RESEARCH STUDY, FINDINGS AND RECOMENDATIONS

"Youth and Access to Microfinance in Indonesia: **Outreach and Options"**

A study jointly commissioned and financed by ImagineNations Group and The World Bank, co-founding partners of the Global Partnership for Youth Investment

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Abbreviations

ADB – Asian Development Bank
BDSP – Business Development Service Providers (including vocational and entrepreneur training)
BI – Bank of Indonesia
BMT – Baitul Mal & Tanwil (Islamic banking cooperative)
BPR – Bank Perkreditan Rakyat (second-tier community banks, also known as rural banks)
BPRS – BPR operating on Syariah principles
BRR – Aceh Government Reconstruction Agency, involved in MFI funding
BQ – Baitul Qiradh (Islamic banking cooperatives based in Aceh)
BRI – Bank Rakyat Indonesia
CGAP – Consultative Group to Assist the Poorest
FGD – Focus group discussions
GTZ ProFI -
IFC PENSA – International Finance Corporation, Program for Eastern Indonesia SME Assistance Indonesia
ILO – International Labor Organization
JBIC – Japan Overseas Investment Corporation
MFI – Microfinance institutions
MICRA – Microfinance Innovation Center for Resources and Alternatives
NGO – Non-governmental organization
NPL – Non-performing loans, typically measured as a portion of loans which are overdue past 90 days
PNM – Permodalan Nasional Mandani (state-owned MFI apex bank, supervisor and technical service provider)
PRIME – Promotion of Ratings and Investment in Microfinance
SME – Small and Medium Enterprise
TA – Technical Assistance (includes training, consulting and other technical support)
TSP – Technical Service Providers (providing capacity-building services to MFIs)

Executive Summary

Background and Rationale of the Study

Youth unemployment in Indonesia is a serious issue and a key concern of the current Indonesian government. Access to finance is a critical factor in developing self-employment opportunities for youth. Microfinance institutions (MFIs) provide access to financial services to low income populations. However, the extent of Indonesian MFI service provision to youth (defined as below 30 years of age) has not been examined. The World Bank, in partnership with the Indonesian government, is seeking to understand the current extent of institutional microfinance to youth and possible areas of support for financial deepening in this area.

Between May 15 and June 30, 2006, the Mercy Corps MICRA program conducted an original study on behalf of World Bank to examine existing supply of MFI services to youth in Indonesia, as well as demand for financial services among youth. The study covered five regions, with a mix of urban, peri-urban and rural locations both on and off-Java. The study included interviews with nearly 900 youth and on-site appraisals of 21 MFIs, as well as desk reviews of hundreds of other MFIs. Locations included Jakarta, Banda Aceh, East Java, Lampung and Tangerang (peri-urban Jakara). In addition, a desk review of youth enterprise development programs with credit components was conducted for Indonesia and internationally. Finally, the study includes a list of programming recommendations tied to findings.

The supply-side research with MFIs was conducted by two teams of MICRA MFI appraisal and rating experts. The teams used three tools to determine the level and nature of MFI service to youth. First, an on-site appraisal of institutional viability was conducted, second a range of information on active loans to youth was collected, and finally individual interviews were conducted with MFI senior and middle management, as well as line staff to explore perceived risk factors and targeting efforts regarding youth borrowers. A total of 21 MFIs in five regions were reviewed. In each region, at least one "Anchor MFI" was selected that specifically targets youth. All other MFIs reviewed do not specifically target youth and were selected to include a range of institutional forms and lending methodologies. This original research was complemented by review of existing MFI data sets from Indonesia which included age-specific variables.

The demand-side study was conducted by senior MICRA researchers who led teams of experienced university students in four locations which matched with the supply-side research. Two instruments were used: an individual survey which was administered to 780 youth; and four separate focus group guides designed for different target groups. A total of 16 focus groups were conducted, which reached an additional 200 youth. Youth were selected at random, but divided into four even categories: 1) youth entrepreneurs; 2) unemployed students; 3) youth employees; and 4) youth unemployed.

Key Findings

Supply of Microfinance to Youth

- On average, 22% of Indonesian MFIs clients are youth (defined as under 30 years of age). This finding is supported by information from other Indonesian MFI data sets. MFI outreach to youth appears to be higher than in other countries, where similar studies report youth as only 1% to 10% of total active borrowers;

- Some MFIs that ***do not*** specifically target youth provide significant services to this population naturally (up to 70% of borrowers), through a combination of loan product, location, methodology and capacity for loan analysis. These MFIs typically had strong operational and financial performance and overall outreach, but with highly varied loan products and methodologies;

- Most "Anchor MFIs" which ***do*** specifically target youth have lower than average outreach to the group, compared to other MFIs, both in percentage and absolute numbers of active borrowers. However, given the small sample size (5) of Anchor MFIs, additional research may be warranted to fully validate this finding;

- Many Anchor MFIs which ***do*** specifically target youth are not financially viable and do not have significant outreach or sound operational performance, while others do so only as a function of existing loan guarantee programs, but would not continue to serve this group in the absence of guarantees;

- Youth borrowers have higher repayment rates than the total clientele in the majority of MFIs and generally receive loans that are of the same or even larger than the average loan size for all borrowers;

- There is a direct correlation between availability of non-traditional, informal forms of guarantees and high outreach to youth. There is also a clear correlation between low outreach to youth and availability of formal guarantees only. There appear to be no other correlations between average loan size, loan sector and loan terms and service to youth clientele;

- Majority of youth enterprises are engaged in trade, based on both supply and demand study findings, most likely due to low entry barriers. MFIs which actively work in traditional markets tend to serve higher percentages of youth;

- MFI management and loan officers see some associated risk with lending to youth, but highest risk with lending to start ups. MFIs appear to serve higher proportions of youth when loan officers are skilled in loan analysis and when MFIs accept informal or alternate guarantees;

- Most MFI management and staff believe that vocation and entrepreneurial training programs, particularly those with a continuing relationship post-graduation, can make a significant contribution to building youth borrower credence with lenders;

- All institutional forms of microfinance (including BPR, cooperatives, BMT and foundations) can and do effectively reach youth, with a very wide range of loan sizes and products.

- Based on MFI appraisals, there is a very strong need for technical capacity building, effective supervision, meaningful standards and transparency initiatives, and performance-based access to finance, particularly at the cooperative level. Although most MFIs are profitable, the majority have serious issues with loan repayment;

- There are interesting pilot models in Indonesia linking vocational and enterprise training programs to cooperatives formed specifically to serve their graduates, but cooperative technical capacity is very low and they are in early stages of development.

Demand for Microfinance Among Youth

- A high percentage of Indonesian youth (78%) in all regions examined, see self-employment and entrepreneurship as their best employment option and strategy, preferred over formal employment in private and public sectors;

- Youth entrepreneurs earns at least twice the monthly income as youth employees, despite having lower levels of education and similar average age;

- 85% of youth consider it difficult or very difficult to start a business, versus 76% who found it difficult or very difficult to find a job;

- The majority of youth entrepreneurs fund their business start up and development through accumulated savings first, while a high percentage also rely on family loans and investment, and a small percentage rely on loans and investment from friends;

- Youth do not perceive MFIs or commercial banks as a possible source of start-up capital and few perceive MFIs as a possible source for on-going finance for an existing business;

- Youth cite complicated procedures as the key reason why they would not consider applying for financing from an MFI or commercial bank;

- Youth believe that prior experience and collateral are equally necessary to access formal finance through MFIs and commercial banks;

- While many youth believe they have adequate skills and experience to start their own business; a very high percentage (98%) do not believe they have sufficient capital;

- Youth entrepreneurs believe that the most useful financial products are savings accounts and ATM cards. Almost half of youth surveyed have savings accounts (less for unemployed);

- Highest youth preference for credit products is for housing loans, followed by significantly lower preference for consumption and enterprise credit;

- Youth entrepreneurs and aspiring entrepreneurs cite almost equal needs for skills, experience and capital in order for their businesses to be established and grow.

- High percentages of youth believe that vocational and enterprise training could assist them, but they strongly prefer private sector initiatives to government programs. Very few youth in this study (13%: almost all now working as employees) had participated in youth entrepreneurship or vocational training;

Key Recommendations

- There is a significant supply gap in microfinance to youth, based on survey findings. Based on additional findings of high quality of existing loans to youth and MFI management willingness to lend, it can be assumed that there is a significant untapped market that could be met by formal financial institutions, including MFIs.

- Youth are a diverse group and their needs are highly varied, based on individual capacity, education levels, family history, local culture, economic development and employment opportunities. There is no single "youth" product or institutional form that can serve their needs. Rather, support should be given to a wide range of institutions with a wide range of products and services that are demand-driven and appropriate to the local economic and cultural context.

- Expanding microfinance for youth is best pursued by supporting sustainable, high performing MFIs (including commercial banks) which naturally lend to them, rather than by starting new institutions or supporting weak MFIs which specifically target youth;

- Government and donor incentives programs for MFIs to reach larger group of youth should be focused on increasing technical capacity, performance-based access to finance and possible credit insurance or loan guarantees;

- Support for MFIs to expand youth services should be provided only after a thorough appraisal or rating of the MFI to determine whether: 1) they in fact serve a significant number/percent of youth; 2) they are operationally and financially viable; 3) they have capacity and will to expand.

- Government can support expanded MFI outreach to youth by improving the enabling environment for the sector, particularly in the areas of allowing foreign investment in MFIs, creating a third window for microfinance[1], improving cooperative supervision and support and allowing BPR more flexible branching capability;

- Positive, market-based linkages can be built between viable MFIs with products attractive to youth and Business Development Service Providers (BDSP) engaged in vocational or entrepreneurial training that could enhance youth business viability.

- Policy makers could undertake pro-active policy initiatives which would encourage lenders to engage in youth lending. Policy initiatives could include:

    - Establishing a universal credit bureau to help youth establish positive credit history through payment of utilities, rent, school fees, etc. In many countries, the establishment of a universal credit bureau was cited as the most significant driver of growth of the microfinance industry;
    - Following Indian and South African models, where the national banks mandated that certain percentages of bank assets must be invested in "priority sectors", such as agriculture, microenterprise, or "youth" enterprise (the ICICI model in India holds particular relevance);
    - Developing a professional certification system and effective network for BDSP to give graduates of these programs easier access to MFIs (perhaps based on the CERTIF model of professional certification of BPR managers);
    - Providing highly public support for innovative programs which reach scale profitably (such as the Danamon Simpan Pinjam units in urban small and microfinance);
    - Implementing an asset-building program for youth during vocational training that is similar to a new CGAP pilot model. In this model, the BDSP assists youth to progressively save a portion of welfare or government subsidies with MFIs as they build relevant skills, ensuring that they are more bankable upon graduation.

Introduction

Background and Rationale of the Study

Youth Unemployment

[1] "Third Window" for microfinance involves creation of a new legal form for microfinance institutions to supplement the relatively limited forms for BPR and cooperatives that would allow for collection of savings and would legalize thousands of existing institutions.

