Survey of the Demand for Microfinance Services in Coastal Aceh

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Conducted by:
the International Labor Organization (ILO)
and Mercy Corps

With Assistance from:
Syiah Kuala University

Authored by:
Sasha Muench, Mercy Corps
Matthieu Cognac, ILO
Nursan Junita, Mercy Corps
Anwar Deli, Mercy Corps

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Foreword

On behalf of Mercy Corps Indonesia, it is my pleasure to present this SURVEY OF THE DEMAND FOR MICROFINANCE SERVICES IN COASTAL ACEH. The survey, conducted in partnership with ILO, offers a client perspective on the opportunities and constraints in accessing financial services in post-tsunami Aceh. It is our hope that the survey furthers the discussion and informs the important ongoing work of many governmental and non-governmental agencies in their efforts to bring about a full and vital recovery of the micro-finance sector in the coastal regions of Aceh Province.

Best wishes,

Craig Redmond
Country Director
Mercy Corps Indonesia

Foreword

The tsunami of December 26 2004 was the worst natural disaster of recent times. Not only was the death toll tragically high, but the scale of destruction disrupted the lives of hundreds of thousands more Acehnese men and women. To assist the affected communities, the Indonesian Government and the international community undertook unprecedented efforts to help regenerate the livelihoods of those who in many cases had lost everything. These people needed jobs and other income generating opportunities in order to sustain their families. Some needed to acquire basic business and vocational skills to allow them to start or sustain small and micro enterprises.

Key to job creation and enterprise development is access to finance. As Aceh moves on from emergency to economic recovery mode, many small entrepreneurs are in desperate need for access to financial services. However, partly as a result of the isolation resulting from over thirty years of ongoing conflict, there exist very few financial providers in Nanggroe Aceh Darussalam (NAD) and even fewer that gear their services towards the poor. In fact the level access to financial services in the NAD province is dramatically low, estimated at 1% by the BRR (Badan Rehabilitasi dan Rekonstruksi = Rehabilitation and Reconstruction Executing Agency). Fortunately, this is starting to change and more organizations are becoming active in the provision of financial services or in the capacity building of existing financial providers.

In order to assist with these developments, it is crucial to gain a clear picture of the needs for financial services in the region.

In partnership with Mercy Corps and with the Syiah Kuala University in Banda Aceh, the ILO participated in the conduct of a survey that helps clarify those needs. 500 respondents were interviewed from 5 of the worst affected districts by the tsunami. They were asked about their needs for loans, their capacity to provide collateral, their ability to save, etc. We hope the information gathered will help existing financial institutions such as banks, BPRs, cooperatives and local NGOs better understand the nature of the demand for financial services in Aceh. We also hope that consulting and technical assistance agencies specialized in microfinance will be able to use these findings in the implementation of strategies to secure enhanced quality access to finance in the support of enterprise creation in Aceh.

Alan Boulton
Director, ILO Jakarta

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Survey Overview

1.

In December 2005/January 2006 the International Labor Organization (ILO) and Mercy Corps conducted a survey of Acehnese micro and small enterprises in five tsunami-affected districts of Aceh. The survey aimed to **assess the capacity of local micro and small enterprises to access commercial loans by gaining a better understanding of their credit history and needs.**[1]

The results of this survey are designed to be used by local banks and microfinance institutions (MFIs) to design appropriate loan products to match potential clients' loan needs and repayment abilities. It is also aimed at donors to help them focus their microfinance support programs on local institutions best placed to assist microentrepreneurs and on targeted loan activities.

The target population of the survey was intended to be active and non-active micro and small entrepreneurs in tsunami-affected areas of Aceh. Entrepreneurs from all economic sectors, including agriculture and fishing, were included to gain a broad understanding of pre-tsunami access to credit and current financing needs.

1 The World Bank uses the following definitions for micro and small enterprises: microenterprises have up to 10 employees with total assets of up to $10,000 and total annual sales of up to $100,000; small enterprises have up to 50 employees with total assets and total sales of up to $3 million.

Survey methodology

2.

A. Sample Size and Sampling Design

A sample size of 500 was chosen, to be representatively distributed among five districts that were directly affected by the tsunami, according to Indonesian government population data. This survey sample corresponds to 0.043% of the total population of the target areas of the Nanggroe Aceh Darussalam Province (Aceh) of Sumatra.

The sample consisted of 80 respondents in Banda Aceh, 120 in Aceh Besar, 70 in Aceh Barat, 30 in Aceh Jaya and 200 in Pidie. The sample was then divided into groups of 10 respondents per sub-district, with a target of equal numbers of male and female respondents and a representative number of rural versus urban respondents, according to population breakdowns for each district.

