



Youth Entrepreneurship Microfinance Program Manual

A Project of the Cordes Foundation

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August 2008

Foreword

This document was made possible by the Cordes Foundation and their generous support of my work with the Katalysis Central American Microfinance Network headquartered in Tegucigalpa. This document was created in response to the lack of information for MFIs wishing to create youth microfinance programs as well as the priority of the Katalysis Network to support the youth of Central America. The original mandate of this manual was that the Katalysis Network MFI members might have a clearer conceptual framework of how youth entrepreneurship programs can be developed. One will note, despite the international utility of this document, the focus is specifically on Central America.

Assistance was graciously donated for the following: The graphic layout for this manual was created by Kerim Fahara. Editing assistance was provided by Sarah Anne Berg. Translation into Spanish without charge was completed by: Sofia Cortez Villars, and Johana Lorraine Cabrera Medina and Nancy Linda Flores Carias. It was translated into Portuguese also at no cost by Carlos Eduardo Menezes da Silva.

I was kindly assisted in the structuring of this document by individuals and institutions with very diverse and valuable youth entrepreneurship experiences, namely; Francesca D'Emidio while working with FAO-Honduras youth projects in garbage dumps, Leonardo Enrique Velazquez Garcia while working with GTZ-Honduras CEFE youth entrepreneurship training, Jerry Hildebrand of the Global Center of Social Entrepreneurship, and Whitney Harrelson and Fiona Macaulay of Making Cents International who have been vital in promoting Youth Entrepreneurship internationally.

Special thanks to the MFIs I interviewed for their time, openness and cordiality, as well as the development community of Honduras for their late night assistance, insight and comments in youth programs and services which were vital to the creation of this document.

- Grant Ennis

United Nations Youth Day - August 12th 2008



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Introduction

The Katalysis Network, an alliance of 21 Microfinance Institutions (MFIs) in El Salvador, Guatemala, Honduras and Nicaragua representing 280,000 predominantly female clients, is dedicated to advancing youth entrepreneurship, in an effort to strive for a future without poverty in Central America. This guide is intended to assist in the promotion and creation of youth programs within the Network in Central America, and worldwide by laying out the basic steps for creating an MFI youth program. At the same time it provides tools to ensure that youth entrepreneurial programs reach the goals they set out to achieve.

As it is now, half of the population of Central America is under 18 and another fourth is between the ages of 18 and 30. Any development effort must focus on youth, as they are the majority, the most underrepresented, and the most disadvantaged in finding employment. They have the least access to financing for their businesses, and they are the most likely to make wide scale economic and equity changes in their countries.

By targeting youth, Katalysis is working towards short and long-term change for Central America. In the short-term, these programs are creating jobs, and in the long-term, Katalysis hopes that promoting youth entrepreneurship amongst the poor will change the economic structure of society by giving the poorest of the poor an opportunity to claim their share in society's wealth. In working with the youth of today, Katalysis is investing in the future, in those who will be running our world in years to come.

Katalysis identifies youth unemployment as a serious problem facing Central America and the world. As a consequence of globalization, international markets are constantly changing, demanding new products and services at the drop of a hat. These changes challenge Central America as well as the rest of the developing world. What products will the world market demand in five years?

Youth entrepreneurship is a sustainable solution to unemployment which responds to these market changes by creating a dynamic responsive workforce. It is not dependent on one sector or product alone, but on its unique ability to respond quickly to market shifts. By encouraging youth entrepreneurs to create their own micro-enterprises tailored to the demands of their communities and the changing world market, youth entrepreneur programs encourage sustainable economic development tied not to the price of coffee, t-shirts, or corn, but to the creative skills of Central Americans themselves.

The refinement of business skills leads to the growth of leadership abilities in youth, teaching them to take the initiative for change in their own societies, societies that they know



better than anyone else. By allowing Central Americans to solve their own problems, sustainable economic development becomes an achievable goal.

The Katalysis Network is dedicated to helping the poorest and most disenfranchised. By supporting youth entrepreneurship as a strategy for fighting poverty, Katalysis understands that it is helping those most in need, and the least cared for. Young people are our future and Katalysis' mission is to provide youth with the innovative credit products, business literacy training, and technical assistance that they require to become successful in both their entrepreneurial and personal lives.

"Poor women will never repay their loans" – 1968

"Poor youth will never repay their loans" – 2008

The director of the Global Center of Social Entrepreneurship at the University of the Pacific, Jerry Hildebrand, aptly comments on the similarities between the perspectives of financial institutions towards poor women in the 1960s, and the perspectives of poor youth today in 2008. Back then it was common to hear "women will never pay back, women are too risky" Just as it is common to hear "youth will never pay back, youth are too risky" today. This is not just a keen observation, but the reality of finance today; assumptions on creditworthiness are to the detriment of the poor youth the world over, not only to their access to finance, but to their quality of life.

If formal banks will not challenge these stereotypes and loan money to youth, then it will be the opportunity of microfinance institutions to challenge these ideas. Microfinance is constantly searching for new markets to respond to, and to provide, what is in the words of many, "social financing." Youth make up at least half of the world's population, and represent our future. They are the center of a new kind of social financing investment in the years to come. It is assumed that they are higher risk, and susceptible to changing whims and inconsistency, but these are the same assumptions made of women 30 years ago, and these are the same stereotypes that microfinance has a chance to break today.