Unemployment in Indonesia is a serious concern from both economic development and humanitarian points of view. Despite widespread recovery on many economic fronts since the crisis, unemployment levels have remained stubbornly high. But while overall unemployment is an important concern, youth unemployment has reached crisis levels. The overall unemployment rate in Indonesian is 12%, 60% of which are young people (15-24 years old). This is population represents 42 million people. Unemployment for those under 29 is well over 70%. The table below shows youth employment statistics from the Indonesian Statistic Centre (*Badan Pusat Statistik*) and Ministry of Labor, for 2005:

Table 1: Youth Employment Statistics

	15+	15-24	% youth of total working age population
Population	155,549,724	42,316,532	27.20%
Labor Force	105,802,372	22,995,364	21.73%
Working	94,948,118	16,398,231	17.27%
Unemployment	10,854,254	6,597,133	60.78%

Trends suggest a growing employment gap. While the workforce is growing, fewer jobs are being created. Women, particularly those living outside of Java, are particularly hard hit by unemployment. The majority of working youth are in the informal sector, with low income, security, and economic opportunities to build assets and necessary skills. Indeed 62% of Indonesians under the age of 30 survive on less than 1 US dollar per day.

This dramatic lack of employment for the youth of Indonesia has and will have increasing impact on the economic strength of the country, as well as hopes for peaceful and secure progress toward a more open and democratic society.

Microfinance in Indonesia

The microfinance sector in Indonesia is well known throughout the world for its scale and long history. The first microfinance program, *Badan Kredit Desa*, was established in 1898 and today Indonesia is home to a large number of highly diverse microfinance institutions and programs. These range from the world's largest commercial microfinance institution, Bank Rakyat Indonesia, to thousands of very small, village owned microfinance initiatives[2]. MFIs include the following categories of institutions:

- Commercial banks and community banks, subject to the banking act and regulated by Bank Indonesia;

[2] Ravicz, R.Marisol, *Searching for Sustainable Microfinance*, The World Bank Development Research Group, February 1998.

- Local non-bank financial institutions, regulated by the Ministry of Home Affairs and provincial governments;
- Cooperatives, that are subject to the cooperative law and under the supervision of the Ministry of Cooperatives and SMEs;
- State-owned Pawnshops, that are regulated by the Ministry of Finance;
- A wide variety of un-regulated microfinance institutions, including NGOs, foundations, savings and credit associations, a range of government owned institutions, etc.

In addition, there are also informal sources of financial services, such as moneylenders, self-help groups, shopkeepers and traders, outside of these microfinance sub-sectors.

Experts estimate that there are over 50,000 microfinance institutions in Indonesia, including the large number of BRI units. One of the key attributes of the sector is its reliance on savings, rather than donor funding, to fund MFI lending. Another key attribute is the strong presence of government within the sector. A recent ADB study estimated that 72 government programs currently involve credit lines for low-income groups. Often, these credit lines are provided in an unsustainable manner that is not consistent with best practices in financial sector development of microfinance. The following table presents general outreach information for the sector.[3]

[3] Afwan, Charitonenko, "Commercialization of Microfinance – Indonesia", ADB 2003

Table 2: Summary of Indonesian MFIs

INDONESIAN MICROFINANCE SERVICES 2003						
No.	Institutions	Number of Institutions	Number of Borrowers	Portfolio Outstanding (Rp. thousand)	Number of Depositors	Total Deposits (Rp. thousand)
Banks						
1	BRI Unit	4,051	2,405,073	16,700,000,000	29,869,197	27,429,000,000
2	BPR	2,134	2,064,000	8,264,000,000	5,087,000	2,148,000,000
Cooperatives (+)						***all info as of 2000***
3	Unit Simpan Pinjam	34,218	10,141,000	3,629,000,000	10,141,000	1,157,000,000
4	Savings & Credit Coop	1,123	551,000	708,000,000	551,000	151,000,000
5	Credit Union	1,071	296,000	272,000,000	296,000	249,000,000
6	BMT (Syariah)	2,938	73,000	51,000,000	?	46,000,000
7	Swamitra (BUKOPIN)	177	32,000	127,000,000	55,000	56,000,000
Non-Bank Financial Institutions (+)						
8	Badan Kredit Desa	4,518	1,139,216	595,377,000	534,713	23,558,000
9	LSM (NGO)	1,148	522,440	526,261,744	418,949	377,426,304
10	Major LDKP	1,252	309,320	1,142,521,580	1,038,356	806,252,005
11	Pawnshop	739	2,807,346	1,853,393,778	No Savers	No savings
	TOTAL	**53,369**	**20,340,395**	**33,868,554,102**	**47,991,215**	**32,443,236,309**

Despite its scale, Indonesian microfinance is not integrated into the world wide "best practice" movement of the last fifteen years, which embraces international performance standards and full range of transparent practices which have led to significant advancement in profitable outreach and innovation in financial services for the poor world wide. The majority of microfinance institutions in Indonesia are characterized by poor portfolio quality, weak management skills, lack of efficient systems, and lack of effective supervision or support structures.

With a few notable exceptions, MFIs do not target or serve the poor, but rather serve salaried non-poor in order to mitigate risk. Rural areas in Indonesia are still largely devoid of financial services for low-income populations, particularly outside of Java and Bali. An estimated 40 million people in Indonesia still lack access to financial services. Much of this is the result of a lack of capacity to design products and efficient delivery systems to make microfinance financially viable outside densely populated urban areas or for non-salaried populations.

Youth and Microfinance in Indonesia

Pilot projects to reduce youth unemployment and promote business development have been implemented throughout Indonesia for a number of years. Many of these projects have included access to finance components. However, scale remains limited and impact has not been fully explored. To date, no studies have been conducted in Indonesia which specifically address youth and access to microfinance in Indonesia, although the ILO has been active in research regarding overall issues concerning youth employment. The extent of youth access to MFI financial services in unclear.

Research conducted on this topic in other countries (see list of references), has generally shown that while the majority of MFIs do serve young people, they are not recognized as a specific client niche and specific products are not typically developed to meet their needs. Based on several leading MFI's information, young people tend to make up a smaller proportion of overall MFI clientele than their overall population demographics should dictate. It is presumed that this is also the case in Indonesia, where the majority of formal sources of finance require collateral, land title or steady employment in order to make a loan. This factor is one of the reasons why the Indonesian microfinance sector has low poverty outreach, and most likely also has low outreach to young people.

Goals of the Proposed Study and Expected Output

The purpose of this study was to discover to what extent and how MFIs in Indonesia provide effective financial services to youth (defined as ages 14 to 30) so that viable programming to enhance or encourage youth access to finance can be best constructed. The study included a desk review of literature, as well as original field research on both the supply and demand for youth microfinance. Based on the findings, the research team also developed strategic recommendations regarding future support to MFIs reaching this group that can result in significant and sustainable youth access to financial services, thereby leading to enterprise and employment creation.

The expected output of the study includes the following components:

A: Presentation of Findings on the Supply of Financial Services to Youth by:

a. Profiling MFIs which offer a "youth window", identifying their products and services and their strengths and weaknesses;
b. Identifying the extent to which MFIs which do not have a specific youth window serve youth, and identify the relevant products;

B: Presentation of Findings on Youth Demand for Finance Services by:

- Determining the financial services needs and current levels of access within the target population, defined as low-income youth, particularly (but not limited to) those engaged in microenterprise.

C. Relevant recommendations based on findings, including:

- Recommendations and rationale for creating new MFIs targeting youth or adding relevant services within existing youth programs;
- Recommendations regarding specific products for young people;

- Identifying the policy impediments that bar access to finance for youth. What specific course of actions would be recommended to chance such policies?
- Are there models in Indonesia that can be scaled up? Are there models outside Indonesia that can be adapted to the context?
- Recommend a set of recommendations for developing a youth-friendly set of products and services and possible players to partner with in the execution of such a strategy.

The proposed research project was completed over a one and a half month period, from May 15th, 2006 to June 30, 2006.

Research Hypotheses and Methodology

Hypotheses

The following hypotheses were established as a research framework:

1) Supply of Microfinance to Youth:
- There are limited numbers of existing MFIs which specifically target youth. These MFIs are typically small, project-based and not sustainable;
- Mainstream MFIs serve youth, but do not recognize youth a specific target clientele or offer them specialized products;
- Mainstream MFIs' most significant concentration of clientele is over the age of 30, despite high demographics of low-income youth;
- Most mainstream MFI loan products effectively restrict youth access to services;
- Youth are perceived by mainstream MFIs as a high risk group and more typically have access to savings services, rather than loans.

2) Demand for Microfinance by Youth:
- Youth need access to microfinance products and services to support their economic activities, manage day-to day-finances and build their asset base;
- Youth access to finance from both formal and informal providers (including commercial banks, venture capital providers, MFIs, and moneylenders) is barred by a range of factors, including lack of collateral and guarantees, lack of formal employment and lack of relevant business experience;
- Most finance for youth economic activities comes from friends and families.

Research Methodology: Supply Side

Due to the short time frame for this study, research methodologies were kept simple. The study included two key focal areas: 1) supply of microfinance to youth; and 2) demand for microfinance among youth. For each of these research initiatives, a range of methodologies were be used.

The Supply of Microfinance to Youth study relied on the following research methodologies:

1. **Desk review** of existing MFIs and other relevant players (such as venture capital companies) with youth windows;
2. **Desk review** of existing data sets for BPR and other MFI performance data, with a focus on youth clientele;
3. On-site performance of **one-day appraisals** of 21 MFI in five regions to determine institutional viability (adapted from existing MICRA materials);
4. On-site collection of **MFI performance data tied to youth** clientele ("Youth Data Extractor");
5. On-site **interviews with MFI management and field staff**, using interview guide to determine practitioner perceptions, experience and feedback on financial services for youth.

The supply-side research was conducted by MICRA microfinance rating staff, based on an adapted tool with which they have over one year of implementation experience. The study was conducted in five regions, based on the presence of an "Anchor MFI" which specifically targeted youth. At least three other MFIs which do not specifically target youth were chosen in that region for comparison, with the goal of including a spectrum of institutional legal forms and lending methodologies. A total of 21 institutions were appraised as a part of this study, including 5 "Anchor MFIs).

Each MFI was visited by a team of two analysts for approximately one day. One analyst was responsible principally for collection of performance data, while the other analyst was responsible for a qualitative institutional review and conducting management interviews related to youth.

