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Financial Inclusion for Youth Entrepreneurs in the Creative Industry: a case of youth entrepreneurs in clothing industry in Yogyakarta, Indonesia [#]

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Abstract

This research is to assess the issues of financial inclusion of youth entrepreneurs in the creative industry, in particular the clothing industry, in DI Yogyakarta province. The research found that most entrepreneurs have access to credit from commercial banks, and indicate that there is financial inclusion of youth entrepreneurs. However, there are several obstacles in accessing commercial credit from banks, including high interest rate, credit procedures, collateral requirement, appraisal of proposal, and repayment. The suggestions and expectations of the youth entrepreneurs to improving their financial inclusion have been included at the end of this paper.

Keywords: *financial inclusion; youth entrepreneur; clothing industry, Indonesia.*

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1. INTRODUCTION

The clothing industry is an interesting, and attractive, business enterprise for the youth entrepreneurs of Indonesia, and is accompanied by a number of distribution outlets, locally called distro. This is an industry that requires some creativity, mainly in the designing of products, and therefore, has been classified as a creative industry. The clothing industry originated in the mid 1990s, started by youth entrepreneurs as a creative response to the economic and financial crisis that hit Indonesia around that time. Establishment of this business is also based on their common interest, mostly, independent music. Usually this business has been labelled as the indie industry as these entrepreneurs are small producers who own independent labels or brands. Market for clothing products is mainly the youth, who love using new and creative products.

According to Kreative Independent Clothing Kommunity (KICK), one of the organisations of entrepreneurs in this business, there are about 1,000 clothing and distro companies in Indonesia. Bandung, the capital city of West Java province, is considered as the pioneer of clothing industry. However, recent development shows that this industry has also been growing in other cities such as Jakarta, Makassar, Malang, Surabaya, Bandar Lampung and Yogyakarta. The prospect of clothing industry seems challenging - the annual growth of this business being about 30 percent; with the value of sales transaction and number of visitors at their exhibitions being very impressive. The exhibitions during 2007-2009 recorded transaction of about Rp 3 to 5 billion and was attended by 42,000 to 300,000 visitors. These figures may also indicate the role of this industry in absorbing the unemployed and providing job opportunities for workers in related production process.

Table 1: Creative Industries in Indonesia, 2006

NO	SUB-SECTOR	GDP (% OF CREATIVE INDUSTRIES)	EMPLOYMENT (% OF CREATIVE INDUSTRIES)
1	Advertising	7.93	1.34
2	Architecture	3.95	0.67
3	Art and antique product	0.65	0.92
4	Handicraft	25.51	31.07
5	Design	5.88	5.56
6	Fashion	43.71	53.52
7	Video, film, photography	0.24	0.34
8	Interactive games	0.32	0.05
9	Music	3.65	1.80

10	Performing art	0.12	0.17
11	Publication and printing	4.09	1.34
12	Computer services and software	0.99	0.17
13	Television and radio	2.04	2.90
14	Research and development	0.93	0.16

Source: Kelompok Kerja Indonesia Desain Power – Departemen Perdagangan, 2008.

Supporting this creative industry can benefit not only the youth entrepreneurs but also the local economy, and society at large, since this industry absorbs five millions employees in Indonesia (*Kompas*, 13/2/2009). A government report describes 14 sub-sectors that are classified as industries using creativity (Table 1).[1] In 2006, creative industries contributed 5.67 to Indonesia's Gross Domestic Product (GDP in 2000 real price). The table shows that clothing industry is part of creative industries, especially in sub-sector of fashion industry. As shown in this table, fashion industry is the largest component of the creative industry in Indonesia, contributing 43.71 percent of the total GDP of creative industry.

Most of them are small scale enterprises, and face several problems in developing their business. One important factor is the lack of financial resources. As already mentioned, they start the business mainly based on creativity, without adequate financial support. Thus, when the demand for their products increases, they face problem in financing the increased demand. This financial concern is an interesting topic that should be analysed carefully in order to support the young entrepreneurs and their creative enterprises. Based on preliminary information in the clothing industry of Yogyakarta, there are financial institutions that have already delivered loans for the entrepreneurs. These credits are non-collateral credit facilities and based on individual assessment of the entrepreneurs. Financial institutions and banks in Yogyakarta entered the clothing industry credit market only in recent years, probably encouraged by the wide coverage this industry received in the mass media (Table 2).

Table 2: Number of bank and other financial intermediaries' offices by status in DI Yogyakarta, 2006

Bank status	2006	2007
State bank:		
-bank	4	4
-office	156	92

[1] The government report referred creative industry, as defined by UK DLMS Task Force 1998, as those industries which have their origin in individual creativity, skill and talent, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property and content (Kelompok Kerja Indonesia Desain Power – Departemen Perdagangan, 2008: 4).

