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**Microfinance, Youth and Conflict: Emerging Lessons
and Issues**

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This note outlines current practices, learning and relevant issues for further examination to serve youth in conflict situations with microfinance.¹ The findings are preliminary and require further research and documentation of on-going pilot tests. This note first discusses microfinance for youth in general before discussing microfinance for youth in conflict situations. A summary of the key findings from Section D are highlighted in Box 1.

A. Why Focus on Youth?

Youth are defined by a range of age groups. While the United Nations (UN) and the World Bank consider the population between 15 to 24 years as youth, the Commonwealth Secretariat uses 15 to 29. Some national governments consider youth up to 35 years old. For this note, however, youth is defined as potential microfinance clients who are underserved because of their young age.

Youth represent a large proportion of human capital for developing countries. Youth represent up to 85 percent of the population in developing countries and many are employed in the informal sector.² With few educational opportunities for youth, marketable skills are often acquired through learning by doing. Yet, most youth remain unemployed or underemployed, limiting their future economic opportunities that depend on earning the necessary skills through experience.

Box 1: Lessons from limited experience in serving youth with microfinance amid conflict

- Serving youth with microfinance is challenging. It is extremely difficult in conflict affected areas, particularly during conflicts than in post-conflict situations
- More research is needed to determine the extent and methods for microfinance programs to serve youth in conflict situations
- Most emerging lessons for microfinance with youth in non-conflict situations apply in conflict situations, however:
- Additional training, preparation and counseling is advised in addition to financial services
- Longer time period is essential for microfinance programs to attain scale and viability
- Deposit services are especially important
- Strict donor requirements for special targeting of youth with microfinance in conflict situations can be an inappropriate intervention

Youth are affected by and can easily become involved in conflicts. This is due to several factors, including limited economic, social and political opportunities to engage productively within their societies. In conflict settings, short-term perspectives often drive youth to engage in activities with quick returns and high risks. For example, youth played a significant role in the recent conflicts in Fiji, Solomon Islands and Sierra Leone (Curtain, 2001). An increasing number of unemployed street children have become prime targets for recruitment by gangs, drug traffickers, rebels, warlords and militia. Also, unemployed youth become a burden to families and are at risk of being sold or traded to child traffickers.

B. Youth Represent a Potential Untapped Market for Microfinance

Youth need access to a range of services to build their capacity, including finance. A new holistic framework is now advocated by youth specialists focusing on three interlinked domains: (1) expanding access to resources, (2) increasing opportunities for employment, and (3) investment for youth development. In the framework, microfinance is considered under the

¹ This note is based on a literature survey and discussions from a virtual conference held on June 1 to 3, 2004. A list of literature consulted for the note and summary of the virtual conference are available at www.microLINKS.org.

² Global Employment Trends & Facts on Youth Employment ILO, Jan. 2004; UN fact sheet on AIDS, 2003.

domain of expanding access to *financial* resources through the provision of credit and savings products and, in a few programs, through insurance. Recent experiences from youth development programs show that finance is a major constraint for youth to increase their employability, including self-employment.

While several youth related programs emphasize capacity building through formal and life skills education for youth, they ignore expanding youth's access to financial and physical resources that facilitate employment opportunities. Today's youth are the next generation of microfinance clients. With appropriate products and services, they could also be current microfinance clients. Involving clients at younger ages and retaining them may help MFIs grow and stabilize more rapidly and may provide productive economic opportunities for youth. However, few MFIs intentionally serve youth with microfinance.

Why few microfinance programs serve youth: Whereas several MFIs state that the population above 18 years of age is eligible for microfinance services, their coverage of youth between ages 18 and 24 years is generally very low. Anecdotal evidence indicates that the share of youth among MFI clients is normally less than 10%. Some MFIs and youth program implementers posit that the reasons for low youth coverage are premised on the following considerations:

- *Risk:* Youth are considered high risk takers and inexperienced in business, since they are generally start-up entrepreneurs.
- *Costs:* Youth require integrated services that are complex and costly to administer, and have difficulty achieving viability without continued subsidies. Use of standardized products that are easy and inexpensive to administer may be unsuitable for youth.
- *Human capital:* Multifunctional, specialized staff required to service youth effectively exist, but they are hard to recruit and costly to retain.
- *Small market size:* Youth, especially those below age 20, represent a small market, since the age group only spans a few years. They generate low profit margins for MFIs, as returns from their portfolio may not compensate for the costs to mobilize very small deposits and to lend small and short term loans for businesses with low profits.³
- *Low competition:* MFIs generally expand into newer, more risky clients only upon saturation of existing markets and with increased competition. Several countries still offer a large untapped market of adult clients.
- *Political opposition:* Child advocates oppose microfinance to adolescents on the grounds that it may create child laborers who are vulnerable to exploitation; that working may divert adolescents' attention from schooling; that it may curtail their physical and psychological development; and that young, lower-paid workers may "steal" jobs from adults.
- *Legal issues:* In many countries a minimum age requirement of 18 for eligibility to enter into a legally binding contract prohibits many MFIs from issuing loans to adolescents.

Nonetheless, some innovative microfinance initiatives have now been identified, which may raise optimism about microfinance for youth and provide further guidance as to when and if such interventions are appropriate.

³ The increasing share of youth population in many developing countries may nonetheless offer a huge market increasing the scope for breadth of MFI outreach.

C. Emerging Lessons from Microfinance with Youth

Although they require more rigorous validation, valuable lessons are emerging related to microfinance with youth. Several of the programs are focused on young poor, unemployed and school drop-outs in relatively peaceful countries. Some of the youth programs also involve at-risk youth, which includes abandoned and orphaned street children and those living in high crime areas. *Youth at risk* are those whose lives are exposed to vulnerabilities but cannot respond adequately or appropriately to counter the vulnerability.

Microfinance initiatives for youth need to realize that:

Legal and political factors affect the provision of microfinance for youth. The legal framework must enable the protection of youth rights, while permitting access to the financial resources needed to create economic opportunities.

Box 2: Promoting savings in conflict areas of Uganda. With USAID funding, CARE paid cash to several young former child soldiers along with adults for labor-intensive community road rehabilitation. This program, Reintegration, Employment and Income (REIN), also trained the clients in cash management and small business development. Part of the cash payments were withheld as savings (the beneficiaries voted to increase the savings percentage) until rotational savings and credit groups (ROSCAs) were formed and trained. The savings, loan and business development aspect of the project was considered a success, with numerous small trading and animal husbandry activities created. There were 10,000 clients, half of whom were women, with many of the men being former child soldiers. When conflicts escalated in mid-2002, most of the program areas became highly insecure, forcing people to abandon their businesses and flee to refugee camps. The financial skills and business attitudes that were imparted during the program were reported to be used in the camps.

Microcredit is not for all youth, but saving is. Not all youth are entrepreneurial and able to repay loans. However, all youth should have access to savings accounts as a way to prepare for the future and instill financial discipline (see Box 2). Those MFIs that are not legally allowed to mobilize savings could link with formal financial institutions to promote youth savings.

Not all MFIs can or should serve youth. Microfinance for youth is a complex activity requiring long term commitment and adequate microfinance capacity. Several failed programs indicate that the involvement of experienced MFI and/or organizers aware of both microfinance best practices and youth issues is critical for success of the programs.

Box 3. Mixed results from linking microfinance with youth training in Mali. In Mali, linkages were formed between Kafo Jiginew, an MFI, and a training institute, Mali Enjineu, to serve adolescent youth. The linkage was cost effective for Kafo Jiginew to offer a credit and savings with education product to the adolescent clients who were primarily selected from households with adult Kafo members. During the training period, clients could avail deposit services from Kafo. Loans were only made to trained clients. While the deposit services and no pressure to borrow were highly appreciated, the very short term loans with frequent meetings and repayment schedules were unsuitable, since these clients required longer time to start and manage a successful business that could generate incomes to service the loans on time. Therefore, the family had to meet their repayment obligations most of the time (Nteziyaremye and MkNelly, 2001).

Youth age cohorts matter.⁴ Life cycle changes occur rapidly during youth. For maximum effectiveness, product design and implementation need to be driven by youths' frequently changing situations and needs. Deposit services to accumulate assets as well as basic life skills training may be more applicable and needed at early youth stages than credit. Pushing adolescents to become entrepreneurial and borrow may turn them off. Similarly, young adults may not like excessive supervision, which could also be costly to the MFI. In addition, the nature of the business may vary by the client's age, leading to differences in demand for various types of financial products.