Outsourced Services vs. Proprietary Programs

Microfinance has an important role in complementing Youth Entrepreneurship programs; financing the youth and making sure they have sufficient economic backing to thrive is vital to the development and success of their businesses. However, youth programs need more than just financing. Client selection, training, and most importantly on-the-job technical assistance, amongst other needs, are all essential components in the design of a successful youth program and the development of successful entrepreneurs. MFIs may well take the reins and provide for these needs, however, they need not and in most cases should not do this if they are not the most appropriate actor. Outsourcing services to those who specialize in them should always be attempted before an MFI attempts to expand its services. Using already existing programs:

- Allows MFIs to do what they do best: finance
- Enables MFIs to become (more) cost effective
- Insures more young people complete training programs with access to financing

One of the most relevant problems facing development today is the lack of coordination between Non Governmental Organizations (NGOs), local government, and international organizations. Thus, before an MFI creates its own training, selection, and technical assistance programs, they should first coordinate efforts with other local organizations.

If an MFI decides to create its own proprietary training, technical assistance, and mentoring programs, MFIs should first consider alliances with of the other existing youth programs. Microfinance cannot fight poverty nor youth unemployment alone; however, as an integral part of other development initiatives utilizing alliances and joint projects it can play a significant role in improving the lives of youth and their communities.

In summary, though proprietary programs are more costly, they do have the benefit of being already connected to financial institutions where all services are provided under the same roof. A more in-depth description of these proprietary programs or their outsourced services will be explained further on in this document.

Clientele Selection

Who are Youth Entrepreneurs?

Definitions of Youth Entrepreneurs range in age between 12 at the very youngest and 35 at the oldest. Youth Entrepreneurs may be either male or female. Katalysis understands that many organizations will choose to work with different age groups and definitions; however it chooses to define Youth Entrepreneurs as:

“Every woman or man between the ages 18-30 who has the attitude and aptitude as well as a vision to promote the creation of enterprises in order to generate employment and income for their own sustainability.”¹

Youth clients range between: *Entrepreneurs of Necessity* or *Entrepreneurs of Opportunity*. Entrepreneurs of Necessity are those youth who do not have sufficient resources to find employment in other sectors and due to lack of job choices, start their own businesses. Entrepreneurs of Opportunity are those youth who have sufficient resources at hand allowing them to find a job, but they choose, out of preference, to start their own businesses as entrepreneurs. The choice of where an MFIs youth clientele fit within this spectrum is central to any organization’s plan of poverty alleviation and requires much consideration, planning, as well as a deep understanding of the regional market.

Choosing a Demographic, Entrepreneurs of Opportunity vs. Necessity

An MFI must first make a clear demographic (market) assessment of the region in which they are working. This will allow them to better understand who they want to assist as well as who needs assistance. Table 1 and Table 2 are examples of demographic layouts with important assumptions: the positive correlation of education, income, employment and school attendance. I make these logical assumptions, understanding that while the correlations are not perfect, they are useful and are intended as an aid in the decision-making process of selecting a clientele base.

¹ Amador, Patricia; Ennis, Grant

Katalysis Network: Memoir of 2007 Central American Youth Forum Katalysis 2008

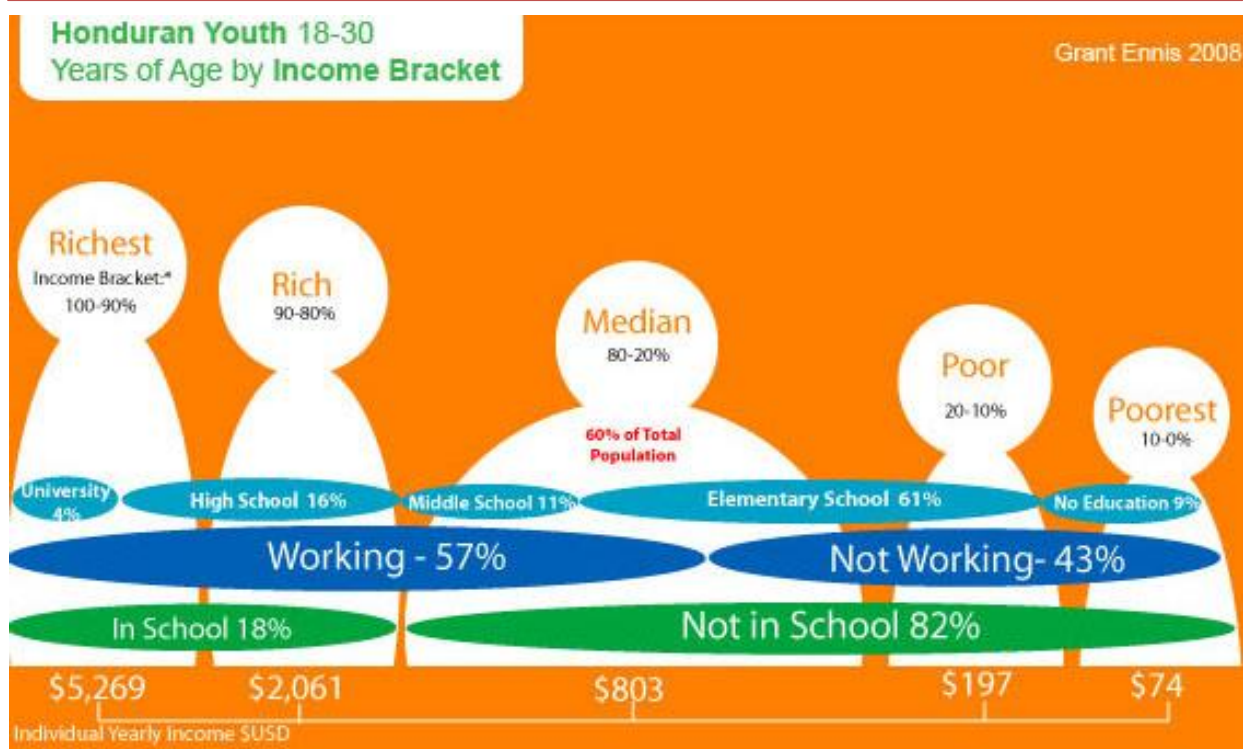


Table 1: Honduran Youth Demographic Graphic - Created 1/2008 by Grant Ennis, see footnote for sources