Private national bank:		
-bank	18	22
-office	55	93
Regional development bank:		
-bank	1	1
-office	62	72
People credit bank:		
-bank	64	60
-office	151	159
Total:		
-bank	87	87
-office	424	416

Source: DI Yogyakarta in Figure 2008

2. OBJECTIVE OF STUDY

The introduction section indicates that banks have delivered credit to youth entrepreneurs. However, their motivation and considerations in delivering such credits have not been properly observed or studied. Other questions related to this issue are, what kinds of support, in addition to loans, they provide for the entrepreneurs, such as management and business development assistance. Without providing these additional supports, one may expect that the motivation of financial institutions in delivering loans for youth entrepreneurs is only for profit. Moreover, youth entrepreneurs in the clothing industries can fall into a loan trap if their daily business is only aimed at repaying credits from banks.

Therefore, there is a need to assess this financial issue not only from the financial institutions' side, but also from the youth entrepreneurs' perspective. A better understanding of the financial needs of these entrepreneurs can improve the financial inclusion of youth entrepreneurs, particularly for those who are involved in the creative industry. One definition of financial inclusion that has gained currency since the early 2000s is the delivery of financial services at affordable cost to vast sections of disadvantaged and low income groups. The important aim of this effort is to omit discriminatory practises in accessing banking services.

The main aim of this study is to assess the financial issues of the youth entrepreneurs in creative industry, in particular, the clothing industry in DI Yogyakarta province. The study proposes to provide a better understanding on the financial needs of youth entrepreneurs, especially in the Asian context. It is also to provide a better identification of other support requirements related to loans delivered, that should be addressed by financial institutions to develop youth businesses, mainly in the creative industries.

According to the World Population Prospect, more than 16 percent of population in Asia are young peoples. Therefore, the future of Asia as an emerging region is absolutely dependant on its youth. Unproductive youth can disturb the future prospect, while productive youth will benefit the region. Therefore, effort in providing conductive economic environment is a must for Asia. The Asian youth who have entrepreneurial skills should be supported. An increase of financial inclusion will provide opportunities for these youths to participate actively in the economy through their creative activities.

3. RESEARCH METHODOLOGY

Yogyakarta was chosen for the field research since it is one of the four regions in Indonesia that have been involved in a pilot project in developing creative industries since these regions are able to produce high value and unique products (*Kompas*, 13/2/2009).[2] Yogyakarta is also widely known as the home of creative activities which partly can be explained by its nature as a "city of students". Thus refers to the fact that more than 20 percent of the population of this city are students who are served by more than 130 universities that consist of state and private universities. These characteristics provide an opportunity for Yogyakarta to become one of the centres of youth business in creative industry in Indonesia such as clothing industry and distribution outlets.[3]

Figure 1

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[2] . The other regions are Jakarta, Bandung and Bali. The size of clothing enterprises in Yogyakarta is rather smaller when compared to Bandung.

[3] Gameloft, a digital game producer from France, have decided to make investment and setup a new production station in Yogyakarta since there are many experts in programming and art in this city (*Kompas*, 23/9/2010).

Since there is no complete database on these entrepreneurs, the survey employed snow-bowling sampling method. The survey started by interviewing member of KICK Yogyakarta, and then assessed other youth entrepreneurs, or non-member of KICK Yogyakarta. Semi-structured questionnaires were employed to assess the history of the enterprise, scale of enterprise, financial resources used and details of its financial and non-financial needs.

The interviewers conducted this survey in July-August 2010. They were recruited from student members of Faculty of Economics, Atma Jaya Yogyakarta University. The survey was also accompanied by two semi-focus group discussions with management of KICK Yogyakarta. Both of these discussions have been conducted by researcher before the enumerators interviewed the youth entrepreneurs. There were 23 respondents consisting of 15 KICK Yogyakarta and 8 non-KICK Yogyakarta members.

4. YOUTH IN THE INDEPENDENT CLOTHING INDUSTRY

Who they are?

The definition of youth can vary in different countries. As noted by Schoof (2006), there is no generalised definition of the term "youth" internationally. In his paper, youth is referred broadly to young individuals between 15 and 34 years. Other definitions, such as International Labour Organization (ILO) and the Global Entrepreneurship Monitor (GEM), youth are individuals between 18-24 years and 18-34 years respectively. Meanwhile, the World Bank refers to individuals between 12-24 years as youth (World Bank 2008).

Table 3: Number of youth in DI Yogyakarta province

Year	Youth	Population	% of Youth
2005	1.275.700	3.365.500	37,91
2006	1.283.000	3.400.100	37,73
2007	1.292.000	3.434.500	37,62
2008	1.298.000	3.468.500	37,42
2009	1.300.800	3.501.900	37,15
2010	1.299.800	3.501.900	37,12

Source: DI Yogyakarta in Figure 2008, Based on the 2005 Intercensal Population Survey (SUPAS 2005)

The table indicates that youth is an important group of population in this province. As mentioned by Juan Somavia, the ILO's secretary general, youth is the driver of economic development (*Republika*, 12/8/2010). However they can also become a problem for development if most of them are unemployed. In the case of Indonesia, Peter van Rooij, an ILO representative in Jakarta, said that unemployment rate of youth in Indonesia is higher than the global rate of youth unemployment

(*Kontan*, 16/4/2010). In 1990 there were 1.4 million unemployed youths and it has increased to 4.7 million in recent years.

