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Understanding the Demand for Financial Products among the Female Youth of Central Java

Premasis Mukherjee, Sonmani Choudhury & Neeraj Lal

Reviewed by:
Graham A.N. Wright & John McDonough

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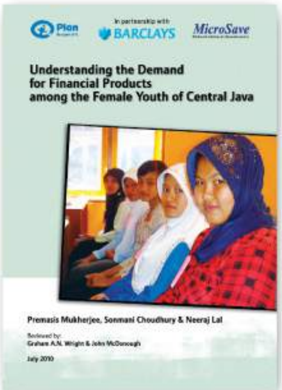

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I. Introduction

Indonesia has the world's fourth largest youth population with over 38 million young women and men between the ages of 15 and 24. Across the country they are making important contributions to society and are one of Indonesia's most important assets. However, for the majority of Indonesian youth their full potential is not being realized because of their non-engagement in employment, business and the economy at large. The official overall unemployment rate in Indonesia is 12% and over half of these are young people, representing some 42 million people.

Recent experiences have shown that finance is a major constraint for youth in increasing their employability including self-employment. However, not many financial institutions are serving the youth in Indonesia given a perceived notion that youth are high-risk and high-cost clients without any assets that can serve as collateral. But recent studies on youth access to microfinance in Indonesia have disproved such notions. Youth borrowers actually have equal to, or slightly higher, repayment rates than the total clientele in the majority of Indonesian microfinance institutions.

Today's youth are the next generation of microfinance clients and with appropriate training, products and services they can become informed future microfinance clients. Involving clients at younger ages helps to instil a financial discipline and retaining them can prove to be a sustainable business model for formal financial institutions. There is a significant supply gap in providing microfinance services to youth. While loans are the most commonly offered products to youth, less than half of microfinance providers for youth offer savings products, only a quarter offer life insurance and almost none offer health insurance.

In order to tap the economic potential of youth in Indonesia Plan International is implementing an integrated youth economic empowerment program with several key components including the critical area of microfinance. Plan International's microfinance component for youth will be undertaken in close cooperation with our implementing partner KOMIDA. Plan International and its partners will work together to increase youth access to microfinance focusing particularly on adolescent girls and young women in Central Java. As a first step in this process Plan International, *MicroSave* and KOMIDA have initiated research to better understand the demand for financial products among the youth of Central Java. With this information we will be working towards establishing a sustainable microfinance program for youth in Indonesia. We also hope that this research will provide valuable information to other practitioners in the area of youth microfinance.

I would like to take this opportunity to thank Barclays Bank for their support of this research and also the work of Plan Indonesia's staff including Frans Purnama, Meinrad Indra Cahya, Plan Grobogan staff as well as volunteers from Bank Sahbat, KOMIDA and others that worked hard to capture and document the financial situation of youth in Central Java.

John McDonough
Country Director
Plan International Indonesia

II. Research Background

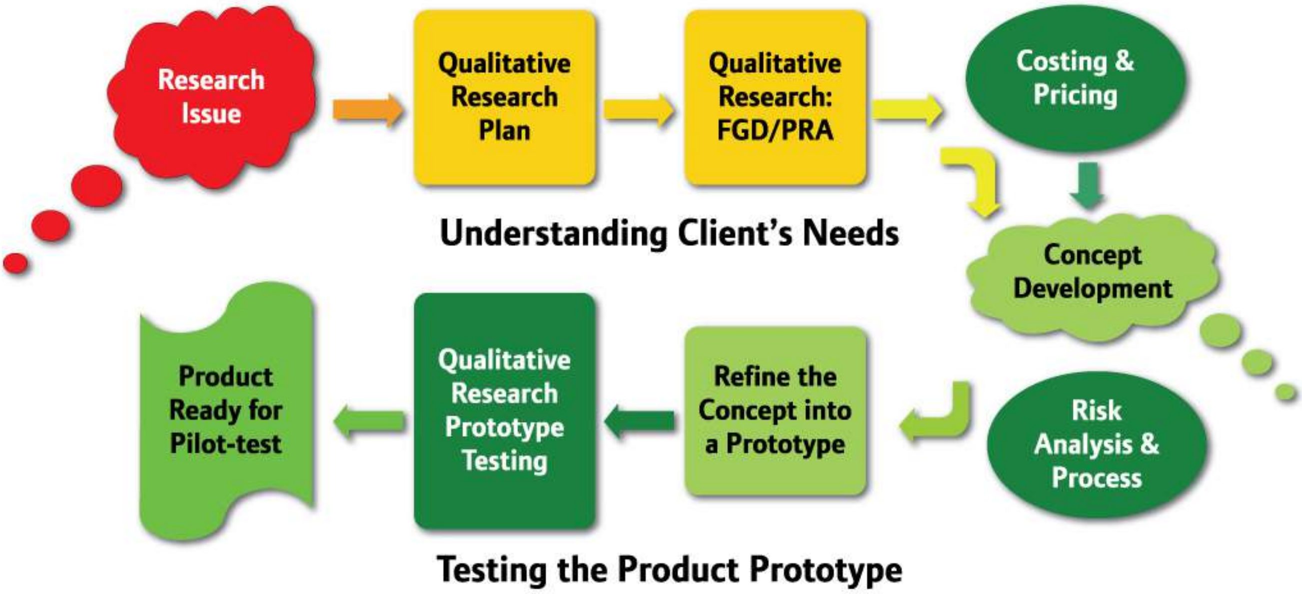
a) Objective

Market research was conducted to understand the needs that youth[1] have for financial products, which will allow for a suitable client responsive product mix in the future. The research objectives were defined as:

- Understanding the needs of youth in Central Java for all types of financial services.
- Understanding youth's perception about existing financial services available in their respective area.
- Comparing the financial needs of youth with the current products of Plan International's MFI partner KOMIDA.
- Suggesting more suitable financial products that will meet the needs of youth.

b) Methodology

The research was carried out using *MicroSave's* product development cycle concept, where qualitative research yields a product concept that is developed into a prototype through process mapping, costing and pricing according to the implementing institution. The framework is as follows.



With this approach, the definition of the research issue is usually driven by an initial analysis of secondary data and then focuses the market research effort on specific issues to be examined. This, in turn, allows the development of a qualitative market research plan typically involving a variety of qualitative research techniques including Focus Group Discussions (FGD) and Participatory Rapid Appraisal (PRA) sessions. The results of this work then allows the product development team to develop a product concept which is subjected to appropriate costing and pricing analysis to ready it for the process of refining the concept into a prototype. In some cases the product prototype is subjected to quantitative research to provide a final check of the marketability of the prototype before investing in a pilot test.

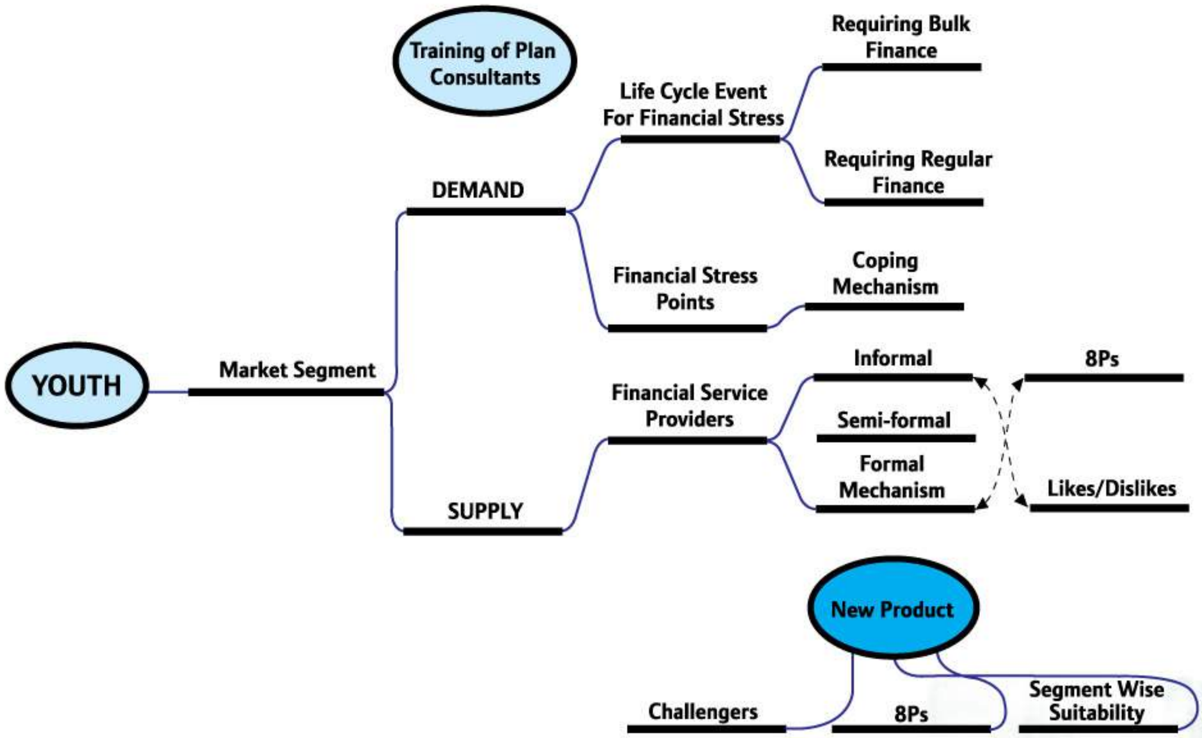
c) Scope of Market Research

The study was conducted in Semarang, Salatiga and six village locations in Grobogan District, Central Java over a two week period in June and July of 2010. Although adequate measures were taken to reach to representative client groups, the study report does not claim to be representative of all areas of Indonesia, since geographic and socio-economic factors in different areas vary.