Honduran Income Dist./ Education/ Economic Activity / Current Scholastic Enrollment of all Youth 18-30																			
Income Bracket ²	Individual Yearly Income \$USD	=	Level of Education Obtained ³	% of Pop	=	Economic Activity	% of Pop	=	In School?	% of Pop									
10% Poorest	\$74	=	None	9%	=	Inactive (Unemployed and not Looking for Employment)	40%	=	No	82%									
10-20% Poor	\$197	=	Elementary School	61%	=			Employed			57%	=	Yes	18%					
21-79% Median	\$803	=			Middle School	11%	=		Unemployed	3%		=			No	82%			
		=					High School/ Vocational School					16%					=	Yes	18%
		=															University		

Table 2: Honduran Youth Demographic Chart - Created 1/2008 by Grant Ennis, see footnote for sources.

² Demographic Data Sources:

Population: Population Reference Bureau 2006,

Income Distribution: World Bank 2002 World Development Indicators,

Total GDP: World Bank 2006 World Development Indicators

Individual income brackets equated through following process:

(Percentage of wealth held by income bracket*GDP)/(Population*0.1)

³Honduran Youth Data Source: Instituto Nacional De Estadística de Honduras – Special Request

Both of these charts contain the same information, but projected differently. While these tables are based on data representing Honduras, they are illustrative of the Central American Region. One can see from this chart that if a project aims to work with the poor, the ideal youth to work with would be those with an elementary school education as they tend to be unemployed and poor. On the other hand, in this context working with youth that have a high school education is working with the rich. Working with either the poor, or a more well off sector both have positive aspects and all organizations must decide where their priorities lie before creating a youth program.

The utility of a table like this is that with only one or two pieces of data about the youth (education level, income, school enrollment or employment) you can see where the clientele fall in the class spectrum of the country.

Once the necessary data is compiled and the MFI understands the youth sector of its region, it must decide who it will work with: Entrepreneurs of Necessity (those that must be entrepreneurs to survive) or of Opportunity (those that could work in other industries, but chose to open there own businesses), or some hybrid in between.

Advantages and Disadvantages of Working with Entrepreneurs of Opportunity:⁴

Advantages:

- Creates more jobs per business in the long term
- Higher contribution to growth of Gross National Product
- Businesses are more likely to succeed
- Higher return on loans
- Less training required

Disadvantages:

- Perpetuates the current inequitable income distribution and class structure
- Attends to clientele which already have access to formal bank loans, credit cards, and savings accounts
- Little impact on distribution of wealth
- Youth would be employed either way
- Although more jobs are eventually created⁵, the time lapse in job creation does not necessarily help the poor (employees) right away, and does not break systems of poverty

⁴ List compiled via personal experience as well as conversations with employees of the FAO and GTZ youth programs. Much of this list comes from information in: Llisterri, Juan José: ¿Is Youth Entrepreneurship a Necessity or an Opportunity? A First Exploration of Household and New Enterprise Surveys in Latin America IDB 2006

⁵ Llisterri, Juan José: ¿Is Youth Entrepreneurship a Necessity or an Opportunity? A First Exploration of Household and New Enterprise Surveys in Latin America IDB 2006

- Slower adaptation to market shifts
- More “eggs in one basket” should the business go under, more jobs will be lost and will not quickly be recreated
- More likely to go through extensive bureaucratic procedures as they are more likely to be part of the formal economy

Advantages and Disadvantages of Working with Entrepreneurs of Necessity:

Advantages:

- Immigrant retention by giving jobs to the most impoverished
- Prevents violence by providing a viable alternative to gangs and crime
- Short term (almost immediate) creation of jobs for those who would not have jobs otherwise
- Possibly keeping them from immigrating to the United States or Europe in search of employment there
- Long term increased chance of employability for the individual
- Increase of the social capital and education level of the individual
- Contributing to the creation of community leaders
- Sets an example for others in the community
- Less likely to create formal economy business
 - Less assistance is needed for bureaucratic procedures
- Individual empowerment
- Promotes social mobility
- Changes the class strata
- Does not require training for formal economy bureaucratic procedures

Disadvantages:

- Increased risk due to instability of living circumstances
- Requires more intensive training
- Does not necessarily create a large quantity of jobs
- Increased need for training and technical assistance
- Does not significantly impact the economy of the country in terms of total GDP

Youth vs. Adults as clients – Youth as High Risk Clients?

The fundamental reason why youth need special services is that they are inexperienced compared to their older counterparts, and thus are often considered more likely to fail and become bankrupt while innovating. However, this failure is not inevitable as the likelihood of business success does not always correlate with age. It can be avoided by paying special attention to supporting youth during the incubation process of their business and to appreciate prior business experience they may have, often gained through work for a household business.