In Indonesia, according to the Law Number 40/2009, youth are Indonesians between 16 and 30 years. Other definition used by the Ministry of Youth and Sport refer to individuals between 15 and 24 years as youth. This paper uses age 15-34 years as band age for youth. It also considered statistic of population by age group. As shown in Table 3, youth (population in age 15-34 years) is more than 37 percent of population in Yogyakarta province. However, there is a small decrease of youth proportion in total population.

This situation needs wide support to increase opportunities for youth to get and to build productive economic activities. Therefore, entrepreneurship is important for youth and also for economic development in general. Schoof (2006) mentioned that effective pro-youth employment efforts benefit everyone in the long run. Chigunta (2002), as quoted by Schoof (2006: 3), sums up some reasons for the importance of promoting youth entrepreneurship:

- Creating employment opportunities for self-employed youth as well as other young people they employ;
- Bringing alienated and marginalised youth back into the economic mainstream and giving them a sense of meaning and belonging;
- Helping address some of the socio-psychological problems and delinquency that arises from joblessness;
- Helping youth develop new skills and experiences that can then be applied to other challenges in life;
- Promoting innovation and resilience in youth;
- Promoting the revitalisation of the local economy by providing valuable goods and services;
- Capitalising on the fact that young entrepreneurs may be particularly responsive to new economic opportunities and trends.

Table 4: Distribution of respondent based on transitional phase

Transitional Phase	N	%
Pre-entrepreneur (in the age of 15-19 years)	0	0,00
Budding entrepreneur (in the age of 20-25 years)	3	13,04
Emergent entrepreneur (in the age of 26-34 years)	20	86,96
Total	23	100,00

Source: Survey, 2010.

Note: Chigunta defined emergent entrepreneurs for individual in the age of 26-29 years. The table extent this age band to 34 years.

Based on the field survey, almost 74 percent of respondent entrepreneurs in clothing industry in Yogyakarta are individual in age between 25-29 years. For other age groups (20-24 and 30-34), its proportion is only about 13 percent. However, the average age when they started business is 23 years. Using transitional categorisation of young entrepreneurs proposed by Chigunta (2002, cited by Schoof 2006: 10), the respondents can be classified as in Table 4.

The table shows that most respondents are in the emergent entrepreneur phase. According to Chigunta, this is a prime stage, where, with valuable experiences in business, emergent entrepreneurs have a higher level of maturity than youth in the lower age groups; therefore they are more likely to run more viable enterprises than younger people. Meanwhile, there are only 13 percent of respondents who can be categorised as budding entrepreneur or in the growth stage. This stage indicates that these youth are likely to have gained some experience, skill and capital to enable them their own enterprises. However, they often face three enterprise pathways: remaining stuck in marginal activities, going out of business, or running successful enterprises.[4] In general, the finding of this research shows that they are mature youth entrepreneurs who can be expected to develop their business more systematically.

Table 5: Distribution of respondents based on aspects related to the starting the business

Aspect	N	%
Minimum formal education background is tertiary education	19	82,6
Have experiences in clothing industry	8	34,8
Trial and error is the main "capital"	22	95,7
Initial investment is completely self financed	20	87,0
Ownership status is individual	20	87,0
Parent's minimum formal education background is high school	22	95,7
Parent's main occupation is entrepreneur	1	4,3

Source: Survey, 2010.

There are some interesting findings of the background of respondents when they started their business in clothing industry, as shown in Table 5. Based on educational background, one can conclude that they are youths with high formal education since most of them (about 83 percent) were students of tertiary education when they started the business. In this paper, tertiary education means university, polytechnic, and institute. There are only 8 respondents who had experience in clothing industry before they started their own business. These experiences were in production process, making pictures or design print on the cloth or t-shirts, and as marketing staff in other clothing enterprises.

This indicates that most respondents were actually 'blind' about this industry. Why they entered into this business without sufficient technical knowledge of the industry? There are two explanations for this question. First, their hobbies or social activities are closely related to the clothing business. Their

4 By definition, pre-entrepreneurs is the formative stage. They are often in transition from the security of the home or education to the work place.

main social activity is in music, especially in a genre that is usually called as alternative or independent music (*indie music*), and their role is that of a musician or fans of music groups. These youth communities enjoy using t-shirts with alternative designs that reflect the characteristics of their activities and youth culture, especially in term of independence from other commercial labels. The second explanation is that this business shows a good prospect and seems challenging, thereby attracting young people in joining the clothing business in line with their enthusiasm for independent music. Thus youth entrepreneurs collaborate with groups of independent music in their marketing activities, using these groups to endorse their t-shirts and designs in their performance on the stage, indicating that there is a keen sense of business.

