

# Youth entrepreneurship

## *Closing the gap*



*How non-financial  
support is increasing  
access to capital for  
young entrepreneurs,  
with five cross-sector  
lessons*



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# Foreword

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In November 2010 Youth Business International (YBI) published a thought piece, 'Beyond Collateral', about expanding access to finance for underserved young entrepreneurs. It is (relatively) well-documented that young people face more barriers to starting up in business, in particular because of their lack of any established form of security. 'Beyond Collateral' called on financial institutions to replicate the growing number of innovations in youth enterprise lending that recognise the value, in business performance terms, of non-financial support in the same way as collateral or other guarantee requirements. Non-financial support includes training, mentoring, networking, and all other entrepreneur capacity development services. These innovations are mainly taking shape in the form of lending partnerships between banks, who provide access to start-up capital, and NGOs, who provide non-financial services that build the entrepreneurial capabilities of the young borrower.

When we wrote that paper, I was clear that we should not only encourage financial institutions to reassess their commitment to supporting young entrepreneurs, but that we in the civil society sector must also play our part, by investing in the capacity to measure and evaluate the effectiveness of cross-sector lending partnerships and other innovations and by sharing experiences and insights. That is why we have compiled these case studies, including other leaders in our field: International Youth Foundation (IYF), TechnoServe and Silatech. As the email signature of our South African member ends: "Research turns information into knowledge, innovation turns knowledge into money".

Two of the YBI case studies featured in this report incorporate a guarantee mechanism provided by national governments. It is a cross-sector approach that is required, with the public sector, locally, nationally and regionally, also having a potentially very significant role in catalysing youth lending partnerships. The recent unrest in the Middle East and North Africa in particular has shone a light on the extent of the difficulties that can emerge when the creative potential of young people is stifled, even denied. Current demographic trends and labour market indicators across the globe are all pointing

towards the need to provide appropriate opportunities for today's and tomorrow's young people to pursue their dreams.

YBI exists to support those young people who want to start a business but cannot access the services that they need to get off the ground and grow. From a network of 34 countries, this report documents experiences from six parts of the world where YBI members have successfully brokered partnerships with financial institutions to expand access to capital for young entrepreneurs. The three case studies from our peers add substantially to the evidence base. The results do the talking.

We hope that this report makes a useful contribution to finding practical ways to give young entrepreneurs access to start-up capital, helping them grow sustainable businesses that drive innovation and job creation in their local communities. YBI is committed to sharing its network experience for the benefit of the sector. As a next step, we are working with generous support from Salesforce Foundation and with academic institutions such as London School of Economics to build our capacity to be able to evaluate our efficiency and impact. Drawing on the global asset that is our network, we will investigate what elements of our support services are most effective where and why, applying an evidence-led approach to questions of scale and sustainability.

Please do not hesitate to get in touch if you would like to know more about or contribute to YBI's research. Thank you for reading.

**Andrew Devenport,**  
**Chief Executive, YBI**

August 2011



# About YBI

## Our approach















Youth Business International is a global network of independent non-profit initiatives helping young people to start and grow their own business and create employment. YBI members assist under-served young entrepreneurs with a combination of training, access to capital and mentoring. They adapt this common approach to their local context, working in partnership with governments, businesses and multilateral and civil society organisations.



# Executive Summary

Building on YBI’s policy recommendations to date<sup>1</sup>, this report compiles a series of case studies that each illustrate how the finance gap can be closed for young and other underserved entrepreneurs through providing non-financial support, such as training and mentoring. This integrated approach reduces the risk of lending to youth and other underserved demographics, and the value of the non-financial support substitutes for collateral and other types of guarantee.

Six YBI case studies are featured and three from other sector leaders: International Youth Foundation (IYF), TechnoServe and Silatech.

Country/ies	Partners	Access to Finance	Overview
 <p>Saudi Arabia</p>	 <p>Saudi Credit &amp; Savings Bank (SCSB)</p>  <p>The Centennial Fund (TCF)</p>	 <p>Maximum loan SAR 400,000 (USD 107,000)</p>	 <p>TCF partners with SCSB to provide first-time loans for young entrepreneurs</p>
 <p>Canada</p>	 <p>Business Development Bank of Canada (BDC)</p>  <p>Canadian Youth Business Foundation (CYBF)</p>	 <p>Maximum loan CAD45,000 (USD 46,600)</p>	 <p>CYBF partners with BDC to enable access to additional CAD30,000 (USD 30,600) loan for young entrepreneurs</p>
 <p>India</p>	 <p>Bank of Baroda, Indian Bank</p>  <p>Bharatiya Yuva Shakti Trust (BYST)</p>  <p>Government of India</p>	 <p>Maximum loan INR 50,00,000 (USD 110,000)</p>	 <p>Government guarantee underpins youth enterprise lending partnership between BYST and two national banks</p>
 <p>Dominica</p>	 <p>12 financial Institutions</p>  <p>Dominica Youth Business Trust</p>  <p>Government of Dominica, Commonwealth</p>	 <p>Maximum loan XCD 20,000 (USD 7,400)</p>	 <p>Dominican Government and Commonwealth guarantee lending to young entrepreneurs by DYBT in partnership with 12 financial institutions</p>
 <p>Israel</p>	 <p>Otsar Ha-Hayal Bank</p>  <p>Keren Shemesh</p>  <p>Koret Foundation</p>	 <p>Maximum loan NIS 90,000 (USD 24,000)</p>	 <p>Keren Shemesh partners with Koret Foundation to guarantee lending by Otsar Ha-Hayal Bank to young entrepreneurs</p>



Inter-American Development Bank



Fundacion Impulsar, JEMAC, Fundación Mario Santo Domingo



Maximum loan USD 3,000

IDB monetises non-financial support to scale 3 YBI members in Latin America



Small Industries Development Bank of India (SIDBI), National Bank of Agriculture, Rural Development (NABARD)



International Youth Foundation (IYF), Community Collective Society for Integrated Development (CCFID)



Maximum microfinance loan USD 500; minimum Livelihood loan USD 1,000

IYF supports CCFID to partner with two apex banks to enable access to microfinance and livelihood loans to young people



Local financial institutions, funds and investors



TechnoServe



No maximum – loans and investments negotiated individually per enterprise

TechnoServe brokers loans and investments for winners of its base of the pyramid business plan competition



Al-Amal Microfinance Bank



Silatech



Maximum micro loan USD 1,000

Silatech partners with Al-Amal Microfinance Bank to provide first-time micro loans to young people



## The report closes with a series of lessons drawn from the case studies and asks where next?

### Five key insights are:

1. Partnerships between commercial lenders or investors and non-profit organisations can overcome information and profit disincentives, and offer effective ways to meet expected returns on lending to clients perceived as risky, for example young entrepreneurs.
2. Guarantee mechanisms can be critical to enabling partnerships between commercial lenders or investors and non-profit organisations that increase access to capital to underserved entrepreneurs.
3. In order to expand access to finance for hard-to-reach entrepreneurs through lending or investing partnerships, non-financial support should be formally recognised in the same way that collateral and other guarantee requirements are.
4. Recognising non-financial support as an alternative to traditional forms of collateral and guarantee for youth enterprise lending depends on the delivery of quality services. Depending whether the services and/or the provider is registered, agreed measures of quality control would systematise recognition by financial institutions.
5. It is the responsibility of civil society organisations involved in entrepreneurship finance to be proactive in helping overcome the information deficit of banks and other financiers and demonstrate the cost effectiveness of non-financial services in reducing the risk of supporting young and other hard-to-serve people into business.

1 Please see 'Recommendations for Action' and 'Beyond Collateral' in particular from YBI's 'Making Entrepreneurship Work' series of policy publications at <http://www.youthbusiness.org/media/making-entrepreneurship-work.aspx>

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# Section One - Introduction

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## Overview of the report

This report compiles a series of case studies that each illustrate how access to finance can be increased for young and other underserved entrepreneurs by providing non-financial support, such as training and mentoring. Banks and other financial institutions recognise that this integrated approach reduces the risk of lending to underserved demographics. The non-financial support acts as a substitute for collateral and other types of guarantee, closing the financing gap.

Six YBI case studies are featured and three from other sector leaders. Primarily they each identify partnerships between NGOs and financial institutions, where the financial institutions reevaluate the risk of lending to young or other entrepreneurs typically considered unviable as commercial clients, based on their improved performance through the combined provision of financial and non-financial support.

In some cases the partnerships are based on a guarantee mechanism, to reduce further the (perceived) risk of lending. One of the YBI examples monetises mentoring: the dollar equivalent value of mentoring and various pro-bono advisory services is counted within the counterpart contribution in a matched funding arrangement with a multilateral donor.

### The YBI case studies are:

1. The Centennial Fund (TCF) and Saudi Credit & Savings Bank (SCSB) partner to expand business start-up opportunities for young people in Saudi Arabia.
2. Canadian Youth Business Foundation (CYBF) partners with Business Development Bank of Canada (BDC) to increase access to finance for young entrepreneurs.
3. Government guarantee in India enables increase in access to capital for young entrepreneurs through public-private lending partnerships between Bharatiya Yuva Shakti Trust (BYST) and Bank of Baroda and Indian Bank.
4. The Commonwealth and the government

of Dominica join forces to expand youth entrepreneurship opportunities through Dominica Youth Business Trust (DYBT).

5. Keren Shemesh partners with Koret and Otsar Ha-Hayal Bank to serve young entrepreneurs in Israel.
6. The Inter-American Development Bank (IDB) monetises non-financial support to scale youth entrepreneurship initiatives in Argentina, Colombia and Mexico.

### The partner case studies are:

1. International Youth Foundation (IYF) supports Community Collective Society for Integrated Development (CCFID) to partner with two apex banks to help young people in India access loans after the 2004 tsunami.
2. TechnoServe builds financing partnerships to expand its business plan competition in Central America and the Andean regions for hard-to-serve entrepreneurs.
3. Silatech partners with Al-Amal Microfinance Bank in Yemen to give young entrepreneurs their first opportunity to access formal finance.