The initial survey design called for surveying a representative sample of the general population for all target districts so that the data collected on respondents' income levels, sector of economic activity, and other socioeconomic information could be extrapolated for the population at large. However, the lack of data on the general population made it extremely difficult to identify a representative sample and the absence of fixed residences for much of the local population made it hard to develop appropriate lists of addresses for enumerators to find. For these feasibility reasons and other, the survey team abandoned the effort to survey a representative sample of the population at large.

The survey team then switched to using a non probabilistic sampling with judgmental sampling method. This is a form of convenience sampling in which the population elements are purposely selected based on the judgment of the researcher. The focus was placed on respondents who are generally economically active.

A list of survey respondents was generated from ILO's database of visitors to its employment centers and job placement website and Mercy Corps' lists of beneficiaries who had received livelihoods restart grants in Banda Aceh, Aceh Besar, and Aceh Barat.

However, once in the field the survey teams were unable to find many of the respondents so a random sample of respondents was chosen.[2] Enumerators visited a pre-set list of villages and opportunistically chose respondents from available individuals in the community, either from

2 There were numerous reasons why enumerators could not find respondents, including the fact that some respondents are still living in temporary shelters away from their listed home addresses. Other respondents were simply away from their listed address when the enumerators visited them.

The breakdown of the data sample is as follows:

Table 1: Breakdown of data sample							
Survey Area		No. of Respondents	Respondent %	Source of Respondents		
District	No. of Subdistricts			ILO	Mercy Corps	Other
Banda Aceh	8	80	16	10	17	53
Aceh Besar	12	120	24	18	15	87
Pidie	20	200	40	87	-	113
Aceh Barat	7	70	14	25	10	35
Aceh Jaya	3	30	6	15	-	15
5 Districts	50	500	100 %	155	42	303

markets, local commercial centers, or door-to-door visits.

After the completion of the survey it was discovered that most enumerators used their own judgment regarding who to interview. Some rejected respondents because they were still in school or were looking for a job. Other enumerators selected respondents who have or used to have a business, rather than interviewing employees. A few respondents were rejected because they had received grants for their business from NGOs.

As a result of the selection bias mentioned above, this survey is not representative of economic sector breakdowns in Aceh or the population at large. However the sample surveyed does provide a good target population for MFIs. The data presented should still be useful to organizations planning microfinance activities in coastal Aceh.

B. Survey Implementation and Data Analysis

ILO and Mercy Corps contracted Syiah Kuala University in Banda Aceh to implement the survey, input the data into SPSS, and conduct initial data cleaning. A team of 20 students and two professors conducted the interviews from December 19, 2005, to January 16, 2006, led by Lecturer Muhammad Adam, SE MBA.

Syiah Kuala University completed initial data cleaning and then reviewed the data, based on questions from ILO and Mercy Corps. Final data cleaning and data analysis was conducted by Mercy Corps.

C. Survey Questionnaire

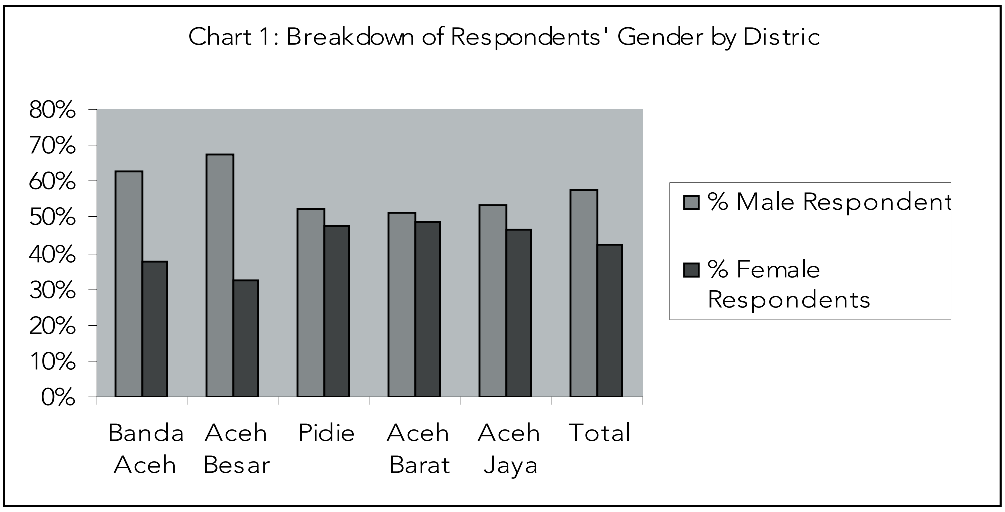
The questionnaire was initially composed in English and then translated into Bahasa Indonesia. It consists of 30 questions divided into four sections: General Information, Expenses/Income, Credit History/Needs, and Business Plans. Copies of both versions of the questionnaire are attached to this report.