This support should be provided through increased training and technical assistance, and through the creation of mentor networks (i.e. social connections, seniority, experience etc.) to make up for the advantages their older or more privileged counterparts might have.

Bureaucratic Realities for Youth

Aside from assistance in more theoretical aspects of incubation and support from their mentors, youth must be assisted on a more basic level in following bureaucratic procedures (i.e. forms for starting businesses, paying taxes, getting permits, employing workers). Oftentimes these procedures will be irrelevant should youth create a business in the informal economy. However, nearly all Entrepreneurs of Opportunity will face these hurdles in the more formal economy.

For Entrepreneurs of Opportunity one of the biggest obstacles to overcome for any new business in the developing world is the complicated paperwork that is required to open the business legally, get credit, or hire employees, among an array of other actions that any new business needs to take. MFIs must be aware of their clients’ bureaucratic environments. The “Doing Business Report” by the World Bank is a great start. Below is a short summary of this report on various countries:

Table 2: Ease of Doing Business in Central America

2007 World Bank “Doing Business Report” Select Countries and Indicators						
Country	Ease of Doing Business Rank (Out of all countries)	Starting a Business				Getting Credit
		Ease of Starting a Business Rank (Out of all countries)	Number of Procedures to Start a Business	Number of Days to Start a Business	Cost to Start a Business (% of income per capita)	Ease of Getting Credit Rank (Out of all countries)
United States	3	4	6	6	1%	7
Canada	7	1	2	3	1%	7
Spain	38	108	10	47	16%	12
Mexico	41	62	8	27	14%	45
Panama	64	26	7	19	24%	12
El Salvador	72	125	10	26	76%	45
Nicaragua	87	60	6	39	132%	62
Nigeria	108	77	9	43	54%	80
Ghana	109	149	12	81	50%	132
Guatemala	115	130	13	30	52%	62
Uganda	116	109	18	28	96%	156
Costa Rica	117	106	12	77	23%	45
Honduras	126	143	13	44	61%	32
Gambia	127	70	8	27	292%	132
Uzbekistan	145	73	8	29	14%	170
Cameroon	154	161	13	44	137%	111

The chart illustrates that in Honduras, while it is easy to get credit, has numerous procedures in starting businesses to the detriment of the entrepreneur. This leads to many more difficulties for Honduran youth and an increased need for support in working through these bureaucratic procedures.

Organizations working with youth should keep this information in mind when designing training and technical assistance programs. Without a contextual understanding of the environment in which the youth must access credit and start a business, youth programs and youth themselves can fail despite otherwise good training and preparation.

Training, Technical Assistance and Mentorship

As previously mentioned, training, technical assistance, and mentorship are, without a doubt, the most important steps in creating a successful Youth Entrepreneurship program. Successful training and technical assistance programs can allow a young person to overcome nearly any other problem.

Effective mentorship programs can make up for what may be lacking in the other two programs (training and technical assistance), such as on call troubleshooting. These programs also provide a valuable service, at a very low monetary cost, as the mentors should be volunteers acting as local counterparts, involving the local business community in the development of its own future.

In relation to this, MFIs have two choices: network to ensure that other relevant entities provide these services, or create the business literacy programs themselves (proprietary programs). In creating programs themselves, MFIs should look at already existing models, such as GTZ's Competency based Economies through Formation of Enterprise (CEFE) Program, or other locally used models. In the example of Central America, organizations may look to ACODEP's PRODEM youth program in Nicaragua, or FunBanhCafe in Honduras for examples of advanced youth programs.

Youth Training Program Requirements

- Basic explanation of credit, as in many cultures, it may be a difficult concept to understand at first
- Basic market survey
 - Skills training to fill local market niches (i.e. "do not make everyone a baker". Understand regional market demands)
 - Question gender roles (i.e. Women don't always have to be bakers, or seamstresses)

- Business management skills
- Financial training
 - Savings training⁶
- Business plan development and evaluation
- Feasibility study
- Marketing and promotion training
- Analysis and collaboration with local businesses to build sustainable skills that can be replicated in their communities/neighborhoods
- Personal and social skills
 - Networking – skills in how to connect with other entrepreneurs in the area and share resources.
- Create social capital
 - Create social organizations or instill tools for working in teams
 - Confidence building programs
 - Life skills

Technical Assistance Program Requirements

- Monitoring and follow-up to training program
- Work the youth through the initial business stages in order to create savings strategies.⁷
- Monthly visits and on-call staff to respond to any obstacle that might affect the business. These visits should:
 - Keep youth on track with the original business plan or modify it when required.
 - Review books
 - Audit financial Statements
- Access to troubleshooting assistance
- Exchange programs between similar entrepreneurs or similar cultures
- Involvement of local/national institutions, possibly governmental(guarantees project sustainability)
- Stages of Transition, the aim is to transmit entrepreneurial vision so that the entrepreneur is sustainable without the need of technical assistance
- Innovation assistance. It's not enough to produce and to repay the credit. The entrepreneur has to be able to constantly innovate according to the market demand (interpret the market)

Benefits of Mentorship Programs

- Connect mentors with youth who may provide aid in all areas and in many ways cover the functions of a technical assistance program.
 - Connects experienced local businesspeople with youth

⁶ See: Annabel S. Erulkar, Erica Chong

Evaluation of Savings and Microcredit Program – Nairobi. Population Council and K-Rep Development Agency. December 2005

⁷ Ibid

- Connect more experienced youth with less experienced youth.
- Connect Entrepreneurs of Opportunity with those of Necessity.
- Connect current youth clients with new youth clients.
- Connect Junior Achievement, Rotary, Lions and other similar service institutions with youth.
- Mentors will provide troubleshooting assistance

These programs not only contribute to the success of the youth businesses, but also to their education as emerging adults. MFIs can help youth greatly by integrating into these programs more general education, and upon completion give diplomas of obtained level of education. For youth without a high school diploma, these diplomas could later serve them as tools towards better employment, or access to formal financial institutions.