The following table lists the 21 participating MFIs selected for this study, which currently reach over 62,000 active clients:

Table 3: List of MFIs Participating in Supply-Side Study

SUMMARY SUPPLY-SIDE STUDY: List of Participating MFIs

No	MFIs Name	Location	Youth Focus	Legal Form	Rural v. Urban	Total Clients (*000)	Total Active Borrowers (*000)	Loan Portfolio ('000)
1	BPR Darul Imarah Jaya	Aceh	NO	BPR	Urban	1,623	133	1,378,220
2	BPRS Baiturrahman	Aceh	NO	BPRS	Urban	3,213	273	2,044,369
3	Koperasi Mitra Perdana	Aceh	NO	Cooperative	Urban			
4	BQ Baiturrahman Baznas Madani	Aceh	YES	BQ	Urban	808	152	626,232
5	PS Merpati	Jakarta	YES	Cooperative	Urban	1,911	1,000	450,868
6	PPSW-Prima	Jakarta	NO	Cooperative	Urban	361	222	398,674
7	BPR Naribi Perkasa	Jakarta	NO	BPR	Urban	1,071	675	4,889,779
8	Koperasi Karya Insa	Jakarta	YES	Cooperative	Urban	106	94	927,781
9	Koperasi Ubasyada	Tangerang	NO	Cooperative	Peri-Urban	2,400	710	617,098
10	Yayasan Dian Mandiri-TNG	Tangerang	NO	Foundation/ Cooperative	Peri-Urban	15,850	15,850	10,417,572
11	BPR Asri Cikupa	Tangerang	NO	BPR	Peri-Urban	1,374	484	1,443,937
12	BPR Hipmi Jaya	Tangerang	YES	BPR	Peri-Urban	542	354	2,600,745
13	Yayasan Ganesha	Tangerang	NO	Foundation	Peri-Urban	16,056	16,056	5,494,945
14	BPR Pujon Jaya Makmur	East Java	NO	BPR	Urban	1,804	1,305	5,259,000
15	Kopdit Sawiran	East Java	NO	Cooperative	Peri-Urban	2,545	1,049	17,663,000
16	BPR Wiradana	East Java	NO	BPR	Peri-Urban	6,469	1,344	14,335,000
17	BPR Sadhya Mukti Pratama	East Java	NO	BPR	Rural	4,801	463	2,706,000
18	KJKS BMT Mentari	Lampung	NO	BMT	Rural	2,060	920	1,829,120
19	KJKS BMT Surya Abadi	Lampung	NO	BMT	Rural	1,709	577	1,450,857
10	BMT Pringsewu	Lampung	YES	BMT	Rural	1,221	558	1,047,934
21	BMT Baskara	Lampung	NO	BMT	Rural	1,379	413	1,355,493
					SUBTOTAL	62,467	42,226	73,514,035

** no asset/borrower data on Koperasi Mitra Perdana because loan operations have not yet begun*

Research Methodology: Demand-Side

The Demand for Microfinance among Youth study included the following research methodologies:

- **Desk review** of related Indonesian and international studies;
- **Focus group discussions** with four specific groups of youth (entrepreneurs, students, employees and unemployed) were held in four of the areas where MFIs were been targeted for the supply side study;
- **Individual interviews** with four specific groups of youth (entrepreneurs, students, employees and unemployed) in communities where MFIs were been targeted for the supply study.

The demand-side study was conducted by senior MICRA researchers who led teams of four to six experienced university students in four locations which matched with the supply-side research. Two instruments were used: an individual survey which was administered to 780 youth; and four separate focus group guides designed for different target groups. Youth were selected for both the individual survey and the focus groups at random, but divided into four even categories: 1) youth entrepreneurs; 2) unemployed students; 3) youth employees; and 4) youth unemployed.

A total of 16 focus groups were conducted, which included 180 youth. Students were responsible for conducting individual interviews in each of the four areas and for organizing focus groups.

Focus group discussions were conducted by the Mercy Corps team leader for the region. Individual interviews were conducted in each location, based on the following parameters:

The following table illustrates the full numbers of institutions and youth individuals surveyed during this study in field research:

Table 4: List of Field Research Activities and Outreach

Activity	Outreach	Notes
SUPPLY-SIDE		
Regions covered	5	**Urban**: Jakarta, Banda Aceh, **Rural:** Lampung, East Java **Peri-urban:** Tangerang
MFIs assessed	**21**	At least four in each of five areas, of varying legal forms, including BPR, cooperatives, foundations and BMT
SUPPLY-SIDE		
Regions covered	4	**Urban:** Jakarta, Banda Aceh, **Rural:** Lampung **Peri-urban:** Tangerang
Total Focus groups conducted	16	Four focus group discussions held in each region, focusing on four separate groups of youth: employed, unemployed, entrepreneurs and students
Individuals in focus groups meetings	160	40 unemployed students, 40 unemployed, 40 employees, 40 self-employed/entrepreneurs
Individual interviews	720	180 unemployed students, 180 unemployed, 180 employees, 180 self-employed/entrepreneurs
Total youth interviewed	**880**	Combination of focus groups and individual interviews

Study Locations

The field work was planned to be conducted in four districts throughout Indonesia. In practice, the supply-side study was rolled out in five districts, while the demand-side study was rolled out in the planned four. This was due to a high number of MFIs in East Java which were willing to participate in the study, based on past cooperation with MICRA. Both the Demand-Side and Supply-Side studies were conducted simultaneously in the same areas, to ensure relevance and comparability of data. The selection of target districts was made following the initial desk review period, which focused on locating "Anchor MFIs" which explicitly serve youth. Selection was based the following criteria, listed in order of importance:

1) Districts with MFIs that offer a "youth window";
2) A mix of Java and non-Java locations (a maximum of two locations may be selected on Java);
3) Districts will be selected to show a balance of urban and rural locations;

4) Co-location of a range of other MFIs (of varying legal form) which do not specifically serve youth, but would agree to participate in the study and could provide reliable performance data;
5) Availability of experienced and dependable local researchers to roll out surveys and prepare focus group meetings on short notice.

As a result, the following locations were selected in late May and the field work was conducted during the first two weeks of June, 2006.

Table 5. Locations Selected or Supply and Demand Studies

	On-Java	Off-Java
URBAN	Jakarta	Banda Aceh
PERI-URBAN	Tangerang, East Java	
RURAL	East Java	Lampung

** East Java included Supply-Side study only*

Study Findings

Supply Side

The Supply-Side Survey had two main goals to: 1) profile MFIs which offer a "youth window", identifying their products and services and their strengths and weaknesses; and 2) identifying the extent to which MFIs which do not have a specific youth window serve youth, and identify the relevant products.

As a first step in the study, the team conducted a desk review to located "youth window" MFIs in Indonesia. The desk review included working closely with the ILO, which is a leading actor in the area of youth employment in Indonesia. In addition, the team contacted governmental departments, include the Department of Youth Affairs (PEMUDA), donor agencies, Indonesian charities working with youth, research institutions, international NGOs, MFI networks and associations, leading MFIs, Corporate donors, and other key stakeholders (see Annexes for complete listing).

While the team found many training and vocational programs for youth, and a wide range of programs which provide grants to youth entrepreneurs, the search yielded few "youth window" MFIs, and none of significant scale. Five MFIs were selected in Jakarta, Tangerang, Lampung and Banda Aceh to serve as "Anchor MFIs", around which to implement the field-based supply side survey (please see Annexes for full description of Anchor MFIs). A range of additional MFIs which do not explicitly serve youth, but which have different legal forms, lending methodologies and a range of products were selected in the same areas as the Anchor MFIs, to provide context and performance comparison.

The field research was conducted by two teams of MICRA MFI appraisal and rating experts. The teams used three tools to determine the level and nature of MFI service to youth. As a part of the review of these 21 participating MFIs, three different instruments were used to gather data:

1) MICRA MFI Appraisal Tool - to determine the overall operational and financial viability of the institution;
2) Youth Data Extractor – a form to capture the extent and types of services to youth in each MFI, as well as performance of those loans;
3) Individual Interview Guides – with MFI management and loan officer to explore perceived risk factors and targeting efforts regarding youth borrowers.

In addition, the research team conducted a review of secondary Indonesian microfinance data sets to ascertain the levels of service to youth, as feasible. These data sets include:

- GTZ BPR client satisfaction survey
- JBIC SME survey in East Java
- World Bank Rural Investment Climate Study
- MIS run from Bank Danamon Simpan Pinjam Units
- MIS run from BRI Unit data sets

Extent of Service to Youth

Findings of both the field study and secondary data runs indicate that MFIs reach, on average, approximately 22% youth borrowers (defined as under 30 years of age), which is lower than their percentage of the active working population of Indonesia (approximately 30%). However, these findings are higher than those reported from MFIs in other countries, which lend to anywhere from 1 to 15% youth borrowers. These numbers may also understate the number of youth borrowers, since some MFIs reported that many loans to youth-owned businesses are contracted in the name of the parents.

There is very high variation between MFIs in terms of scale and outreach to youth. The main finding of this survey is that MFIs which explicitly serve youth have lower outreach to youth than the group average, both in terms of percent of borrowers and in terms of absolute numbers of borrowers. "Anchor MFIs", which explicitly state that they target youth, include:

1. PS Merpati – Jakarta
2. Koperasi Karya Insa - Jakarta
3. BPR Hipmi Jaya – Tangerang
4. Koperasi Mitra Perdana – Banda Aceh
5. BMT Pringsewu – Tanggamus, Lampung

The following table shows the extent of outreach to youth in terms of active borrowers for each MFI in the survey.

Table 6. Supply-Side Summary Table: % of Youth Borrowers Served by MFIs

SUMMARY SUPPLY SIDE : % Youth Borrowers

No	MFIs Name	Location	Total Clients	Total Active Borrowers	Total Active Youth	% Youth Borrowers
	ACEH: URBAN					
1	BPR Darul Imarah Jaya	Aceh	1,623	133	37	28%
2	BPRS Baiturrahman	Aceh	3,213	273	17	6%
3	**Koperasi Mitra Perdana**	**Aceh**	**-**	**-**	**-**	**0%**
4	BQ Baiturrahman Baznas Madani	Aceh	808	152	105	69%
		SUBTOTAL	5,644	558	159	28%
	JAKARTA: URBAN					
5	**PS Merpati**	**Jakarta**	**1,911**	**1,000**	**107**	**11%**
6	PPSW-Prima	Jakarta	361	222	20	9%
7	BPR Naribi Perkasa	Jakarta	1,071	675	62	9%
8	**Koperasi Karya Insa**	**Jakarta**	**106**	**94**	**2**	**2%**
		SUBTOTAL	3,449	1,991	191	10%
	TANGERANG: PERI-URBAN					
9	Koperasi Ubasyada	Tangerang	2,400	710	49	7%
10	Yayasan Dian Mandiri-TNG(from 1 business unit)	Tangerang	1,370	1,370	35	3%
11	BPR Asri Cikupa	Tangerang	1,374	484	58	12%
12	**BPR Hipmi Jaya**	**Tangerang**	**542**	**354**	**10**	**3%**
13	Yayasan Ganesha	Tangerang	16,056	16,056	4,817	30%
		SUBTOTAL	21,742	18,974	4,969	26%

No	MFIs Name	Location	Total Clients	Total Active Borrowers	Total Active Youth	% Youth Borrowers
	EAST JAVA: RURAL					
14	BPR Pujon Jaya Makmur	Pujon, Malang	1,804	1,305	71	5%
15	Kopdit Sawiran	Sawiran, Malang	2,545	1,049	215	20%
16	BPR Wiradana	Mojokerto	6,469	1,344	136	10%
17	BPR Sadhya Mukti Pratama	Dampit	4,801	463	74	16%
		SUBTOTAL	15,619	4,161	496	12%
	LAMPUNG: RURAL					
18	KJKS BMT Mentari	Tanggamus, Lampung	2,060	920	100	11%
19	KJKS BMT Surya Abadi	Tanggamus, Lampung	1,709	577	32	6%
20	**BMT Pringsewu**	**Tanggamus, Lampung**	**1,221**	**558**	**118**	**21%**
21	BMT Baskara	Tanggamus, Lampung	1,379	413	174	42%
		SUBTOTAL	6,369	2,468	424	17%
		TOTAL	52,823	28,152	6,239	22%