Each case study is in three parts. The first part introduces the partnership or other innovation and gives the rationale for its development. The second part details the structure and terms of the partnership. The third part explains the non-financial support provided through the partnership/ innovation, and the difference it is making in the viability of lending.

The case studies are preceded in the report by a short overview of leading research into the value of non-financial support, in particular how it can increase access to capital for young and other underserved entrepreneurs.

The report concludes with five lessons drawn from the case studies that are relevant for the public, private and voluntary sectors and point forwards to future YBI research. Detailed recommendations are beyond the scope of this report.



## Background to the report

This report builds directly on YBI's previously published policy work. In the first report in our 'Making Entrepreneurship Work' policy series, YBI developed recommendations to promote youth entrepreneurship directed at three key audiences: businesses, governments and civil society organisations.

One of the recommendations stated that:

*"Banks and microfinance institutions should partner with community organisations to improve young people's access to financing."*

The rationale was that:

*"By working with local organisations that better understand the risk profile of young people, financial institutions become able to extend services to new sections of society."*

The case studies in this report document this experience of financial institutions being able to serve a previously out-of-reach client base through partnerships with non-profit organisations providing non-financial support.

The report, 'Recommendations for Action', is available on YBI's website at: <http://www.youthbusiness.org/pdf/RecommendationsforAction.pdf>

The most recent paper in the 'Making Entrepreneurship Work' series was a thought piece published in November 2010 and co-authored by six YBI members, entitled 'Beyond Collateral: How to increase access to capital for young entrepreneurs'. It proposed recognition for valuing quality non-financial support as a substitute to traditional collateral and other guarantee requirements. This is the core argument that the case studies in this report seek to illustrate in practice.

'Beyond Collateral' developed one of the key recommendations in the communiqué released by the last G-20 Young Entrepreneur Summit:

*"Young entrepreneurs have great difficulty in gaining access to traditional sources of financing. Because they tend to have little experience and few assets, financial institutions tend to see them as too risky despite the modest amounts of investment that*

*many require. And because they are starting from scratch, they are often too small to be of interest to most angel investors and venture capitalists. Governments therefore should support alternative mechanisms and institutions that provide young entrepreneurs with the capital they need to start and grow their businesses."*

The article stated that:

*"We are committed to doing all that we can to demonstrate that supporting young entrepreneurs through an integrated package of financial and non-financial services constitutes efficient and sustainable support, and that investment in young people on that basis can underpin future economic growth and social development."*

It continued:

*"Our vision is for recognition of non-financial support to catalyse cross-sector partnerships at the national, regional and ultimately global levels."*

The following case studies explain a range of such partnerships and are the next step in developing the case for recognition of the value of non-financial support in reducing the risk of lending to young and other underserved entrepreneurs.



*"I am pleased that the latest publication in YBI's 'Making Entrepreneurship Work' series stresses the importance of non-financial support and recommends that governments, financial institutions and others recognise its value when considering supporting young entrepreneurs."*

HRH The Prince of Wales



To read the 'Beyond Collateral' thought piece in full, please go to: <http://www.youthbusiness.org/PDF/BeyondCollateral.pdf>

'Beyond Collateral' was launched during Global Entrepreneurship Week 2010, and YBI hosted an online discussion among practitioners and policymakers. Below is a selection of excerpts:

*"Access to finance is crucial but not sufficient. It must be combined with the provision of non-financial resources such as business development services, technology advice and mentoring, alongside access to networks and markets... We cannot afford to ignore (YBI's) call to action."*

*Jane Nelson, Director, Corporate Social Responsibility Initiative, Harvard Kennedy School and nonresident Senior Fellow, Brookings*

*"I fully agree with YBI's demand to go for an integrated approach combining financial services for young start-ups and business support services like mentoring. From the relatively little that we know about what works and what does not work we can clearly see that integrated support programs tend to perform better with regard to labour market outcomes than only providing loans."*

*Markus Pilgrim, Manager, Youth Employment Network (YEN), an inter agency partnership of UN, ILO and World Bank*

*"Making Cents International agrees with YBI that the financial services sector should recognize high-quality non-financial entrepreneurship support services as an alternative to collateral in order to increase credit availability to young entrepreneurs."*

*Fiona Macaulay, President, Making Cents International*

*"[YBI] is right to call for new partnerships in this field."*

*Simon Maxwell CBE, Senior Research Associate, Overseas Development Institute*

*"In order to deliver a vision for a new era of cultural entrepreneurial change it is vital to provide a combination of financial and non-financial support to entrepreneurs..."*

*Peter Jones, Enterprise UK Chair and BBC Dragon*

To read a full summary of YBI's online discussion about 'Beyond Collateral', please go to:  
<http://www.youthbusiness.org/pdf/BeyondCollateraldiscussion.pdf>

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# Section Two

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## What the research tells us

Evidence of what works in entrepreneurship support, for young entrepreneurs in particular, remains relatively weak, although the focus of the sector is shifting towards more robust impact evaluation<sup>2</sup>. As our understanding of the impact of entrepreneurship interventions strengthens, so too does the consensus that capital alone will not be sufficient to help underserved demographics overcome credit constraints. Integrated approaches that combine financial and non-financial support and build the human capital of entrepreneurs are proving to be more effective<sup>3</sup>. “Studies show that the rate of success of a new business start-up can be improved by a factor of at least three if the entrepreneur has a mentor”<sup>4</sup>.

A range of studies have been completed that are creating a more reliable evidence base. Conclusions from key evaluations show that non-financial support can improve entrepreneurs’ performance in business:

1. A randomised control trial<sup>5</sup> in Mexico measured the impact of management advice to 433 small businesses delivered by local consultants over the period of a year. Consultants were asked to (1) diagnose the problems that prevented the firms from growing, (2) suggest solutions that would help to solve the problems and (3) assist the firms in implementing the solutions. The cost of the consulting service was highly subsidised. These advisory services were shown to have a significant impact on three measures: productivity increased; monthly profits went up by 110 per cent; and monthly sales rose by 78 per cent<sup>6</sup>.
2. A combined quantitative (statistical sampling) and qualitative (survey) study assessed the effect of five different training and technical assistance programmes on business outcomes in the United States. Graduates from one programme were 40 per cent more likely to experience business growth than those who did not complete the workshop. 75 per cent of its graduates experienced business-growth events (defined as new start-ups, stabilisations, or expansions); only 36 per cent of non-graduates experienced these growth events. And 100 per cent of clients who

attained self-sufficiency due to self-employment alone graduated from training<sup>7</sup>.

3. A randomised control trial measured the marginal impact of adding business training to a Peruvian group lending programme for female microentrepreneurs. The trial compared a group of entrepreneurs who received thirty to sixty minute entrepreneurship training sessions during their normal weekly or monthly banking meeting over a period of one to two years, against another group who remained as they were before, meeting at the same frequency but solely for making loan and savings payments. This comparison found that business training resulted in some improvements, albeit limited, in business knowledge, practices and revenues as well as improved client retention rates. There is also suggestive evidence that effects were larger for those that expressed less interest in training before the programme began<sup>8</sup>.

*“Studies show that the rate of success of a new business start-up can be improved by a factor of at least three if the entrepreneur has a mentor”<sup>4</sup>.*

Sector recommendations similarly focus on the importance of providing integrated support for youth entrepreneurship in particular:

The International Labour Organisation (ILO) promotes a sustainable approach to youth enterprise creation through combining training and other non-financial support with access to credit, as well as with macro interventions to promote an enabling environment for small business and micro interventions to stimulate demand for entrepreneurship support.

Core components of delivering effective youth entrepreneurship support include:

- universal access to entrepreneurship education
- a national enterprising culture
- an enabling business environment
- access to affordable finance
- an effective entrepreneurship development and business management tool<sup>10</sup>.

According to a leading World Bank review of interventions to address youth employment:

*“A strong conclusion is the need for major improvements in the quality of evidence available for youth employment interventions.”<sup>9</sup>*

*YBI is increasingly focused on building our capability to measure and evaluate our global impact. Our strategy for 2011-13 includes a strategic aim to: “Significantly develop ability to gather, analyse and report our data”. In 2011 YBI began implementation of a cloud-based global Operations Management System (OMS) developed on the Salesforce platform. It allows YBI members to track and analyse a broad range of key performance indicators relating to organisational efficiency and impact. The quality of a member’s loan portfolio and the success of their entrepreneurs’ businesses can be assessed against factors such as the sociodemographic characteristics of the young entrepreneur, the mentoring and training delivered, and the terms of the loan.*

*The platform helps increase accuracy and facilitates real time aggregation of information by the central YBI network team. YBI is also working with the London School of Economics and establishing new partnerships to build the impact assessment capability of our members and to conduct evaluations.*

US-based social enterprise Making Cents International publishes a respected annual report on the “State of the Field in Youth Enterprise, Employment and Livelihoods Development”, based on the findings of international learning events. Consolidating the learning in 2009 led to a specific recommendation to combine financial and non-financial support:

“Provide or link to other youth complementary non-financial services. These may include such non-financial services as mentoring, financial literacy, cultivation of a savings culture, and life-skills training. Due to their lack of life and working experiences, youth in particular can benefit from additional complementary non-financial services that can enhance their ability to take advantage of the financial services offered.

A well-designed and carefully selected package of priority non-financial services whether delivered

directly by the financial services provider or in partnership with another organization can make the difference.

Some youth, particularly adolescent girls in certain cultural contexts, or street children, or orphans and vulnerable children (OVC), are even more vulnerable and need additional supports and services to be able to access and use financial services<sup>11</sup>.”

The lessons emerging from the impact investing sector also point towards the need to support micro, small and medium enterprises (MSMEs) with non-financial as well as financial services.