[1]Youth in this context is defined as those aged 15-29 (inclusive). Research focused on adolescent girls and young women.

d) Research Plan

The research team addressed the objectives, through the following phases:



In the first phase, the concepts of microfinance and market research for microfinance (the MR4MF tool of *MicroSave*) was introduced to the staff and consultants of Plan International and their microfinance partner, KOMIDA. A three day orientation classroom training was given on various tools and techniques used in *MicroSave's* qualitative market research toolkit. This was followed by field exposure of the participants to qualitative research tools in Semarang and Salatiga. This also helped the team in benchmarking, as well as providing a preliminary understanding of microfinance situation in Central Java.

In the second phase, detailed two week qualitative market research was carried out in six villages in Grobogan District to understand the financial needs of various low income segments of the youth population. The research team focused on understanding the demand and supply scenario of financial products for youth, with the hypothesis that among the youth there might be possibilities for further market segmentation. On the demand side, the objective was to find out the financial stress points and lifecycle events of the youth requiring regular and bulk finance. The current informal, semi-formal and formal financial services were seen as coping mechanisms for such financial needs. Each service provider then was then assessed based on the preference of the potential clients. The research was conducted using four Participatory Rapid Appraisal (PRA) tools - Focussed Group Discussions (FGD), Lifecycle Analysis (LCA), Product Attribute Ranking (PAR) and Relative Preference Ranking (RPR). Personal interviews were used as a subsidiary tool for deeper understanding of financial behaviour around different market segments. The sequence of using these tools varied depending on the respondent profile and how the process evolved in each session.

Based on the in-depth understanding of the youth demand and preference, the team then conceptualised probable product features in the 8P (Product, Price, Promotion, Place, Positioning, Physical Evidence, People and Process) format. The challenges in implementing the products and their suitability across the different market segments were also envisaged.

e) Research Team

The research team was led by three members of *MicroSave*, and included an eight member local study team from KOMIDA and Plan International.

f) Use of Market Research Tools

No	Tool Used	No. of Groups	No. of Respondents	Usefulness of the Tool	Objective of Using the Tool in this Project
1	Focus Group Discussion	24	140	Discussion with potential clients about their demand, lifestyle requirements, nature of demand and financial behaviour. Helps in identifying the profile of clients and demographical trends.	**Understanding of youth** • Lifestyle • Perception about financial services • Current financial behaviour • Differences with adults **Market Segments** • Parameters and characteristics of segmentation • Nature of demand and supply in segments **Characteristics of Demand & Supply**
2	Lifecycle Analysis	21	120	• Determines which of the life events require lump-sums of cash. • Examines the implications of these for household income/expenditure. • Establishes current coping mechanisms. • Discusses how access to financial services can help the household respond to these financial stress points of life.	**Identifying pressure points & coping mechanisms** • Use of savings/ credit and needs-wise discernible use of a particular type of mechanisms.
3	Product Attribute Ranking	9	50	• Identifies which product attributes are important for the client groups. • Explores the relative importance/ desirability of product attributes of a product category (Savings/ credit/ remittance/ insurance etc.)	**Nature of Demand** • 8Ps • Savings/credit/insurance
4	Relative Preference Ranking	9	50	Relative Preference Ranking is used to see how clients and potential clients perceive the financial service providers and components of the financial services they provide.	**Nature of Supply** • Formal and Informal financial services. • Perception of youth towards suppliers.
5	Individual Interviews		30	Used for in-depth understanding of the cash flow pattern of the potential clients.	In-depth understanding of specific segments.

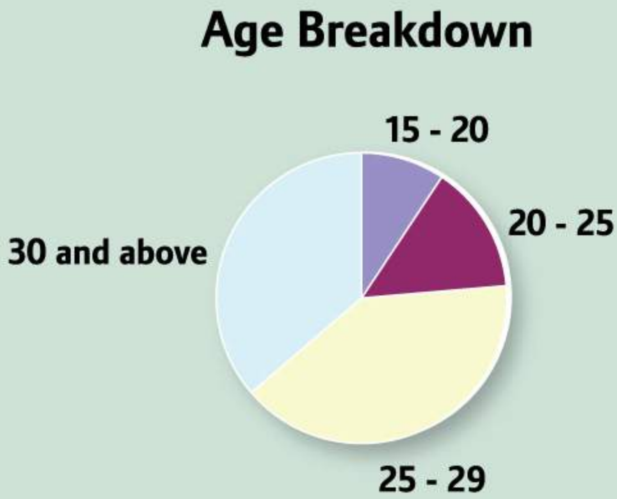
g) Sampling

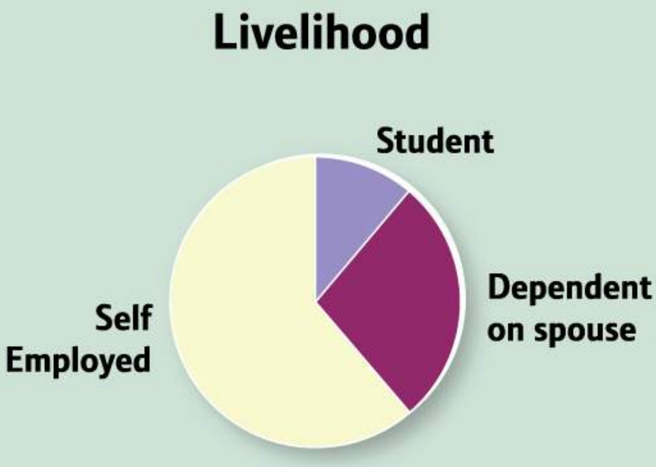
Respondents were from six villages of Grobogan District in Central Java. Purposive sampling method was used for simplified analysis, reduced variation in findings and for more focussed research.

h) Group composition

The research team interacted with female respondents in groups of five to eight. Most of the respondents were aged 15-29 years. Some Lifecycle Analysis and FGDs were conducted with youth of the same market segment once the market segmentation was evident. The research team also interacted with adults to ensure a comprehensive spectrum of responses and to understand their perception about youth, changes in the youth behaviour over time and remarkable differences in youth versus adult behaviour. The research team also interacted with village heads and Plan International frontline staff members to understand their views and opinions around the research issue.

The profile of respondents is given in the following graphs.





III. Demand Profile of Youth

During the lifecycle needs analysis the following lifecycle needs emerged as predominant financial stress points:

- Education
- Health expenses
- House construction
- Marriage
- Birth of a child
- Working capital
- Buying a motorcycle
- Community events
- Spending during holiday and vacation

However, all of these needs are not equally important across all areas as shown by the analysis table from the Lifecycle Analysis (LCA) sessions below:

S No	Lifecycle Event	No. of Sessions Event Mentioned	% Of Sessions Event Mentioned	Sum of Weight	Average Weight	Factor of Importance
1	Education	18	100%	87	4.83	1566
2	Health Expenses	13	72%	52	4.00	676
3	Housing	11	61%	49	4.45	539
4	Marriage	12	67%	34	2.83	408
5	Birth of a child	8	44%	22	2.75	176
6	Working Capital	7	39%	25	3.57	175
7	Motorcycle	5	28%	16	3.20	80
8	Community Events	3	17%	9	3.00	27
9	Holidays/ Vacation	3	17%	7	2.33	21

No. of sessions event mentioned: Indicates the number of sessions in which the respective lifecycle event was considered an important financial stress point.

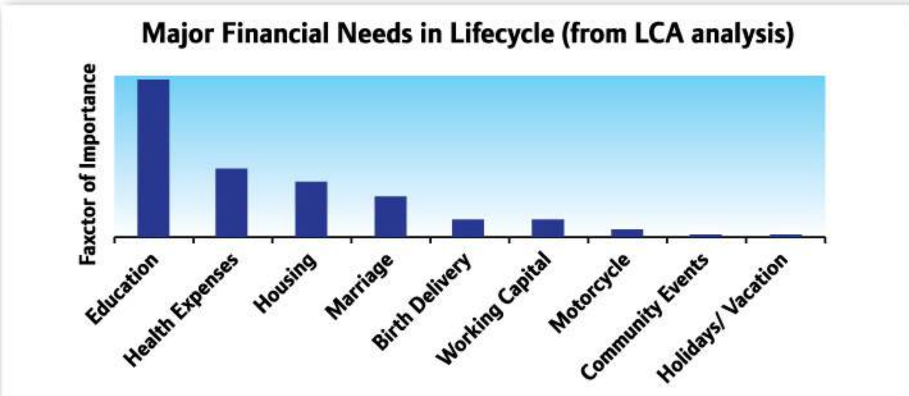
% of sessions event mentioned: Indicates the percent of sessions in which the respective lifecycle event was considered an important financial stress point,

Sum of weight: Indicates the cumulative score for the respective lifecycle event from all the sessions. (Clients were asked to rate the importance of the events in a scale of 1-5, 5 being the most important stress point).

Average weight: Indicates the average score/weight of the lifecycle event.

Factor of importance: Indicates the importance of the lifecycle event based on the number of sessions in which the event has been discussed and the average score of the event (as given by clients in LCA).

The table shows that although some of the lifecycle needs have a high cumulative score they are not considered important across all sessions. For example, working capital has a high average weight but it was only raised in 39% of the sessions, whereas the birth of a child has a lower average weight but was considered in 44% of sessions. The final score has been reached considering both the spread of the issue across the sessions as well as assigned magnitude of the issue.



The importance of the lifecycle needs is not uniform across all age, social and economic groups among the youth. Different financial stress points have been analysed in the following section.

a) Education

Education is a priority for respondents mainly because it opens up employment opportunities. Youth respondents said that through good education they can lead a better quality of life. However, the meaning of education and its related stress varies across age and social groups. Married respondents viewed education as primary, secondary or higher education for their children. Unmarried youth viewed education as their own education and associated vocational training.