Microfinance for youth requires careful packaging of training and financial services. For effective use of microfinance by youth, especially below 20 years of age, programs should consider combining entrepreneurial skills training with basic life and financial education. Pushing youth to become independent entrepreneurs without proper training is a recipe for failure. Whereas an MFI is not required to provide both services, linkages with various external trainings, such as schools, training institutions or youth outreach programs offer a potential alternative (see textboxes 3 and 4, which demonstrate linkages with varying results). In general and particularly in volatile environments, training and financial services provided by the same institution have not always been effective, as many MFIs serving youth and adult markets have noted.

Box 4: Creative linkages in Sierra Leone. The American Refugee Committee (ARC) recently began providing local NGOs with business training tools for youth on a cost recovery basis. To prime the market and give the NGOs experience, ARC temporarily subsidizes services through vouchers. ARC is also working to increase outreach of local microfinance providers (an MFI and traditional ROSCAs) to the general population, with the idea that they will also serve youth.

The identification of appropriate training requirements for youth is a challenge. Some MFIs are now implementing apprenticeships and mentorships to train adolescents and also to

Box 5: Linking apprenticeships with microfinance to ex-combatants in Guinea. ARC's program in Guinea was designed to promote employment generation and entrepreneurship among youth and ex-combatants. With only one year of funding (2002), apprenticeships were created to rebuild a local artisan base and provide youth with a sustainable source of training. Grants were provided to local artisans to buy materials/machinery; in return they took on a small group of apprentices. Since the apprentices gained skills during the program time period, it was to the artisans' advantage to hire them once the program ended. ARC also worked with local MFIs to include the trainees and other youth in the area to obtain loans.

stand as guarantors for the loans (see Box 5). However, conventional skills training may not be effective unless trainers know the market and can identify and provide appropriate training. It is necessary to avoid off the shelf "packaged" services that assume all youth are homogeneous and need similar help. Programs must be cost-effectively tailored to the age cohort, gender, and environment.

A cohort is an age group that is born in a specified time, and that therefore grows up and experiences the same key events in their society together.

Not all youth require business loans. Other products, including insurance (with the youth as beneficiary), leasing and savings, can be more important to youth than loans. Amid the conflict in West Bank/Gaza, the Jozoor Microleasing program, which started in 2002, has found that many young entrepreneurs start businesses with funds from family and private investors. The program is now experimenting with providing leases to these young entrepreneurs.

Deposit services are crucial for youth to accumulate assets for the future. Deposits may be more important than loans for all children, including street children and migrant adolescent workers who lack safe places to save. The Children's Development Bank in India, and SafeSave and Padakhep Manbik Unnayan Kendra in Bangladesh provide daily deposit services for street and slum children, and Population Council in Bangladesh is now linking with local commercial banks to experiment with mobile banking to collect daily deposits from young migrant girls employed in garment factories.⁵ Similarly, children of HIV/AIDS victims may require access to deposit services. Some MFIs in Africa are allowing children of HIV/AIDS-affected victims to open their own savings accounts and to operate their parents' savings accounts. However, savings education may be necessary for children to understand their rights and improve their ability to manage savings without much adult intrusion. SEWA in India is using an intergenerational approach to involve young girls over 10 years of age along with their mothers and/or grandmothers in learning financial transactions and management.

It is, however, challenging to offer deposit services to youth since it can involve high costs due to small size of transactions. Also, processes are required to establish proper identification to improve access to deposit services.

It is important to carefully choose how to serve the youth market. Youth can be included as part of the broader microfinance programs that serve clients of all ages to reduce costs and to promote intergenerational learning (youth can learn from older experienced entrepreneurs, who in turn can learn from youth about the Internet, cell phones, etc). Reaching clients at younger ages facilitates MFIs' relationship building that can payoff greatly over time. Choosing to serve especially difficult youth markets, such as youth at-risk of becoming involved with crime or contracting HIV/AIDS, may expand outreach, but care should be taken to avoid isolating them from others as a special, peripheral market thus impeding their integration into the society.

Youth may require multifunctional staff. Staff aware of youth issues as well as microfinance may be required to provide client-focused microfinance for youth.

All clients, including youth, require flexible products. Financial products and services need to be flexible and designed to suit client needs, including those related to their age. For example, youth are more likely to be interested in loans for education and to learn a trade than older groups. For business loans, experience shows that both group and individual loan products are appropriate for youth. Several MFIs offer group-based loans to young adults. The Tap and Reposition Youth (TRY) project, supported by K-Rep in Kenya, successfully uses

⁵ Deposit services were the primary service demanded by street children since they had few safe places to accumulate their daily earnings. Looting of their earnings by adults was common, leading the children to spend the earnings on drugs and liquor to immediately spend the money.