Research by Monitor Group, focusing on Africa in particular, recommended that impact investors: “enhance the investment-readiness of early-stage enterprises. Most extreme SMEs require technical assistance (TA) as much as<sup>12</sup> they require capital, indeed, often before they can use capital effectively<sup>13</sup>.”

2. See for example, ‘A Review of Interventions to Support Young Workers: Findings of the Youth Employment Inventory’, Gordon Betcherman, Martin Godfrey, Susana Puerto, Friederike Rother, and Antoneta Stavreska, World Bank, October 2007 <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0715.pdf>

3. See for example, ‘Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions’, Dean Karlan, Yale University, IPA and J-PAL & Martin Valdivia, Grupo de Análisis para el Desarrollo, July 2006, updated 2009 [http://www.povertyactionlab.org/sites/default/files/publications/39\\_Karlan\\_Teaching\\_Enterpreneurship.pdf](http://www.povertyactionlab.org/sites/default/files/publications/39_Karlan_Teaching_Enterpreneurship.pdf)

4. ‘The Entrepreneurial Imperative’, Carl Schramm, 2006, p.174

5. See <http://www.povertyactionlab.org/methodology> for more information about RCTs.

6. ‘What Capital is Missing in Developing Countries?’, Miriam Bruhn, Development Research Group, The World Bank, Dean Karlan, Department of Economics, Yale University, Antoinette Schoar (Corresponding Author) MIT Sloan School of Management, Massachusetts Institute of Technology [http://karlan.yale.edu/p/BruhnKarlanSchoar\\_AER\\_P&P.pdf](http://karlan.yale.edu/p/BruhnKarlanSchoar_AER_P&P.pdf)

7. ‘What Makes for Effective Micro enterprise Training?’, Elaine L. Edgcomb, 2002 <https://ojs.lib.byu.edu/spc/index.php/ESR/article/viewFile/1427/1388>

8. As footnote 3

9. ‘A Review of Interventions to Support Young Workers: Findings of the

Youth Employment Inventory’, Gordon Betcherman, Martin Godfrey, Susana Puerto, Friederike Rother, and Antoneta Stavreska, World Bank, October 2007 <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0715.pdf> page ii

10. ‘Youth Entrepreneurship & the ILO’, Joni Simpson & Jens Dyring Christensen, Small Enterprise Programme, Job Creation and Enterprise Development Department, ILO Geneva, 2009 [http://www.yefafrika.org/file/yef\\_resources/youth\\_entrepreneurship\\_and\\_the\\_ilo.pdf](http://www.yefafrika.org/file/yef_resources/youth_entrepreneurship_and_the_ilo.pdf)

11. ‘State of the Field in Youth Enterprise, Employment, and Livelihoods Development’, 2009 [http://www.youtheconomicopportunities.org/SiteManager/CuteEditor\\_Files/uploads/MakingCentsInternationalStateoftheFieldPublication2009Bookmarked.pdf](http://www.youtheconomicopportunities.org/SiteManager/CuteEditor_Files/uploads/MakingCentsInternationalStateoftheFieldPublication2009Bookmarked.pdf)

12. Author’s emphasis

13. ‘Promise and Progress: market-based solutions to poverty in Africa’, Monitor Group, Michael Kubzansky, Anulie Cooper and Victoria Barbary, May 2011. “Extreme SMEs” are defined as “those business that face all the challenges of small businesses in Africa – difficulty in accessing finance, attracting and retaining human capital, achieving economies of scale, creating of recognisable and trusted brands. But they also take on a second set of challenges in selling to a customer base with severely limited resources, that is hard to reach, and about which too little is known. Or they engage suppliers with high volatility in production and – at times – low loyalty due to cash flow needs.” [http://www.monitor.com/Portals/0/MonitorContent/imported/MonitorUnitedStates/Articles/PDFs/Monitor\\_Promise\\_and\\_Progress\\_May\\_24\\_2011.pdf](http://www.monitor.com/Portals/0/MonitorContent/imported/MonitorUnitedStates/Articles/PDFs/Monitor_Promise_and_Progress_May_24_2011.pdf)

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## Section Three - Case Studies

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*The first two case studies feature YBI members that operate direct lending partnerships with banks for young entrepreneurs: in Canada, additional start-up capital is made available by a bank; in Saudi Arabia, a bank is the primary provider of loans.*

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### **YBI CASE STUDY 1: The Centennial Fund (TCF) and Saudi Credit & Savings Bank (SCSB) partner to expand business start up opportunities for young people in Saudi Arabia**

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Entrepreneur Abdullah Al-Soury, who set up his business in Saudi Arabia with the support of The Centennial Fund

## Introduction

With half (49 per cent) of the country's population aged between 18 and 39<sup>22</sup>, supporting the next generation of entrepreneurs has significant potential to drive sustainable and inclusive economic growth in Saudi Arabia. Yet SME lending in general remains limited<sup>23</sup>, despite broad commitment to expand opportunities, especially to young entrepreneurs. For example, the Council of Saudi Chambers, the official federation for the 28 Saudi Chambers of Commerce, has a vision to "support SMEs in the Kingdom and develop their contribution to economic and social development." Specifically, its first objective in this area is to improve youth entrepreneurship and leadership, through a series of initiatives to raise awareness and opportunities for young people both to start their own business and to be employed by SMEs.

Saudi Credit and Savings Bank (SCSB) is considered to be one of the cornerstones of the government of Saudi Arabia. By Royal Decree its remit spans personal and commercial financing, both in terms of products and building financial capability. Viable small business lending has presented a greater challenge, with the Bank building its strongest portfolio in personal lending, in particular 'Social Loans' to help citizens with low incomes meet household expenditure such as marriage or house renovation.

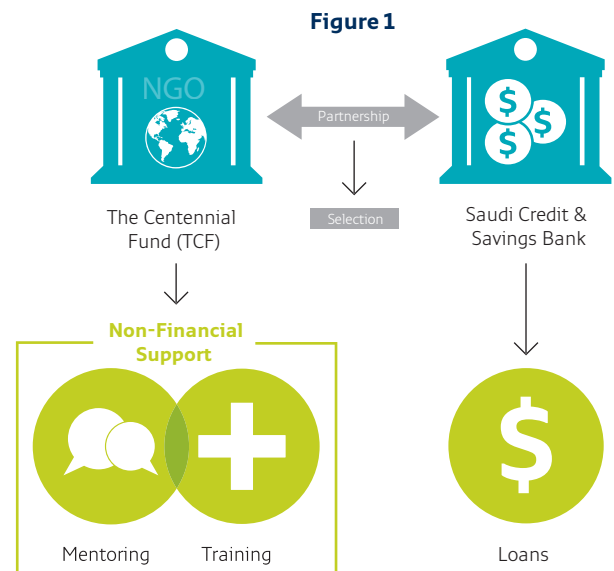
Increasingly recognised as a leading youth entrepreneurship organisation across Saudi Arabia, YBI member The Centennial Fund (TCF) approached SCSB in 2008 to enter into a strategic partnership: TCF would gain a significant new source of capital for young entrepreneurs, and SCSB would establish a more secure route into this difficult-to-reach new market.

SCSB was willing to enter into the partnership in recognition of TCF's track record in supporting young entrepreneurs, through YBI's integrated approach combining access to finance with training and mentoring. To date, the partnership has provided start-up support to almost 3,500 young entrepreneurs. Over the three years, the bank approved a shift in responsibility for loan

management to TCF in recognition of their effectiveness in reaching young entrepreneurs through an integrated approach of financial and non-financial support.

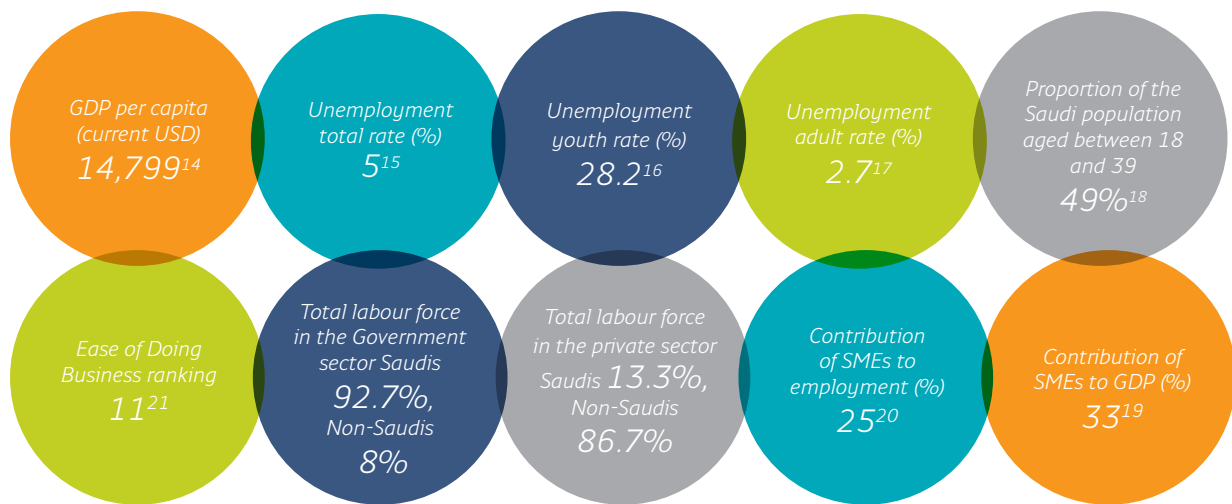
## Structure of the access to finance partnership

The diagram below outlines how the financing partnership between TCF and SCSB works in practice to increase access to capital for young Saudis.



TCF manages an in-house loan fund, but the primary financing route for most young entrepreneurs is through TCF's lending partnership with SCSB – a crucial innovation to grow the SME sector in Saudi and the youth contribution in particular. TCF plays the central role in facilitating the entrepreneurs' access to financial and non-financial support.

