reported by commercial banks) and could be encouraged.
6. The PUKK funds would appear to be diverting the large government banks from serious commercial lending to SME. BRI is not necessarily ready either for such lending. Any increase in their commercial lending to SME or the retail market in general will require decisions within these banks at levels way above those present in the Maluku.

The exceptional fact that microfinance in the Malukus is generally going through NGOs and Cooperatives and the apparent effort by some parties to question the legal basis for this -- mean that the resolution of the legal status of MFI has especial importance for the Malukus. Thus it is important to link NGOs and authorities here with the national dialogue which centers on the draft MFI law. I have already taken steps to do this.