Since the respondents were actually 'blind' about the clothing business then, "trial and error" was the main capital in starting this business. Only one respondent claimed that he did not use the "trial and error" method. In general, this finding also confirms that their previous experiences were not sufficient in running their activities in clothing industry therefore they had to apply "trial and error" practices. Like other small enterprises, the young entrepreneurs in this research also used self finance as the main source of capital in starting the business. There are only three respondents who used other source of capital, i.e. loan and capital support from their family. Since the main source of initial investment is self financing, they are also the sole owners of their business.

Another interesting issue that's important, and needs to be addressed, is the family background of the youth entrepreneur. This issue is assessed by identifying education and occupational background of the youth entrepreneur's parents. Based on the survey, the research found there are 22 respondents whose parents have formal education at least up to high school level. It is also an interesting finding that more than half the respondents have well educated parents (at tertiary education level). It indicates that most young entrepreneurs come from educated families. Therefore, they have good knowledge capital that is valuable for running a business. Meanwhile, almost all respondents have parents who are not entrepreneurs, but employed as civil servants in government offices, or private enterprises. This finding indicates that there is a shift in occupational orientation of the youth. In other word, self-employment is a better occupation for young people.

Their enterprises

Global Entrepreneurship Monitor (GEM) provides an interesting approach on the entrepreneurial process (Bosma & Levie, 2009: 14). It shows that there are three processes of entrepreneurship: conception, birth, and persistence. It is classified based on the age of the enterprise. Owner-manager of new enterprise up to 3.5 years is categorised as entrepreneur in the early-stage entrepreneurial activity (TEA), while owner-manager enterprises of more than 3.5 years is classified as entrepreneur of established business. Using the GEM approach in this study can gives information about the entrepreneurial stages of youth entrepreneurs in the clothing industry. However, since the survey result did not provide details of the age of the enterprises, the study needs adjustment in categorising the respondents into entrepreneurial stages. Therefore this research classifies respondents using four year old business as the benchmark. As shown in Table 6, more than half the respondents are in the established stage of business. It means they are mature entrepreneurs who persist with their business in the clothing industry. One of the indicators of this persistence is the establishment of shops or distribution outlets (*distro*). There are eight entrepreneurs who have distribution outlets. In general, they establish outlets in the third years of their business.

Table 6: Distribution of respondents based on entrepreneurial stage

Entrepreneurial stage	N	%
Early-stage entrepreneurial activity (new business)	10	43,48
Established business	13	56,52
Total	23	100,00

Source: Survey, 2010.

Based on number of employees, almost 80 percent of respondents are small enterprises. Total employees of 23 enterprises are 202, consisting 164 male and 38 female. In average, each enterprise employs 8.8 employees. It means these entrepreneurs not only have a self-employed business but also contribute in providing job opportunities for other youths since most of their employees are also young people. The clothing enterprises sometime use a sub-contract method in their production process, which means that they may distribute a part of the production process to other individuals or enterprises that do not have their own clothing label or brand. The young entrepreneur call these parties as vendors that provide services for them such as sewing the cloth and making silk screening of designs for t-shirts. Most clothing enterprises have their own workshop and may serve each other in the production process as a mutual partnership based on commercial consideration. There are 86.2 percent of respondent that have partnership with other enterprises in this industry.

Table 7: Distribution of respondents based on size of enterprise

Size of enterprise	N	%
Micro enterprises (less than 5 employees)	5	21,74
Small enterprises (5- 19 employees)	18	78,26
Total	23	100,00

Source: Survey, 2010.

The entrepreneur-vendor relation is important for entrepreneurs since the product variation in clothing industry is quite high. Products of this industry are: t-shirts, shirts, pants, dresses, blazers, boxers, skirts, jackets, bags, belts, hand belts, hats, sandals, and shoes. In average, these enterprises produce eight kinds of product. These products are for men, women and children (Table 8), the products for children being a new market segment. Geographically, these products are distributed not only in Yogyakarta but also in other islands such as Kalimantan and Sulawesi. This indicates that young entrepreneurs in this industry have a nationwide distribution network through distribution outlets across the country. Periodically, there are business exhibitions for clothing industries in Yogyakarta and other cities (Figure 2). These exhibitions are important events in marketing their products.

Table 8: Distribution of respondents based on market segment

Market segment	N	%
Men	23	100,00
Women	21	91,30
Children	5	21,74
Total	23	-

Source: Survey, 2010.