Survey Results

3.

A. Demographic Results

Of the total group of respondents, 58% (288) were male and 42% (212) were female. The breakdown of male and female respondents by district is as follows:



The age breakdown is as follows:

Table 2: Age breakdown of Respondents

District	Age Range					
	16-26	27-36	36-46	46-56	56-66	Total
Banda Aceh	25	24	20	9	2	80
Aceh Besar	21	39	37	18	5	120
Pidie	19	77	65	30	9	200
Aceh Barat	7	27	24	9	3	70
Aceh Jaya	6	12	7	5	0	30
Total	78	179	153	71	19	500
Percentage	15.6%	35.8%	30.6%	14.2%	3.8%	100%

Business Activity

When asked about current business activity, 451 (90%) respondents reported they were working at the time of the survey; 49 (10%) said they were idle (unemployed). Of the 451 individuals who said they were active, 68 (15%) said they were employed by someone else, 371 (82%) were self-employed, and 12 (3%) were both working for themselves and for someone else. This 10% unemployment rate differs from the official government figure of 20% to 27% for Aceh province as a whole. However the unemployment rate in the survey should be lower for a number of reasons, most notably that the survey sought out economically active respondents.

All respondents were asked to name the households' primary income-generating activity, both pre- and post-tsunami. They reported the following sectoral breakdown of livelihoods:

Table 3: Sector Breakdown of Primary Livelihoods

Economic Sector	Pre-Tsunami		Post-Tsunami	
	No.	Percent	No.	Percent
Trade	148	30%	171	34%
Agriculture	68	14%	48	10%
Services	61	12%	58	12%
Primarily get income from family elsewhere in Indonesia	53	11%	45	9%
Production	40	8%	36	7%
Fisheries	32	6%	26	5%
Government Employee	32	6%	34	7%
Teacher	29	6%	30	6%
Manual/Day Labor	19	4%	35	7%
Employee	9	2%	9	2%
Livestock	7	1%	5	1%
Retired	1	0%	1	0%
Primarily getincome from family outside Indonesia	1	0%	1	0%
Other		0%	1	0%
Total Respondents	500	100%	500	100%

Sectoral breakdowns of primary livelihoods were similar pre- and post-tsunami. The number of households depending on agriculture dropped, likely because much of the agricultural land remained un-farmable for much or all of 2005. At the same time, the number of households involved in trade activities increased. This may have been because trading was an easy, quick, low investment, and portable economic activity that provided households with an immediate income. The category titled "Manual/Day Labor" includes cash-for-work activities run by NGOs that employs individuals to provide day labor on recovery efforts. These cash-for-work programs may account for the increase in households depending on income from day labor.

The greatest number of respondents reported being involved in trading activities. As there are no reliable statistics on the sectoral breakdown of provincial economic activity, it is impossible to assess whether the survey data is consistent with larger population trends. It is possible that the survey over-represented trading activities as those entrepreneurs were easier to find than more mobile activities such as fishing.

Income and Expenditures

Twenty-three percent (115) respondents said pre-tsunami their household had a second source of income and only 2% (8) said their household had third source of income. Agriculture was the most widely reported secondary income source (31 respondents) with trade coming second (19 respondents).

Post-tsunami, 21% (107) of households reported a second income source, with agriculture and trade still the most common sources of secondary income at 28 and 17 respondents, respectively. Three percent (16) of households reported a third income source post-tsunami.

When the respondents were divided by geography, there was significant difference in sectoral breakdowns, as the following table shows::[3]

Table 4: Sector Breakdown of Primary Livelihoods Post-Tsunami by Region			
Economic Sector	Banda Aceh/ Aceh Besar	Pidie	West Coast
Trade	44%	21%	42%
Services	15%	8%	14%
Manual/Day Labor	10%	5%	7%
Government Employee	8%	8%	3%
Production	8%	8%	5%
Primarily get income from family elsewhere in Indone	6%	15%	3%
Agriculture	3%	13%	18%
Fisheries	3%	8%	5%
Employee	3%	2%	0%
Teacher	2%	12%	2%
Livestock	1%	2%	0%
Retired	1%	0%	0%
Primarily getincome from family outside Indonesia	1%	0%	0%
Other	0%	0%	1%

Respondents also reported the following range of monthly household incomes. The mean monthly income pre-tsunami was calculated to be IDR 3.9 million while the mean income post-tsunami was calculated at IDR 4.5 million.

Table 5: Monthly incomefor all respondents		
	Pre-Tsunami	Post-Tsunami
	Total (N=500)	Total (N=500)
Mean	IDR 3,917,069	IDR 4,501,720
Minimum	IDR 41,700	IDR 40,000
Maximum	IDR 90,000,000	IDR 112,800,000

3 Banda Aceh/Aceh Besar includes those two districts. Pidie includes only that district. West Coast includes Aceh Jaya and Aceh Barat.