The type of costs in education, the cycle of expenses and the coping mechanisms are shown in the following table:

Type of Expense	Expense	Expense Cycle	Present Coping Mechanisms
Children's Education	School fees, stationary, uniform and daily pocket expenses. If the child is in private school then other costs such as project cost, school events and student clubs also gets included.	Regular, smaller expenses and annual expenses for heavier school costs such as books , uniforms etc.	To meet regular school expenses respondents save at home. For bigger onetime expenses such as uniform, school kit, books etc. they either sell assets (livestock or timber) or borrow from relatives/friends. Many of the respondents have joined *Arisan* (a type of RoSCA) for meeting bigger school expenses.
Own Education	Admission cost, transportation, boarding and lodging in cities.	The main barrier is onetime expense for admission. Once admission is paid, daily expenses are incurred for transportation and lodging. This however, is not negligible.	Only children of wealthy families can afford admission to colleges and universities using parent's savings. They prefer to save money from the pocket money provided by parents for the regular recurring expenses, e.g., boarding house rent, books, school assignment or even for leisure time activities.

Elementary or primary schools exist in all the villages that research was undertaken. Secondary (lower and higher) school facilities are established in peri-urban locations so children have to commute daily to the school or relocate near to the school. The involved recurring transportation costs or boarding costs was perceived as a financial stress by the respondents. In addition, the cost involved is proportionate to the distance of the school, type of school (private or government[2]) and the mode of transportation (own or public transport). In some of the research locations the cost of education was higher due to poor road infrastructure leading to longer travel times and higher fuel expenses.

b) Health

The presence of illness in the family generates stress and requires constant financial and social adaptation by the family. The respondents have (largely) divided the illness into two types:

1. ***Accidental illness*** in which a person recovers within a few months. In this case the stress is mainly in arranging immediate money for treatment with less long term stress on the family.

2. ***Chronic illness*** in which the illness may extend up to six months and lead to financial stress in the family. The stress in this case is in managing the sustained cost of treatment. If the head of the family is sick, the additional stress occurs due to income loss.

The respondents use different indigenous financial mechanisms to cope with the stress caused due to illness. They subscribe to the *Jamkemnas* programme of the government, they take loans from *Arisans* (see page 16) which generally provide small amounts of credit for meeting health expenses (maximum IDR. 200,000)[3], they borrow from parents/friends/ relatives and they also live hand-to-mouth and face difficulties. If the cash needed is not sufficient, then respondents pursue options such as selling livestock, withdrawing savings or selling jewellery. In extreme cases they also take loans from a moneylender.

2 Government schools do not charge admission fee and children are given books free of cost by the school.

3 At the time of this research approximately IDN 9,000 was equal to 1 US Dollar.

Type of Schools and Related Costs

Elementary school covers six years and is generally attended by children aged 6 to 12 years. Junior High School covers three years and is generally attended by children aged 13 to 15 years. The costs of these schools are:

- Initial costs for uniforms, books, etc: IDR 1 million – IDR 1.5 million
- Fees per semester IDR 60,000

Senior High School covers three years and is attended by children aged 16 to 19 years. The costs for such education are:

- One time annual school fee : IDR 2- 4million
- Fee per semester: IDR 1 million

For students of this age group, there are also vocational training schools which are popular in this area.

The initial cost of colleges and universities is around IDR 4 million -IDR 8 million.

Jamkemnas Programme

This is a government programme, under which clients pay IDR 5, 000 per month to cover health care, death and pension expenses. The maximum health benefit is IDR 8 million. There are some criticisms of the Jamkemnas programme including limited coverage and the fact that access to the program by the poor is not always widespread or equitable.

c) Housing

Among 20-25 year olds the need to acquire their own house emerged as an important lifecycle event. A house signifies the establishment of their own family and separation from their parents. Some of the respondents had their own house which they wanted to renovate or equip with electricity and toilet facilities. Building a new house or renovating an old house involves high costs due to recent increases in the price of construction materials.

Gotong Royong

This is a custom of cooperative assistance in Javanese communities. For example, every member of the community may jointly work towards building the house of one member. In this way they can avoid the cost of labour when building.

The building of a new house involves a minimum of IDR 15 million. People generally finance their houses from their savings. However, the entire house is rarely built at one time and is completed gradually over time. For families dependent on agriculture, house construction is done in conjunction with harvests.

d) Marriage Celebrations

Marriage is an important event for the family and is a major social celebration for the community. Marriage celebrations are big occasions and the festivities go on for three or four days. Weddings are considered a symbol of status and prestige. Marriage expenses are borne by the groom and bride as well as their parents. Costs involved in the celebration are generally at least IDR 15 million. Parents save for a long time to pay for the marriages of their children. In many cases these savings are diverted for other expenses and emergencies. Oftentimes livestock must be sold and relatives asked for loans in order to fund the marriage. Food for the marriage is also often purchased on credit. This arrangement is convenient for the respondents although they know that they end up paying more.

Attendance at weddings by guests is considered obligatory if invited. Guests bring gifts, mostly money, for the newlywed family. Many respondents have said that they keep a separate budget for going to weddings due to their frequency and expense.

e) Birth of child

Childbirth is also an important lifecycle event. However, respondents did not consider it a high financial stress event as sufficient time is available to prepare for the birth of a child. Nevertheless, the possibility of high costs due to complicated births and possible surgery was recognised given that this type of emergency can cost about IDR 500, 000. Lately youth have started to enlist the help of a trusted and experienced midwife in complicated cases of delivery. It costs them IDR 600, 000 which includes birth certificates and traditional earrings for girls. At the village level there are maternal health posts and government schemes that cover half of the expenses incurred in the delivery of the first child. There are also community-based centres that encourage married women to join a local saving *Arisan*, which is later used to cover costs during child birth. There is one other programme called **Gotong Royong** (meaning mutual help) to help women by promoting savings, arranging for transportation to the health centre and identifying a skilled midwife and safe birthing place.

A few days after a child is born, a baby shower is held. The child is formally named at this religious ceremony which includes friends and relatives. The entire celebration costs around IDR 1 million. Managing the event is quite a challenge for the household as social reputation is associated with it. The family usually borrows money for the event or seeks financial help from parents as well as in-laws.

f) Working Capital

Many of the respondents (except youth under 20) were involved in some kind of economic activities like making tofu , cattle rearing, poultry rearing, etc .They found it stressful to meet their recurring capital requirements. The savings in the *Arisan* helps them in meeting a small portion of capital. During the festival/marriage season, when their cash requirements are high, they sell the livestock to meet their needs. A few of them have loans from BRI KUPEDES (*Kredit Umum Pedesaan* or general rural credit). This is an individual loan to economically active poor and middle income groups.

g) Community events

To maintain social cohesion, people collectively take part in social events and celebrations. This builds relationships and families can help each other solve or prevent problems. Celebrations include marriage, circumcision and childbirth and involve households at the village contributing cash and/or goods. Usually contributions depend on the wealth of the household--it varies from IDR 20, 000 to IDR 50, 000. Relatives have to contribute more depending on their financial condition. Respondents say that they cannot avoid such social events. Their presence as well as contribution is a social obligation. At times they have to borrow money, or forgo some of their needs, to be able to bring their contribution.

Kas Bon

Certain months of the Javanese calendar are considered the best time to have social ceremonies. During these months a household generally receives three or four invitations per week and for each one contributions are required. During these months respondents find it difficult to manage their day-to-day expenses so they borrow from relatives, women's working groups, *Arisan* and *Lambung Desa* (village granaries). If people do not have donations such as rice they buy them from the village store on credit and pay back when they have cash. This is known as "*Kas Bon*".

h) Other

Other lifecycle needs that were also considered important by some respondents included:

Death Ceremonies
In the event of death, the family friends, neighbours and relatives gather at the house of the deceased. They bring their contribution in the form of money and goods (mostly rice) for the family. The death is later marked by a formal gathering, the cost of which is partially covered by societal assistance.

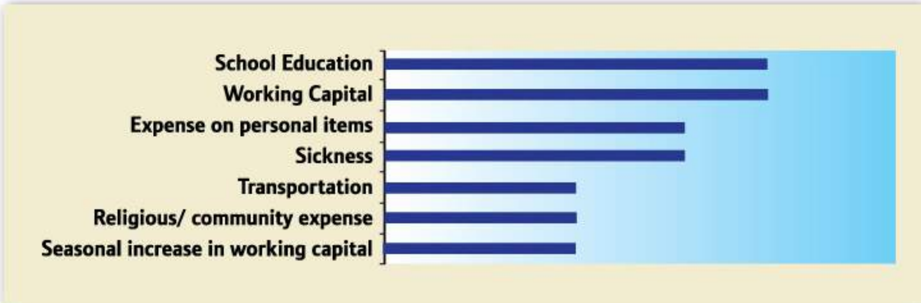
Circumcision
Circumcision is an important celebration. Nowadays people prefer to go to physician to circumcise their children. This is costlier than going to village based paramedic. A circumcision celebration is organised by the parents in the evening. The evening event is attended by friends, relatives and community members. Guests give a contribution of cash or goods to the host. Circumcision is a planned event so people save for it. In case of shortage they borrow from parents, friends or relatives.

Pilgrimage
The respondents have said that the pilgrimage to Mecca (Hajj) is a must for them if wealth and health permits. For this pilgrimage they save in different places using different mechanisms (household, banks, livestock etc.) for several years. At times they also sell the livestock or farmland to afford the journey.

Aspiration Needs
Youth respondents have a distinct set of aspirations, this includes a career after finishing studies, maintaining interpersonal relationships and developing their own identity. Some of the aspiration needs were buying personal computers, vacations, cosmetics, shopping, jewellery, mobile top-ups and mobile phones.

The Need Regular Finance

Apart from bulk finance requirements, the respondents felt the need for regular financing around lifestyle events as shown in the following graph:



Financial needs by age cohort

Although important financial needs have been identified for the overall respondent profile, different age cohorts have different financial needs. Youth aged 15-19 who are largely unmarried, are students and are dependent on their parents have prioritized thier financial needs as follows:

- Attending college
- Buying a motorbike for transportation to school or work
- Buying cosmetics
- Buying a mobile phone and/or laptop
- Having a holiday, annual picnic etc.

This respondent group often save in piggy banks or youth clubs to fulfil these aspirations.