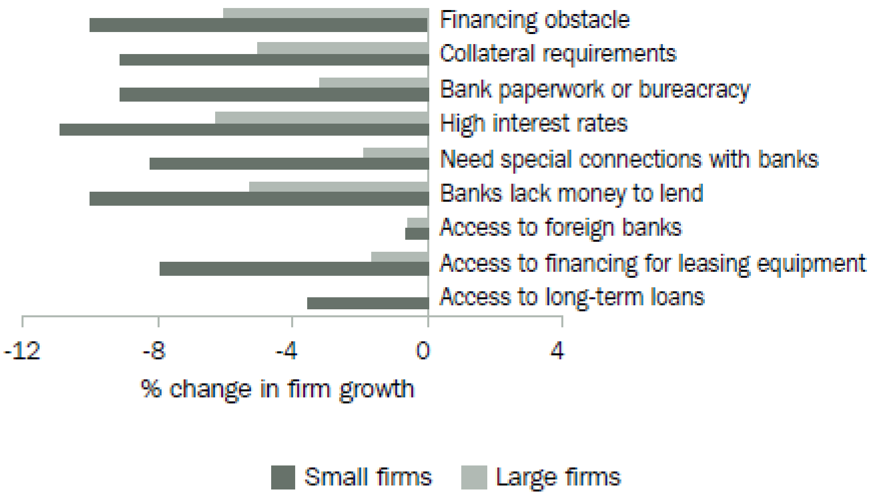
Figure 2: Some posters of clothing exhibitions

5. FINANCIAL INCLUSION: BETWEEN FACILITIES AND OBSTACLES

Bank and micro-credit

Based on a study by Ayyagari, Demirguc-Kunt, and Maksimovic (2006), Asian Development Bank (2009), it shows that financing is a major obstacle for small and medium enterprises (SMEs) when compared to large firms (Figure 3), hindering the growth of SMEs. The report also mentioned two theoretical reasons on why the credit availability (and cost) may be more diverse for smaller enterprises. First, it is the cost associated with loan appraisal, supervision and collection; with the lender preferring to provide larger credits to larger enterprises, than small amounts of credit to numerous smaller enterprises. Second, smaller enterprises are less capable of providing collateral against their loans. For banks, this lack of collateral increases the possible threat of bankruptcy of the borrower, thus diminishing their incentive to deliver credits to such small enterprises. As the smaller firms are more credit constrained than larger firms, one of the solutions would be the development of the financial sector. Financial development, it's argued, can alleviate these constraints. The ADB report lists some government programs to assist SMEs with finance in Asia, such as Small Enterprises Fund (Bangladesh), Low Cost Credit Negotiation Program (Sri Lanka), Credit for Business People (Indonesia), Technological Innovation Fund (People Republic of China) (ADB 2009: 46, Table 6.1).

Figure 3: Effect of financing problem on growth



Source: Beck, Demirgüç-Kunt, and Maksimovic (2005) as reported in World Bank (2008) Figure 2.5 pg. 67.

Source: cited from Asian Development Bank, 2009, Figure 6.1

More specifically, microfinance is an alternative that has recently attracted growing attention that may provide collateral-free small loans to low-income household and expected to be used for self-employment and income-generating activities (Kono and Takahashi 2010). Actually, it should be mentioned that there is a debate over the impact of microfinance on the poor. Interestingly, based on a households panel survey in Indonesia, one of the findings of a study by Tsukada, Higashikata, and Takahashi (2010) is that the overall credit demand in the survey areas have greatly increased as a result of the availability of small-scale loans from the formal sector with no-collateral requirements. This micro-credit is founded by an NGO. However, Takahashi, Higashikata and Tsukuda (2010) found that although this collateral-free scheme might actually work, it is the relatively wealthier families that gain access to micro-credit in reality.

Recent developments in Indonesia show an increase of credit for micro and small enterprises through banking institution (BWTP-SEEP, 2009). Credits for these enterprises can be classified based on its volume. According to banking rule in Indonesia, the volume of credit for micro enterprises is a maximum of Rp 50 millions, credit for small enterprises is between Rp 50 millions – Rp 500 millions, and credit for medium enterprises is between Rp 500 millions – Rp 5 billions. In recent years, these credits increased significantly. In the case of DI Yogyakarta province, data from Yogyakarta office of Bank of Indonesia show this increase (Table 9). Most of these credits are allocated for micro and small enterprises.

Table 9: Banks credit for micro, small, and medium enterprises in DI Yogyakarta

SIZE OF CREDIT	CREDIT VOLUME (RP BILLIONS)			
	2006	2007	2008	2009
Micro enterprises	2.454	2.848	3.017	3.218
Small enterprises	1.934	2.269	2.838	3.394
Medium enterprises	1.391	1.811	2.142	2.458

Source: Bank of Indonesia, Yogyakarta Office, cited from *Kompas*, 21/9/2010

However, since there is no regulation on the market segmentation of financial institution, micro-small-medium enterprises have also been targeted by big banks and foreign banks. Other micro-credit institutions claim that this development has negative impact on the performance of their business. This phenomenon has been observed by Hamada (2010). The success story of microfinance in making innovation, maintaining high repayment rates and also keeping profitability for decades is a major cause of this attraction. Therefore, for some major banks, such as HSBC, Citigroup, Deutche Bank, and ABN Amro, microfinance is viewed more as a formal financial activity rather than as a source of aid. In many countries, large domestic commercial banks are attracted to enter the microfinance market due to the resilience shown by the microfinance industry itself. In Indonesia, the success of Bank Danamon, a private commercial bank, through its micro-division, the "Danamon Simpan Pinjam" or Danamon Saving and Loan, in micro-credit has stimulated other commercial banks to enter this credit sector (BWTP-SEEP 2009). It means that commercial banks, in particular private banks, entering into micro-credit are generally motivated by commercial considerations. However, with this development consumers are benefited since they get more choice in using commercial credit. The report by BWTP-SEEP (2009) also argues that growth of microfinance in Indonesia will contribute to the financial inclusion of the poor and other people who have no access to banks.