Five respondents reported average pre-tsunami monthly incomes of more IDR 20 million (12 individuals reported monthly incomes above that mark post-tsunami). When these five individuals were taken out of the analysis, the mean monthly income dropped significantly. In both cases, mean incomes post-tsunami increased slightly from their pre-tsunami levels. With the five outliers taken out, the mean monthly income increased from IDR 3.45 million pre-tsunami to IDR 3.75 million post-tsunami.

This statistic does not confirm common perceptions that income dropped significantly post-tsunami. Other surveys of tsunami victims have reported a range of changes to income after the disaster. There are a variety of possible reasons why the survey results showed relative stability in income, including the longer time frame for incomes to bounce back (the survey was conducted approximately one year after the tsunami) and the large number of programs providing cash-for-work and livelihood support in the areas where the survey was conducted.[4] Since this data relied entirely on self-reporting, it cannot be validated by hard numbers. It is possible that respondents felt more secure at the time of the survey than they did a few months earlier and therefore they believed their incomes were higher, when the reality could be a more mixed picture.

Table 6: Monthly incomewithout outliers[5]

	Pre-Tsunami	Post-Tsunami
Mean	IDR 3,449,969	IDR 3,753,656
Minimum	IDR 41,700	IDR 40.000
Maximum	IDR 20,000,000	IDR 36,000,000

Respondents were also asked to report their monthly household expenditures, for the post-tsunami period only. The mean monthly household expenditure post-tsunami was calculated at IDR 1.2 million, with a minimum of IDR 150,000 and a maximum of IDR 5.2 million. These results did not change significantly when the five income outliers were taken out of the analysis.[6]

4 Johns Hopkins University and Mercy Corps conducted a village baseline survey in July/August 2005. The study reporte mean household incomes dropped from IDR 1,614,000 pre-tsunami to IDR 1,123,000 post-tsunami.

5 The number of respondents is 495 for this table because the five outliers were removed.

6 The mean monthly household income changed from IDR 1,211,997 to IDR 1,188,531 when the five outliers from the income analysis were removed from the expenditure analysis.

B. Lending and Savings Patterns

Access to Financial Services

22.4% of respondents reported obtaining a business loan sometime in the past (either pre- or post-tsunami). Of those who had taken a loan previously, the following breakdown of loan sources was reported:

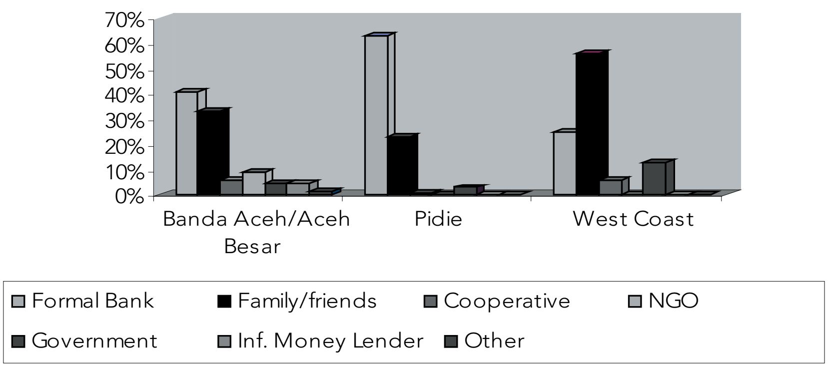
Table 7: Loan source breakdown

Source	No. of Respondents	Percent
Formal Bank (commercial or community)	50	44.64%
Family/friends	38	33.93%
Cooperative	8	7.14%
NGO	6	5.36%
Government	6	5.36%
Informal Money Lender	3	2.68%
Other	1	.89%
Total	112	100%

Specifically, institutions named most frequently as sources of loans were Bank Rakyat Indonesia (BRI) (30 respondents), unnamed cooperatives (eight respondents) Bank Bukopin (seven loans), Bank BPD Aceh (five loans), Yayasan YEU (four loans) various Bank Perkreditaan Rakyat (three loans), and Bank Danamon (two loans).[7]

When the respondents' answers were broken down geographically, there was significant difference in loan source depending on whether the respondent lives in Banda Aceh/Aceh Besar, Pidie, or the West Coast. A much higher percentage of respondents in Banda Aceh/Aceh Besar reported taking loans at all (33% for Banda Aceh/Aceh Besar, 15% for Pidie, 16% for West Coast). The West Coast reported a significantly greater percentage of government loans, 13% as opposed to three percent for each of the other two regions. The chart below presents historical loan use broken down by region and source:

Chart 2: Loan Source Breakdown by Region



7 BRI, Bank Bukopin, and Bank Danamon are all nationwide commercial banks with a large presence throughout Indonesia. Bank BPD is the state-owned provincial development bank. Yayasan YEU is a locally registered foundation that provides loans.