The financial needs and aspirations those aged 20-24 are:

- Education of children
- House construction
- Starting a business
- Childbirth

For those aged 25-29 the primary financial needs and aspirations are:

- Community celebrations
- Health costs
- Marriage of children

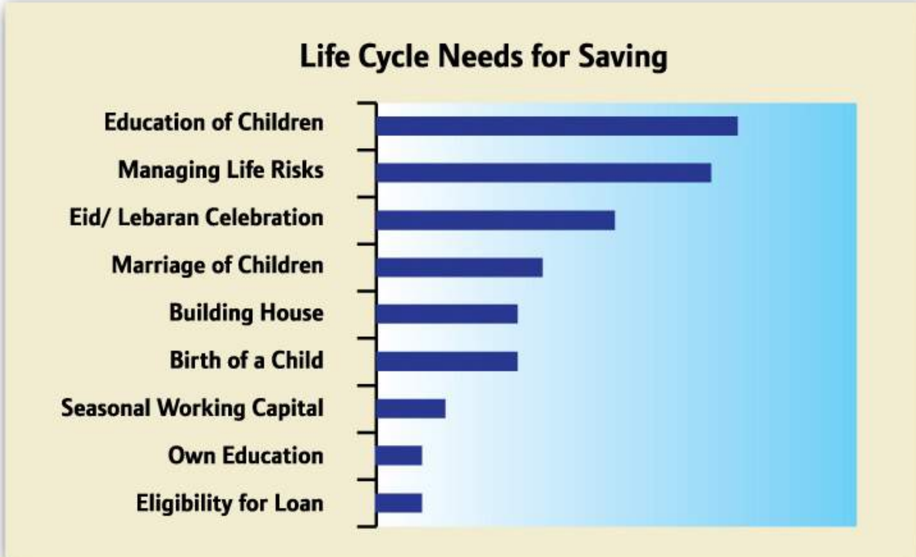

ANA
ANI
DEWI
IKA
MENIKAH
SAKIT

IV. Savings

Savings in cash (or in-kind) are considered more important than credit by the respondents. Savings are seen as a way of accumulating funds over a period of time, at the household level or with institutions, to take care of future or present obligations. Respondents save for the future considering their financial, religious and social obligations along with fulfilling their different livelihood needs.

"Saving is the most important safety net for us. It helps us meeting our financial needs and social obligations. We know about formal service providers but they are not in this village or nearby. We are forced to save at home or with other financial institutions. We save at home, we save with the *Arisan* ....at times we also keep our savings with our parents for safety reasons."

Wiwid, Age: 26



Income levels in the villages of Grobogan district are seasonal and mostly dependent on agricultural harvests and related activities. Some respondents were also dependent on income from their migrant husbands. Savings provided individuals a method to meet their current and future obligations and also invest in assets.

The research findings indicate that individual women (the target client segment) generally wanted to save for three main reasons:

- To meet financial obligations such as education, household expenses or small business expenses.
- To fulfil social obligations
- To save for future uncertainties and risks by building assets

The main objectives or lifecycle needs which youth generally prefer to save for are:

- Long term major goals such as building a house, higher education for their children and purchasing high value consumer goods.
- Meeting education related expenses such as school uniforms, stationary, project work etc.
- Fulfil social and family obligations such as donations for marriages in the community or emergencies within the family.
- Religious purposes - people save for the holy month of Ramadan.
- Income smoothing due to seasonality of income streams.

Key Saving Mechanisms and Service Providers

The main savings services availed by the youth are as seen in the graph below:

Presently, the respondents save both in cash and in-kind using various mechanisms.

Saving at the Household Level

Household savings is the preferred savings choice for respondents as it allows them to save in smaller amounts, save whenever they want and keep savings confidential. Saving at home for shorter periods is easier because women can save whatever surplus they have and use it whenever they need to. Respondents also liked saving at home because the money is extremely liquid. At home they save in piggy banks or sealed envelopes. Women responsible for managing the household finances save on a regular basis. Whenever they have money they divide it based on priorities. For example, they tend to separate funds for daily expenses, school expenses, contingencies, etc. They may also put some of the money in an envelope and keep it in a relatively inaccessible place like a stack of clothes or a food grain box. This mechanism helps to avoid spending and to save for the future. However, saving at home also has its risks. Cash can be stolen and people tend to spend more if they have easy access to cash.

Younger women (those 15-20 years old), generally save from their pocket money received from their parents. They use these savings to buy mobile phone recharge coupons, stationary and cosmetics. Some of them also accumulate sums of IDR 100,000 over two or three months and then transfer the savings to bank accounts (BRI[4] or BPRs[5]) in the cities. This saving is generally aimed at fulfilling aspirations such as admission to college, opening small shops, buying motorbikes, mobile phones, etc.

In-kind Savings

Saving often takes place in the form of stored agricultural produce (maize) and livestock (e.g. chickens, goats and cows). If adequate sums are accumulated, youth can save by purchasing jewellery, land or other valuable assets that increase in value over time and can easily be sold. Most of the respondents have invested their savings in livestock such as poultry, goats, and cows. The livestock grows fast, can be reared easily, and can fetch good value upon selling. However the respondents have flagged some of the disadvantages of saving-in-kind. Saving- in- kind at times becomes difficult to maintain, a safe storage space is needed and (in the case of livestock) good upkeep is required. In addition, at the time of need people generally do not get the expected amount of cash by selling the asset. Respondents know that livestock always carries a risk, but this is still the best option for savings, given its return and liquidity.

Gadoh

For poor Javanese, there is a joint sharing system called ***"Gadoh"***. In this system, a cattle or goat owner passes the upkeep of his/her animals to other community members. The owner then shares the profits when the animals are sold. . People often consider this system an alternative form of savings.

[4] BRI: Bank Rakyat Indonesia
[5] BPR: Bank Perkreditan Rakyat

Saving in Groups

Different group based saving mechanisms are used in by young clients. The most common of those is Arisan, a form of RoSCA (Rotating Savings and Credit Association) and Women Working Group (PKK).

Arisan

Arisan is a social gathering in which a group of individuals (generally of 30-40 members) from the same village meet weekly for collective saving and then redistribute the money to a member using a private lottery. Each week a homogenous group of women assemble and contribute money in the pool (starting from IDR 1, 000 or more). Each of the participants names are written on a piece of paper which is rolled up and put in a box/pot. One name is drawn each week until all the members have won. When everyone receives money from the pool, the cycle ends and the participants decide whether or not to start the next round of pooling.

Arisans are preferred because they are fair to all participants (each member wins an equal amount of money over the course of a complete savings cycle). The primary purpose of the *Arisan* is to enable members to purchase something beyond their means, such as a buying stock in bulk for a small business or large scale education expenses. It enables participants to purchase items faster than they would otherwise be able to without involving bank loans or credit. In some Arisans, the members raise capital and use this capital to extend loans to others. One person can join more than one *Arisan* group which helps them to accessing cash at different times of the year.

The advantages perceived by the respondents for *Arisan* are:

- Village based so they need not spend time travelling.
- Transaction size matches the savers capacity, since the group members are homogenous in terms of socio-economic background.
- Different saving mechanisms are available in different groups and can be used to meet different needs.
- Security of money is ensured as the money revolves around the same set of known people.
- Convenient and simple processes, without the hassle of documentation.
- Fees and transaction costs are lower than that of formal financial institutions.
- They build social relationships and make the community bond stronger.

Whereas the perceived disadvantages for *Arisan* are:

- There is no collective interest earned on cash contributed.
- In the research locations, the amounts derived from *Arisans* were mostly used for social expenses.

Working Women Group (PKK)

Working Women Groups are very common in the research area. These are also group-based financial services in which members generally save IDR 5, 000 to IDR10, 000 weekly in groups. The group leader approves 12 month loans to the members at the rate of 5% per annum from the savings fund. Getting a loan usually depends on the availability of cash in the group. Clients prefer to save in PKKs for education expenses such as school fees, books and uniforms.

Some additional features of the groups are:

- The savings can be withdrawn anytime.
- Everyone needs to have their own record of their savings as the group does not provide a savings book for each member. It only has only one book which is updated by a member bookkeeper.

Karang Taruna

Young unmarried women of 15-20 years age often join youth groups called *Karang Taruna*. These groups work during wedding parties as waitresses. The host gives cash to the Karang Taruna voluntarily as form of thanks. Often, the members of Karang Taruna save this money for annual events like parties or picnics.

Variations in *Arisan*

There are different kinds of *Arisan* practised in the research area. Some examples are:

- Each participant is required to contribute IDR 1, 000 weekly and the lottery happens at the end of the month.
- Each participant pools IDR 5,000 – 10,000 per week and the lottery is conducted weekly.
- In some *Arisan*, called Rukun Tetangga, a smaller group of 40 members save IDR 5,000-10,000 per week which is disbursed as loans to members at 3% per annum interest rate. Such loans are repayable in 12 months. The entire savings is returned to the members at the end of the year, generally during Eid or *Lebaran*(religious celebrations).

Clients prefer to transact through Working Women Group, because:

- The process is simple and fast.
- The savings enable the members to get loan as long as the PKK has available funds.
- They know the administrator of Women Working Group so they are not afraid about the security of the savings.
- They have weekly and monthly meetings at the village, hence the transaction costs for transportation are nil.
- The groups generally have a social fund (amounting to IDR 500, 000) to cover members in times of illness, or in the event of an accident.