Grameen-type group lending to service youth aged 16-24 years in Nairobi slums. However, individual loan products are more flexible in adjusting to the frequent life cycle changes of youth. These products can also be offered for adolescent youth with adult supervision and/or with guarantors. SafeSave in Bangladesh and Children's Development Bank in India offer individual loans to children over age 14 and to young adults with good repayment records.

Skepticism exists regarding the viability of youth-related microfinance programs. However, evidence is now emerging to show that youth clients are bankable and that creativity of approach, differing only slightly from adult-focused microfinance, is required. Of course, not every MFI has the mission, need or desire to serve the youth market.

Microfinance best practices, such as charging market rates for loans and enacting strict collection procedures, apply to young clients. Trying to bend microfinance best practices too much may lead to failure. Also, youth may require a longer term period to establish a business to generate incomes to repay their loans. As a result, the costs of serving youth may be higher compared to adult clients, and institutions committed to outreach with sustainability may require charging higher interest rates for youth loans.

Achieving operational self sufficiency is possible if best practices are followed and training is offered (directly or through links to external training programs) along with financial services. Microfinance combined with such training can be sustainable as demonstrated by the programs implemented by Commonwealth Secretariat in India and in Zambia by Streetkids International for adolescent youth, which became operationally self-sufficient in three years.

Involve youth in decision making and program development. Community-based grants and loans aimed at youth but designed by elders may not be effective. As with any market segment, appropriate market research on potential youth clients must be conducted in advance. Failure to do so may lead to under-coverage of clientele and increase the elders' control over them. Involving youth in decision making and increasing their stakes in microfinance operations is beneficial, as seen in the case of Children's Development Bank in India.

Youth affected by conflict situations include those that are direct victims and participants of conflicts, and highly vulnerable to be drawn into conflict or victimized by conflicts.

D. Offering Microfinance to Youth amid Conflict

Unemployment among youth is one of the key determinants leading to protracted or re-emerging conflict. Microfinance is now considered a development tool to facilitate youth affected by conflict situations in gaining decent employment. By doing so, it is presumed to help youth mitigate the negative impacts of conflict situations. However, microfinance alone cannot prevent youth from getting drawn into conflicts (see Box 6).

Box 6: Microfinance alone is not enough to mitigate conflict. The UNDP/UNOPS program in Liberia provided financial training for young demobilized soldiers employed by the Cash for work public works program for 8 months. It was planned to offer microfinance to these clients. However, several were recruited back into war after its reemergence in 2003 despite the opportunity to access microfinance to start a business.

A well conceptualized and administered grant program can indeed be appropriate in many situations for youth clients. Models, such as ARC's in West Africa, could be applicable and adoptable to microfinance clients in other conflict environments (see Boxes 4 & 5). Given the importance of engaging youth in productive activities to mitigate their involvement in conflicts, grants could help youth start businesses and prepare them to later access financial services.

1. Lessons from the Field

A few microfinance programs include youth as clients in conflict situations. The examples that are described throughout this document are based on discussions during the virtual conference held on Microfinance, Youth and Conflict on June 1-3, 2004 and a literature review conducted prior to that.⁶ Collectively, they show that:

Microfinance is possible for youth in conflict situations since young entrepreneurs exist in conflict affected areas. However, it is extremely challenging.

Microfinance opportunities for youth in societies that have emerged from conflict are better than in areas still under intense conflict, since survival rather than progress may be youth's primary focus. Microfinance is feasible in relatively peaceful pockets within a country/region amid conflict, but MFIs should be quick in the installation of their intervention while remaining committed to slowly building a sustainable approach that will have a lasting impact. To allow for sustainable MFI activities, it is imperative to include the social objective of preventing militant groups from attracting youth away from positive alternatives. MFIs in areas emerging from a prolonged and violent conflict need to tackle youth's lower levels of literacy, experience, negotiation/conflict resolution skills and understanding of *normalcy*.

Several of the emerging lessons for microfinance with youth in normal situations apply in conflict situations. It may be useful to use an intergenerational approach by involving youth families and community elders, as they have mutual interests in preventing their young from participating in conflicts. These adults may be willing to offer apprenticeships and also provide capital to trained youth if opportunities exist.