The mean loan size of previous loans taken by 112 respondents was IDR 2.2 million, with a repayment period of more than one year and a monthly repayment rate of IDR 500,000 to 1 million.

Table 8: Previous Loan Details			
	Loan Size	Repayment period	Monthly Repayment
Mean	IDR 2,247,880	> 1 year	IDR 500,000-1,000,000
Minimum	IDR 200,000	0-3 months	IDR 100,000
Maximum	IDR 80,000,000	Unlimited	IDR 3,000,000

The largest number of respondents, (38%) took loans of between IDR 1 – 5 million. Average loan sizes did vary somewhat by region. The West Coast reported 44% of loans taken were in the range of up to IDR 1 million. But overall, 73% of loans totaled IDR 10 million or less.

Table 9: Average previous loan size, by region					
Loan Size (in IDR)	Banda Aceh/ Aceh Besar	Pidie	West Coast	Total	Percentfor Province
Up to 1 million	11 (17%)	2 (7%)	7 (44%)	20	18%
1 – 5 million	29 (44%)	10 (33%)	4 (25%)	43	38%
6 – 10 million	11 (17%)	8 (27%)	0 (0%)	19	17%
10 – 20 million	9 (14%)	4 (13%)	2 (13%)	15	13%
21 – 50 million	5 (8%)	6 (20%)	3 (19%)	14	13%
Over 50million	1 (2%)	0 (0%)	0 (0%)	1	1%
Total	66 (100%)	30 (100%)	16 (100%)	112	100%

Forty-four percent of respondents reported maintaining some form of bank account. Of those, the majority bank in BRI (132, or 60% of total bank accounts). BPD had the second largest number of customers at 39 (18%). This corresponds with those two banks' level of outreach in Aceh. Those banks have been the primary commercial sources of lending and savings services for middle-income Acehnese. However BRI maintains a larger rural network, with more than 100 bank branches in Aceh. BPD comes in second with 38 branches, located mainly in large and secondary towns.[8]

Thirty-eight percent of respondents reported putting at least some portion of their savings into their business, while 28% reported depositing savings in a bank account and 13% said they buy gold. Interestingly no respondents said they put 100% of their savings in gold; all reported combining gold with other savings mechanisms.

8 In its Unit Desa (village branch) system BRI focuses on collecting savings rather than disbursing loans. This partly explains why many Acehnese save in BRI but do not see the bank as a source of capital.

Table 10: Breakdown of savings usage		
	Frequency[9]	Percent
Deposit in Bank	47	28%
Invest in business	63	38%
Buy Gold	21	13%
Keep cash at home	17	10%
Buy animals	10	6%
Buy other assets	8	5%
Other	2	1%
Total	168	100%

The full breakdown of all possible answers to the question "when you have extra money, what do you do with it?" is provided in Attachment C, Additional Tables.

Remittances

Thirty-two households (6.4%) reported receiving some funds from family working outside Aceh. Most of those (15) received their funds via bank transfer. Nine received the funds in cash, six used the post office, and two used other means to obtain the funds. These funds did not appear to be regular payments. Twenty-two respondents said they received the funds one to three times per year. Only four respondents reported receiving funds seven to twelve times per year.

C. Current Demand for Microfinance

The 432 respondents who reported that they were either self-employed or unemployed were asked about their business needs.

Credit Need

When asked for the biggest current need for their business, credit was the overwhelming answer at 94% of responses:

Table 11: Current main business needs		
Business Need	No. of Respondents	Percent
Capital	404	93.5 %
Training	10	2.3 %
Workers	9	2 %
Other	6	1.4 %
Accessto materials	2	.5 %
Access to markets	1	.2 %
Total	432	100 %

Respondents were then asked how much business capital they need and reported the following categories. In total, 35% of respondents wanted loans between IDR 5 and 10 million. Eighty-four percent of respondents wanted loans between IDR 1 and 30 million. Only 2% of respondents needed loans below IDR 1 million. The breakdown in loan size demand was fairly similar across regions, with Pidie reporting a higher percentage of loans demanded above IDR 30 million (16%).

9 Some respondents reported more than one answer to the question so totals exceed the number of respondents.

Table 12: Breakdown in size of loans needed				
Loan Size Range (in IDR)	Total % (No.)	Banda Aceh/ Aceh Besar	Pidie	West Coast
0 – 1,000,000	2% (7)	3%	1%	1%
1,000,001 - 5,000,000	24% (104)	28%	18%	26%
5,000,001 – 10,00,000	38% (162)	35%	37%	44%
10,000,001 – 30,000,000	22% (93)	20%	21%	24%
30,000,001 – 50,000,000	6% (26)	4%	10%	3%
More than 50,000,000	4% (19)	4%	6%	1%
Do not need capital	5% (21)	5%	7%	0%
Total	100% (432)	100%	100%	100%

When asked where they planned to obtain this capital, the largest percentage of respondents said they would look to NGOs (43%), followed by banks (38%).