An Aversion to Formal Savings Institutions

The respondents have noted that there are no suitable financial products for them from formal institutions. They prefer services that enable them to safeguard money easily and conveniently, and which also provide easy access (withdraw) whenever they want. They are aware of formal financial service providers such as banks and cooperatives but their distance from the village, along with fees and costs involved, are the main reason these formal saving institutions are not popular. There is a perception that banks are for richer and older clients and this acts as a deterrent for youth. The following are the perceived barriers around saving in formal institutions:

- Account opening fee and other administrative charges
- Minimum saving balance criteria
- Transportation costs and time involved
- Paperwork
- Fear/discomfort with bank and other formal financial institutions
- Lack of understanding about the formal financial institutions

Preferred Savings Product Attributes

The young women of central Java prefer the following product attributes in a savings product:

- **Doorstep Delivery:** The collection of savings should be at the village itself, since the villages are remote and clients are occupied with work. Often the cost of transportation to the branches of banks and other formal institutions is considered more than the benefit gained from saving at these institutions.
- **Group Based System:** The youth prefers group based savings services because:
  o They feel risk of fraud is minimised in group based systems.
  o Transaction cost is minimised if the collections happen in the village.
  o They are accustomed to group based savings systems.
  o There is possibility of internal rotation of the fund in a group based system.
- **Anytime Withdrawal:** To manage regular financial needs, the clients prefer high liquidity in any savings product.
- **Lottery and annual events:** Since their present savings products (*Arisans, youth clubs and informal groups*) have provisions for lottery and sponsoring annual and community events, most of the youth prefer such attributes be built in the savings product.

Rini and her Fear of Banks

Rini, 24, has decided not to save with any formal financial institutions other than *Arisan*. She used to save with a self-proclaimed representative of a bank. He promised to give her good returns along with some commission if she helped him in mobilising savings from her neighbouring households, which she happily did. The bank representative used to come weekly to collect savings from the households. This continued for around three months and after that he did not come back to the village. When Rini and the other villagers checked with the bank they were told that the representative never worked for the bank.

Some other major attribute expectations are:

1. *Security/ Trust:* Trust is an important criterion by which respondents judge a financial service provider. Respondents trust institutions which are transparent and fair in their dealings, keep promises and respect clients. They want to save and invest in an institution where they have the confidence that their money will be protected for the long term and will not get lost. Some cooperatives are not well regarded as they do not deliver on their promise of returning money on time.
2. *Interest Return:* The institution should offer similar, if not higher, interest rates on savings that the clients would get with their informal saving mechanisms.
3. *Paper Work:* Difficult paper work generates uneasiness in clients; they find it challenging to understand the relevance of different documents and their relationship to the saving. They want to start a saving account with just one proof of identity.
4. *Opening Balance and Administrative Charges:* Respondents noted that they require services that have low or minimum balance, and lower administrative charges.
5. *Minimum Balance in Account:* They prefer the saving product be in line with the saving capacity of the client. The frequency of saving should be flexible, and encourage the client to save even in small amounts, whenever she is able to save. Thus, there should be inbuilt mechanisms to motivate her to save as frequently as possible.
6. *Time in Withdrawal:* Clients are interested in having convenient access to their money, should the need arise.
7. *Distance:* This includes location of savings, travelling distance to the location, cost involved and availability of transport. The total travelling distance from the village to the branch office where savings will be deposited should be short so they need not to bother about the travelling costs involved.
8. *Convenience accessing deposited funds:* Most of the respondents said that withdrawals should be simple and convenient. Preferences are towards highly liquid savings that can be accessed on demand. Savings should be collected from the village, and the cost of pick up should not be passed to the client.

V. Credit

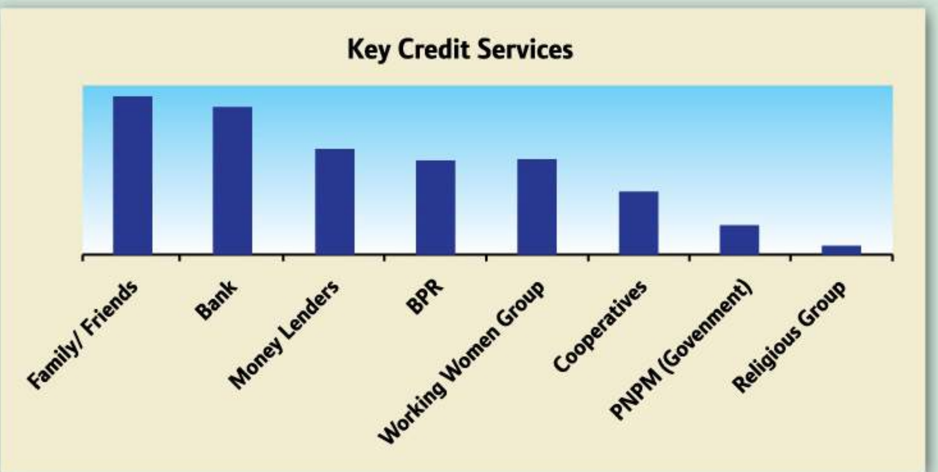
It was found that the respondents manage their lifecycle and regular financial needs through either credit or savings and mechanisms vary. However, most of the participants want to manage their finances through savings rather than credit but this is not always possible. Some of the needs for which youth generally require credit are shown below:

It is clear that youth borrow and save for different reasons. However, it is also clear that the practice and expectations regarding credit is not uniform across the different age and socio-economic groups of youth. Some important trends are:

- Older youth groups (mainly the married women with children) show higher willingness to borrow, whereas, the younger youth groups do not consider credit at all. Also, the newly married women (mostly in the age group of 20-25) are averse to credit, because they are not confident about repaying the loan.
- Older youth groups are also highly sensitive about interest rates of loans, whereas, new entrepreneurs (aged 20-25 and newly married) consider timely and adequate loans to be more important than the interest rate.
- There is a high demand for loans designed specifically for businesses. The respondents feel the income cycle of each business is unique and therefore, standard disbursement and repayment schedules aren't justified.

Key credit Service Providers

The main credit providers in the area are as follows:



Family and Friends

For regular financial needs, respondents typically access very short term, informal credit from their nearest families, friends and neighbours. They prefer this source of credit because getting the loan is easy and the repayment terms are highly flexible. However, since the amount of the loan is limited these loans are largely taken and used for smaller emergency and regular household financial needs.

Bank/ BRI/ BPR

For large amounts of credit, people generally access banks. BRI is the most popular bank in the area, since:

- Their process is simple.
- They do not require physical collateral up to a loan size of IDR 1 million.
- Repayment frequency is monthly rather than weekly

However, the respondents possess a general aversion to taking credit from most formal financial institutions. The reason for such aversion towards formal credit institutions are:

- *Requirement of collateral,* since most of the people don't have physical collateral.
- *Fear of inability to pay* and lack of information on the products and service. Overall financial literacy levels are low and no major initiative has been taken to address this.
- *Administrative charges and interest* which are perceived to be high.
- *Inflexibility in the repayment mode.* As most of the people are farmers, their income cycle generally follows a seasonal trend. Hence, regular instalment products are not considered suitable.
- *Need for guarantor, lengthy and complicated documentation process* and long loan processing time.

Money Lenders

Respondents access moneylenders mostly in cases of emergency. Money lenders charge interest rates in the range of 5-10% per month and generally extend a maximum of IDR 500, 000-IDR 1 million in loans. In addition, they also deduct an additional IDR10, 000 from the loan amount upon disbursement. People generally access moneylenders only in case of emergency--their loans are simple and fast but costly.

Working Women Group (PKK)

Like savings, Working Women Groups are popular for credit as well. People prefer these groups, since:

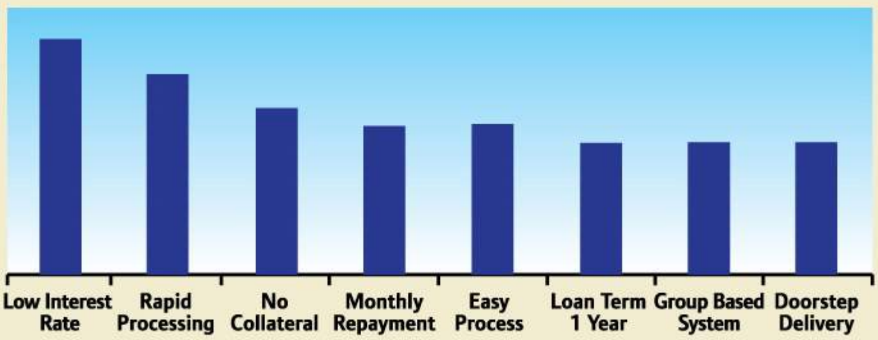
- The process is simple and fast.
- Getting a loan is easy as long as the group has accumulated funds from members' saving.
- They know the administrator of women working group.
- Meeting and repayment happens at the village, hence they do not have to incur transportation costs for repayment.
- The group generally keeps an emergency fund for members or member families.

Preferred Credit Product Attributes

The respondents prefer a credit product with the following characteristics:

- Low interest rate is preferred by married women in the older youth group, who want to take loans mainly for working capital.
- Respondents prefer the loans to be processed within 7-10 days.
- Loans without collateral are considered client-friendly.
- Many respondents feel that it would be better to have monthly repayments, since their income generally does not follow a weekly pattern. For example, those who wish to start businesses (mostly youth 20-25 years old), or have migrant husbands who remit funds monthly.
- Since the areas are remote and people incur costs in coming to towns and cities, group based systems and doorstep delivery are preferred to reduce transaction costs.