However, aspects particularly related to conflict situations must be incorporated to serve youth in such environments better. To that end, MFIs need to realize that:

Holistic training, preparation and counseling is advised for youth exposed to or involved in conflict situations along with (or preferably before) microfinance. Linkages with relief and development institutions, mentors and employers offering apprenticeships are required to provide such integrated services. It is costly to foster effective linkages in conflict situations.

Expect longer duration for good performance results related to scale and viability. In conflict situations, youth require more substantial support/education to enable them to start up

⁶ Again, for more details, see summary of the conference at www.microLINKS.org.

enterprises and effectively use microfinance. In addition, identifying such entrepreneurial youth in conflict situations is difficult. To that end, Community Based Organizations (CBOs) that work with youth can be drawn into cooperation with MFI programs.

Deposit services are especially important. It is now known that young people informally engage in short-term savings activities immediately after conflicts to accumulate funds to invest in small businesses, often through non-formal savings mechanisms, such as buying livestock, which are not the most liquid savings mechanisms.

Beware of misguided donor requirements for serving youth. MFIs and program implementers may need to help inform donors on why certain approaches may not be effective or the best way to offer microfinance products to youth. Encouraging donors to think holistically and educating them on the limitations and timeframe required to serve youth with microfinance amid conflict may be required.

2. More Research is Needed

Although lessons are emerging from the microfinance programs that include youth, many questions still remain regarding the role of microfinance for youth, in general, and in conflict situations, in particular. While youth have a clear need for microfinance amid conflicts, it remains unclear to what extent MFIs can viably serve this market. Limited experiences to date show that it is a lofty challenge, because microfinance amid conflict is still an emerging field, and including youth clients adds an additional challenge.

A clear documentation of experiences from ongoing trials and pilots is now required to address relevant issues for effective programmatic interventions with microfinance for youth in conflict situations. In doing so, the following aspects require careful consideration to help decide if any adaptations and/or special products are necessary in servicing youth affected by conflict and/or at risk of being involved in conflict:

- *Basic classification by conflicts and youth cohorts.* Youth issues may vary across diverse conflict situations. It is essential to understand if at-risk youth resemble youth in conflict situations. If so, valuable lessons can be gleaned from programs now being implemented for at-risk youth in urban areas to mitigate urban conflicts and street/gang violence, as well as those serving youth in non-conflict environments.
- *Initiation of microfinance.* Are there any necessary and sufficient conditions to initiate microfinance for youth in conflict areas in addition to relatively less violence and within emerging markets? Are apprenticeships and local mentors needed and available?
- *Sequencing of activities.* A holistic package for youth may be necessary to improve microfinance effectiveness. What activities should be offered, and how should they be sequenced or offered as parallel programs? Several advocates for youth programs in conflict situations believe that training and basic education pave the way for youth to later access microfinance.
- *Subsidies:* Does it cost more to serve youth with microfinance? Are subsidies necessary and if so for what? MFI pilots can be initiated under grant programs. Are subsidies to youth client justified and, if so, for how long?

- *Serving the youth market.* Are specific outreach efforts to youth beneficial? Should there be a specialized MFI for youth or youth inclusive microfinance programs? Will specialized outreach to youth exclude them from learning through an intergenerational environment?
- *Donors.* Can donors work together to better serve youth amid conflict with microfinance? Given the urgency and heightened political interest of some conflict situations, how can various departments (e.g. youth, education, enterprise development) within the same donor agency be encouraged to work more effectively and cooperatively together? Are specific donor guidelines needed?

3. Donors and Governments: Take Caution and Support Enabling Environment

Donors, MFIs, and governments need to be cautious in supporting microfinance for youth in conflict situations. Lessons are just emerging and much is yet to be learned through careful research that can guide the design and implementation of programs to include clients unbanked due to their age, especially in conflict areas. We hope that this research and document as well as others available at www.microLINKS.org will assist in furthering the understanding of how to serve youth with microfinance in conflict areas.

Governments may facilitate private partners to experiment with and build programs rather than consider government-supported programs, at least until there is clear understanding of successful mechanisms. Since deposit services are recognized as paramount for youth, MFIs that engage in deposit services may require mechanisms for careful supervision in order to protect youth savings. Governments and donors have a role to create an enabling environment to safeguard youth deposits. Donors may offer innovation grants that allow an experienced MFI in conflict situations to pilot new products/approaches for serving youth. Youth specialists may also be trained on financial details to appropriately direct youth for their financial needs.



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