Financing

Financing is the key role of the MFI, as well as where the MFI adds value to the process of supporting young entrepreneurs. Whether an MFI chooses to provide entrepreneurial services (training, technical assistance, and mentorship) for youth, or outsource them, all of the services will need to be connected to sound financial products.

Financial Products for Youth

The following characteristics are vital for the success of youth financial products.

Credit products for youth should provide:

- Longest grace period possible (see caveat in the following subsection)
 - This allows for youth to establish their business and not spend money that should be dedicated to starting capital on loan payments.
- Lowest interest rate possible
- Longest term possible
- No reduction on the required loan size.
 - Doing this is to the detriment of the long term viability of the business.
- Require youth financial counterpart to loan. (i.e. Youth invests \$100 and MFI invests \$200)
 - Creates commitment and sustainability.
 - Gives youth “skin in the game.”

Loan Terms Too Kind for Their Own Good

Youth programs must provide sustainable tools that guarantee that even if the project ends, it will be sustainable and its efforts will not go to waste. Thus, I am proposing a somewhat controversial argument when I suggest that project planners of Youth Entrepreneurship Programs re-consider giving interest rates which are too low as a possible detriment to the long term viability of the youth enterprises. If an MFI gives an 8%APR loan, knowing that when its subsidized project ends the new youth entrepreneur will face loans with APRs ranging between 30-60%, the MFI is setting up the youth for a shock, and a possible end to their business.

In order to be mindful of this, financial products for youth must include consideration that:

- Loan size must be proportional to the financial counterpart and aligned with the business plan. Loans larger than what the entrepreneur can handle or needs to can be detrimental as there may be little or no incentive to repay it, and even less incentive to save.
- Interest rates cannot be overly subsidized

Youth Too Young for Loans

In some countries, laws may not permit credit to those under 18 years old, despite the fact that a high percentage of school age adolescents are in the workplace regardless of child labor laws. Some development programs are rightfully concerned about child labor. However, the response is often to forcefully remove them from their only income without providing viable options. In response to this, youth entrepreneurship programs wishing to work with minors should make sure that their programs stipulate correlating school attendance or provide adequate comparable schooling in its place.

There are a few ways MFIs can begin to financially serve the under age youth sector:

- Make use of cosigners
- Develop group businesses with boards of directors. Under age members of the group would hold lesser roles on the board and the president and vice-president could be 18 or older (Associations)
- Focus on training only (until they turn 18).
- Create savings accounts, which they then cash out at 18, or should this be legally difficult:
 - Create shares program (Youth buy shares throughout the year which then can be sold at a later date with acquired interest)

Risk Mitigation for Youth Financial Products

As risk is a concern for MFIs, there are a number of ways in which this can be mitigated:

- Create guarantee fund.
- Require co-signers
- Find youth clients who are the children of successful adult entrepreneurs. This strategy assumes that children of successful clients will have developed a strong culture of repayment through their parents. (Note: If your goal is to work with entrepreneurs of necessity this may not be the most viable strategy, as children of successful entrepreneurs are likely to be entrepreneurs of opportunity.)
- Group loans(Solidarity loans) for multiple individual youth businesses
- Group loans for group businesses: this also widens the community impact, working more efficiently as it enhances leadership, entrepreneurial creativity and vision, and allows for the possibility of having members both under 18 and over 18. This way microfinance becomes a means for the construction of common goals and building of so-called 'social economy values' i.e. competition as a mechanism for professional growth. It implies, however, a need for technical assistance not only in strictly financial topics but also in organizational strengthening. (Note: This strategy requires adequate training in group dynamics and business procedures as well as technical assistance for this type of enterprise.)

Financial Mechanisms for MFIs

The success of youth enterprises and youth entrepreneurship programs can be greatly increased by taking into account all of the factors mentioned in the financing section. However, on a structural level, there are ways in which MFIs can help themselves:

- Create guarantee funds within 2nd tier financial institutions, which could cover a set percentage of their losses
- Create a credit committee for youth clients:
 - Develop credit scoring policies for youth
 - Develop best practices for youth entrepreneur loans
- Allocate a portion of their portfolio to youth
- Create the position of Youth Director within the organization
- Develop or adopt training guides and methodologies for youth
- Utilize or create youth microfinance networks

Guarantee funds are indispensable to MFIs way of entering the youth sector, as they allow for lowered risk on defaulted loans. Guarantee funds can work in any number of ways, however, they normally cover a percentage of the defaulted youth loan, and are often created and maintained by second tier institutions such as the Katalysis Network.

Credit committees for youth loans allow for a specific policy to be established and action taken in a methodical manner. They allow for strategic plans of action in addressing the youth sector and are highly recommended for any MFI looking to work with youth. The credit committee can also take charge of implementing a Credit Scoring program for their youth clients. Credit Scoring would allow them to better serve their clientele, giving them loans they have proven they deserve. The credit committee can also decide on how much of the portfolio an MFI should dedicate to youth, an important step in any sound strategic plan.