TCF is responsible for screening applications through identity checks by the National Information Centre, a subscription service that is a valuable investment to maintain the rigour of its selection process. Similarly it is TCF that evaluates loan applications, according to a pre-defined credit scoring model designed in consultation with an international management consultancy.



TCF also manages the selection process, starting with three interviews with different TCF staff focusing on different aspects of running a business. Pending credit bureau clearance, successful applications progress for TCF loan panel approval by simple majority.

The loan panel is composed of two permanent members of staff and one external representative from the business community with industry and financial expertise. Approved applications are submitted by TCF to SCSB. Whilst the Bank has a power of veto, in practice 99 per cent of loan requests are allocated. SCSB transfers the full loan amount to TCF for its disbursement and management.

The proposed enterprise must be established within three months of loan approval. The maximum loan size available is SAR 400,000 (USD 107,000) over a repayment period of ten years (extended from five) with a grace period of six months. TCF does not charge interest on loans, as it would not comply with Sharia (Islamic) law. Instead, there is a loan fee of SAR 6,000 (USD 1,600), recently reduced significantly from between SAR 15,000 (USD 4,000) and SAR 45,000 (USD 12,000). Requests by entrepreneurs for loan instalments must be made in writing, stating the amount requested and the reason for the request, including receipt or other proof of payment. Loans are disbursed within two days of receipt of the request.

In order to reach potential clients effectively, TCF segments the target market by geographic, socio-economic and financial profile, and implements a range of channels, reviewed annually, including signposting by government agencies focused on improving youth employment opportunities, awareness building at colleges and universities,

investing in its web presence and leveraging the networks of Board members.

## Recognising the value of non-financial support

TCF's integrated approach to supporting young entrepreneurs was critical to brokering the partnership with SCSB. According to TCF Chief Executive, Dr. Abdulaziz Al-Mutairy:



*"In our partnership negotiations with SCSB, it was clear that the mentoring and training we provide to young entrepreneurs at TCF was the main reason the bank was prepared to enter into a lending partnership with us".*

*Dr. Abdulaziz Al-Mutairy, TCF Chief Executive*



**Mentoring is a central part of improving the entrepreneur's personal and professional development.** TCF has recruited 5,707 mentors in total<sup>24</sup>, required to serve an entrepreneur for five years (minimum). Mentors are active participants in monitoring their entrepreneur's performance. Within TCF's credit administration framework, the mentor is the entrepreneur's first port of call if he or she



**Bill McWilliam, Aged 46**  
**British Male**

**Mentor for 4 years for Prince's  
Scottish Youth Business Trust  
(PSYBT)**

*"I believe I am able to provide general business insight as well as specialist advice particularly in relation to sales, marketing and finance. Having been through the business start-up process myself, I am well placed to empathise with the challenges that are involved.*

*Many of the young people I mentor have unique and original marketing ideas and are very aware of the types of services that the public are looking for today. I have used a great deal of their knowledge in my own business."*

is struggling to meet repayment, and in the early stages, the mentor is the primary source of advice and guidance for corrective action.

The mentors' judgment is critical to TCF's actions against poor-performing clients. If irregularity lasts for more than 90 days, a head office panel uses the mentor's reporting on the entrepreneur's situation as the basis for its reviews and decision-making. Each month, mentors are required to submit Meeting Activity Reports documenting the frequency and content of their interaction with their entrepreneur(s), including information provided by the entrepreneur and verified by TCF site visits. Each quarter mentors submit a Portfolio Status Report on their entrepreneur(s), with their feedback on the state of the business and on the effectiveness of TCF's selection scoring system.

Taken from its Quality Manual, TCF believes that the: "availability of mentors is an essential basic condition for financing business initiative through the Kingdom". TCF undertakes mentor recruitment drives at universities and business organisations. Mentors apply online, providing TCF with a database of potential mentors to match to entrepreneurs, based on a range of profile criteria. Both the mentor and the

entrepreneur have a right to veto the match at their first meeting. Training is compulsory for TCF mentors, in the form of a two-day course delivered by TCF staff.

Non-financial support is provided by TCF along the whole entrepreneur life cycle. A template business plan is offered to applicants as well as consultation and support in developing the plan. Screened applicants have three separate interviews with three different members of TCF staff: about motivation, financing and marketing. These interviews are used not just to vet applications but as an opportunity for building the capacity of entrepreneurs.

Training courses and field visits are delivered to meet the specific needs of the entrepreneurs, by staff and approved partners. A general business training course is delivered through Shell LiveWire, which is mandatory for all selected entrepreneurs within six months of signing their loan agreement. Intensive support for struggling entrepreneurs is provided through business clinics, until recovery is evident. In addition to the training courses facilitated by TCF, successful entrepreneurs are requested to present their experience for the benefit of prospective applicants.

Under the first two years of the agreement between TCF and SCSB, the bank retained full responsibility for the administration of the loans to the young entrepreneurs, both disbursements and repayments. The lending term was fixed at five years. As a sign of the strength of the partnership, in 2010 the agreement was amended in two significant ways: first, TCF became solely responsible for the management of the loans. On approval of a loan, SCSB transfers the whole amount to TCF who manages instalments to the young entrepreneur. Second, the lending term was extended from five to ten years to give the young entrepreneurs more flexibility over the use of the money to grow their business.

Moreover, the 99 per cent approval rate by the Bank of the loan applications from TCF demonstrates the strong working relationship between the partners: that the screening and selection processes are rigorous and the non-financial support provided is effective in reducing the risk of lending to young entrepreneurs.

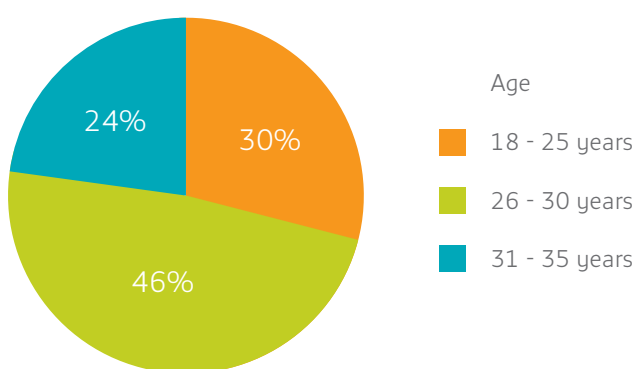


In partnering with SCSB, TCF has achieved a significant increase in access to finance for aspiring young Saudi entrepreneurs. **Some 3,000 businesses have been launched and/or strengthened through this partnership<sup>25</sup>, representing a loan disbursement value of SAR 730 million (USD 195 million).** 65 per cent of these businesses are located outside the three main cities of operation, Riyadh, Jeddah and Damman. Before the partnership with SCSB, TCF had supported around 550 businesses with a total loan disbursement approximating SAR 183 million (USD 49 million).

**More than a fifth of the loan recipients of TCF are women (21 per cent)<sup>26</sup>, a notable achievement considering that “women in the Middle East and North Africa have the world’s lowest rates of labor force participation.”<sup>27</sup> Younger women are particularly disadvantaged: “most women business owners in the MENA region are between 35 and 54 years of age.<sup>28</sup>”**

Among TCF’s entrepreneurs, the largest proportion (46 per cent) are between 26 and 30 years of age, in keeping with global trends<sup>29</sup>:

**Figure 2: Proportion of young entrepreneurs supported by TCF by age groups**



Given the relatively weak entrepreneurial environment in Saudi Arabia, average job creation is low: around two additional jobs are created per business. **Yet still a cumulative total of 4,000 new jobs have been generated and the potential is significant**, given the scale of investment: the average size of loan is USD 45,000. SCSB and TCF aim to build their partnership to be actively jointly supporting 5,000 start-ups by the end of 2015, equivalent to 1,000 new entrepreneurs per year over five years.



**Yury Segal, Aged 60**  
Russian, Male

**Mentor for 1.5 years for Youth Business Russia (YBR), served 4 entrepreneurs**

*“Being a mentor, I have an opportunity to implement my ethical ideals and to pass them to the next generation. I teach the entrepreneurs social responsibility in their approach to business, to be diligent tax payers, employers, mainstay of the society, to be merciful.*

*I give my knowledge and experience to the young since I feel responsible for what I have obtained in my life. The money that I earned does not belong to me only. I must pay back by teaching others. I am happy when my advice helps them to be successful and that they benefit from my opinion.”*

14. World Development Indicators 2009  
 15. ILO Key Indicators of the Labour Market, 2008 [http://www.ilo.org/empelm/what/lang--en/WCMS\\_114240](http://www.ilo.org/empelm/what/lang--en/WCMS_114240)  
 16. Ibid 22 TCF Strategic plan  
 17. Ibid  
 18. Council of Saudi Chambers [http://www.saudichambers.org.sa/2\\_1163\\_ENU\\_HTML.htm](http://www.saudichambers.org.sa/2_1163_ENU_HTML.htm)  
 19. <http://saudientrepreneurship.com/2011/02/05/a-%E2%80%9Cme%E2%80%9D-authority-for-saudi-arabia/>  
 20. <http://saudientrepreneurship.com/2011/02/05/a-%E2%80%9Cme%E2%80%9D-authority-for-saudi-arabia/>  
 21. World Bank Doing Business 2011 <http://www.doingbusiness.org/rankings>  
 22. TCF Strategic plan  
 23. As the ILO states: “Creating their own business is only rarely a viable option for people in MENA countries. This is the result of a weak entrepreneurship

culture and insufficient knowledge of how to start and run a business, and of an environment that is unconducive to business start-ups.” <http://www.ilo.org/public/english/bureau/pardev/download/development/mena/menastrategy.pdf>  
 24. As at July 2011  
 25. As at July 2011  
 26. <http://www.tcf.org.sa/Ar/Entrepreneurs/Pages/ApplicationsStatistics.aspx>  
 27. ‘Women Entrepreneurs in the Middle East and North Africa: Characteristics, Contributions and Challenges’, IFC & Center of Arab Women for Training and Research, June 2007 [http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/rep\\_GEM\\_MenaWomenEntrepreneurs/\\$FILE/MENA\\_Women\\_Entrepreneurs\\_Jun07.pdf](http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/rep_GEM_MenaWomenEntrepreneurs/$FILE/MENA_Women_Entrepreneurs_Jun07.pdf)  
 28. Ibid  
 29. <http://www.gemconsortium.org/>

# YBI: MENTORING PIONEER

Mentoring is one part of an integrated package of non-financial support services that a YBI member provides to young entrepreneurs, but is central to what makes YBI's approach unique.