Table 13: Breakdown in source of loans				
	Total	Banda Aceh/ Aceh Besar	Pidie	West Coast
Bank	38% (220)	39%	37%	37%
NGO	43% (250)	38%	41%	60%
Cooperative	7% (42)	9%	9%	0%
Family/friends	6% (36)	7%	8%	2%
Use Savings	4% (23)	6%	4%	0%
Government	1% (7)	2%	1%	1%
Total[10]	100% (578)	100%	100%	100%
Total respondents who chose more than one source	34% (146)	30%	50%	14%

While the majority of respondents said they would obtain capital (loans) from NGOs or banks, there were significant regional differences. In greater Banda Aceh and Pidie, around 40% of respondents said they would obtain credit from an NGO. On the West Coast, 60% said they would get capital from an NGO. Fewer respondents planned to depend on family and friends, savings, or cooperatives. Fifty percent of all respondents in Pidie planned to use multiple sources of funding for their businesses, compared to only 14% on the West Coast. The focus on NGOs is likely due to the large number of international and local NGOs providing livelihoods support. This support is usually in the form of grants, material provision, training, and possibly subsidized loans. Few NGOs are providing sustainable financial services. This result may indicate confusion among respondents regarding commercial loans versus grants and subsidized loans.

Mercy Corps conducted a similar survey on the demand for microfinance services with recipients of its livelihoods cash grants beneficiaries. In December 2005 161 total respondents were interviewed, of whom 127 (or 79% of the sample) were from Banda Aceh/Aceh Besar and 34 (or 21% of the sample) were from Aceh Barat/Nagan Raya. The results of the Mercy Corps survey mirror the findings of this joint survey. Ninety-one percent of respondents reported needing capital for their business, with 57% saying they need capital of IDR 5 million or less and 21% needing a loan between IDR 5 million and IDR 10 million. The majority of respondents also said they would look to NGOs for business capital (54%), while 14% planned to obtain capital from family or friends, 8% from banks and 6% from cooperatives. The only large difference in these results is the percentage of respondents who plan to obtain credit from the banks (38% from this survey compared to 8% from the previous Mercy Corps survey).

11 Respondents could choose more than one source so the total adds up to more than 432.

Repayment ability

The largest number of respondents reported being able to make monthly loan repayments of IDR 100,001 – 300,000, followed by the range of IDR 300,001 – IDR 500,000. Only in Banda Aceh did a few respondents (3%) say they would pay more than IDR 3 million per month.

Table 14: Loan repayment ability				
Loan Size Range (in IDR)	Total	Banda Aceh/ Aceh Besar	Pidie	West Coast
0 - 100,000	20% (87)	19%	25%	16%
100,001 – 300,000	39% (169)	28%	45%	52%
300,001 - 500,000	25% (110)	27%	22%	28%
500,001 – 1,000,000	11% (47)	18%	8%	2%
1,000,001 – 3,000,000	3% (13)	5%	1%	2%
More than 3,000,000	1% (6)	3%	0%	0%
Total	100% (432)	100%	100%	100%

The anticipated repayment ability does not correspond exactly to desired loan amounts but the numbers are not completely unrealistic. At current common interest rates, a loan for IDR 5 million over 12 months would have a monthly repayment of approximately IDR 500,000. This data does reinforce the need for MFIs to focus on repayment ability and client's cash flow status rather than his/her desired loan sizes when reviewing loan applications. These results are supported by the Mercy Corps grants recipients survey. That study reported an average repayment ability of IDR 500,000 with 40% of respondents saying they could pay between IDR 100,001 and IDR 300,000 per month and 17% saying they could pay between IDR 300,001 and IDR 500,000.

Guarantee Mechanisms

Respondents were asked if they could provide collateral to secure a loan. Fifty-nine percent of respondents (258 out of 432 individuals) said they could provide some form of collateral and 16% said they could provide multiple types. Of those respondents who said they could provide collateral, the majority (67%) said they could provide land or building title. However, it should be noted that most banks and MFIs require that for land or buildings to be used as collateral (as well as cars and motorcycles) the borrower must have a legal certificate confirming his/her sole, direct ownership of the property. Respondents were not asked whether their property met these strict criteria so it is not clear if these assets could be used as collateral, according to current lending practices. In addition, many Acehnese lost their legal documents in the tsunami and cannot currently legally prove ownership of their assets. The table below shows a detailed breakdown of the response on collateral. Multiple responses were possible so the total adds up to more than 258.