Youth entrepreneurs and credit facility

As already discussed in section 2 (Table 4), self financing is the most important source for youth entrepreneurs in starting their own business in the clothing industry. But as their businesses develop they are in need of additional funds. The survey found that during the last two years, there were 20 entrepreneurs who applied for credit (Table 10). Most of them, 14 respondents or 56.52 percent of entrepreneurs, applied to national banks. There are also entrepreneurs who have applied to people credit banks, foreign banks, and to friends and family. The percentages of these respondents, based on credit sources, are 8.7, 17.39, and 17.39 percent, respectively.

It gives an early indication that there is financial inclusion of youth entrepreneurs in the clothing industry in DI Yogyakarta province. Total applications of credit from these 20 entrepreneurs are 34 or 1.7 proposal per entrepreneur. There are 45 percent of these entrepreneurs that have more than one credit application. Rate of approval on credit application is very high since only one application has been rejected.

Table 10: Distribution of respondents, and credit application (proposed and approved) based of credit source

Credit source	Number of respondent		Number of Application		Number of approved application	
	N	%	N	%	N	%
National bank	13	56,52	24	70,59	23	69,70
People credit bank	2	8,70	2	5,88	2	6,06
Foreign bank	4	17,39	4	11,76	4	12,12
Friend/family	4	17,39	4	11,76	4	12,12
N	-	-	34	100,00	33	100,00

Source: Survey, 2010.

Based on the source of approved credit, there are only 12 percent of credits that was provided by informal sources (friend or family). The main sources of loans are national bank, including state bank and private national banks. According to the survey, national banks that delivered credits for these youth entrepreneurs are Bank BNI, Bank Mandiri, and Bank BRI (state banks), Bank BCA, Bank Mayapada, Bank Danamon (Danamon Simpan Pinjam), Bank Saudara, Bank BTPN, and Bank Bukopin (private national bank), and Citi Bank (Citifinancial) - a foreign bank. It also indicates that youth entrepreneurs have experience in relation with commercial credit sources, primarily commercial banks. On the other hand, this finding also confirms that commercial banks in Yogyakarta have viewed youth entrepreneurs in the clothing industry as potential costumers. Therefore, it is not surprising that not only national banks, but also foreign banks such as Citi Bank (Citifinancial) have delivered commercial credits to these entrepreneurs.

Since most of the respondents have received credit from commercial banks, it may signify that there is financial inclusion of youth entrepreneurs. However, further analysis is needed to assess whether this inclusion is appropriate for the entrepreneurs or not. Table 11 shows that credit that's provided by commercial banks are larger than from informal sources (friends or family). On average, the credit volume from national banks is Rp 106.87 millions, while the people credit banks and foreign bank delivered Rp 80 millions and Rp 44.75 millions respectively. It means that credits for these entrepreneurs mainly are micro and small credits. Meanwhile, period of loans are between six and 120 months. National banks tend to offer a longer loan plan than people credit bank and foreign bank for approved credits. Since loan period is one of the considerations for entrepreneurs in taking commercial credit, this finding indicate that youth entrepreneurs prefer credit from national banks rather than other banks. Longer loan period gives greater opportunity to the entrepreneur to manage their cash flow more easily although total repayment of credit is higher. The average repayment rate of credit is 46.28 percent of credit volume. It is a sufficient repayment rate that also indicates low rate of credit defaults.

Table 11: Volume, loan period, and repayment rate of approved credit based on credit source

Credit source	Credit volume (Rp million)	Loan period (Months)	Repayment rate (%)
National bank	106,87	31,00	46,56
People credit bank	80,00	27,00	50,50
Foreign bank	44,75	24,00	43,25
Friend/family	18,00	12,00	n.a
Total	86,94	29,00	46,28

Source: Survey, 2010.

Table 12: Distribution of approved credit based on interest type

Credit source	Interest type					
	Flat		Market		Not sure	
	N	%	N	%	n	%
National bank	7	21,21	5	15,15	10	30,30
People credit bank	2	6,06	0	0,00	0	0,00
Foreign bank	3	9,09	1	3,03	0	0,00
Friend/family	0	0,00	0	0,00	4	12,12
Total	12	36,36	6	18,18	14	42,42

Source: Survey, 2010.