To ensure quality and rigour in YBI's mentoring, and to systematise and share learning across the membership, YBI's network team collated good practice and global experience of mentoring young entrepreneurs into a comprehensive "Mentoring Toolkit". This guide on delivering an effective mentoring programme was developed in conjunction with YBI members, mentoring experts Clutterbuck Associates and YBI's own mentoring consultant.

The Toolkit is a dynamic resource available to members of YBI, spanning topics from the purpose of mentoring, to planning, implementation and M&E, and including tools such as checklists, sample documents and training materials.

YBI's working definition of mentoring is:

"Personalised support in helping young entrepreneurs develop their abilities and insights as they start and grow their own business".

According to the Toolkit, success ultimately depends on three core elements:

- The quality of the mentor/mentee relationship
- The effectiveness of the mentoring programme's processes and activities
- The benefits balanced against the costs (value for money)

75 per cent of YBI entrepreneurs report that mentoring made a positive difference in their business as well as in their personal and professional development.

YBI's mentoring emphasises the potential value to both the mentor and the mentee. This means dedicated training, support and management of the mentors themselves in fulfilling their side of the relationship. Research suggests that only one in three untrained mentors provide significant value to their mentees.

Assessing the quality of mentoring, and indeed of training and other non-financial support, is an integral part of YBI's formal accreditation process of its members. The activity levels, qualifications and training of mentors are checked, and accreditation requires that at least 75 per cent of entrepreneurs are matched to a mentor.

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## **YBI CASE STUDY 2: Canadian Youth Business Foundation (CYBF) partners with Business Development Bank of Canada (BDC) to increase access to finance for young entrepreneurs**

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Sibling entrepreneurs Cecile and Vincent Poirier, who founded Momzelle, with their Canadian Youth Business Foundation mentor.

## Introduction

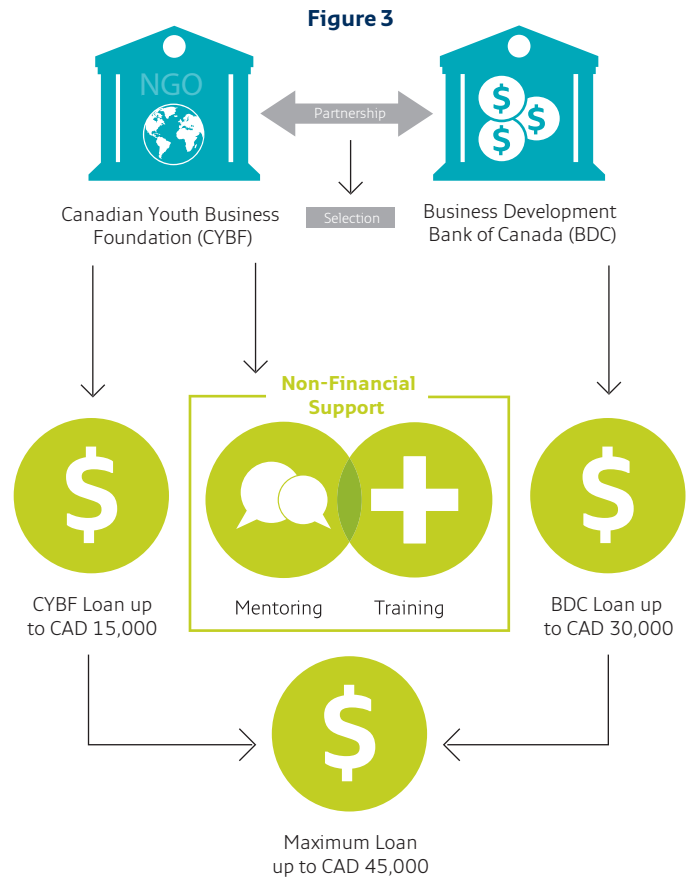
In 2008 the Business Development Bank of Canada (BDC) agreed to enter into a lending partnership with YBI member, the Canadian Youth Business Foundation (CYBF), in response to two key factors: the gap in financing available to young people in Canada who want to start up in business, and recognition of the value of the non-financial support provided by CYBF in reducing the risk profile of young entrepreneurs. This partnership increases the start-up loan capital available to young Canadians from the initial maximum offered by CYBF of CAD 15,000 (USD 15,500) to a new limit of CAD 45,000 (USD 46,600) under the joint offering.

BDC is a public development bank whose mandate is defined by the government. Its mission is “to help create and develop Canadian businesses through financing, venture capital and consulting services, with a focus on small and medium-sized enterprises (SMEs).<sup>39</sup>” Prior to their partnership with CYBF, BDC had not found a viable means to lend to young clients who wanted to start a small business. In their negotiations with CYBF, BDC made clear that they were entering into this transaction in their commercial interest, not simply to pursue a social agenda, and that they recognised that the combination of providing non-financial support as well as loan financing had made lending to young entrepreneurs sustainable.

In the context of other loans that CYBF makes available, the BDC loan provides vital capital for young entrepreneurs to start and grow their business. In its three years of operations, a total of 555 joint loans have been made, totalling around CAD 10 million (USD 10.4 million). This is equivalent to around a third of the loans that CYBF has made available overall in that period, and almost half of its loan portfolio in terms of dollar value.

## Structure of the access to finance partnership

The diagram below illustrates the process for young entrepreneurs to access the full amount of CAD 45,000 (USD 46,600) through the CYBF-BDC partnership.



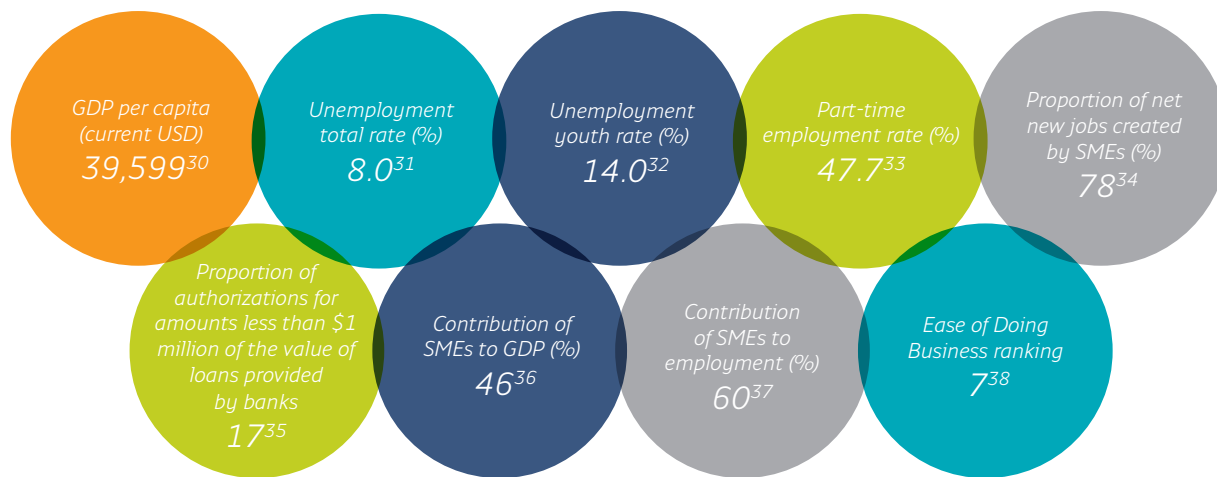
The joint CYBF-BDC loans are accessed through CYBF. Under the terms of the partnership, an entrepreneur must request the BDC loan within 30 days of their initial application to CYBF, and CYBF applies on their behalf to BDC.

*"I have always believed our life service must involve giving back to community. There is no doubt that setting up and managing your own business brings with it enormous responsibility and challenges. As a mentor I believe I have offered consistent support and encouragement; guidance in the attainment of goals (sometimes through lateral thinking), identifying and building upon both the 'strengths' and the 'blind spots'."*



**Jessica Bensley, Aged 44  
British, Female,**

**4 years as a mentor for Barbados Youth Business Trust (BYBT), served 2 entrepreneurs**



Importantly, for approved applicants, the two loans are kept separate from the point of view of disbursements and repayments. Ultimately the entrepreneur can receive up to the maximum of CAD 45,000 (USD 46,600) for his or her business, but he or she deals separately with the two different organisations on their respective terms: with CYBF for the CAD 15,000 (USD 15,500) loan and with BDC for the CAD 30,000 (USD 30,400) loan. To minimise inefficiencies for both lenders and clients, the two lending partners coordinate to issue the loans at the same time.

The CYBF-only loans are amortised over three years if the loan is CAD 7,500 (USD 7,600) or less and over five years for loans over CAD 7,500. Interest rates are: CIBC<sup>40</sup> prime rate plus 2 per cent in the first year, then, conditional on timely payments, CIBC prime rate plus 1 per cent in the second year and in third and subsequent years, again, depending on timely payments, CIBC prime rate. A one-off CAD 50 (USD 50.70) loan administration fee is charged to entrepreneurs, as well as a CAD 15 (USD 15.20) monthly administration fee.

For the joint BDC loans, interest repayment is only applied for three to five years matching the CYBF-only amortization period. Outstanding BDC principal at the loan maturity date is repaid with one balloon payment. The bank charges its Floating Base Rate in interest plus 5.65 per cent, payable monthly. A CAD 50 processing fee is withheld when the loan is disbursed.