Anchor MFIs are listed in bold type. All MFIs with more than 20% service to youth are highlighted. Findings indicate that only one of the five MFI's with a "youth window" actually serves more than 20% youth clients (Pringsewu Lampung, with only 21%). However, there are a number of MFIs that have higher than 20% outreach to youth without specific targeting, including:

1. BPR Imarah Jaya, Aceh – 28%
2. BQ Baiturrahman, Aceh – 69%
3. Ganesha Foundation, Tangerang (all women clients) – 30%
4. Kopdit Sawiran – 20.5%
5. BMT Baskara, Lampung – 42%

It is interesting to note that these institutions represent all major forms of institutional microfinance, and also that they are generally among the highest performers in terms of numbers of active borrowers. The following table illustrates the differences between the five MFIs that serve above-average percentages of MFIs, alongside the five MFI's with youth windows:

Table 7: Supply Side Summary Table: Comparison of Youth Window MFIs and High Performing MFIs

No	MFIs Name	% of total group of MFIs	Total Clients	ROE	ROA	Total Active Borrowers	% Youth Borrowers	Avg Loan Portfolio ('000)
	Average High Youth Performer (5)	**24%**	4,482	5.1%	8.7%	3,561	47%	4,689,261
	Avg MFI Anchors (5)	**24%**	756	12.5%	5.0%	401	7%	1,256,832

It should be noted that in this small sample, MFIs which do not specifically target youth serve significantly greater numbers of youth than MFI with "youth windows", with:

- Six times more total clients;
- Eight times more total active borrowers;
- 22 time more active youth borrowers;
- Four time higher loan portfolios.

Types of Services to Youth

In terms of **business sector**, the survey of MFIs shows that youth borrowers are typically involved in trade businesses (70%) in all areas surveyed. Another 8% are involved in services, while agricultural loans are quite high in rural East Java (20%) but not in rural Lampung, which is dominated by trade loans. Some MFIs which have youth windows have minimized trade loans and focus on production or services loans exclusively (please see Annexes for full data), while other provide only trade loans. MFIs which proactively engage in traditional markets (rather than waiting in the office for clients) seem to naturally serve a high percentage of youth.

Average loan sizes to youth are consistently similar to overall average loan sizes at each MFI, and sometimes even higher. This is reasonable, given the lack of real targeting and also the large of ability for most MFIs to design specific financial products for specific markets. Average loan sizes to youth vary widely (from 900,000 IDR to 14 million IDR) and there appears to be no relation between a specific average loan size and significant outreach to youth.

Loan term, or the number of months required for repayment of a loan, however, is highly varied by institution. Approximately half of the MFIs give youth borrowers a much shorter loan term, which is also reasonable, considering the higher risk factor. However, other MFIs give youth the same loan term as other clients, while five MFIs give much longer loan terms (up to 36 months) for loan terms. As with average loan size, there seems to be no correlation between length of average loan term and high service provision to youth.

MFIs participating in this study offer a wide range of **loan guarantee options**, from formal land title, to solidarity group guarantees, personal guarantors and more informal guarantees (motorcycles, furniture, etc.). There is a clear positive correlation between youth outreach and use of informal guarantees. At the same time, there is a clear negative correlation between low youth outreach and exclusive use of formal guarantees (land title, vehicle ownership, employment slips, etc.) Most MFIs with high outreach of service to youth allow both formal guarantees and informal and alternative guarantees, such as solidarity group guarantees, personal references, ability to borrow against savings, ability to offer market vendor stall positions as guarantees, etc.

Finally, a surprise finding is that youth are consistently better repayers than the average MFI borrower. In 85% of MFIs, youth have higher repayment rates, often significantly higher, than the MFI norm. This finding may be tied to similar finding in microfinance regarding high repayment rates of the very poor. With very few financing sources available to them, the poor take repayment very seriously. This may also hold true for youth.

Youth are a highly diverse group and clearly need access to and can successfully repay a wide range of types of products for difference business sectors, different amounts and different loan terms.

Attitudes Towards Youth

Interviews with MFI managers and loan officers reveal that while some see youth borrowers as higher risk, some do not. Most managers see risk attached to the actual business. Most youth are involved in high turnover trade, which is inherently lower risk because it requires few skills and a short time frame. However, trade loans do carry risk factors of seasonality and other market changes. Most MFI managers prefer to see an experienced adult mentoring youth business owners to help them deal with highly changeable trade markets.

Some MFI managers, though, do see specific risk attached to youth borrowers because of a perceived lack of experience, character, discipline and formal guarantees. Youth are also often associated with start-up loans (although many youth entrepreneurs surveyed had owned business for more than five years). No commercial bank or BPR will give loans to start up companies and individuals. Most formal institutional lending is based strictly on credit history or collateral. Appraisal teams noted that MFIs with strong outreach to youth had well-trained loan officers who were capable of loan analysis of business prospects. Credit repayment rates for youth may, in fact, be better than for overall portfolio, because of tighter risk control associated with their loans.

MFI managers and loan officers noted that personal references and referrals make a difference to them when they are considering a loan to a youth. Many MFI managers report that they would be inclined to lend to youth that have been involved in an entrepreneurship program, particularly one with ongoing support and mentoring following the end of formal training.

MFI Viability and Youth Outreach

Findings on institutional viability were quite mixed. Acehnese MFIs, in particular, are still struggling with the aftermath of the tsunami and their financial and operational performance reflects these weaknesses. That said, this small sampling of MFIs most likely presents a stronger picture of overall Indonesian MFI performance than it should, since all MFIs were required to present a wide range of financial and operational data in a short time period, which the majority of MFIs would not have readily available. Many of these MFIs have also been rated for commercial financing purposes, which is also an indicator of their high level of overall performance. The following table lists key performance data for participating MFIs.

Table 8. Summary of Supply –Side Data: Institutional Viability Indicators

No	MFIs Name	Location	Total Clients	ROE	ROA	Total Active Borrowers	% Youth Borrowers	Loan Portfolio ('000)	NPL / PAR	
									% Youth Borrowers	% Total Borrowers
	ACEH: URBAN									
1	BPR Darul Imarah Jaya	Aceh	1,623	1.9%	0.2%	133	28%	1,378,220	24.00	64.61
2	BPRS Baiturrahman	Aceh	3,213	-51.0%	-5.0%	273	6%	2,044,369	6.00	26.62
3	*Koperasi Mitra Perdana*	Aceh	-	0.0%	0.0%	-	0%			
4	BQ Baiturrahman Baznas Madani	Aceh	808	0.5%	0.2%	152	69%	626,232	8.00	7.30
		SUBTOTAL	5,644	-12.2%	-1.1%	558	28%	4,048,821		
	JAKARTA: URBAN									
5	*PS Merpati*	Jakarta	1,911	6.1%	0.8%	1,000	11%	450,868	0.00	5.89
6	PPSW-Prima	Jakarta	361	17.9%	6.8%	222	9%	398,674	0.00	3.40
7	BPR Naribi Perkasa	Jakarta	1,071	31.4%	7.6%	675	9%	4,889,779	0.00	0.00
8	*Koperasi Karya Insa*	Jakarta	106	21.4%	6.8%	94	2%	927,781	0.00	26.48
		SUBTOTAL	3,449	19.2%	5.5%	1,991	10%	6,667,102		
	TANGERANG: PERI-URBAN									
9	Koperasi Ubasyada	Tangerang	2,400	17.5%	10.0%	710	7%	617,098	22.00	9.39
10	Yayasan Dian Mandiri-TNG(from 1 business unit)	Tangerang	1,370	-9.7%	-9.3%	1,370	3%	5,695,857	0.00	15.00
11	BPR Asri Cikupa	Tangerang	1,374	36.1%	7.1%	484	12%	1,443,937	0.00	2.50
12	*BPR Hipmi Jaya*	Tangerang	542	32.2%	8.3%	354	3%	2,600,745	0.00	14.00
13	Yayasan Ganesha	Tangerang	16,056	6.3%	5.6%	16,056	30%	5,494,945	0.00	0.00
		SUBTOTAL	21,742	16.5%	4.3%	18,974	26%	15,852,582		
	EAST JAVA: RURAL									
14	BPR Pujon Jaya Makmur	Pujon, Malang	1,804	88.3%	5.2%	1,305	5%	5,259,000	4.00	16.00
15	Kopdit Sawiran	Malang	2,545	8.8%	5.7%	1,049	20%	17,663,000	0.00	1.00
16	BPR Wiradana	Mojokerto	6,469	34.8%	8.2%	1,344	10%	14,335,000	1.00	1.00
17	BPR Sadhya Mukti Pratama	Dampit	4,801	22.4%	2.8%	463	16%	2,706,000	8.00	7.00
		SUBTOTAL	15,619	38.6%	5.5%	4,161	12%	39,963,000		
	LAMPUNG: RURAL									
18	KJKS BMT Mentari	Tanggamus, Lampung	2,060	1.0%	9.0%	920	11%	1,829,120	13.00	15.50
19	KJKS BMT Surya Abadi	Tanggamus, Lampung	1,709	23.2%	20.0%	577	6%	1,450,857	0.00	9.00
20	*BMT Pringsewu*	Tanggamus, Lampung	1,221	2.8%	9.0%	558	21%	1,047,934	40.00	40.23
21	BMT Baskara	Tanggamus, Lampung	1,379	8.0%	31.6%	413	42%	1,355,493	13.00	6.50
		SUBTOTAL	6,369	7.0%	13.9%	2,468	17%	5,683,404		
		TOTAL	52,823	14%	6%	28,152	22%	72,214,909		13.57

Appraisal findings show that most MFIs are financially viable, which is often a function of the general absence of funding and the reliance of savings as the major source of funds. Many, in fact, are highly profitable, considering their relatively small asset bases. However, a large number have serious issues with portfolio quality. In the microfinance sector, problems with portfolio quality can quickly spiral out of control, bankrupting an MFI and endangering public savings.

It should also be noted that financial indicators used in this survey have not been independently verified. The vast majority of MFIs in Indonesia have never been audited and do not follow sound practices for provisioning and writing off loans in default. Therefore, profitability indicators should be regarded with care. Audits and/or specialized MFI ratings are recommended before working with any MFI to establish a clear and objective base for funding or partnerships. With that caveat, findings indicate that there is a clear possibility of working with viable MFIs that reach youth to expand services based on commercial terms. In light of the high level of excess liquidity in the Indonesian banking sector, linking bankable MFIs to the formal financial sector would be an efficient means of funding.