Financial Sustainability Solutions for Youth Entrepreneurship Programs

Paying for added technical assistance and training that youth require, while providing preferential credit products, can significantly raise the costs of youth programs. These high costs can cause problems in regard to operational sustainability as costs go up and interest rates go down. These higher costs, however, can be reduced through the use of the following strategies:

- If the program is using an individual loan model:
 - Utilize an upgraded Mentorship program which takes advantage of community leaders and business people in the place of trainers and technical assistance personnel on the MFI staff.
 - Make alliances with Youth Service Organizations which would provide sufficient services
- If the program is using a group loan model:
 - Same as above, however an MFI gets an added benefit of the group members assisting each other
- If the program is using a group business model:
 - Same as above two, however there is the added cost reduction of less technical assistance per youth as there is one business for multiple youth

Microfinance Networks

Microfinance networks such as Katalysis can be crucial to region-wide success of youth programs. Microfinance networks provide for:

- Youth forums
- Youth fairs and exhibits
- Experience sharing and exchange of lessons learned
- Competitions
- Showcase success stories



MFI networks can facilitate the development of youth networks where they utilize the internet or other forms of communication to correspond with each other as well as each other as co-mentors to success.

Networks can facilitate MFIs participation in international projects such as the efforts of Making Cents International and their annual Global Youth Microenterprise Conference⁸, or the Katalysis Regional Microfinance Conference of Youth Entrepreneurship held in Tegucigalpa in 2007⁹. At the end of the conference, not only were experiences shared, but all of the members of the Katalysis Network signed a pledge to work with youth. This document is entitled the Youth Declaration of Tegucigalpa and is annexed below.

⁸ See Making Cents International:

Youth Microenterprise and Livelihoods, State of the Field - Lessons from the 2007 Global Youth Microenterprise Conference. <http://www.makingcents.com/>

⁹ See Grant Ennis, Raul Sanchez, Patricia Amador

Katalysis Network: Memoir of 2007 Central American Youth Forum Katalysis 2008. <http://www.RedKatalysis.org/>

Conclusion

Working with youth entrepreneurs either of necessity or of opportunity is working on sustainable employment solutions. These solutions then are true routes out of poverty for the youth of our world. Youth are without doubt “the new women” of development, the next frontier of microfinance. MFIs have the opportunity to do as they did 40 years ago and open up this new demographic to the world. MFIs creating youth entrepreneurship programs can do so and succeed if they keep in mind the different themes of this guide.

Key to these programs are their allocation of social services internally or externally, the special needs of quality youth services, the kinds of financing MFIs should provide, and the structures they can create within their organizations or between other MFIs. This guide intends to provide the tools to make these programs work successfully by providing the basic conceptual tools for MFIs starting a youth entrepreneurship program.

Should the reader require more information or examples, the Annexes below contain short descriptions of various kinds of programs and services for youth which have proven useful. The Katalysis Network, the Cordes Foundation, and this author will continue to update this guide in years to come and further promote youth entrepreneurship in the future. Youth represent the majority of the world’s population. The Katalysis Network as well as the Cordes Foundation challenge MFIs within the Katalysis Central America Network and around the world to embrace youth entrepreneurship, work with this severely under-served sector, and truly contribute to a new generation of agents of change in this world.

This manual is a work in progress; it is not the last word. Its goal is to move the sector of Youth Entrepreneurship one step forward. As such, I am very much interested in hearing the comments, reactions, and observations of the reader. I can be contacted via email at: grantennis@gmail.com or comments can be posted on the manual’s blog at: <http://yemanual.blogspot.com/>.



Annexes

- A. Recommended Reading
- B. 10 Step Guide to Creating a Youth Entrepreneurship Program
- C. Youth Entrepreneurship Programs of the Katalysis Network MFIs
- D. The Inter American Development Bank (IDB) and the Young Americas Business Trust (YABT) Database of Youth Entrepreneurship Programs In Honduras
- E. Youth Declaration of the Katalysis Network

Annex A: Recommended Reading

Baanante, Miguel

¿Los Emprendimientos Juveniles En América Latina?, ¿Una Respuesta Ante las Dificultades de Empleo? (Youth Entrepreneurs in Latin America: An Answer to Employment Problems?)

RedEtis IPE-UNESCO 2005

Erulkar, Annabel S., Chong, Erica

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Annex B: 10 Step Guide to Creating a Youth Entrepreneurship Program

- 1. Research Market¹⁰**
 - a. Determine the status of youth in the target community, country through demographic data
 - i. Incomes and income distribution
 - ii. Education distribution
 - iii. Percentage in school, employed, in gangs, immigrated, incarcerated
- 2. Select Youth Clientele**
 - a. Distinguish between entrepreneur of opportunity and necessity, decide which clientele to work with
 - b. Define Youth Entrepreneur (age range and clientele characteristics)
- 3. Choose Between Outsourced vs. Proprietary Programs**
 - a. Decide between creating a social services program or collaborating with an organization already specialized in youth services
- 4. Make Institutional Decisions to Create a Youth Entrepreneurship Program**
 - a. Create youth program plan and outline
 - b. Allocate a portion of their credit portfolio to youth
 - c. Create a credit committee for youth clients, possibly a position of youth director
 - i. Develop credit-scoring policies for youth
 - ii. Develop best practices for youth entrepreneur loans
 - d. Guarantee fund within 2nd tier financial institutions to cover a set percentage of their losses
 - e. Develop or adopt training guides and methodologies for youth
 - f. Risk mitigation to determine how to reduce perceived risk
 - g. Utilize or create youth microfinance networks
 - h. Form strategic alliances with collaborative agencies
 - i. Assessment process to measure social and economic impact of the program
- 5. Resolve Legal Issues for Clients Under 18 Years of Age**
 - a. Utilize cosigners
 - b. Group business/loans with board of directors and president and vice-president 18+
 - c. Training only
 - d. Create savings accounts
 - e. Create shares program (Youth buy shares throughout the year which then can be sold at a later date with acquired interest)