Loan applicants are screened and receive preliminary approval by CYBF's Community Partners, youth-serving organisations across Canada that serve as CYBF's delivery partners and enable national coverage. Each Community Partner operates a Loan Review Committee, which includes in-house staff and

leaders of the local business community who serve on a voluntary basis. Approved applications are sent by the Committees to the respective CYBF Regional Office for their overview, then for final approval to CYBF's HQ in Toronto, and, depending, on to BDC. The bank retains power of veto, but in practice accepts CYBF's adjudication decision for the application.

## Recognising the value of non-financial support

CYBF's non-financial support is the crux of the partnership, the differentiator in enabling BDC to reach this potentially risky youth demographic. There is an explicit understanding between the two organisations that the partnership is brokered on a commercial – not purely social – basis.

The eligibility criteria to receive BDC funding include an agreement from the entrepreneurs "to work with a mentor for a period of two years". CYBF is responsible for facilitating two years' mandatory mentoring and training for all young entrepreneurs. In BDC's view, the mentoring is as crucial as the money for young entrepreneurs to build successful businesses:



*It is crucial that they [young entrepreneurs] have the necessary financial and mentoring support to see their innovative business plans take shape and grow<sup>41</sup>.*

*Edmée Métivier, BDC Executive Vice President, Financing and Consulting*



CYBF provides pre-and post-launch coaching, mentoring and online business resources. CYBF entrepreneurs are hand matched to a mentor, who is expected to meet with their mentee on a monthly basis over the two years. A trade-marked online training programme, the MENT2B™ Orientation Program, was developed by leaders in the mentoring field and is compulsory for all entrepreneurs and mentors. It includes a mentoring agreement, tips on communication and resolving conflict, a financial review template and a meeting planner. A dedicated post of Director of Mentoring was created at CYBF to coordinate the management of entrepreneur-mentor relationships. CYBF also runs an annual awards programme to recognise entrepreneurs, mentors and partners.

Since mentoring became mandatory for all entrepreneurs, CYBF has calculated that their annual loan write-off rate decreased steadily from 11.4 per cent in 2004 to 5.8 per cent in 2010.

As a further indicator of the success of the partnership, indeed of the success of providing non-financial support to improve the bankability of young entrepreneurs, BDC has broadened the scope of its involvement and exposure. The partnership was initially brokered on a one-to-one basis. This means that for each Canadian dollar lent by CYBF, BDC would match it with an equivalent loan amount. With CYBF capping their start-up loan at CAD 15,000, a total of CAD 30,000 was available to young entrepreneurs. If CYBF lent CAD 10,000, BDC would provide the same. After a year and a half in partnership, **the performance of the young entrepreneurs' portfolio convinced BDC to expand their commitment to this demographic and extend this one-to-one lending to a 2:1 ratio.**

They were ready to make this commitment even though CYBF maintained its loan size limit at CAD 15,000. Young entrepreneurs could then receive up to CAD 45,000 in start-up capital, a maximum of CAD 15,000 from CYBF plus a maximum of double i.e. CAD 30,000 from BDC.

This partnership provides a crucial link in realising the business growth ambitions of young entrepreneurs. To help ensure that their needs are met along the growth

cycle of their business, CYBF provides two further financing options in addition to the joint BDC loan.

First, CYBF operates an Expansion Financing Programme for entrepreneurs who have been in business between 36 to 60 months from the date of the CYBF advance. CAD 10,000 in additional financing is available up to a maximum aggregate of CAD 25,000. Additional criteria to qualify include: demonstrating the viability of the existing business as well as projecting the profitability of the growth plans; submitting a detailed business plan and quarterly reports; and not using loan proceeds for the refinancing of existing debt.

Expansion loans are amortised over 51 months with interest-only payments in the first three months at CIBC prime plus 2 per cent. Then principal repayments are made monthly with interest over the remaining four years at a declining rate.

Second, in April 2011, CYBF's affiliate, Entrepreneur Gateway Canada, launched the Spin Master Innovation Fund in partnership with Spin Master Ltd, a world-leading toy company. The goal of the Fund is: "To identify and support the next generation of highly innovative job creators. The focus is on big ideas: young entrepreneurs who seek to create sustainable and scalable businesses with national and international expansion potential."

Run through a competition, successful applicants receive up to CAD 50,000 (USD 51,000) in start-up funding, with CYBF-managed mentoring again compulsory over two years. Access to coaching from Spin Master Executives is also provided. Unsuccessful applicants have the opportunity to apply for CYBF's standard loan options.

This range of financing options has significantly increased entrepreneurship opportunities for young people in Canada. The partnership with a financial institution has made a particular impact both on the business prospects and livelihoods of the young entrepreneurs and on their contribution to the Canadian economy. In the period since the partnership with BDC was established, 50 per

<b>Loan Type</b>	CYBF Loan up to CAD 15,000	BDC Loan up to CAD 30,000 - Up to 30 days after CYBF's approval	CYBF Expansion Loan up to CAD 10,000 - Between 36- 60 months after CYBF's approval
<b>Loans Disbursed</b>	1,604 @ CAD 22,097,550 (USD 23,000,000)	555 @ CAD 9,997,250 (USD 10,480,000)	56 @ CAD 60,000 (USD 63,000)

**Figure 4<sup>42</sup>**

cent more capital has been made available to the next generation of SME leaders. More than 1,500 (1,604) CYBF loans at CAD 15,000 were disbursed at a value of over CAD 22 million (USD 22.8). Some 555 combined BDC loans were approved, totalling nearly CAD 10 million (USD 10.4 million). Figure four illustrates this financial access, including the disbursement of Expansion Loans. Successful applicants to the Innovation Fund will be confirmed at the end of September 2011.

Across these loan types, CYBF has overseen an average 94 per cent start-up financing repayment rate. In its experience with its alumni, CYBF has also noted that those entrepreneurs who received the BDC loan were more likely to secure bank financing from commercial lenders.

To date, CYBF has supported more than 4,100 start-ups in total, equivalent to one new business being launched every 14 hours. These new enterprises have created a cumulative total in excess of 18,000 new jobs, serving over 1,315 communities across Canada. The businesses created through CYBF have generated more than CAD 119 million (USD 125 million) revenues to government, with hundreds of millions of dollars in sales.

For every CAD 1 it spends on its youth entrepreneurship programme, CAD 3 is generated in tax take alone for the national economy.

*“For every CAD 1 it spends on its youth entrepreneurship programme, CAD 3 is generated in tax take alone for the national economy.”*

The government recognises the difference that CYBF entrepreneurs make over time and supports CYBF in monetary value calculated according to the savings achieved for the public purse. For every dollar a partner invests in young entrepreneurs, CYBF leverages an additional CAD 1.25 from government. In recognition of the role that SMEs play in driving Canada’s economy, through young people in particular, the government adopted CYBF’s strategy to declare 2011 The Year of the Entrepreneur<sup>43</sup>. The demographics of Canada present an urgent challenge: 71 per cent of small business owners will retire within ten years, with 41 per cent retiring within the next five years<sup>44</sup>. A new generation of young entrepreneurs is critical.

30. World Development Indicators 2009

31. OECD, 2010

32. <http://www.statcan.gc.ca/subjects-sujets/labour-travail/lfs-epa/t110610a1-eng.htm>

33. <http://www.statcan.gc.ca/subjects-sujets/labour-travail/lfs-epa/t110610a1-eng.htm>

34. 1983 – 2003 [http://www.sme-fdi.gc.ca/eic/site/sme\\_fdi-prf\\_pme.nsf/eng/02084.html](http://www.sme-fdi.gc.ca/eic/site/sme_fdi-prf_pme.nsf/eng/02084.html)

35. 2007 [http://www.sme-fdi.gc.ca/eic/site/sme\\_fdi-prf\\_pme.nsf/vwapj/KSBFSPSFPE\\_Dec2009\\_eng.pdf/\\$FILE/KSBFSPSFPE\\_Dec2009\\_eng.pdf](http://www.sme-fdi.gc.ca/eic/site/sme_fdi-prf_pme.nsf/vwapj/KSBFSPSFPE_Dec2009_eng.pdf/$FILE/KSBFSPSFPE_Dec2009_eng.pdf)

36. <http://www.international.gc.ca/trade-agreements-accordscommerciaux/assets/pdfs/tnsW36.pdf>

37. <http://www.international.gc.ca/trade-agreements-accordscommerciaux/>

<assets/pdfs/tnsW36.pdf>

38. World Bank Doing Business 2011 <http://www.doingbusiness.org/data/exploreconomies/canada/>

39. <http://www.bdc.ca/EN/about/Pages/default.aspx>

40. Canadian Imperial Bank of Commerce <https://www.cibc.com/ca/inside-cibc/history.html>

41. Edmée Métivier, BDC’s Executive Vice President, Financing and Consulting <http://www.pelacfdc.ca/News/news.inc.php?ID=53&command=miniViewArticle&lang=EN>

42. Figures as at May 2011

43. For more information, see <http://www.ic.gc.ca/eic/site/ic1.nsf/eng/06206.html>

44. <http://www.cybf.ca/about-us/>

*The following case study features IYF, who supported youth self-employment and entrepreneurship in India following the 2004 tsunami through a local NGO in partnership with two apex banks. The initiative was primarily microfinance, but also involved a Livelihood Financing Programme, which demonstrates the value of non-financial support.*

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## **IYF CASE STUDY: International Youth Foundation (IYF) supports CCFID to partner with two apex banks to help young people in India access loans after the 2004 tsunami**

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Kamachi, aged 26, took a loan for crab fattening as a member of CCFID's Angalamman Self Help Group



## Introduction

Job creation, for young people especially, is increasingly proving a central requirement in rebuilding conflict- or disaster-affected communities, with opportunities for entrepreneurship considered fundamental<sup>45</sup>. Launched in 2006 by Nokia and the International Youth Foundation (IYF) in response to the devastating tsunami of December 2004, the Tsunami Reconstruction Initiative (TRI) has sought to promote long-term recovery efforts in affected areas of India, Indonesia, Sri Lanka and Thailand.