Preferred Credit Product Attribute



VI. Perceived Advantages and Disadvantages of Financial Services

Type	Institution	Advantages	Disadvantages
Informal	***Arisan*** *(Arisan RT, Arisan RW, Arisan IDT (men), Arisan PKK, Arisan Yasinan)*	• Village based: no cost and time involved in travelling. • The transaction size matches the savers capacity. • Different saving amounts and mechanisms around different Arisans. This allows them to meet different cash expenses around the year. • High comfort level as it revolves around same set of known people. • Convenient and simple to understand. • Fees and transaction cost are lower than that of formal financial institutions. • Builds social relationships, improves group solidarity and makes the members more empowered.	• Poor record keeping. • No physical evidence for savings deposited or amount borrowed. • No interest earning on cash contributed against saving.
	Money Lender	• Easy access to loans. • Flexibility in repayment.	• Higher interest rate and related charges Limited loan disbursement capacity –IDR 1 million maximum.
Formal	**Government Programme** • PNPM[6] • Gapoktan[7]	• Wide outreach. • Staff support.	• Project approach hence less sustainable.
	Bank • BRI • BPR	• Security • Liquidity • Privacy • Linkage with loan • Assured return	• Collateral/guarantor often required • High administrative charges, minimum balances • Slow processing time • Distance • Inflexible repayment terms • Extensive documentation required • Lack of information about products
	Saving and Loan Cooperatives • BMT[8] • Village based cooperatives	• Savings linked loan • Simple processes • Lower interest charged on credit than bank • Long repayment period • Grassroots based	• Low skill in management • Limited funds • Lack of infrastructure • Low public trust

[6] PNPM: Program Nasional Pemberdayaan Masyarakat
[7] Gapoktan: Farmers groups
[8] BMT: Bait Maal Wat Tamwil

VII. Market Segmentation

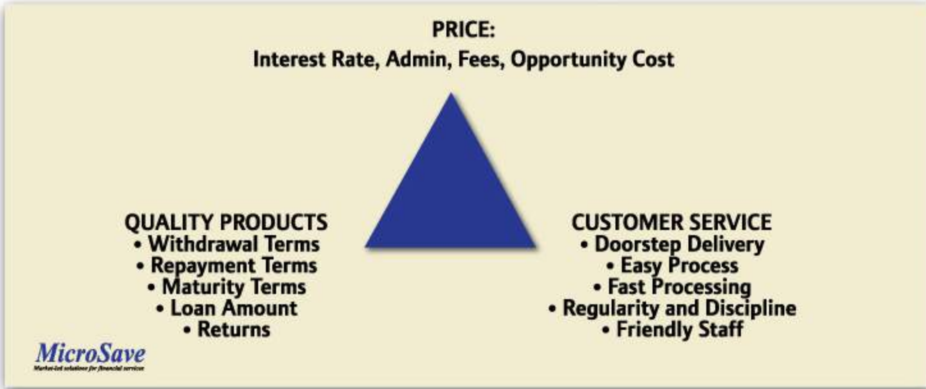
Youth cohorts do not all show the same patterns of financial behaviour. Therefore segmenting the youth market is important as there is great diversity among youth of different ages. Based on the market research, age and marital status has been found to be the criteria for segmentation. The three main segments in the female youth market are:

Segment	Profile	Aspitarion	Financial Needs	Financial Practices
Segment I: Aged 15-19	Mostly unmarried students who are largely dependent on their parents for finance. (Those who dropped out could be underrepresented here as they may have left the area in search of work).	They wish to pursue higher education in citieis or start their own business (small shops). They want to purchase mobile phones, laptop computers and motorbikes.	*Regular finance:* Mobile phone top ups, books, stationary, transport costs to school, cosmetics and annual picnics/travel. *Bulk finance:* Admission fees to college, capital for starting a business and buying a motorbike.	Mainly save in piggy banks. Often are members of Youth Clubs which accumulate savings. Long term aspirations are financed by parents to the extent possible.
Segment II: Aged 20-24	Mostly married women, often with 1-2 children. Husbands of many are migrant labourers in Jakarta, Semarang or other Indonesian cities. The husbands send them remittances of IDR1-2 million every month or two months. Many of them live in their parents' house.	They wish to build a new house of their own and they look forward to starting their own business.	*Regular finance:* Food and household expenditures, health and emergency needs, managing liquidity for a month until the next remittance arrives. *Bulk finance:* house construction, starting a new business, childbirth and buying motorbike for commuting to cities.	Mainly save in piggy banks and in cash at home. They save in *Arisans* and Working Women Groups. Regular liquidity needs are managed by taking small amounts of credit from village shop owners and neighbours.
Segment III: Aged 25-20	Mostly married women with 2-3 children in school. They are highly involved in community related events and groups.	Expanding their business, building a house (if not built already) and children's education.	*Regular finance:* Household expenditures, regular religious and community events, cost of children's education in stationary, books and transport. *Bulk finance:* Limited need for bulk finance was mentioned by this group.	Savings is mainly in *Arisan* and Women Working Groups, where they take occasional loans (other than family, neighbours and friends). In case of emergency, they take loans from money-lenders as well.

Preference of Segments in Products

Each segment has unique preferences for financial products. This is explained with the help of a segment preference matrix. The next section details the matrix.

MicroSave's **3 Product Positioning Coordinates**

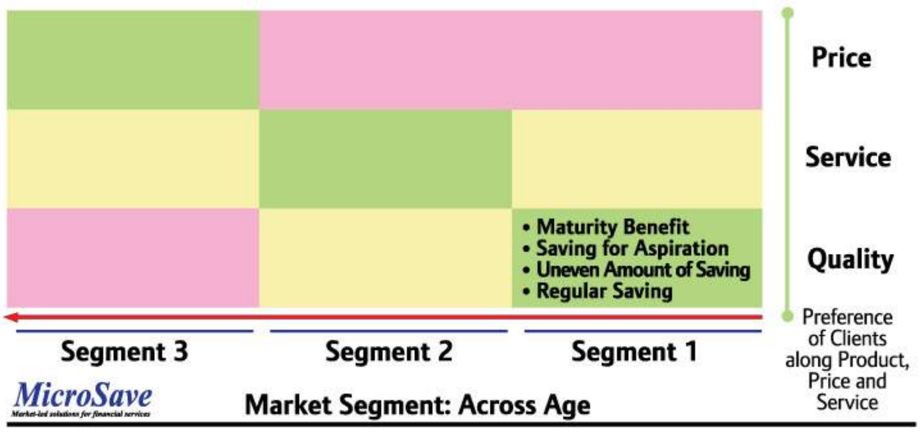


Segment Preference Matrix

The choice of product features often is a combination of three main categories, a) quality of product; b). price advantage; c)good customer service. Client demand demonstrates that certain segments prefer one of the product positioning coordinates (among quality product, price advantage, and customer service) more than the others.

The Segment Preference Matrix tries to comparatively map the preference of the different segments across the three product positioning coordinates. It also enumerates what is meant by price advantage, quality of product and customer service by that segment.

Below is the example of a Segment Preference Matrix:



In the vertical axis, the three features are enumerated and in horizontal axis the segments are plotted (in this case three segments are analysed). Each of the boxes is then colour coded.

Meaning of colour code:

- **Green:** Green implies that in the respective segment, the product positioning coordinate (among price, product quality and customer service) corresponding to the green box is deemed most important by the client.
- **Amber:** Amber implies that in the respective segment, the product positioning coordinate (among price, product quality and customer service) corresponding to the amber box is deemed moderately important by the client
- **Pink:** Pink implies that in the respective segment, the product positioning coordinate (among price, product quality and customer service) corresponding to the pink box is deemed not so important by the client

For example, in the given matrix, for the clients of segment one, quality of product is most important followed by customer service and price. Inside every box, the attributes which constitute the product positioning coordinate for the segment are enumerated. For example, in the given matrix, for the client of segment one, quality of product means:

- Maturity benefit of the savings,
- Savings product planning for aspiration needs
- Regular but uneven or flexible savings instalment.

Segment Preference Matrix for Youth of Central Java

	25 - 30 years	20 - 25 years	15 - 20 years
Price	• Low Interest • High Return • Shariah Based Return • Opportunity Cost • Low Instalment	• Opportunity Cost	• Maturity Yielding to Asset
Service	• Nearness to Home • Secured Medium • Community Processes • Local Administrator	• Security of Saving • Doorstep Delivery • Fast and Easy Processing • Capacity Building Training	• Annual Events • Uniform Group Based
Quality	• Monthly Repayment • Short Term Loan • Working Capitalloan	• High Loan Amount • Long Term Loan • Business Capitalloan	• Maturity Benefit • Saving for Aspiration • Uneven Amount of Saving • Regular Saving

MicroSave — **Market Segment: Across Age**

The attributes are enumerated regardless of savings or credit product.

It is evident that for the segment aged 15-20, quality of product is the most important product feature, they prefer a custom made recurring savings product with flexible instalments and a maturity yielding one of their aspirations, e.g., admission to university or buying a motorcycle for commuting to the city. They also wish to use the savings benefit for annual events such as picnics, vacation, etc.

For the segment aged 20-25 years, efficient customer service is most preferred. Specifically, this means the delivery of financial products through a medium/channel, where they have confidence in keeping money for the long term and which has fast and easy loan processing for long term business capital loan. They also prefer to receive some capacity building and financial literacy to enable them to handle business and finance effectively.

The late youth group, aged 25-30 years, are highly price conscious, and prefer a low interest (and a *shariah* based savings product) loans with low instalment size to be delivered through a secure (trustworthy) medium/channel that has offices near the village and is operated through a local administrator.

VIII. Potential Products

Challenges in Implementing Savings Products

- Ensuring trust for a long term recurring deposits will be challenging, particularly for a new service provider.
- Managing the long term fund and ensuring it yields the benefits committed.
- Managing MIS and accounts in flexible deposit, annual withdrawal and long term maturity.
- Creating the culture of regular disciplined saving for the long run.
- Switching savings from RoSCA to a formal platform.

Challenges in Implementing the Credit Product

- Managing a mixed product basket with the same client.
- Creating credit discipline, since Plan International is generally associated with assistance and voluntary work in the villages. Plan International's name should be detached from this programme.
- Ensuring financial literacy of the client.
- Managing seasonal fluctuation in income and expenditure to ensure regular repayment in agriculture based families.

The market research culminates in the conceptualisation of savings and credit products that will be prototyped after a costing, pricing and process mapping.

Both the Savings and Credit products are explained with the help of an 8Ps product concept matrix.

Product: Savings

The probable products are as follows:

1. A ***Recurring Deposit Product*** with flexible maturity terms to help clients save for an asset or children's education. Such products would have the following features:
   - Regular (weekly) instalments with the option to pay additional amounts as top-up.
   - Loan-linked to the savings, i.e., clients becoming eligible for a short term loans based on savings held.
   - Life insurance for parents if the savings is targeted at children's' education.