Other aspects that need to be explored are the provisions of credit. As shown in Table 12, banks tend to apply a flat rate of interest. However, since there are quite a lot of entrepreneurs who are not sure about interest types it indicates that this aspect in less important for them in using commercial credit sources. The most important point for them is the opportunity of loans for their business activity without too many requirements, especially collaterals.

There is an interesting finding on this aspect. Based on the survey result, less than half of credits are approved without collateral (Table 13). This finding also reflects that foreign banks are more aggressive in penetrating micro credit as indicated by their excluding collateral requirement for entrepreneurs who apply for credit. Otherwise, national banks and people credit banks still use collateral as an important requirement in approving credit proposals. In general, although there are credits without collateral, however, the proportion of such credit is still rather low.

Table 13: Collateral requirement of approved credit based on source

Credit source	Need Collateral	
	N	%
National bank	13	39,39
People credit bank	2	6,06
Foreign bank	0	0,00
Friend/family	0	0,00
Total	15	45,45

Source: Survey, 2010.

Fortunately, Table 14 shows that more than half of credit proposals have been approved in less than one week. It means that the time consumed in applying for credit is quite negligible. However, it should be noted that there is an indication that foreign banks and also some national banks still take several weeks in deciding the credit application proposals. Meanwhile, reducing processing time of credit application can be only a substitute strategy for commercial banks in applying high interest rate, or asking for collaterals.

Table 14: Time needed for credit approval based on source

Credit source	Time needed for credit approval					
	Less than 1 week		Less than 1 month		Less than 6 months	
	n	%	N	%	N	%
National bank	17	51,52	5	15,15	1	3,03
People credit bank	2	6,06	0	0,00	0	0,00
Foreign bank	2	6,06	2	6,06	0	0,00
Friend/family	2	6,06	2	6,06	0	0,00
Total	23	69,70	9	27,27	1	3,03

Source: Survey, 2010.

Purposes, benefits, and obstacles of commercial credit

Youth entrepreneurs use credits for various purposes. The survey found that working capital requirement is the most important reason for credit. There are 21.21 percent and 39.39 percent of approved credit aimed at adding stocks of raw material and other working capital in the business. It indicates that entrepreneurs in this industry need working capital loans more than other types of credit such as investment credit. As shown in Table 15, there is only 15.15 percent of approved credit that's used for adding fixed capital and 12.12 percent for building or renting business space (workshops and/or distribution outlets). The table also shows that using credit for replacing money used for other business purpose is only 3.03 percent. It means that entrepreneurs in this business are responsible individuals, capable of managing the financial aspect of their business.

Table 15: Distribution of approved credit based on its purpose

Credit source	Credit purpose											
	To add stock of raw material		To add other working capital		To replace money used for other business purpose		To add fixed capital		To build or rent business place		Other	
	n	%	N	%	N	%	N	%	n	%	n	%
National bank	3	9,09	10	30,30	1	3,03	3	9,09	4	12,12	4	6,06
People credit bank	0	0,00	0	0,00	0	0,00	2	6,06	0	0,00	0	0,00
Foreign bank	1	3,03	3	9,09	0	0,00	0	0,00	0	0,00	0	0,00
Friend/family	3	9,09	0	0,00	0	0,00	0	0,00	0	0,00	0	3,03
Total	7	21,21	13	39,39	1	3,03	5	15,15	4	12,12	4	9,09

Source: Survey, 2010.

In general, as borrowers, youth entrepreneurs conclude that they have been benefitted by the access to credit. Commercial credits gave them the opportunity to develop their business further, especially to meet the market demand at special events. In this business there are several market opportunities. As shown in Figure 3, they have a calendar of events. Every year there are religious celebrations such as Christmas and Lebaran (Id-ul Fitr). There is also an exhibition schedule that rotates from one city to another. During these events, they have to produce clothing in greater numbers than usual. Therefore, additional working capital is important for these entrepreneurs to increase their production capacity. By producing more they have opportunities to increase their sales and thus able to enlarge the size of their enterprise.

It should also be mentioned that addition of working capital can spur the creativity of these entrepreneurs in producing more marketable products. Each brand or label of clothing product has a specific characteristic in design and they usually never sell their products that have been offered in previous exhibitions. Limited edition is an important marketing strategy in this business. It implies that they always make new designs or motifs for their products for such exhibitions. This is the reason why commercial credit also has a positive influence on the creativity of entrepreneurs in this industry.

Although loans from financial institutions have contributed to the development of business activity of youth entrepreneurs in the clothing industry, however there are some obstacles that need to be mentioned. High interest rate is ranked by entrepreneurs as the most important obstacle in accessing bank loans (Table 16). It is followed by credit procedures, collateral requirement, appraisal on credit proposal, and repayment of credit.

Table 16: Obstacle in accessing bank credit

Type of obstacle	N	%
Interest rate	9	47,37
Credit procedure	8	42,11
Collateral requirement	6	31,58
Appraisal on credit proposal	6	31,58
Repayment	5	26,32
Other	2	10,53

Source: Survey, 2010.