It is interesting to compare the Anchor MFIs with MFIs which naturally, but not explicitly, serve youth, to understand which is more viable. Based on the findings shown below, non-Anchor MFIs demonstrate higher portfolio quality and much stronger client base. However, profitability indicators are fairly similar. Non-Anchor MFI average profitability and portfolio quality are negatively effected by the presence of two Acehnese MFIs, which are still recovering from the effects of the tsunami. However, the large-scale donor funding , support and credit guarantee schemes in Aceh may be one of the driving forces behind the relatively high outreach to youth in that region. It should also be noted that two Anchor MFIs were in the early stages of establishment. In particular, the Aceh Anchor MFI had no financial performance information to contribute to the study. Initial reports on its operations were exaggerated and the appraisal team arrived to find that there were no financial services being offered, only plans to do so, if BRR funding was made available.

Table 9. Supply-Side Table: Viability of Average Youth High Performers and Youth Window MFIs

No	MFIs Name	% of total group of MFIs	Total Clients	ROE	ROA	Total Active Borrowers	% Youth Borrowers	Avg Loan Portfolio ('000)	NPL
1	Average High Youth Performer (5)	24%	4,482	5.1%	8.7%	3,561	47%	4,689,261	15.9
2	Avg MFI Anchors (5)	24%	756	12.5%	5.0%	401	7%	1,256,832	21.7

Appraisal findings indicate that almost all MFIs have weaknesses in the areas of financial management, credit risk management, strategic planning and internal control. In addition, many MFIs have noted a need for loan officer training. Loan officer capacity has already been identified in this study as a key aspect of an MFI's ability to reach youth borrowers. Finally, a very significant weakness among most MFIs involves their management information systems (MIS). It is very difficult to effectively manage a growing MFI without access to full and complete data. The majority of MIS systems available in Indonesia do not include the full range of international standard management information indicators. Among cooperatives, this is a critical weakness.

Summary of Lessons Learned

- On average, 22% of Indonesian MFIs clients are youth (defined as under 30 years of age). This finding is supported by information from other Indonesian MFI data sets. MFI outreach to youth appears to be higher than in other countries, where similar studies report youth as only 1% to 10% of total active borrowers;

- There are relatively few youth window MFIs in Indonesia, and most are "add-on" credit components to a larger existing institution, which tends to reduce their viability through a lack of focus and internal expertise. Often, they are providing youth service as a response to small amounts of available funding, rather than with a market-driven, long-term approach to profitable service delivery.

- Some MFIs that ***do not*** specifically target youth provide significant services to this population naturally (up to 70% of borrowers), through a combination of loan product, location, methodology and capacity for loan analysis. These MFIs typically had strong operational and financial performance and overall outreach, but with highly varied loan products and methodologies;

- Most "Anchor MFIs" which ***do*** specifically target youth have lower than average outreach to the group, compared to other MFIs, both in percentage and absolute numbers of active borrowers. However, given the small sample size (5) of Anchor MFIs, additional research may be warranted to fully validate this finding;

- Many Anchor MFIs which ***do*** specifically target youth are not financially viable and do not have significant outreach or sound operational performance, while others do so only as a function of existing loan guarantee programs, but would not continue to serve this group in the absence of guarantees;

- Youth borrowers have higher repayment rates than the total clientele in the majority of MFIs and generally receive loans that are of the same or even larger than the average loan size for all borrowers;

- There is a clear positive correlation between youth outreach and use of informal guarantees. At the same time, there is a clear negative correlation between low youth outreach and exclusive use of formal guarantees (land title, vehicle ownership, employment slips, etc.);

- There appear to be no other correlations between average loan size, loan sector and loan terms and service to youth clientele;

- Majority of youth enterprises are engaged in trade, based on both supply and demand study findings, most likely due to low entry barriers. MFIs which actively work in traditional markets tend to serve higher percentages of youth;

- MFIs with active outreach to traditional markets serve higher proportions of youth. There also appears to be a strong connection between well-trained teams of loan officers who are experienced in business analysis and outreach to youth borrowers;

- Youth loan products do not vary from the overall product used by the general public, with the exception of loan term. In half of the MFIs surveyed, youth used considerably shorter average loan terms. In a few MFIs, much longer loan terms were granted to youth borrowers. There is no correlation between trade loans and shorter loan terms for youth borrowers.

- MFI management and loan officers see some associated risk with lending to youth, but highest risk with lending to start ups. MFIs appear to serve higher proportions of youth when loan officers are skilled in loan analysis and when MFIs accept informal or alternate guarantees;

- Most MFI management and staff believe that vocation and entrepreneurial training programs, particularly those with a continuing relationship post-graduation, can make a significant contribution to building youth borrower credence with lenders;

- All institutional forms of microfinance (including BPR, cooperatives, BMT and foundations) can and do effectively reach youth, with a very wide range of loan sizes and products.

- Based on MFI appraisals, there is a very strong need for technical capacity building, effective supervision, meaningful standards and transparency initiatives, and performance-based access to finance, particularly at the cooperative level. Although most MFIs are profitable, the majority have serious issues with loan repayment;

- There are interesting pilot models in Indonesia linking vocational and enterprise training programs to cooperatives formed specifically to serve their graduates, but cooperative technical capacity is very low and they are in early stages of development.

- It is possible that the active donor support and financing of Acehnese MFIs may contribute to their higher outreach to youth borrowers. Since most other MFIs in Indonesia are more reliant on savings than donations, they may tend to be more conservative and avoid "risky" clients, such as youth.

- Most MFIs which naturally serve a high proportion of youth have had a significant relationship with some form of donor, which supported technical capacity building, funding and expansion, based on international best practice standards.

Demand Side

The main goal of the study on the demand side was to determine the financial services needs and current levels of access within the target population, defined as low-income youth, particularly (but not limited to) those engaged in microenterprise. For the purposes of this study, youth were selected at random, but divided into four research categories: 1) youth entrepreneurs; 2) unemployed students; 3) youth employees; and 4) youth unemployed.

The study covered four regions, with a mix of urban, peri-urban and rural locations both on and off-Java. The study included interviews with nearly 900 youth in Jakarta, Banda Aceh, Lampung and Tangerang (peri-urban Jakara).

The demand-side study was conducted by senior MICRA researchers who led teams of experienced university students in four locations which matched with the supply-side research. Two instruments were used: an individual survey which was administered to 780 youth; and four separate focus group guides designed for each sub-category listed above. A total of 16 focus groups were conducted, which reached an additional 180 youth.

Importance of Self-Employment

One of the key findings of the study was that a very high percentage of Indonesian youth (78%) in all regions examined, see self-employment and entrepreneurship as their best employment option and strategy, preferred over formal employment in private and public sectors. This indicates that government support for self-employment and youth entrepreneurship would meet with a large and receptive audience and would likely result in high employment generation, if well designed.

The main reason for interest in self-employment is desire for higher earning potential. In fact, youth entrepreneurs earned more than twice the average income of youth employees, across all regions covered in this study, despite the fact that they had lower educational levels and were approximately the same age. In terms of the types of businesses desired, 47% of youth would like to have a trade business, followed by 19% interested in services, 12% in food production, 8% in overall production. This finding is linked to the actual types of services MFIs provide to youth. However, MFI loans to youth are made up of over 70% trade loans, which indicates that there is certainly room to improve MFI products in other sectors.

Despite high interest in self-employment, 85% of youth consider it difficult or very difficult to start a business, versus 76% who found it difficult or very difficult to find a job. Youth entrepreneurs and aspiring entrepreneurs cite almost equal needs for skills, experience and capital in order for their businesses to be established and grow. High percentages of youth believe that vocational and enterprise training could assist them, but focus group findings indicate that they strongly prefer private sector initiatives to government programs. Very few youth in this study had participated in youth entrepreneurship or vocational training. Most believe that access to such programming is tied to personal contacts, rather than meeting relevant qualifications. Nearly all participants of vocational training went on to become employees, rather than entrepreneurs. No entrepreneurs had participated in any vocational or enterprise development programs.

Profile of Youth Entrepreneurs

Youth entrepreneurs start their businesses at the surprisingly average age of 22. Almost 50% had never held another job before starting their own business, although approximately 25% had held private-sector jobs. However, youth entrepreneurs are much more likely to have parents who were entrepreneurs or market traders, versus employees, students and unemployed, who are more likely to have parents who were civil servants and private sector employees. Youth entrepreneurs earn twice as much, monthly, as youth employees, despite having lower educational levels and being approximately the same age. The following table outlines the general profile of youth entrepreneurs:

Table 10. Demand-Side Summary Table: General Profile of Youth Entrepreneurs

	all	entrepreneurs	student	employees	unemployed
Total number in survey	720	180	180	180	180
General Profile					
avg age	23	25	21	24	23
%male	65%	1%	50%	62%	64%
% female	35%	17%	50%	38%	36%
% married	25%	66%	1%	22%	11%
% living with parents	57%	40%	64%	52%	73%
% indep house, own	12%	22%	6%	9%	10%
# children	0.5	1	0	1	0
% completed high school only	40%	48%	NA	32%	40%
% completed bachelor (D3)	21%	18%	NA	25%	19%

Findings indicate that youth entrepreneurs are slightly older than other youth categories, majority male (interpret with caution due to small sample size and possible sampling errors) and have a much higher likelihood of being married. In addition, they are more likely to own their own home and have children. Education levels for youth entrepreneurs appear to be lower than for employees and ultimately for students (which were all in the process of completing D3/bachelor programs).

Other key findings regarding youth entrepreneur profile include:

- 65% are engaged in trade, while 15% are engaged in services and 9% are engaged in food production;
- 30% have an additional side businesses (more in Jakarta), to help supplement income;
- 44% have bank accounts, typically in commercial banks;
- Vast majority are retail and cash-based businesses (94%);
- At business start-up, 70% said biggest problem was capital and 22% said market;
- Current business problems are 50% financial; 22 market; 18% technological, 10% suppliers;
- Few have increased their number of employees since start up (7%);
- Most are operating informally with no legal registration (75%);
- Average sales per month is approximately 10,000,000 IDR, with some variation between regions and lowest levels in rural areas;
- Profit margins highest in urban areas (40%), lowest in rural areas (27%);
- Many youth entrepreneurs have operated other businesses before their current business and have been obliged to close them because of low sales (25%).
- Their business is their main source of income (86%);
- Entrepreneurs on average needed 20,000,000 IDR to start their businesses, with higher amounts necessary in urban and rural areas, and less in peri-urban areas;
- In focus groups, youth entrepreneurs consistently noted a need for experienced adult guidance to help them manage their businesses, most often tied to assistance in dealing with changes in the market environment;
- The majority (64%) perceive that their economic status has improved over the past year, which is markedly higher than for the youth group as a whole (52%).

Youth and Financial Services

The key finding of this study is that there is very high unmet need for financial services among youth, but that they turn first to their own savings and families and do not turn to formal financial institutions (including MFIs) to meet their needs. Sources of capital for enterprise start-up were:

- 47% own savings;
- 20% family loans and investment;
- 9% friend loans and investment;
- 5% loans from BRI;
- 1.5% loans from BPR and BPRS.