2. A ***Short-term Recurring Deposit*** product with a one year maturity period and flexible instalments and withdrawals options. The product will meet the annual obligations (e.g., school admission, festival etc.) and aspirations (e.g., buying a goat or cow).

Product: Credit

The probable credit products can be:

1. A ***Business Capital Loan*** with a 1-2 years repayment period for financing any business start-up by women.
2. A ***Working Capital loan*** with 6- 12 month maturity.
3. A ***Short-term Loan*** linked to the long term recurring deposit for 4-5 weeks, to take care of the household liquidity management of the clients.
4. A ***Savings Matching Loan***, to finance the gap between an asset value and the maturity amount of the long term/short term recurring deposit.

Price

Proper pricing can be determined following the costing, pricing and process mapping exercise by the organisation. However, the following issues should be considered to develop a market-led product:

- Savings return might be explained in terms of absolute maturity, e.g., "IDR 2 million in 5 years". Clients can understand this explanation better than interest rates, but it does lock the financial institution into a fixed interest rate which carries substantial interest rate risk.
- The administration fee might be incorporated with the interest and not charged separately, since that is considered a major reason of aversion towards formal savings or credit.

Promotion

Some recommended ways of promoting the savings and credit products are:

- Visibility of the programme in the villages will be essential to create brand value of the programme. Some ways to create such visibility are:
  - Merchandise (calendar, umbrella, T-shirts etc.)
  - Sponsor community activities
  - Parties/picnics

- Creating a culture around the programme is essential for long term success, creating trust and selling a comprehensive product basket to the clients. Some ways to create culture around the product are:
  - Sponsoring lottery and annual events.
  - Offering a product basket to clients to meet all of their financial challenges.

- A financial literacy campaign would enable the clients to plan and manage finances and also eradicate their worries about taking credit.

- The village head (Kepala Desa/Desun) should be an integral part of the programme to ensure community participation and restrict any major opposition.

Place

Place of transaction is an important feature in the strategic product planning. In order to address clients' expectations regarding the place of delivery, the programme might:

- Collect money (for recurring deposit and loan repayment) in the villages through a group based collection system.
- Establish a hub-office for every 5-6 villages to promote trust among clients and also to effectively monitor the programme.
- Carry out some parts of the process in the hub-office so that clients can be ensured of the transparency of the organisation, gain confidence in the processes of the organisation and have a better relationship with it.

Challenges in the Place Strategy

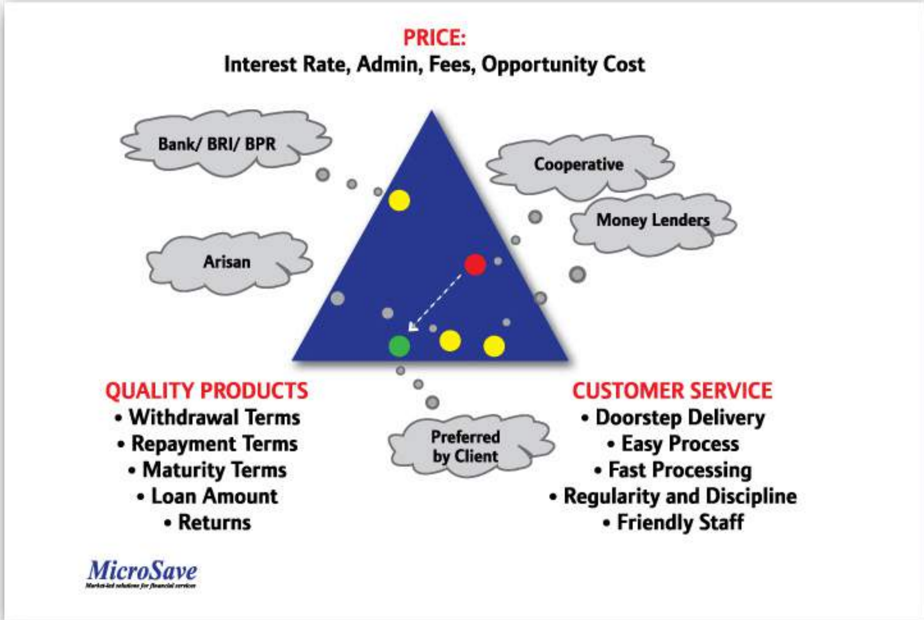
- Ensuring operational efficiency by operating in remote areas through doorstep delivery.
- Managing transportation cost for MFI.
- Security of liquid money, since the commuting roads are remote and in forest areas.
- Operating in rainy season would be challenging since roads would be muddy and possibly inaccessible.

People

People are an important factor for the success of any product or programme. It is recommended that local people are employed for the field level transactions. This will help to create a brand and ensure trust and confidence of the members in the programme. However, finding appropriate candidates from the local community and monitoring them will remain challenging for the organisation.

Positioning

Positioning indicates how a certain product is positioned in the mind of the customers (and potential customers). Positioning is expressed as the relative position of the product across the three coordinates of product quality, customer service and price advantage. In the diagram that follows, the position of different financial services is shown as red dots. The preferred positioning for the programme has been explained as a green dot. The preferred positioning, as shown, is between predominantly quality of product and customer service.



Hence, if an MFI wishes to enter the market, they have to change their positioning from the price-service axis to the product-service axis (i.e. from the red dot position to the green dot position).

Physical Evidence

Since financial products are intangible, the physical evidence around the product and the delivering organisation is important. Some probable recommendations on physical evidence for the products for youth of central Java include:

- Identity card or member card might be issued. In the case of Working Women Groups, this emerged as an important differentiating factor.
- A well branded office in the hub (one office for 5-6 villages, where clients need to come at least once every month) can promote trust and the feeling of security among the clients.
- The implementing agency might use some creative merchandise in the villages to build a brand as well as make the services tangible.
- For savings and credit, physical record books should be issued to clients.

Process

The process for delivering the products can be finalised after the process mapping exercise. However, some recommendations are:

- Doorstep delivery: Collection of regular cash (for recurring deposits and loans) should be done in the villages.
- Group based system: Clients are more comfortable at the group level. This might also reduce the operational and transaction costs for the organisation.
- Internal rotation of fund: A part of the savings collected might be rotated internally, so that the liquidity and household needs of the clients are taken care of. This is in high demand by the clients.

IX. Product Description

Based on the 8P recommendations, the probable product description for the main products are outlined below.

1. Long Term Recurring Deposit

Long-term Recurring Deposit	
8 P	**Features**
Product	• Weekly saving of IDR 5,000-10,000. • Maturity period: 3, 5, 10, 15 years. • Maturity benefit: It would finally depend on pricing/costing. However, it can be communicated either as interest rate or as *Shariah* based return. • Option of top-up (additional savings) twice in a year. • Yields eligibility for short term loan: ► Maximum twice in a year ► Maximum up to 50% of saving • Quarterly lottery among the clients. The groups can be determined based on different savings balances, e.g. different groups for the lottery can be made for savings balances of IDR 50,000-100,000, 100,000-200,000 etc.. The lottery will keep the excitement alive for the clients (which is vital in a long term savings product). It will also help in competing with community based *Arisans,* which also feature lotteries. Life insurance for parents (saver and her husband) so that in case of death of the parents, children's education can be continued.
Price	• No service charge (to be factored in the interest).
Promotion	• Promoted as education savings for clients willing to save for education (10-15 years of maturity). • Promoted as asset accumulation savings (house/shop etc.) for 3-10 years maturity.
Place	• Collection in village • Registration in branch
Physical Evidence	• Savings book • Merchandise
Positioning	• Reliable, secure and client oriented products and processes
People	• Collection by local collectors • Village head to be part of the group
Process	• Group based collection

2. Short Term Recurring Deposit

Short-term Recurring Deposit	
8 P	**Features**
Product	• Weekly saving of IDR 5,000-10,000 • Maturity period: 1 year • Withdrawal after 3 months ► Maximum 50% of savings ► Maximum 4 times in a year • Option of depositing additional savings any time • Interest paid on maturity: based on minimum quarterly balance • Return to be decided after costing/pricing
Price	• No service charge (to be factored in the interest)
Promotion	• Promoted as savings account with annual benefit • Quarterly lottery based on different savings balance group
Place	• Collection in village • Withdrawal in branch
Physical Evidence	• Savings book • Merchandise
Positioning	• High quality, flexible savings with good service
People	• Collection by local collectors • Village head to be part of the group
Process	• Group based collection • Internal rotation of fund for additional savings

3. Business Capital Loan

Business Capital Loan	
8 P	**Features**
Product	• Loan size: IDR 2-4 million • Collateral free group based loan • Loan term: 1-2 year • Weekly/monthly repayment in meeting
Price	• Interest rate: to depend on costing and pricing
Promotion	• Promoted as business start-up loan mainly for age group 20-25
Place	• Both disbursement and collection in village
Physical Evidence	• Flexible business loan with excellent service
Positioning	• Merchandise • Banner/ posters to establish presence
People	• Local MFI staff
Process	• Joint Liability Group system

4. Working Capital Loan

Working Capital Loan	
8 P	**Features**
Product	• Loan size: IDR1-2 million • Loan term: 6 month-1 year • Repayment in monthly/weekly repayment
Price	• Interest rate: to depend on costing and pricing
Promotion	• Promoted through merchandise in shops of current clients
Place	• Both disbursement and collection in village
Physical Evidence	• Affordable working capital loan with efficient services
Positioning	• Less documentation
People	• Local MFI staff
Process	• Joint Liability system