The TRI recognised that (re-)integrating young people into employment, including self-employment, was critical to rebuilding the severely damaged economic and social infrastructure, along with the prospects of the next generation. This case study focuses on India, where, according to the UNDP, the tsunami took more than 10,800 lives and affected over 2.79 million people across 13 districts in Tamil Nadu and three districts in Kerala. The cost of damage to fisheries, housing, infrastructure, and agriculture exceeded USD 575 million. IYF's TRI delivery partner in India was Community Collective Society for Integrated Development (CCFID)<sup>46</sup>.

CCFID enabled access to finance through two options: by far the most significant in terms of disbursements was microfinance loans (credit only); the second option was livelihood financing – combining financial and non-financial support. To have impact at scale through the latter, the Initiative recognised “early on that providing credit alone would not be sufficient to support businesses with the potential for growth. Instead, it developed a comprehensive set of livelihood support services... designed to increase the profitability and scale of local enterprises.”<sup>47</sup>

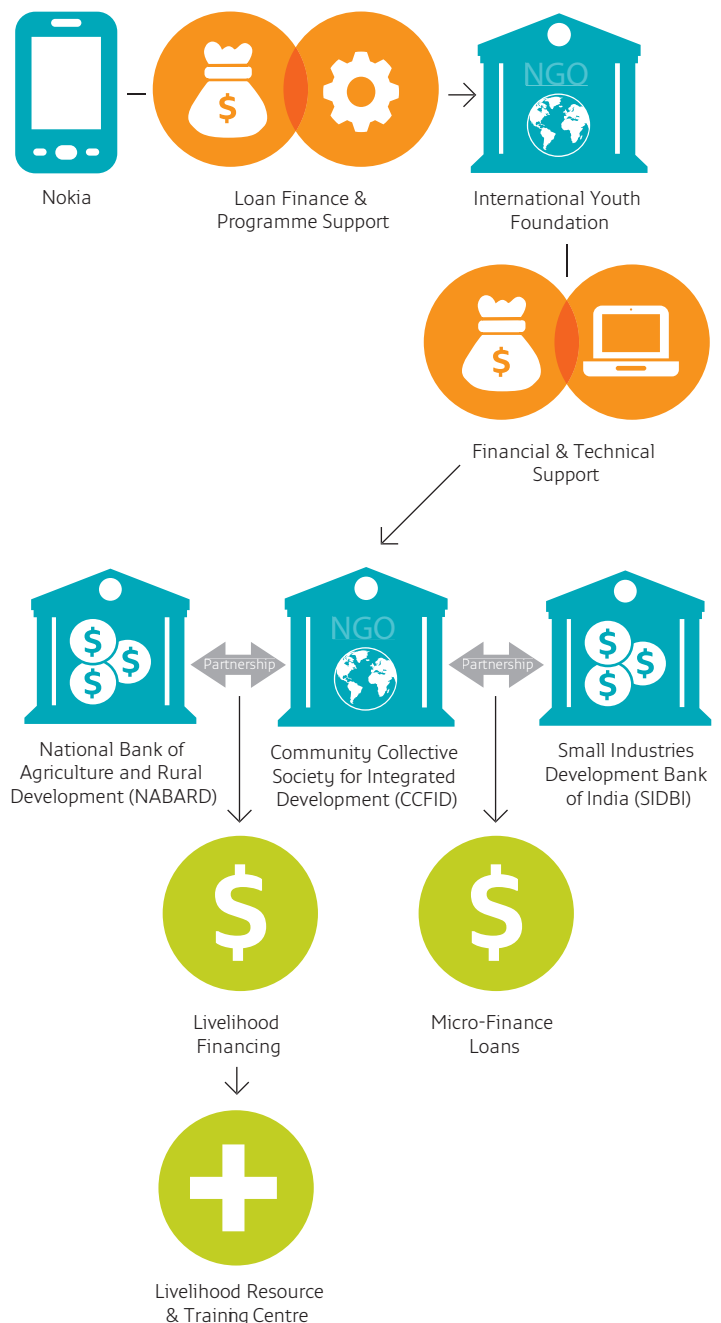
CCFID partnered with local apex institution<sup>48</sup> National Bank of Agriculture and Rural Development (NABARD) to provide livelihood financing, on the basis of its track record in delivering integrated support. Small Industries Development Bank of India (SIDBI) partnered to provide microfinance loans. These partnerships were vital to making the necessary capital available to the young entrepreneurs at this challenging time. Over 7,600 loans were disbursed, totalling USD 1 million over a

three-year period 2006-09. Of these, 96 per cent were micro loans and 1,500 new enterprises were created.

## Structure of the access to finance partnership

The diagram below illustrates the various aspects of CCFID's delivery structure of the TRI.

Figure 5



IYF was the primary partner, providing CCFID with a grant to build their organisational capacity and to enable the provision of loans in the early stages. IYF also provided technical assistance and strategic advice to deliver the integrated services efficiently and effectively. Nokia was also a key partner in the launch and implementation of the Initiative, channelling both programmatic support and a USD 270,000 loan fund to CCFID through IYF.

CCFID managed two financing options for young people wanting to regain their livelihood through self-employment or entrepreneurship. For the former, microfinance loans up to USD 500 were available offered over a repayment period of 10 months based on weekly instalments. After three years in operation, CCFID developed a partnership with local apex institution Small Industries Development Bank of India (SIDBI) to deliver its microfinance programme. A third-party rating (average) supported CCFID's approach to SIDBI. Five per cent of the bank's funding was set aside for capacity building of CCFID. CCFID also had a number of banking partners who provided micro loans directly to young people, but these represent less than five per cent of uptake. The majority access the SIDBI-funded in-house fund.

Under the Livelihood Financing programme, larger loans were available above USD 1,000 with no defined maximum, typically through a repayment schedule over two to three years. The interest rate on both types of loans was 24 per cent, aligned to the typical rate for local microfinance institutions<sup>49</sup>.

Again, after three years in operation, CCFID identified another apex institution, National Bank of Agriculture and Rural Development (NABARD), as a financing partner for this livelihood programme. NABARD was particularly attracted to the market potential in terms of low-cost and high-return opportunities in two agricultural industries in particular: crab fattening and cashew processing. Crab fattening was new in India, and CCFID introduced the concept to

local communities and provided them with tailored business counselling to start up and sustain a small enterprise. Cashew processing was a more established industry before the tsunami struck, and although severely damaged, remained a significant business opportunity, with the potential to be scaled up. NABARD provided just under USD 300,000 over two years for loan capital.

To access the Livelihood Financing, individuals applied directly to CCFID. CCFID had full responsibility for managing this loan fund, screening and selecting entrepreneurs, disbursing loans and collecting repayments, typically biweekly or monthly.

There was also the option of applying as a group, which was the only way of accessing a microfinance loan. There were two types of groups: first, Self Help Groups (SHGs), which were normally pre-existing in the community and involved around twenty people in a range of activities. Second, Joint Livelihood Groups (JLGs), which brought together just five to ten people engaged in the same industry. Typically SHGs repaid loans monthly and JLGs weekly.

All the groups were organised into Federations, which were responsible for screening and approving loan. Both IYF and CCFID were committed to supporting both young men and women and were successful in changing attitudes in banks and microfinance institutions, which traditionally female-only group lending. A total number of 770 groups were supported under TRI, almost all single sex: 84 per cent were female-only and 16 per cent male.

By way of example, a Water Crab Federation was formed to oversee lending to fourteen SHGs involved in crab fattening. Its success encouraged additional support from the Asian Development Bank for loan capital, and private insurer Bajaj Allianz reached a new client base by providing loan recipients with accidental death and life insurance worth USD 400 each.

## Recognising the value of non-financial support

The TRI primarily provided microfinance. Just four per cent of the total loans distributed were from the Livelihood Financing programme. However, the key insight from CCFID's experience in Livelihood Finance is that:



*Holistic strategies to youth entrepreneurship are needed that combine credit with a comprehensive set of livelihood support services (e.g. product development, business planning, marketing)<sup>50</sup> ”.*

*R.Sudhakar, CCFID CEO*



In order to deliver comprehensive non-financial support through this programme, CCFID created a dedicated Livelihood Resource Centre (LRC) in 2007, with support from IYF.

This centre coordinated the whole range of support services, from conducting market research, to creating an enabling environment, to delivering business skills training to young people. Entrepreneurial spirit and levels of experience and capacity were typically low, weakened further by the tsunami. The local communities tend to be risk averse, and young people in particular are not well trusted with money or independence. CCFID undertook 'social sensitisation' activities, for example business plan competitions, entrepreneur award ceremonies and awareness raising festivals, with the purpose of stimulating young people's creativity and identifying innovative business ideas.

The LRC provided non-financial support to young entrepreneurs across the life-cycle of a business with structured training pre-and post-start-up, as well as the opportunity to access ad hoc support for trouble-shooting or for advice on innovation and expansion. Non-financial support was offered in

three main areas: Business counselling; Knowledge management; and Institutional development. More specifically, training spanned life skills, business skills and financial skills.

This range of services was designed explicitly to reduce the risk of lending to affected young people and thus to overcome the barrier of collateral or guarantee requirements: "Our goal is to limit potential risk to clients<sup>51</sup>".