¹⁰Grant Ennis 2008

Note: Addison Embrey, working with ASDIR Microfinance Institution in Totonicapán, Guatemala, received a working draft of this manual in order to help create a Youth Entrepreneurship Program. Embrey noted the lack of a simple How-To outline in the manual, and as a result of his recommendation, I drafted this 10-step guide. It will be further updated with Embrey's experience with ASDIR and will be used to expand future versions of this manual.



6. Define Business Structures

- a. Individual or group

7. Decide on Skills and Training Programs

- a. Finance
- b. Savings
- c. Trade
- d. Personal skills
- e. Marketing
- f. Human resources
- g. Business, business plan
- h. High school equivalency or other remedial educational certificate in language and basic math

8. Plan Technical Assistance and Mentoring Program

- a. Periodic scheduled sessions with technical assistant or mentor
- b. On-call help from either a mentor or a youth services provider

9. Create Financial Products

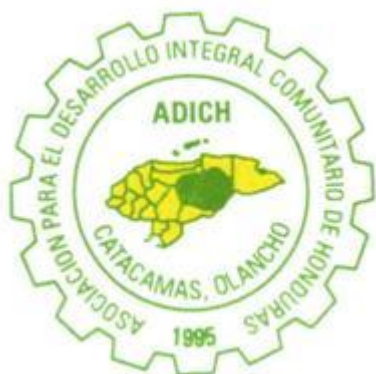
- a. Loans: individual or group
- b. Savings
- c. Shares

10. Develop Youth Loan Terms

- a. Individual vs. group loans
- b. Interest rates
- c. Term lengths
- d. Grace periods
- e. Collateral policy
- f. Youth counterpart investment policy
- g. Cosigner policy

ANNEX C:

Youth Entrepreneurship Programs of the Katalysis Network MFIs



ADICH is in the advanced planning stage of a Youth Entrepreneurship Program committed to poor, drug-addicted youth living on the streets and to youth living off the dumps of Juticalpa, Honduras. These youth are as young as twelve-years-old and face many challenges in returning to life in mainstream society.

ADICH's program is broken into three phases:

- 1) Subsidize the rehabilitation of youth, improving self-esteem through a local Catholic drug rehabilitation program.
- 2) Train youth in entrepreneurship practices and skills, providing the business tools necessary for the coming years.
- 3) Finance their businesses while offering technical assistance and supporting their transition to contributing members of the community.

Apart from this project, ADICH is already committed to working with youth. Over 60 percent of their clientele is below 30 years of age.



ACODEP/PRODEM in Nicaragua has a Youth Entrepreneurship Program that focuses on teaching entrepreneurship skills to recent university graduates. It offers loans ranging from \$1,000 to \$3,000 and uses CEFE Entrepreneurship Methodology.

This program is one of the most elaborated of the Network and was thus able to send eight of its graduates to the Katalysis Network Forum for Youth Entrepreneurship in Tegucigalpa, Honduras this last February¹¹. These graduates presented businesses in computer repair and sales, printing, seafood production, and coffee processing, to name a few.

¹¹ See Grant Ennis, Raul Sanchez, Patricia Amador
Katalysis Network: Memoir of 2007 Central American Youth Forum Katalysis 2008



FUNED is an integral part of World Vision's Area Development Programs (ADP) in Honduras. World Vision provides the evaluation, training, and technical assistance, while FUNED provides the financing. It is an excellent example of each NGO doing what it does best and collaborating.

FUNED works with poor and at-risk youth in some of the most disenfranchised areas of Honduras to effectively assess problems of youth unemployment, immigration, and violence. This program gives an average loan of \$370 with a 12-month grace period and a 12% interest rate.



Fundación José Nieborowski has created a loan fund of \$80,000 in order to finance the entrepreneurial activities of youth. Of that, \$50,000 comes from the IAF (La Cooperación Interacción) and \$30,000 from internal funds.

businesses.

For FJN, youth is defined as non-poor, urban young adults, ranging from 15 to 25 years of age, who show a spirit for entrepreneurship. To encourage this spirit, the Fundación José Nieborowski's Center for Business Development trains and assists youth in the development of their skills and their

FJN shares information and experiences with ACODEP/PRODEM and works with the Katalysis Network to implement and improve its youth program.

In 2007, 80 youth were given loans, with an average size of \$550 and term lengths ranging from six to 24 months with one-month grace periods across the board. In addition to monthly visits, every young person receives up to six hours of training and technical assistance when requested or when FJN observes that it may be needed.



FAMA is in the pre-planning stages of a youth project in the La Ceiba region along the North Coast of Honduras. They are in contact with the Katalysis Network for technical assistance and plan to be implementing their program later this year.



PILARH is also in the planning stages of their youth program, and in the coming months they will be working with 40 youth to develop their businesses. They have established links with the Belgian Development Agency and are working with local business-training institutions to provide technical assistance and training to youth.



