



Innovative Applications of Microfinance for Youth

Outcomes of the SDG Lab, “Young Entrepreneurs to Advance Local Economies and Community Health in Africa”

Luxembourg Inclusive Finance Research Conference,
28 November, University of Luxembourg, Luxembourg

Dr. Anja Leist, PEARL Institute for
Research on Socio-Economic Inequality

Linda Szelest, ADA

Jérémie Chapet, ADA



SDG Lab: Young Entrepreneurs to Advance Local Economies and Community Health in Africa

- jointly organized by IRSEI/UL and ADA
- competitively selected for funding by Future Earth/Resilience Center Stockholm & supported by ADA
- Starting points: ADA's 'Young Entrepreneurs' Initiative and IRSEI's interest in (global) health
- Motivation:

Microfinance - for Youth - for Clean Water & Sanitation?

- Our goals:
 - A sustainable business model of training young entrepreneurs without need for external funds
 - Apply the idea of microfinance for youth to the field of water and sanitation to improve health



<http://www2.ir3s.u-tokyo.ac.jp/icss2017/project/young-entrepreneurs-to-advance-local-economies-and-community-health-in-africa/>

SDG Lab: Workshop on 6/7 July 2017 with Experts for Microfinance, Africa, Clean Water & Sanitation

- Ornit Avidar, WaterWays, IL
- Eyal Bar-Haim, UL
- Jérémie Chapet, ADA
- Sabine Demazy, UL
- Laura Foschi, ADA
- Kajetan Hetzer, Waste, NL
- Félicité Kambou, COPSA-C, Burkina Faso
- Benjamin Mackay, ADA
- Josée Mukankinda, Umutanguha Finance Company, Rwanda
- Maria Perdomo, Global Specialist at UNCDF, Senegal
- Winfried Schneider, consultant, Germany
- Kodjovi Sogan, Youth Product, Togo
- Linda Szelest, ADA
- Michel Tenikue, LISER



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Agenda

1. Presentation of SDG Lab methodology and the ideas behind choosing the SDGs of clean water and sanitation
2. Presentation of The Young Entrepreneurs initiative
3. Outcomes of the SDG Lab Workshop

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1. SDG Lab methodology and the ideas behind choosing the SDGs of clean water and sanitation

ANJA LEIST

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The Idea behind Social Innovation Labs



Frances Westley, Sam Laban, et al.

https://uwaterloo.ca/waterloo-institute-for-social-innovation-and-resilience/sites/ca.waterloo-institute-for-social-innovation-and-resilience/files/uploads/files/10_silabguide_final.pdf

- Any initiative (*product, process, program, project or platform*) that challenges and, over time, contributes to changing system dynamics
- ‘Sustainability transitions’ of complex systems require complex solutions: social, economic and environmental problems confront us
- To enable social innovation, it is necessary to think differently about our complex world, work together in unusual and strategic new ways.
- A **social innovation lab** is a process that is intended to support multi-stakeholder groups in addressing a complex social problem

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Elements of a Social Innovation Lab

- Three steps
 - **Initiation:** defining the problem, motivation
 - **Research and Preparation:** frame the question, explorations across stories and stakeholders
 - **Workshops:** “seeing the system”, “designing innovation”, and “prototyping strategies”
 - After the lab: taking action, rolling out of strategies, evaluating the ‘experiment’
- Diverse experts and stakeholders, ‘voices’ of users
- Solving complex social challenges only possible by innovating *three* system elements
 - Prototyping with ‘range’ or combination of solutions → no magic bullet
 - Change the way the system behaves
 - Capacity building
- Adjust the model of social innovation to the challenge!

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The Ideas Behind the SDG Lab on Microfinance for Youth and Clean Water

Microfinance as enabler to enter labor market and make a living

- Africa’s young population has difficulties to successfully enter the labor market and to obtain financing in order to grow their micro-enterprises → here, microfinance can help
- However, financial training and advice is needed to support young people: Can we find a sustainable solution to provide this element of the microfinance approach?

Microfinance as means to provide clean water and improved sanitation

- Between 45 % of population in Rwanda and 91 % in Niger: only access to unimproved sanitation facilities
 - Between 35 % in Rwanda and 51 % in Niger: only access to unimproved drinking water sources
- Our mission: Search for solutions how to apply microfinance to clean water & sanitation

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Possible Innovations as Outcomes of the Lab

- A **sustainable business model** for the Young Entrepreneurs initiative, able to be directly implemented in some or all communities of the three African countries where the initiative is currently tested (Day 1)
- At the same time, the Young Entrepreneurs initiative would serve as **showcase** for other African countries, able to be adapted to local conditions and sustainably financed in new settings (Day 1)
- **One or more innovative solutions** how to improve community health with the means of the Young Entrepreneurs initiative, ready to be evaluated with a feasibility study, transformed into a business model and tested in the field (Day 2)

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Impact of the Innovations and Signs of Success

Sustainable business model:

- Increase living conditions of entrepreneurs, enrich local economies through creation of jobs
 - Number of Young Entrepreneurs trained
 - Rate of repaid loans
 - Number of created jobs via Young Entrepreneurs start-ups
 - Rate of start-ups created via Young Entrepreneurs initiative still active after 3 years

Microfinance for youth for water and sanitation:

- Improve community health, improve living conditions of current and future generations
 - Rate of local population with access to clean drinking water
 - Rates of water- and vector borne diseases
 - Rates of stunted growth in children (in the medium run)

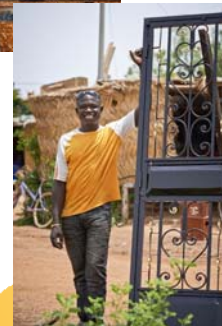
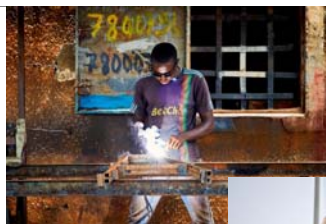
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The Young Entrepreneurs initiative

JÉRÉMIE CHAPET

ADA's experience in youth economic inclusion

- A demographic challenge
- A specific approach
- Challenges and lessons learned for more inclusion



A demographic challenge

- How many people in Africa ?

➤ **1.2 Billion**

- How many under 24 ?

➤ **720 millions**



A demographic challenge

- Population will double by 2050
 - 11 millions new entrants on the African labour market each year
 - Microfinance must target YE to be inclusive
- **However few MFI are targeting young entrepreneurs**



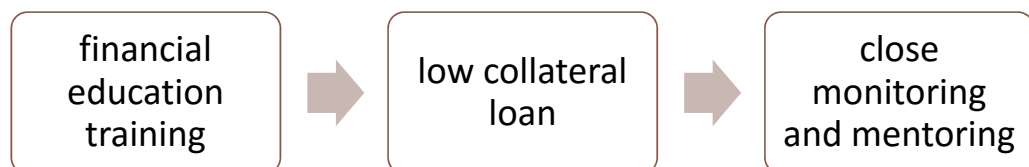
A demographic challenge

➤ Why MFIs are not too much interested in serving Youth ?

The young people are hard to finance for MFIs because they consider them as more risky and costly target:

- Greater geographical mobility
- No financial history
- Little work experience
- Few guarantees available

A specific approach



A specific approach :

1. Young entrepreneurs with skills
2. Non Financial Services before financing
3. Specific loan application analysis
4. Grace period
5. Non Financial Services during the loan

A specific approach

➤ Low profitability product :

The costs are more important than a classic product:

- Non Financial Services
- Analysis and monitoring from client advisers

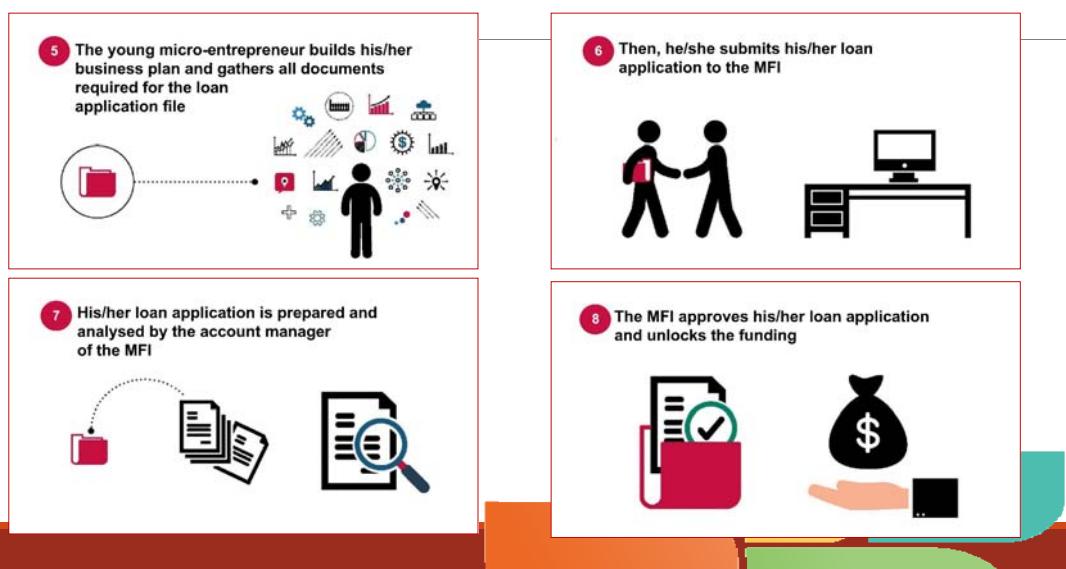
➤ The objective is to build up tomorrow clientele for the MFI

A specific approach developed by ADA and its partners

Which customer path for a young entrepreneur?