Table 15: Type of collateral available		
Type of collateral	No. of Respondents	Percent
Land/building title	214	67%
Car/motorcycle	58	18%
Business equipment	44	14%
Others	2	1%
Total	318	100%

Mercy Corps' grants recipients survey reported that 70% of respondents could provide collateral. Of that group 51% preferred to use land/building title, 27% had a car/ motorcycle and 17% could use business equipment.

Respondents were also asked if they would be willing to join a peer group and guarantee each other's loans if that were necessary to obtain a loan. Sixty-nine percent (298 individuals) reported that they would be willing to do this.

Summary

4.

The key findings of the microfinance market survey are not surprising: There is interest in access to credit among local micro and small entrepreneurs and a willingness to meet MFI requirements to obtain this capital. What is somewhat surprising is that despite the tsunami, and local conflict that existed before it, the results from the Aceh survey do not differ widely from similar studies conducted elsewhere in Indonesia. Loan sizes demanded and anticipated ability to repay are within the range of typical Indonesian MFI clients.

There are two cautionary notes to these findings. First, it is possible that the survey is biased toward active micro and small entrepreneurs who are ready to take loans because the enumerators searched for respondents with businesses. While this bias may mean the results of the study cannot be used as an indication of the overall Acehnese population's ability to access credit, the survey does demonstrate a large demand for loans within the range of MFI outreach. Thus the potential market for microfinance appears robust.

The second caveat relates to regional differences in the findings. It is clear that there are significant population differences between the East Coast (Pidie), the capital city and its environs (Banda Aceh/Aceh Besar), and the West Coast. These differences mirror the relative isolation and rural nature of the three areas. Population differences should be built into any microfinance planning at a local level. MFIs on the West Coast may need to offer smaller, more flexible loans and may need to focus on greater outreach to rural communities.

For prospective and current microfinance providers in Aceh, the message is clear. Within a year of the tsunami, local businesses are operating and generating sufficient income to repay loans. There are no indications of large scale demand-side obstacles that would hinder broad application of microfinance in Aceh.

Areas where MFIs may want to innovate include more flexible guarantee requirements and specified loan products. The study showed 21% of respondents were active in the agriculture, livestock, and fisheries sectors. These groups were likely under-represented in the survey because they are harder to find. Therefore, there is a large pool of potential clients in these sectors that has not historically been tapped by the microfinance or commercial banking industries. Developing targeted loan products for these sectors could be beneficial for MFIs, particularly in rural areas.

The survey clearly indicated that potential microfinance clients have some form of collateral. More research needs to be done on whether this collateral meets the stringent requirements for use against a loan. If not, it would be wise for MFIs to develop more flexible rules governing collateral to enable more clients to access their services. They should also focus more on cash-flow analysis of client businesses and repayment ability when determining loan sizes and viability.

Finally, this study should be put into context of the overall relief and development effort in Aceh post-tsunami. Many NGOs and other institutions are providing livelihood and household support in the form of grants, training, material provision, and subsidized credit. Local entrepreneurs are definitely looking to NGOs to support them in a variety of ways and may be confused (or taking advantage of the confusion) regarding repayment of financial support for their business. MFIs do need to be careful to separate themselves from the give-away programs and to ensure strict repayment discipline.

MFIs should be aware of supply-side constraints to providing sustainable microfinance and develop their products appropriately. But the survey is clear; the demand for microfinance is there. What is missing is the supply of sustainable, customer-oriented savings and credit services throughout the tsunami-affected areas of Aceh.

Attachments

MARKET SURVEY
Aceh Microfinance Demand Assessment

1. Survey Number: ________________ Interviewer: _____________________

2. District:
   - ☐ Banda Aceh
   - ☐ Aceh Besar
   - ☐ Pidie
   - ☐ Aceh Barat
   - ☐ Aceh Jaya

3. Kecamatan :

4. Village :

5. Status of living:
   Living in home village ☐
   Displaced ☐

A. General Information:

6. Household size (please circle the answer): 2 3 4 5 6 7 8 9 10

7. (a) Are you working right now :
   Yes ☐
   No ☐

   b) (b) If Yes, what is your status Now : (If No, skip to question no.8)
   employed ☐
   self-employed ☐ what kind of your business?: __________________
   Is your business working now?
   Yes ☐ No ☐

8. If you are not working now, do you intend to:

Look for a job ☐

Create your business ☐

9. Sex: Male ☐, Female ☐

10. Age: ....

B. Expenses/Income

11. In your household what were the activities do you get money from before the tsunami and what are they now?

Select up to 4 categories in order of importance (1 being the main revenue driver and 4 the least).