While many youth interested in entrepreneurship believe they have adequate skills and experience to start their own business; a very high percentage (98%) do not believe they have sufficient capital. Youth believe that they must have both past experience and formal collateral to be approved for formal financial credit. Youth cite complicated procedures and long waiting periods as the key reasons why they would not consider applying for financing from an MFI or commercial bank.

In terms of necessary services, youth entrepreneurs believe that the most useful financial products are savings accounts and ATM cards. These findings were mirrored in other groups. Almost half of youth surveyed have savings accounts (less for unemployed). The highest youth preference for credit products is for housing loans, followed by significantly lower preference for consumption and enterprise credit. There appears to be some specific demand for Syariah based products across all regions, which may be due to more flexible guarantee schemes and profit-sharing models.

When asked which funding source they would address, if they urgently needed financial services, they responded:

- 53% from family and friends
- 15% from own savings (majority entrepreneurs)
- 12% from informal savings groups (majority employees)
- 8% BRI Units
- 3% Syariah commercial banks and cooperatives.

Summary of Lessons Learned

- A high percentage of Indonesian youth (78%) in all regions examined, see self-employment and entrepreneurship as their best employment option and strategy, preferred over formal employment in private and public sectors;

- 47% of youth would like to have a trade business. This finding is linked to the actual types of services MFIs provide to youth. However, MFI loans to youth are made up of over 70% trade loans, which indicates that there is certainly room to improve MFI products in other sectors;

- Youth entrepreneurs earn twice as much, monthly, as youth employees, despite having lower educational levels and being approximately the same age;

- Youth entrepreneurs are much more likely to have parents who were entrepreneurs or market traders, versus employees, students and unemployed, who are more likely to have parents who were civil servants and private sector employees;

- 85% of youth consider it difficult or very difficult to start a business, versus 76% who found it difficult or very difficult to find a job;

- In focus groups, youth entrepreneurs consistently noted a need for experienced adult guidance to help them manage their businesses, most often tied to assistance in dealing with changes in the market environment;

- The majority of youth entrepreneurs fund their business start up and development through accumulated savings first, while a high percentage also rely on family loans and investment, and a small percentage rely on loans and investment from friends;

- Youth do not perceive MFIs or commercial banks as a possible source of start-up capital and few perceive MFIs as a possible source for on-going finance for an existing business;

- Only 11% of youth would choose to work with a formal financial institution, in a time of urgent need;

- Youth cite complicated procedures and long processing time as the key reason why they would not consider applying for financing from an MFI or commercial bank;

- There appears to be some specific demand for Syariah based products across all regions, which may be due to more flexible guarantee schemes and profit-sharing models.

- Youth believe that prior experience and collateral are equally necessary to access formal finance through MFIs and commercial banks;

- While many youth believe they have adequate skills and experience to start their own business; a very high percentage (98%) do not believe they have sufficient capital;

- Youth entrepreneurs believe that the most useful financial products are savings accounts and ATM cards. Almost half of youth surveyed have savings accounts (less for unemployed);

- Highest youth preference for credit products is for housing loans, followed by significantly lower preference for consumption and enterprise credit;

- Youth entrepreneurs and aspiring entrepreneurs cite almost equal needs for skills, experience and capital in order for their businesses to be established and grow.

- High percentages of youth believe that vocational and enterprise training could assist them, but they strongly prefer private sector initiatives to government programs. Very few youth in this study (13%: almost all now working as employees) had participated in youth entrepreneurship or vocational training;

Recommendations

Based on the terms of reference for this study, recommendations should include and address:

- Recommendations and rationale for creating new MFIs targeting youth or adding relevant services within existing youth programs;
- Recommendations regarding specific products for young people;

- Identifying the policy impediments that bar access to finance for youth. What specific course of actions would be recommended to chance such policies?
- Are there models in Indonesia that can be scaled up? Are there models outside Indonesia that can be adapted to the context?
- Recommend a set of recommendations for developing a youth-friendly set of products and services and possible players to partner with in the execution of such a strategy.

MFIs and Service to Youth

1. One of the key findings of the study was that a very high percentage of Indonesian youth (78%) in all regions examined, see self-employment and entrepreneurship as their best employment option and strategy, preferred over formal employment in private and public sectors. This indicates that government support for self-employment and youth entrepreneurship would meet with a large and receptive audience and could likely result in high employment generation, if well designed. Design should include public-private partnerships, to ensure a comprehensive, realistic, and market-based delivery of services.

2. Youth are a diverse group and their needs are highly varied, based on individual capacity, education levels, family history, local culture, economic development and employment opportunities. There is no single "youth" product or institutional form that can serve their needs. Rather, support should be given to a wide range of institutions with a wide range of products and services that are demand-driven and appropriate to the local economic and cultural context.

3. MFI's targeting youth should focus on overall quality of operational performance, solid understanding of the youth market niche, offer a mix of informal guarantee options, provide rigorous training of loan officers in business analysis, and develop market-based linkages with strong BDSP which build both vocational and entrepreneurial skill sets.

4. Expanding microfinance for youth is best pursued by supporting the growth of sustainable, high performing MFIs (including commercial banks) which naturally lend to them, rather than by starting new institutions or supporting weak MFIs which specifically target youth;

5. Government and donor incentives programs for MFIs to reach larger group of youth should focus subsidies on increasing technical capacity to improve operational and financial performance, particularly in the area of credit risk management, product development and loan guarantees and loan officer training;

6. Government and donors should also provide performance-based access to finance, credit insurance or loan guarantees on market or near-market levels. Performance-based lending involves linking funding to realistic, but comprehensive outreach, operational and

financial performance targets. Targets should be set to encourage the sound overall operation of the MFI, while providing incentives for growth and outreach to youth.

7. There is a significant supply gap in microfinance to youth, based on survey findings. Based on additional findings of high quality of existing loans to youth and MFI management willingness to lend, it can be assumed that there is a significant untapped market that could be met by formal financial institutions, including MFIs. However, this would require changing youth perceptions of credit availability through formal financial institutions. MFIs and commercial banks which offer informal guarantees and have an active focus on traditional markets should engage in marketing to this segment;

8. Support for MFIs to expand youth services should be provided only after a thorough appraisal or rating of the MFI to determine whether: 1) they in fact serve a significant number/percent of youth; 2) they are operationally and financially viable; 3) they have capacity and will to expand;

9. The government and donor community can meaningfully engage in building positive, market-based linkages between viable MFIs with products attractive to youth and Business Development Service Providers (BDSP) engaged in vocational or entrepreneurial training that could enhance youth business viability;

10. The ILO has recommended that BDSP be offered professional certification opportunities, in order to promote and ensure quality vocational and entrepreneurial training and mentoring services. This could be a positive step toward building meaningful linkages between sustainable, youth-focused MFIs and BDSP.

Models of Youth Access to Microfinance

Indonesian Models

Five different lending models and approaches to youth were used by the five "Anchor MFIs". They represent a fairly comprehensive overview of the main models in use in Indonesia today. They are described below and a recommendation is given for each regarding possible replication and technical support:

1. **Cooperative PS Merpati** (Jakarta) uses a community-based cooperative model which encourages youth to save in the cooperative and ultimately be able to borrow up to three times the value of their savings. Larger loans may be backed by a range of formal guarantees. This is an extremely common model, but as we have seen it has not resulted in a high percentage (only 10%) of outreach to youth. Merpati management maintain that up to 40% of clients are youth, but that many loans are in the name of their parents, who effectively become their guarantors. Merpati has very high NPL. Most community-based cooperatives in Indonesia tend to be weak institutions, in terms of growth potential and performance. The cooperative sector is well known for its lack of effective

supervision and standards. Therefore, strong technical support is necessary to expand this model. However it is estimated that there are approximately 4,000 cooperatives throughout Indonesia which engage in microfinancing activities (although there are many thousands more which do not). **THIS MODEL IS RECOMMENDED FOR TECHNICAL SUPPORT.**

2. **Cooperative Mitra Perdana** (Aceh) will also use the cooperative model, but as a side business of a much larger entity (in this case, KNPI, the National Committee of Youth in Indonesia). The cooperative has yet to be formed, and will be so only through outside funding from BRR. In general, outside funding (particularly for establishment of operations) tends to undermine the cooperative membership structure and often has negative effects on institutional performance, including credit repayment. In this case, the cooperative will engage in a range of businesses, including running a convenience store. They plan to have a larger (30 billion) program with BRR to expand throughout province and also plan to set up a Youth Center to engage in business training. Based on the MFI Appraisal, institutional planning and management skills relevant to credit administration are rudimentary at best. **THIS MODEL IS NOT RECOMMENDED BECAUSE OF LACK OF IMPACT OF DONOR FUNDING ON COOPERATIVE VIABILITY.**

3. **Cooperative Alamitra** (Jakarta) also makes use of the cooperative model. This undertaking is only 3 months old. The cooperative is being founded as an offshoot of the Institute "Kemandirian" (Institute of Self Sufficiency) which is a vocational training center. The Institute is funded by a large Indonesian foundation (Dompet Dhuafa Republika) and although only one year old, has a group of 400 alumni youth. The Institute provides vocation training, followed working capital loans for entrepreneurial graduates and job placement within the Institute for other graduates. Vocational training includes a mandatory sales component of Institute products, to build up sales skills. After running for one year, the Institute is now founding a cooperative to take over credit operations and provide savings for alumni. Dompet Dhuafa has branches in all major cities and receives its funding from "zakat", newspaper sales and other sources. The foundation has a good public reputation. The model is being replicated in other cities in Indonesia, including Aceh, despite its lack of a full track record. The Institute recognizes its own low internal capacity for cooperative start-up and is looking for technical assistance opportunities. **THIS MODEL IS RECOMMENDED FOR POSSIBLE REPLICATION AND TECHNICAL SUPPORT.**

4. **Hipmi Jaya** (Tangerang). This BPR is seven years old and was started by a group of individuals including several members of HIPMI, which is the Association of Young Indonesian Entrepreneurs. HIPMI is a large, well-known institution with activities dating back to the Soeharto era and current relations to Golkar party. This BPR has a mission to serve the general, low-income population. The BPR had no specific youth focus and formerly had an inherent biases against lending to youth and start-ups (according to management and loan officers). Hipmi Jaya lends to only 3% youth borrowers.