In 2007, Fundación León 2000, in conjunction with the National Institute of Technology of Nicaragua, trained 665 low-income young people over five

months to become mechanics, electricians, upholsterers, welders, and hair stylists, among other professions. This work was made possible through the internal programs of Fundación León 2000 as well as a joint project with the Spanish Agency for International Cooperation (AECI).

This program focused both on professional preparation and life-skills training. Participants learned about self-esteem, gender, teamwork, and the importance of image and communication in the job-search process. The combination of life skills, professional skills, and entrepreneurial business training has made lasting impressions on these youth.

Fundación León 2000 is a model example of sharing responsibility between organizations, and is currently coordinating this and other projects with:

Alcaldía Municipal de León, Vivero de Empresas Municipales, Universidad Nacional, Autónoma de Nicaragua UNAN – León, Cámara de Comercio e Industria de León Instituto Nacional Tecnológico INATEC, Delegación Departamental del Ministerio de Educación, Cultura y Deportes, Delegación Departamental del Ministerio del Trabajo, Instituto Politécnico La Salle, Asociación de Pequeños Hoteleros de León, Comisión, Coordinadora en Atención a la Niñez CCAN, Consejo de Jóvenes y Adolescentes, Escuela Taller “Pepe Escudero,” Asociación de Municipios de León, and PROMUJER.

ANNEX D:

IDB and YABT Database of Youth Entrepreneurship Programs in Honduras



Youth Development and Outreach Program¹²



Young Ameritas Business Trust

<p>Name:Centro Nacional de Educación para el Trabajo Street Address: Barrio La Caridad, media cuadra al este del Hotel Quan, Comayagua, Honduras Phone:(504) 7720915 City/State/ZipComayagua, A.P. No. 55 Country:Honduras Entrepreneur Program: Empleo sostenible con jóvenes</p>	<p>Email: contacto@cenet.gob.hn Website:</p>
<p>Name:Jovenes Hondureños Adelante - Juntos Avancemos Street Address: San Pedro Sula, Barrio El centro, 3 y 4 calle, Edificios Sampedranos Phone:504-5502069 City/State/ZipCortes Country:Honduras Entrepreneur Program: Foro Juvenil del Valle de Sula</p>	<p>Email: jhaja@hotmail.com Website:</p>
<p>Name:Organizacion para el Desarrollo Turístico Sostenible Street Address: San Pedro Sula, oficientro Hotel Copantl local 12 Phone:504 5042146 City/State/ZipSan Pedro Sula, Cortes, Honduras Country:Honduras Entrepreneur Program: Jóvenes Empresarios Turísticos</p>	<p>Email: dosoto@desatur.org Website:</p>

¹² http://ybiz.org/YABT/internetnetwork/directories/eng/directories_eng.asp

ANNEX E

YOUTH DECLARATION OF THE KATALYSIS NETWORK

Within the framework of the Youth Entrepreneurship and Microfinance in Central America Conference in Tegucigalpa the 15th and 16th of February 2007, the Katalysis Network:

Understands that:

1. More than 80% of Central American youth from urban and rural sectors do not have enough job opportunities that allow them to generate incomes, preventing them from achieving proper economic, professional and personal development.
2. The problems faced by youth require solutions that utilize their abilities and creative skills in productive entrepreneurial activities that can provide an important source of income generation.
3. Globalization is demanding and generating new methods of production, commercial activities and technological development, placating the need of young entrepreneurs to prepare their projects within that framework.
4. Member organizations of the Katalysis Network are willing to prepare themselves to offer microfinancial services directed at young entrepreneurs.
5. Young entrepreneurs require training and financial services that allow them to organize their business projects to achieve medium- and long-term sustainability
6. The Katalysis Network is committed to be at the forefront of attending to the financial needs of Central America's poor and least-served sectors of the population.

Hereby agrees to:

1. Declare the provision of innovative financial services to young entrepreneurs a priority of its programs. By the year 2010, every member of the Katalysis Network will provide a financial service program aimed at young entrepreneurs.
2. Understand that a young entrepreneur is every woman or man between 18- and 30-years-old who possesses the attitude, aptitude and vision to create projects that will generate employment and income for her or his own sustainability.
3. Support member organizations of the Katalysis Network in the design of short- and medium-term financial products oriented to financing young entrepreneurs from their regions.
4. Manage the creation of a loan fund that will be administered by the Katalysis Network so member entities can access resources that will be offered to youth entrepreneurs.



5. Develop strategic alliances with private and public suppliers of enterprise development services, foundations, schools, and universities to compliment the initiatives of the microfinance institutions affiliated with the Katalysis Network.
6. Be a catalyst in matters related to educational initiatives, information, technology and economic resources for the entrepreneurial youth sector.
7. Create an award in recognition of affiliated entities of the network that support microfinance of young entrepreneurs in their respective regions.

Signed in the city of Tegucigalpa, Honduras - February 16th 2007

HONDURAS:

ODEF
FUNED
POPULAR – COVELO

FAMA
HERMANDAD DE HONDURAS
ADICH

GUATEMALA:

MUDE
FAPE

REFICOM

EL SALVADOR:

PROCOMES

ASEI

NICARAGUA:

ACODEP
FUNDEUSE
CEPRODEL

FUNDACIÓN LEON 2000
PRODESA
FUNDACION JOSE NIEBOROWSKI

Katalysis Network