	Before Tsunami	After Tsunami
1. Agriculture/Aquaculture	______________	_____________
2. Fishing	______________	_____________
3. Livestock	______________	_____________
4. Trade	______________	_____________
5. Services	______________	_____________
6. Production	______________	_____________
7. Employed in Business	______________	_____________
8. Employed in Government	______________	_____________
9. Teacher	______________	_____________
10. Pension	______________	_____________
11. Inheritance	______________	_____________
12. Family in Indonesia	______________	_____________
13. Family from different Country	______________	_____________
14. Other	______________	_____________

12. How much do you earn each month (on average) from each activity and for how many months a year?

	Before Tsunami		After Tsunami	
	Per month	# of months	Per month	# of months
activity 1				
activity 2				
activity 3				
activity 4				

13. (a) How much do you and your family spend now on:

	by week Rp	by month Rp
Food		
Education		
Transport		
Housing		
Utilities (gas, electricity, water, phone)		
Medical expenses		
Zakat		
Saving		
TOTAL		

(b) How much do you spent for Business expenses now on:

	by week Rp	by month Rp
Buying Cost		
Selling Cost		
Operational Cost		

C. Credit History/Needs

14. Have you ever received a loan for your business before?

Yes ☐ *If yes, from which source ?*

NGO ☐ Bank/BPR ☐ Cooperative/BQ ☐

Family/Friends ☐ Informal moneylender ☐ Govt ☐

Other, ☐, _____________

No ☐, *If no, skip to question No. 19*

15. If you checked Bank, Cooperative or NGO, which one was it? ____________

16. How much did you borrow? _____________

17. How long was the repayment period?

☐ 0 - 3 months
☐ 4- 6 months
☐ 7 -9 months
☐ 10 – 12 months
☐ > 1 year
☐ infinite

18. How much did you repay each month (on average)?

☐ up to Rp. 100.000

☐ Rp. 100.001 - Rp 300.000

☐ Rp 300.001 - Rp 500.000

☐ Rp 500.001 - Rp 1.000.000

☐ Rp. 1.000.001 - Rp 3.000.000

☐ > Rp 3.000.000

19. Do you receive money from family outside Aceh?

Yes ☐, Yes, if Yes where from: ____________

Malaysia ☐ Jakarta ☐ Medan ☐

Lain-lain ☐ Others, mentioned _____________

No ☐, *skip to No. 22*

20. If so, how do you get that money?

Cash ☐ Post Office ☐

Bank Transfer ☐ Other ☐

21. If so, how often do you get this money?

☐ 7 - 12 times

☐ 4 - 6 times

☐ 1 - 3 times

☐ Other, _____________

22. Do you have an account at a bank?

Yes ☐ Yes , If so, which bank? ____________

If so, How often do you visit your bank per month ?

☐ 1 times

☐ 2 - 3 times

☐ > 3 times

☐ Other _____________

No ☐

23. When you have extra money, what do you with it? (you can answer more than one)

Deposit in bank	☐	Buy other assets	☐
Buy animals	☐	Buy gold	☐
Invest in business	☐	Keep cash at home	☐

Other _____________

If you answered employed in Question 7, please stop here

D. Business Plans

Please answer the following questions for your household's main economic activity:

24. What is the biggest current need for your business? (choose one answer only)

Workers	☐	Access to materials	☐	Training	☐
Capital	☐	Access to market	☐	Other	☐

25. If you need access to materials, what type of materials? (name up to 3)

Material 1

____

____

____

Material 2

____

____

____

Material 3

____

____

____

26. If you need capital, how much do you need?

☐ Up to Rp. 1.000.000

☐ Rp. 1.000.001 - Rp 5.000.000

☐ Rp 5.000.001 - Rp 10.000,000

☐ Rp 10.000.001 - Rp 30.000.000

☐ Rp. 30.000.001 - Rp 50.000.000

☐ > Rp 50.000.000

27. How are you planning to finance your business? (the aswer could be more than one)

NGO	☐	Bank	☐	Govt	☐
Family/friends	☐	Savings	☐	Cooperative/BQ	☐
Other,	☐	_____________			

28. How much can you afford to repay each month for a loan?

☐ Up to Rp. 100.000

☐ Rp. 100,001 - Rp 300.000

☐ Rp 300,001 - Rp 500.000

☐ Rp 500,001 - Rp 1.000.000

☐ Rp. 1.000.001 - Rp 3.000.000

☐ > Rp 3.000.000

29. Can you provide collateral for a loan?

Yes ☐, If so in what form?

☐ land/building title

☐ car/motorcycle

☐ business equipment

☐ Others _____________

No ☐

30. If you could get a loan with no collateral but you had to join a group of 3 to 5 other people and guarantee each other's loans, would you still want the loan?

Yes ☐

No ☐