A specific approach developed by ADA and its partners



A specific approach developed by ADA and its partners

- 9 The account manager visits the young entrepreneur's activity to verify the appropriate use of the funding



- 10 The account Manager monitors the micro-loan repayment and a job expert coaches the young entrepreneur



- 11 Once the young entrepreneur repayed the loan, he/she can request a new loan for his/her activity



A specific approach :

➤ **Since 2008, 4 Youth Loan product developed :**

- Cred'Art with RCPB in Burkina
- Youth Espoir with FUCEC in Togo
- Matassa with ASUSU in Niger
- Artisan Youth Loan with UFC au Rwanda

➤ **More than 4 250 YE financed**


➤ **Around 6 000 jobs created**

Challenges and lessons learned

➤ Impact

- Most of YE financed are hiring apprentices
- Financial education need to be taught progressively
- Young farmers are not reached

➤ Profitability

- More selection is needed
 - Possible to reach zero profit after 2 years of implementation for the MFI
 - Mentoring is not sustainable without a donation
- 

Results of Day 1 of the SDG Workshop

A SUSTAINABLE BUSINESS MODEL OF THE YOUNG ENTREPRENEURS INITIATIVE, AS SHOWCASE

LINDA SZELEST

Outcomes: Making the Young Entrepreneurs Initiative sustainable

- Which **actors** exist at this moment to finance Non-Financial Services for Youth? Are there additional actors?



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Outcomes: Making the Young Entrepreneurs Initiative sustainable

- Which **processes** could/should be changed?
 - To target young entrepreneurs with a potential of job creation
 - To propose **Peer-to-Peer** to youth : each young client who received a NFS will provide coaching to new youth clients
 - To propose **Success fee**: the young entrepreneur will refund the cost of the NFS once he/she makes profits
 - To **propose regularly training** to young entrepreneurs during the credit,
 - a mobile credit agent could provide regularly mini-training on place to a pool of young entrepreneurs from the same place
 - To provide **Digital Financial and non-financial Services**
 - To collect saving and repayment
 - E-learning
- >>> could also enable to address young farmers

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Outcomes: Making the Young Entrepreneurs Initiative sustainable

- **Requirements** which should be fulfilled for the solution to work:
 - **Attitude:** to develop an entrepreneurship culture:
 - To improve school programs integrating courses on entrepreneurship , financial education, personal development, samples of success stories
 - **Politic environment :**
 - To make government campaigns/lobbying on self-employment
 - To propose ideas competition for youth
 - To implement data base on economic opportunities for youth
 - To make links between schools and businesses
 - To regulate youth finance : client protection...
 - **Win-Win cooperation between MFIs – public stakeholders – mentors - NGO - DFS providers**

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Microfinance as means to provide clean water and improved sanitation

RESULTS OF DAY 2 OF THE SDG WORKSHOP

ANJA LEIST

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Why microfinance for youth for clean water and sanitation?

- Lack of access to clean drinking water and improved sanitation in many African countries
 - High prevalence of communicable diseases, risk of water- and vector borne diseases and other health threats
 - Lack of schooling for children (girls) who need to fetch water
 - Living conditions extremely poor
- From a (health) economic perspective:
 - Feasible - moderate investments and manually trained entrepreneurs are required
 - Can be implemented on community level, likely to be realized without large external funds
 - Very likely to provide large social/societal benefits in terms of investments into current and future generations

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Outcomes: Transferring the 'Young Entrepreneurs' Initiative to Clean Water and Sanitation

- Which **actors** are needed? Stakeholders, users, trainers?



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Outcomes: Transferring the 'Young Entrepreneurs' Initiative to Clean Water and Sanitation

1. Water and sanitation is a vital sector although it is very complex one and needs to be addressed accordingly
2. MFIs can be part of the solution to the vast financial gap that exists in order to reach the SDG goal "Water for all" by 2030, with a financial gap of at least \$3.3billion annually
3. The Young Entrepreneur segment is an important one for income security and creating additional clientele

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Outcomes: Transferring the 'Young Entrepreneurs' Initiative to Clean Water and Sanitation

4. Through alignment of interests for workforce development, private sector may be harnessed for support in non-financial services
5. 'Usual' difficulties of microfinance for young people (high risks...) also when applied to water and sanitation sector
6. Lack of clean water culture needs to be overcome

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Outcomes: Transferring the 'Young Entrepreneurs' Initiative to Clean Water and Sanitation

7. Current 'microfinance for youth' targets young people who have already learned a profession. In the water sector, initial professional training necessary → costly, resource-intensive, local trainers needed
8. Limited means for many communities to pay for operations & management: In the water sector, MF can be given to income generating activities, e.g. pump technician but also to the community to pay for the service.
9. Youth could be a catalyst in behavior change for upscaling because they are more open to new approaches and behavior, and more aware of problems and possible solutions

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Thank you!

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anja.leist@uni.lu
l.szelest@ada-microfinance.lu
j.chapet@ada-microfinance.lu