As already discussed, many entrepreneurs are not sure about interest type applied on their credit and this indicates that this aspect is less important for them in using commercial credit. However, it is still a serious barrier for them. It seems that omitting obstacle in credit procedure - collateral requirement and time for appraisal of proposal - is substituted by applying a higher interest rate. In other words, there is an effort to improve the credit access but at the same time banks increase their opportunity to earn more profit by using the instrument of interest rate. It confirms that the entrance of commercial banks into the micro and small credit sector is essentially based on commercial or profit motives (Hamada 2010).

Although one may conclude that youth entrepreneurs in the clothing industry are diligent borrowers, as shown by rate of repayment, however many of them said that actually they need a lower interest rate. High interest rate means that the entrepreneurs have to allocate more money to repay their credit. This tends to increase the default risk of credit. In such cases, a collateral-free credit can turn out to be a financial trap for these young entrepreneurs. They require additional funds, but the lack collaterals put them in a weak position to refuse credit with a high interest rate that's offered by the banks. One important issue related to this impediment is what's called information asymmetric. Youth entrepreneurs are usually not aware that there are collateral-free credits available - such as Kredit Usaha Rakyat (KUR), supported by government through credit insurance companies (such as Askrindo) that is responsible for 70 percent of guarantee risk, while the executing bank's responsible for only 30 percent of the risk (Retnadi 2008). Lack of this information causes borrowers, who receive non-collateral credits, to place the banks as the only institution that supports their enterprise. In other word, the entrepreneurs just believe that a high interest rate is a common consequence of collateral-free credit.

Their Expectations

To face these challenges, there are several expectations or suggestions proposed by entrepreneurs. They propose banks, as source of credit, also provide assistance for youth entrepreneurs in accessing appropriate information on credit, and preparing of business reports that's needed in applying for commercial credit. As is commonly known, most micro and small enterprises face lack of sufficient financial report. Therefore, besides delivering credit facilities, banks should also provide such assistances for these youth entrepreneurs. Some possible assistance is giving appropriate credit information, consultation in preparing business reports, and help in expanding their market.

The second suggestion is that banks should decrease interest rate of commercial credit. Of course, it is quite difficult to estimate a visible rate of interest for credit. However, low interest rate will provide a chance for the youth entrepreneurs to reduce the risk of credit default. The survey found that there is an interesting approach applied by a national bank in solving the repayment problem. In this case, the bank offers a rearrangement of loan period as a solution to reduce the risk of credit default.

Other expectation is about the collateral issue. The youth entrepreneurs expect bank to extent the availability of collateral-free credit. Instead of asking the entrepreneurs to give certificate/letter of ownership of properties (houses) or vehicle (car or motorcycle); bank can use the stock of products as an alternative for a standard collateral. Most entrepreneurs have stocks at their workshop or at distribution outlets. Report of product stock is accessible and quite well prepared since periodically the distribution outlet send it to the producers.

Finally, the fourth expectation is related with the process of collecting repayment of credit. Entrepreneurs need a more friendly approach to the recollection procedure. Some respondents claim that this problem is mainly related to the process of outsourcing of the collection process. Banks use outsourcing for their regular operations such as marketing and collection of credit. These agents, whose responsibilities include increased credit delivery and maintenance of a sufficient rate of repayment, usually use aggressive and unfriendly approach in their dealings with these young entrepreneurs.

Perhaps, adoption of these alternative approaches may increase the benefit of financial inclusion for youth entrepreneurs and at the same time reduce the financial obstacles of commercial credit.

6. CONCLUSION

The important aim of this research is to assess the financial issues of the youth entrepreneurs in creative industry, in particularly clothing industry, in DI Yogyakarta province. A better understanding of these issues, such as credit access, is important to improve the financial inclusion of the youth entrepreneurs who have a good prospect.

The research found that independent clothing industry is characterised by educated entrepreneurs who started their business based on business opportunities that rise from their hobbies or social activities, in particularly in independent music (*indie music*). Most of these entrepreneurs have accessed credit from commercial banks. It gives an indication of financial inclusion for youth entrepreneurs in clothing industry in DI Yogyakarta province. However, it should be mentioned that there are several obstacles for the entrepreneurs in accessing commercial credit from banks. These obstacles are high interest rate, credit procedures, collateral requirement, appraisal on credit proposal, and repayment of credit.

There are some suggestions or expectations of the youth entrepreneurs on improving financial inclusion. As complements of credit facilities, banks should also give assistances in providing better information about credit facilities and options. They also expect banks to decrease interest rate of commercial credit in order to reduce the risk of credit default. On the collateral issue, banks can use product stocks as an alternative for standard collaterals. Finally, the entrepreneurs require a more friendly approach, mainly in the collection of credit process.

Adoption of these alternative approaches may increase the benefit of financial inclusion of the youth entrepreneurs, and at the same time can reduce the financial obstacles and financial burden on entrepreneurs.

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