Recently a local church with ties to the Hipmi Jaya board of directors offered a loan guarantee facility for loans to selected youth. The church selects all youth clients and pays the interest on the loans, ensuring an interest-free loan to the youth. Hipmi Jaya does not complete loan analysis and will more than likely not loan to youth outside of this loan guarantee program, although they may establish ongoing relations with youth who form part of the program. **THIS MODEL IS <u>NOT RECOMMENDED</u> BECAUSE OF LACK OF LONG-TERM AND SUSTAINABLE APPROACH.**

5. **BMT Pringsewu (Lampung**). This BMT (Syariah Cooperative) targets low-income groups, including youth. It does not have a strong youth-focus, vis-à-vis other target groups. However, youth make up approximately 22% of its borrowers. Pringsewu is a fairly typical BMT, offering a range of Syariah financial products. Many youth appear to be attracted to Syariah financial institutions because of the profit-sharing loan products. In practice, however, Syariah MFI make fewer profit-sharing loans and more "mark-up" loans, which provide a more stable source of revenue. Although some Syariah financial products require no formal collateral, this makes up a very small percentage of their portfolios. Pringsewu probably achieves its good outreach to youth because of its mix of formal and informal guarantees. Pringsewu, unlike most cooperatives, does not offer guarantee leverage off of savings. Pringsewu, like many other cooperatives and BMT, has low portfolio quality, but good performance in many other areas. **THIS MODEL <u>IS RECOMMENDED</u> FOR TECHNICAL SUPPORT.**

International Models

Financial serves for youth have only recently begun to attract significant interest and attention within the international microfinance community. MEDA (Mennonite Economic Development Associates) has just developed a "Youth Microfinance Toolkit", which was launched in June, 2006 in Cairo. There are also a range of national and international initiatives that focus on youth entrepreneurship, such as the Youth Employment Summit (YES) co-chaired by former US President Bill Clinton, that are highlighting entrepreneurship development as a critical means of creating youth employment in over 60 countries. Another example is ImagineNations, which is a global alliance of social entrepreneurs, investors, financial institutions, corporation and medial work on issues of youth employment and developing a youth investment strategy.

A desk review of MFIs which serve youth borrowers highlight many models which are similar to the Indonesian models listed above. In Jordan (and other locations), one MFI seek to link start-up entrepreneurs to suppliers and clients through databases which provide broad market information. In Bosnia, MFI "Partner" specifically targets 10% of its loan portfolio to go to start-up businesses, and provides loan officers with specialized training to safely project expected business activities as a basis for loan decisions. Many programs cite linkages between BDS providers and MFIs. It appears that in order to be successful in terms of linkage with MFIs, BDS providers need to provide both vocational training, which teaches specific business skills, and entrepreneurship tanning, which teaches basic business management skills.

CGAP is currently engaged in an interesting pilot project in four countries to prepare very poor individuals, in many cases youth, to meet MFI standards through a combination of BDS training and an asset accumulation strategy. The asset building strategy involves cooperation between a government or donor subsidy or welfare program, a BDS provider and an MFI. The BDS provider works with subsidy recipients to target individuals interested in ultimate self-employment. Over time, these individuals are required to save small portions of their subsidy at an MFI, while at the same time participating in on-going training with the BDS provider. Ultimately, the individuals builds up a relevant skill set, business strategy and relationship with the MFI. When sufficient assets are accumulated, the borrower can meet MFI lending criteria and start a business, with ongoing support from the BDS provider. This model is of particular interest because it does not force an MFI into borrowing to clients which it does not believe are creditworthy, which is inherently unsustainable. It also allows for the program participants to develop a range of skills and habit over time, which is also more sustainable than a short course.

Given the short time frame for this study, there is still room to explore innovative models that promote expanded MFI outreach to youth borrowers.

Enabling Environment

MFIs

The government can perhaps best support expanded MFI outreach to youth by improving the enabling environment for the microfinance institutions in four critical areas:

1. Allowing foreign investment in MFIs to help fund portfolio expansion. There are significant international funding and technical support opportunities available for MFIs, but current regulations prevent Indonesian MFIs from partnering with them;

2. Creating a legal "third window for microfinance". The legal options for MFIs in Indonesia are very limited. Foundations (two of which were included in this study) represent some of the most poverty-focused, best-performing and largest MFIs in Indonesia. However, as of 2007 they will no longer be legally allowed to lend. New BPR and NBFC licenses are not being granted by Bank Indonesia and the Ministry of Finance. Also, the BPR legal form is quite restrictive and high cost. Finally, the cooperative sector in general is very weak and the cooperative legal form is not conducive to outside investment. A very large number of MFIs currently operate in a legal gray area, which is not conducive to growth or investment. A third window legal option is necessary for the future development of the sector.

3. Improving cooperative supervision and support. The Ministry of Cooperatives and SME's has long been challenged to improve supervision, standards and technical support for cooperatives. Some good initiative has been taken over the past year, but the scale of the sector is immense and necessary resources are lacking.

4. Allow BPR more flexible operational enabling environment, in terms of branch formation, transparency of financial performance, and financial services. In the microfinance sector, profitability and scale are directly tied to a strong network of branches, ability to offer flexible guarantee options and other key steps in efficiency which reduce costs per transaction. The BPR sector faces a number of constraints which hamper its ability to reach scale and operate outside of urban environments. These restrictions, often developed for the commercial banking sector or in the aftermath of the Asian financial crisis, should be relaxed (or in some cases, such as NPL calculations, tightened) in line with international standards in microfinance and fiscal prudence. Key provisions which warrant revision include:

    - Branching restrictions;
    - Cash office restrictions;
    - Prohibitions on provision of money transfer services;
    - Registration of security and related provisioning requirements;
    - Public information on BPR performance;
    - Calculation of NPL and loan loss provisioning and write off requirements.

Youth Enterprises

Over the course of this study, the desk review, discussions with MFI managers and youth yielded very few government-level policy barriers which bar youth access to finance. The one findings is in relation to requirements for commercial banks and BPR to provision for loans which do not include 100% collateral. While this is appropriate to commercial banks, it is a restriction for MFIs, which have successfully incorporated informal guarantees for millions of loans around the world as the fundamental innovation which allows for cost-effective services to low-income populations. In India, experts agree that the microfinance sector benefited greatly from the Bank of India’s recent acceptance of solidarity and other informal guarantees for microloans up to a certain ceiling. This could be a positive set forward in Indonesia as well, which would certainly allow commercial banks to engage in lending to these groups as a more reasonable cost.

Otherwise, the key policy constraints probably are generated at the financial institution level, within individual commercial banks and MFIs. Discussions with MFI management indicate that most do not have specific “anti-youth” policies, but that most do specifically exclude any lending to start-up businesses. Loan decisions are made as a function of the quality of loan guarantees, the extent of applicant business experience and business viability. While many MFIs have demonstrated that lending to youth is a viable business line, many others have not reached the same conclusion.

Policy makers could undertake pro-active policy initiatives which would encourage lenders to engage in youth lending. Policy initiatives could include:

- Establishing a universal credit bureau to help youth establish positive credit history through payment of utilities, rent, school fees, etc. In many countries, the establishment of a universal credit bureau was cited as the most significant driver of growth of the microfinance industry;

- Following the Indian and South African models, where the national banks mandated that certain percentages of bank assets must be invested in "priority sectors", such as agriculture, microenterprise, or "youth" enterprise (the ICICI model in India holds particular promise);
- Developing a professional certification system and effective network for BDSP to give graduates of these programs easier access to MFIs (perhaps based on the CERTIF model of professional certification of BPR managers);
- Providing highly public support for innovative programs which reach scale profitably (such as the Danamon Simpan Pinjam units in urban small and microfinance);
- Implementing an asset-building program for youth engaged in BDSP similar to the CGAP model cited above. This would allow youth to build up assets progressively as they build relevant skills, ensuring that they are more bankable upon graduation.

Possible Partners

Based on the limited time frame for this survey, the research team has developed a short list of institutions and types of institutions which could participate in various types of programming to promote lending to youth. This listing is by no means exhaustive:

- Dompet Dhuafah Republika
- ASKRINDO and other credit insurance providers
- Youth organizations with existing and relevant BDS components (related to self-employment)
- MFIs with relevant products, services, outreach and sustainability
- Relevant BDS providers (range of national and INGO vocational training providers (CARDI, PLAN International, ACDI VOCA)
- Banks involved in direct lending to youth: BRI, Bank Danamon DSP
- Banks involved in direct lending to MFIs (BCA, Mandiri, Syariah Mandiri, Bukopin, Niaga, Muamalat)
- Donor agencies active in microfinance/youth: World Bank, ILO, IFC PENSA, GTZ ProFI, GTZ Aceh, ADB, JBIC, CIDA, USAID, etc.
- MFI networks, including GEMA PKM, Perbarindo, second-tier cooperatives, etc.
- International microfinance (youth) expertise: CGAP, WOCCU, MEDA, ImagineNations, Citigroup Foundation;
- Apex institutions: PNM, Ukabima, BISMA
- CERTIF, as a microfinance model for BDSP professional certification
- Rating Agencies: PRIME, Perfindo
- Technical Service Providers for MFIs: (MICRA, PNM, Ukabima, IFC PENSA, LKP, CERTIF, MICROFIN (BMI), IKOPIN, LPPI, etc.), with special importance of incorporating Syariah expertise into MFI support.

ANNEXES

A. Supply-Side Survey Instruments
(see attached)

B. Demand-Side Survey Instruments
(see attached)

C. List of institutions surveyed for "youth window" MFIs
Strategy for location of Youth Window MFIs

#	Institution
1	PNM
2	ACDI Voca
3	ILO
4	Gema PKM
5	Perbarindo JATIM
6	Don Johnston
7	GTZ ProFI
8	Ukabima
9	BISMA
10	Save the Children (UK/US)
11	World Vision
12	Opportunity International
13	Asia Foundation
14	Internet Search (access to finance, employment, jobs, entrepreneurship, INDO)
15	Bina Swadaya
16	World Bank
17	ADB Commercialization (list of govt programs)
18	Dept Pemuda
19	REDI Consulting
20	Persepsi
21	Perbarindo Tangerang
22	Dian Mandiri
23	NIKE
24	Mercy Corps