5. Savings Matching Loan

Savings Matching Loan	
8 P	**Features**
Product	• Loan linked to long term/short term recurring deposit • At the time of maturity, if saving falls short of less than 50% of any planned asset, this loan can be given for the rest of the amount to fill the gap • The repayment period will depend on the amount required for the asset (the gap between maturity amount and required amount),e.g., ► To be repaid within 3 months in equal weekly instalments if the maturity amount is 25-30% of asset value ► To be repaid within 6 months in equal weekly instalments, if the maturity amount is 30-50% of the asset value
Price	• Interest rate: to depend on costing and pricing
Promotion	• Promoted as a financial planning tool
Place	• Disbursement might be done to asset seller • Collection in weekly village meeting
Physical Evidence	• Custom made product for special aspirations
Positioning	• Asset might be branded
People	• Local MFI staff and branch office staff to jointly deal in such cases
Process	• MFI to be part of the asset buying process • Strictly dependent on joint liability and group approval

6. Short-term Loan

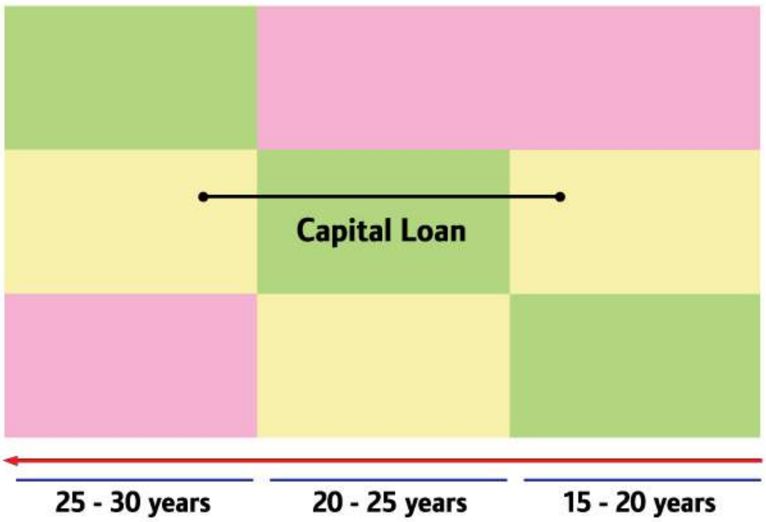
Short-term Loan	
8 P	**Features**
Product	• Loan Size: 50% of savings in long term recurring deposits (maximum IDR 2 million) • Loan term: ▶ 4 weeks for loan up to IDR 500,000 ▶ 8 weeks for loan up to IDR 1 million ▶ 12 weeks for loan up to IDR 2 million • Moratorium: 1 week • Saving in recurring deposits works as collateral
Price	• Interest rate: to depend on costing and pricing
Promotion	• Promoted as event loan for managing credit purchase at the time of events • Can be promoted as emergency loan for older youth groups
Place	• Disbursement and collection in village
Physical Evidence	• Custom made product for specific need with quick service
Positioning	• Merchandise • Banner/posters to establish presence
People	• Village head can be made honorary guarantor
Process	• Group based lending

X. Product Planning

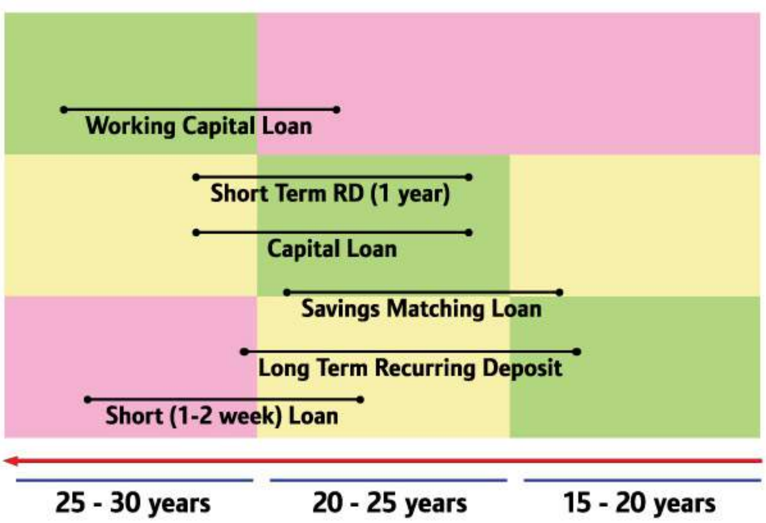
Product Fit Matrix

Although six products have been recommended or conceptualised not all of the products are targeted to all of the segments. Some of the products fit a certain segment (an age group in this case) more than others. Since expectations of different segments differ, the strategy in marketing the product will also vary.

The product fit matrix plots a product (in the segment preference matrix template) in the segment to which it is best suited. In this case, since the segments are across age groups, they follow a continuum and two segments can overlap in certain aspects. Therefore, the product suitability can be plotted across two (or three) segments. Since, the segment preference matrix template is used, this also indicates the strategy for marketing and positioning the product across the segment. An example of the Product –fit matrix is shown below. It indicates that the product "Capital Loan" is best suited to the segment aged 20-25 years, with some subscription expected in the early years of the next segment, i.e., the group aged 25-30 years. It can also be inferred that since the 20-25 years old group consider customer service as most important, the product "Capital Loan" should be marketed with adequate focus on customer service as a marketing strategy.



The Product Fit matrix for the youth of central Java is shown below.



MicroSave
Market-led solutions for financial services

Product Launch Pathway

For any MFI entering a new market, it is difficult and risky (operationally and financially) to innovate and launch multiple products at the same time. In addition, an MFI needs to wait until enough client confidence is built before launching any long term product.

Therefore, although six products have been conceptualised, the organisation should gradually launch them according to client need as well as the MFI's strategic fit. In this case, since Plan International's partner KOMIDA also needs to significantly change its positioning strategy and processes, product implementation should follow a sequential manner. The table below shows the recommendation for product launches.

Phase	Time	Product	Rationale
I	Current - within 1 year	• Short term Recurring Deposit • Working Capital Loan	• The immediate need of the clients for annual expenditures to be financed (including school, religious celebrations etc.). • Culture of savings around the products and the organisation can be built. • The organisation can get confidence and build a credit culture through less risky working capital loans and also can modify processes suitably. • The organisation can build trust among the clients, once the savings return is ensured at the end of a year. • The existing products of KOMIDA need minimum modification to launch these products.
II	Within 1 - 1.5 years	• Long term Recurring Deposit • Short term Loan • Business Capital Loan	• In a year, KOMIDA might have developed enough confidence among clients and changed significantly in positioning to launch a product quality based focus. • Komida should have developed enough credit culture among the clients to offer a business capital loan.
III	After 1.5 years (based on success of earlier products)	• Savings Matching Loan	• Though this has high demand, it would require some complicated processes, MIS and confidence of the organisation before launching and piloting a product like the savings matching loan.

XI. Conclusion

The market research for female youth in Central Java has highlighted some important characteristics:

- There is a general lack of financial literacy and awareness among people about financial products.
- Youth is more inclined towards savings than credit.
- Community based savings and credit practices are highly predominant.
- Education and religious/community events are a main reason for financial pressure on youth.
- The financial behaviour of youth is further segmented based on their age and marital status.

Therefore, any new financial product or product basket must consider the segment it wants to target and must be marketed with adequate focus on the existing community based practices and traditions. The major challenges which should be taken into consideration are:

o Managing a complex set of products would require the implementing organisation to significantly scale up its processes and MIS capability. It is therefore recommended that Plan International's partner KOMIDA launch the products gradually preceded by a thorough analysis of a pilot test and review of the performance of products at regular intervals.

o Competing with RoSCAs, the community based informal/semi-formal institutions and community-based share savings (e.g., livestock based savings), will be challenging. KOMIDA needs to create a niche position that differentiates itself from other organizations. Some probable steps in creating the niche position are:

  ► Including local administers for transactions.

  ► Creating a visible brand in villages through merchandise, sponsoring local/community events.

  ► Including the village heads in the programme as leaders.

  ► Have some features of the RoSCAs incorporated into the products, e.g., lottery, internal fund rotation.

  ► Creating examples of benefit from the products. That is the reason why KOMIDA should start with short term products first.

  ► Never overtly marketing against the community based practices, rather market products as complimentary to them.

MicroSave & Product Development – A Systematic Approach

Graham A.N. Wright[1]

Microfinance is probably the only remaining (largely) "product-driven" business in the world. All other industries have long since moved from producing something and then trying to sell it to a "market-driven" approach under which they identify and meet customers' needs on a profitable basis. In the commercial world, companies that have simply marketed a product without reference to the customers' requirements have soon closed. The "market-driven" approach recognises that there is more value in retaining customers than attracting new customers who cost more.

In microfinance, the value of retaining clients is particularly clear. Typically, retained customers are the ones with extensive credit history and who are accessing larger, higher value loans; whereas new customers require induction training and can often weaken the solidarity of groups. MFIs typically break even on a customer only after the fourth or fifth loan. And yet, many MFIs suffer chronic problems with clients leaving their programmes. Careful analysis of the reasons for these "drop outs" almost invariably points to inappropriately designed products that fail to meet the needs of the MFIs' clients. Much of this problem is driven by the attempts to "replicate" models and products from foreign cultures and lands without reference to the economic or socio-cultural environment into which they are being imported.

Product development is an essential activity for market-responsive MFIs. As clients and their needs change, so the market-driven, demand-led MFI must refine its existing products or develop new ones. But product development is a complex, resource-consuming activity that should not be entered into lightly. Nonetheless, those MFIs committed to being market leaders and to responding to their clients must indeed conduct product development. More client-responsive products will reduce drop-outs, attract increasing numbers of new clients and contribute substantially to the long-term sustainability of the MFI .... and significantly increase the developmental impact of the financial services provided.

A systematic process is essential to develop truly market-led products and services ... "bath-tub" product development in which the CEO has an idea for a new product and issues memos requiring implementation is a recipe for disaster. *MicroSave* has promulgated a systematic approach to market research and product development. The approach involves a series of incremental steps designed to minimise the risk, and maximise the learning, at each step of the process. This allows financial institutions to optimise their chances of developing and rolling out a successful, market-responsive and profitable product. The approach is now used across the world by hundreds, possibly thousands of organisations, to great effect. The toolkits to support the approach can be downloaded from www.*MicroSave*.net.

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