D. Description of Youth Window MFIs included in this study

Anchor MFIs	1) Koperasi Alamitra. ("Partners of the World)"cooperative only 3 months old in Jakarta – bookkeeping still under program of Institute Kemandirian (institute of self sufficiency) funded by foundation and they have 400 alumni youth with vocational training and then provide them with working capital loans. Some got loans, some working inside of institute as employees. Working for one year, now are opening a cooperative. Vision to provide credit to graduates from their vocational training to train people to be self employed. Vocational training in different microbusinesses (food production, dress, welder, pastries, benkel). Vocational training includes a mandatory sales component of Institute products. Funded by Dompet Dhuafa (Samaritan's Purse –

	not affiliated with int'l orgs) Republika, which is a foundation funded by "zakat" (through ATM) and other sources, such as by portions of sales from Republika newspapers. Dompet Dhuafa has branches in all major cities. Has a good public reputation. Still in experimentation phase, but recommended for replication. This is being piloted, but they want to copying it in Aceh. Need a lot of help in terms of cooperatives management and financial oversight. Have asked for help on starting cooperative 2) Kooperasi Merpati . 4 years old, founded by former commercial banker as a community-based loan fund (with associated business car repaid and oil sales) with a specific mission to provide finance to local unemployed youth as a way to build the community, reduce local poverty and crime. Willing to finance startups coming out of good vocational training. Small. Extent loans to a limited of start ups. In actually, approximately 40% of their borrowers are youth, but only 10% have loan contract with youth. Rest have contracts in the names of their parents. Small, low growth potential. NPL very high. 3) Hipmi Jaya (Tangerang). BPR 7 years old. Started by a group of individuals including several members of HIPMI, which is the Association of Young Indonesian Entrepreneurs. HIPMI is a well-known and strong institution with strong and activities dating back to the Soeharto era and current relations to Golkar party. This BPR has a mission to serve the general, low-income population. BPR had no specific youth focus and formerly had an inherent biases against lending to youth and start-ups (according to mgt and loan officers). However, recently a church offered a loan guarantee facility for loans to youth. The church pays the interest, ensuring an interest-free loan to the youth. The church provides a list of clients. There is a personal tie between MFI director and church. 4) Koperasi Mitra Perdana (Aceh). This institution was recommended as a strong going-concern with over 400 clients by a donor agency. However, the research team arrived to find no real lending operations in place. Pre tsunami KNPI operated an informal revolving fund to support their youth activities in Aceh. Now, with promise of BRR funding, they will formalize these activities, which had stopped post-tsunami, into a new cooperative-pilot to focus on Calang. The cooperative will engage in a range of businesses, including running a convenience store. They plan to have a larger (30 billion) program with BRR to expand throughout providence. Have a plan to work with BRR to set up a pilot village in Calang, very close to Banda Aceh. About to receive BRR funding. Plan to set up a Youth Center to do business training. Part of KNPI Committee National Youth of Indonesia - non-governmental community organization associated with GOLKAR. Under KNPI there

	are 116 youth organizations. These organizations are generally involved in youth voter mobilization and active in community political elections. KNPI has a cooperative structure within. There are several sectors, including training. They train youth in life skills, which includes economic activities. Sense that they probably would not have started the cooperative without existence of funding from BRR. No real history within KNPI of significant prior cooperative development. They have written a fundraising plan, but no real plan in place to establish institution. 5) **Baskara:** All Lampung MFI mission and vision include youth – although actual service to this group varies. Anchor MFI is BMT Baskara, while youth are in their overall mission, they have no specific products or outreach to this group. However, approximately 40% of their active clients are youth. This is a function of the area in which they work, which is traditional markets. Naturally, a large percentage of microentrepreneurs in Lampung working in small scale trade are youth. Also because they allow parental guarantees and applications are sometimes in the parents need.

E. Youth Product Data

SUMMARY SUPPLY SIDE : Youth Borrowers by Sector

No	MFIs Name	% Youth Borrowers	SECTOR (Youth Borrowers) Trading		Production/ Industri		Services		Agriculture		Others	
	ACEH: URBAN											
1	BPR Darul Imarah Jaya	28%	22	59.46%	3	8.11%	6	16.22%			6	16.22%
2	BPRS Baiturrahman	6%	11	64.71%	2	11.76%	1	5.88%	3	17.65%		
3	*Koperasi Mitra Perdana*	**0%**										
4	BQ Baiturrahman Baznas Madani	69%	99	95.24%			6	5.71%				
		28%		**73%**				**9%**		**6%**		
	JAKARTA: URBAN											
5	*PS Merpati*	**11%**		**?**		**?**		**?**		**?**		**?**
6	PPSW-Prima	9%		**?**		**?**		**?**		**?**		**?**
7	BPR Naribi Perkasa	9%	43	69.35%			6	9.67%			13	20.96%
8	*Koperasi Karya Insa*	**2%**			**2**	**100.00%**						
		10%		**69.35%**				**9.67%**				**20.96%**
	TANGERANG: PERI-URBAN											
9	Koperasi Ubasyada	7%	49	100.00%								
10	Yayasan Dian Mandiri-TNG(from 1 business unit)	3%	35	100.00%								
11	BPR Asri Cikupa	12%	31	53.45%	3	5.17%	13	17.24%			14	24.14%
12	*BPR Hipmi Jaya*	3%	10	100.00%								
13	Yayasan Ganesha	30%									4817	100.00%
		26%		**88.36%**		**1.29%**		**4.31%**				**6.04%**
	EAST JAVA: RURAL											
14	BPR Pujon Jaya Makmur	5%	13	18.31%			12	16.90%	44	61.97%	2	2.82%
15	Kopdit Sawiran	20%	122	57.01%					19	8.88%	73	34.11%
16	BPR Wiradana	10%	59	43.38%	8	5.88%	27	19.12%	8	5.88%	34	25.00%
17	BPR Sadhya Mukti Pratama	16%	33	44.59%	7	9.46%	17	22.97%	5	6.76%	12	16.22%
		12%		**41%**		**4%**		**15%**		**21%**		**20%**
	LAMPUNG: RURAL											
18	KJKS BMT Mentari	11%	77	77.78%			3	3.03%	11	10.10%	9	9.09%
19	KJKS BMT Surya Abadi	6%	29	90.63%			1	3.13%	2	6.25%		
20	*BMT Pringsewu*	**21%**	**39**	**33.05%**	**35**	**29.66%**			**1**	**0.85%**	**43**	**36.44%**
21	BMT Baskara	42%	174	100.00%								
		17%		**75%**		**7%**		**2%**		**4%**		**11%**
		22%		**69.41%**		**2.51%**		**7.91%**		**6.21%**		**11.58%**

F. Supply Side Youth MFI Product Data: Loan Size, Loan Term, Repayment

No	MFIs Name	% Youth Borrowers	Average Loan Size		Average Loan Term		NPL / PAR	
			Youth Borrowers (*000)	Total Borrowers (*000)	Youth Borrowers (*000)	Total Borrowers (*000)	% Youth Borrowers	% Total Borrowers
	ACEH: URBAN							
1	BPR Darul Imarah Jaya	28%	10,302	10,363	12month	24month	24.00	64.61
2	BPRS Baiturrahman	6%	11,559	7,489	12month	24month	6.00	26.62
3	***Koperasi Mitra Perdana***	**0%**						
4	BQ Baiturrahman Baznas Madani	69%	5,064	4,120	12month	24month	8.00	7.30
		28%	**8,975.00**	**7,323.68**				
	JAKARTA: URBAN							
5	***PS Merpati***	**11%**	**1,770**	**451**	**2 month**	**10 month**	**0.00**	**5.89**
6	PPSW-Prima	9%	2,665	1,796	12 month	10 month	0.00	3.40
7	BPR Naribi Perkasa	9%	2,883	7,244	24 month	24 month	0.00	0.00
8	***Koperasi Karya Insa***	**2%**	**14,000**	**9,870**	**24 month**	**24 month**	**0.00**	**26.48**
		10%	**5,329.50**	4,840				
	TANGERANG: PERI-URBAN							
9	Koperasi Ubasyada	7%	5,092	869	5 month	10 month	22.00	9.39
10	Yayasan Dian Mandiri-TNG(from 1 business unit)	3%	917	359	5 month	6 month	0.00	15.00
11	BPR Asri Cikupa	12%	4,534	2,983	12 month	10 month	0.00	2.50
12	***BPR Hipmi Jaya***	3%	3,900	7,347	12 month	24 month	0.00	14.00
13	Yayasan Ganesha	30%	342	342	13 month	13 month	0.00	0.00
		26%	2,957	2,380				
	EAST JAVA: RURAL							
14	BPR Pujon Jaya Makmur	5%	3,182	4,030	12 month	10 month	4.00	16.00
15	Kopdit Sawiran	20%	10,283	16,838	48 month	36 month	0.00	1.00
16	BPR Wiradana	10%	7,199	10,666	12 month	12 month	1.00	1.00
17	BPR Sadhya Mukti Pratama	16%	4,732	5,844	12 month	12 month	8.00	7.00
		12%	6,349	9,345				
	LAMPUNG: RURAL							
18	KJKS BMT Mentari	11%	2,336	1,988	10 month	18 month	13.00	15.50
19	KJKS BMT Surya Abadi	6%	2,289	2,514	10 month	18 month	0.00	9.00
20	***BMT Pringsewu***	**21%**	**2,837**	**1,878**	**10 month**	**18 month**	**40.00**	**40.23**
21	BMT Baskara	42%	2,502	3,282	10 month	8 month	13.00	6.50
		17%	2,491	2,416				
		22%	**5,220**	**5,261**				

G. Desk Review findings on vocational training programs

There are many different types of youth unemployment programs in Indonesia, most of them are focused on vocational training without providing any financing services, including one provided by Department of Pemuda dan Olah Raga (Ministry of Youth and Sport).
In general, vocational programs have been extended by various institutions have lot of weaknesses, such as:

- **Not based on market realities** - Skills provided to youth are not marketable, or the product produce are not marketable.
- **Provide by people with no business skills and experiences –** Mentoring and consulting from people with merely theoretical background will only work to certain extent such up to start up, lesson learned shared by experience business man would be valued most.
- **Not reliable in term of capacity –** most programs could not provide enough capacity to serve even the smallest market, and meet the quality and quantity required
- **Replication without taking into consideration community social and cultural based** – most of program just copy any program without considering the community social and culture or local resources, which direct the program to a total failure due to lack of lot of resources.
- **Awareness to program within community is very low –** not many people in the community aware and understands of such program availability and accessibility.
- **The program size is barely significant –** most programs are micro in size, and only operating in very limited local coverage.

One example of such program is YES. YES - Youth Entrepreneur Start-up Program is a program that has been funded by consortium of multi national companies and partnering with many local companies. After 3 years, they have just coaching 30 applicants to become entrepreneurs. In their 3rd year, they even stopped lending to youth start-up enterprise.

Few programs originally providing capacity building start to establish MFIs to channel their revolving fund to attain more outreach.
And example of these is Institute Kemandirian, with mission to reduce the unemployment rate through raising awareness, and building interest among people on entrepreneurship and to encourage business start-up, and to provide support including information, technical assistance, mentorship and networking to entrepreneurs in pursuing their business. This institution has been only established for a year, with 400 "alumni" come from all over Indonesia. It is fully funded by Dompet Dhuafa Republika and mostly working with local successful SME businessman such as Bakmi Tebet, MQ etc, and giant local corporations such as Arutmin and Sepatu Bata.
Their method is quite unique; they provide an "entrepreneur workshop" for 3 months including dorm and once meal per day. The workshop is free of charge; however participant has to work and earn for their 2nd and 3rd meals.
This institution currently realized that access to finance is not available for their alumni, and a professional management to revolved fund is crucial. This institution believes as well that they could be well standing on their own without grant once their MFI's has been well established.

However, like their similar narrow focus vocational program, these programs are hardly recognized. Most program coordinators believe that:

- **Access to finance –** This is the barrier that halts the young to start their own business.
- **A lot of counseling and close monitoring –** Even granting fund such as seed capital alone would not help the youth unemployed to become self-employed. A lot and lot of capacity building, mostly in business attitude and how to manage their business are imperative to develop this youngster capability and confidence. Especially, in the fist phase, it is critical to ensure that young start-up entrepreneur is on track.
- **Linkages with market –** To be sustainable and profitable, start-up business especially small and medium size should be link to market.
- **Work experience –** Internship, part-time employment, volunteering are ultimate, combined with basic education and life skills and vocational training, would groom youth to a successful self-employed or employee.
- **Access to information –** Youth need information about work, career, and options in life. They should have been educated about the value of money in life, and how to responsible for their life starting in their early life.

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