The TRI was evaluated over its first three years of implementation and demonstrated notable success in expanding self-employment and entrepreneurship opportunities to young people. **A total of 7,600 loans were disbursed over the three-year period 2006 – 2009, totalling USD 1,008,000<sup>52</sup>**, four times the size of the original loan fund. Approximately two thirds were first-time loans, over a quarter second-time and the rest (around 7 per cent) third-time<sup>53</sup>. **The repayment rate was 83 per cent. Of these loans, around 20 per cent (1,500) funded the creation of youth-led enterprises. More than 10 per cent of these employ five or more people<sup>54</sup>.**

CCFID conducted surveys in late 2008 to evaluate the value of non-financial support according to the beneficiaries. The results showed that:

*86 per cent of the young people increased their knowledge of business management*

*60 per cent expressed competencies to develop a business plan*

*93 per cent increased their knowledge/ skills<sup>55</sup>*

**Figure 6**

Both IYF and CCFID were committed to supporting both young men and women and were successful in changing attitudes in banks and microfinance institutions, which traditionally favour female-only group lending. A total number of 770 groups were supported under TRI, almost all single sex: 84 per cent were female-only and 16 per cent male.

Finally, success can be measured by effective replication. A similar integrated approach to self-employment and entrepreneurship for at-risk youth has been adapted by another organisation in seven slum areas across Mumbai. The lessons from working in impoverished areas by the tsunami have been transferred to deprived neighbourhoods where per capita income is below USD 150 per month. Overall the loan repayment rate is 99 per cent, and more than half the loan recipients have been awarded a second loan<sup>56</sup>.

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45. This year's World Development Report focused on fragility and conflict, and it emphasised that employment is crucial to restoring stability and security: "we need to put greater emphasis on early projects to create jobs, especially through the private sector". [http://wdr2011.worldbank.org/sites/default/files/pdfs/WDR2011\\_Full\\_Text.pdf](http://wdr2011.worldbank.org/sites/default/files/pdfs/WDR2011_Full_Text.pdf)
  46. In contrast to YBI's definition, 'youth' in this context is classified as sixteen to thirty. Nearly half the region's population was under the age of 35.
  47. IYF TRI Field Notes <http://www.iyfnet.org/sites/default/files/FieldNotes16Tsunami.pdf>
  48. An apex institution is a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple microfinance institutions (MFIs) in a single country or region. Funding may be provided with or without supporting technical service. <http://www.cgap.org/p/site/c/template.rc/1.9.2427/>
  49. CCFID market research showed that banks traditionally charged between 9 and 13.5 per cent, and moneylenders some 55 per cent.

50. IYF TRI Final Report [http://www.iyfnet.org/sites/default/files/Tsunami\\_Final\\_Report.pdf](http://www.iyfnet.org/sites/default/files/Tsunami_Final_Report.pdf)
51. CCFID CEO As quoted in IYF TRI Field Notes <http://www.iyfnet.org/sites/default/files/FieldNotes16Tsunami.pdf>
52. IYF TRI Final Report [http://www.iyfnet.org/sites/default/files/Tsunami\\_Final\\_Report.pdf](http://www.iyfnet.org/sites/default/files/Tsunami_Final_Report.pdf)
53. IYF TRI Field Notes <http://www.iyfnet.org/sites/default/files/FieldNotes16Tsunami.pdf>
54. IYF TRI Final Report [http://www.iyfnet.org/sites/default/files/Tsunami\\_Final\\_Report.pdf](http://www.iyfnet.org/sites/default/files/Tsunami_Final_Report.pdf)
55. IYF TRI Field Notes <http://www.iyfnet.org/sites/default/files/FieldNotes16Tsunami.pdf>
56. IYF TRI Field Notes <http://www.iyfnet.org/sites/default/files/FieldNotes16Tsunami.pdf>

*The following three case studies each feature a guarantee fund that proved crucial to brokering a partnership between YBI members and financial institutions to enable better access to finance for young entrepreneurs.*

## **YBI CASE STUDY 3: Government guarantee in India enables increase in access to capital for young entrepreneurs through public private lending partnerships between Bharatiya Yuva Shakti Trust (BYST) and Bank of Baroda and Indian Bank**



Entrepreneur Denise Spencer Huffton with staff in Dream Weavers, a business she established with support from YBI member in India, the Bharatiya Yuva Shakti Trust.

## Introduction

Despite the relatively large contribution that the SME sector in India makes to the country's GDP, young people continue to be relatively excluded from the opportunities of entrepreneurship. In fact experience has shown that demand for small business finance in India has been consistently strong, resulting in commercial banks not typically seeking younger, potentially riskier clients for new business. Increasingly, the government of India recognised that:

**“Of all the problems faced by the MSEs (micro and small enterprises), non-availability of timely and adequate credit at reasonable interest rate is one of the most important. One of the major causes for low availability of bank finance to this sector is the high risk perception of the banks in lending to MSEs and consequent insistence on collaterals which are not easily available with these enterprises. The problem is more serious for micro enterprises requiring small loans and the first generation entrepreneurs.<sup>65</sup>”**

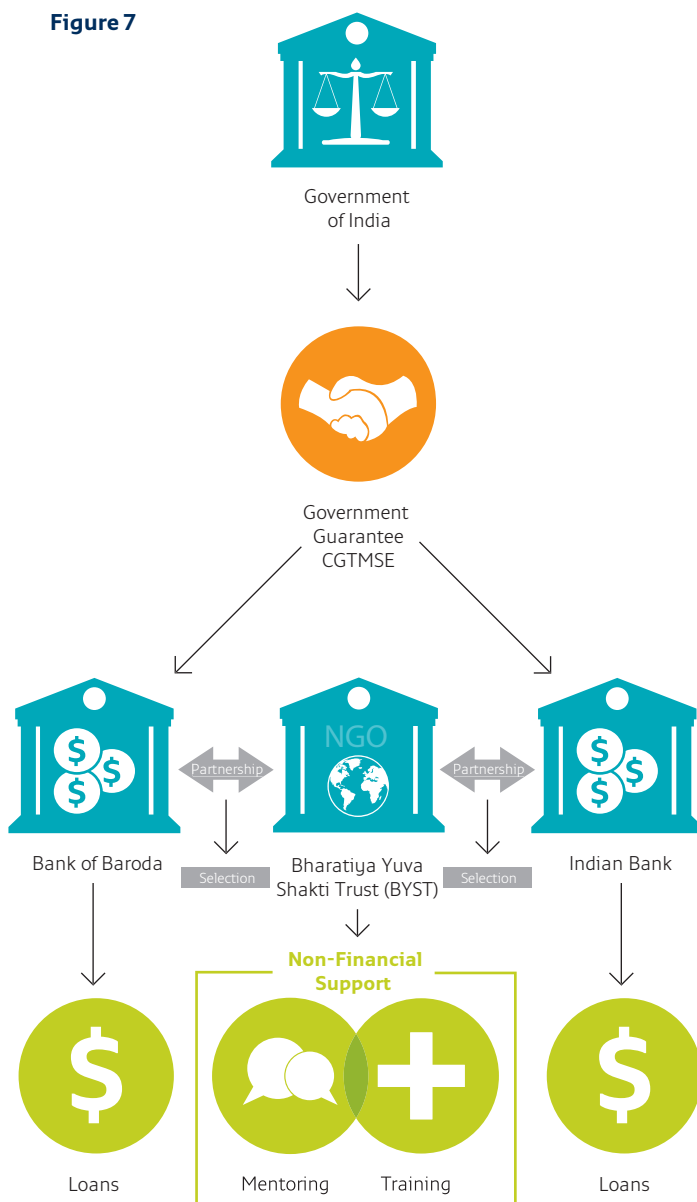
In response, the government launched a Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE) in 2000 in conjunction with the Small Industries Development Bank (SIDBI), to make available collateral-free credit to the MSE sector. Although not specifically designed for youth, young ‘first generation’ entrepreneurs faced the greatest challenge in accessing finance, as defined by the government in launching the scheme (as quoted above).

In 2007-08, under the terms of the scheme, YBI member BYST established public-private partnerships with two of India's largest banks, Bank of Baroda and the Indian Bank, and ceased all direct lending<sup>66</sup>. Indian Bank covers BYST's southern regional operations and Bank of Baroda its northern regions. Although not unconstrained by bureaucracy, these BYST-Bank ‘Entrepreneur Development Programmes’ have significantly increased access to finance for young entrepreneurs in India, helping BYST to support 500 young entrepreneurs per year, compared with 100 prior to the establishment of the partnerships.

## Structure of access to finance partnership

The diagram below illustrates the structure of BYST's bank partnerships and the process of lending to young entrepreneurs.

Figure 7



Through its agreements with Indian Bank and Bank of Baroda, BYST's lending is entirely outsourced. The loans are approved on the basis of the government's credit guarantee scheme. Under the terms of the scheme, loans of up to INR 1,00,00,000 (USD 220,700) are guaranteed without any collateral security and/or third party guarantees. Indeed the scheme explicitly excludes any credit facility sanctioned by collateral and/or guarantee. In BYST's

*"Looking back at my own experience especially in my early days as an entrepreneur, I could easily appreciate how helpful it would have been if only I had the benefit of a mentor to guide me in those early days. I felt that as a mentor in BYST I could help young entrepreneurs and bridge the gap felt in my early days and this was the motivation.*

*The joy of giving can be often more meaningful than what money and wealth can give."*



**N. Krishnan, aged 74, Indian, male,**

**18 years as a mentor for BYST, 4 entrepreneurs served**

partnerships, up to 75 per cent of the loan amount in default is guaranteed for five years and must be paid within 30 days to avoid incurring interest charges on the eligible claim.

In the terms of BYST's agreements with both banks, the maximum loan size is INR 50,00,000 (USD 110,400). The loan period is typically five to seven years, with a grace period of up to 24 months. Repayments are in equal monthly or quarterly instalments depending on income generation.

Entrepreneur selection panels are responsible for final decisions on lending – 40 per cent of membership is represented by the relevant bank; the other 60 per cent by BYST. The panels have a maximum of ten members. Entrepreneur selection criteria include: a significant proportion from the informal sector; resident within BYST operational (geographic) limits at least for two years; functionally literate; and belonging to an "underprivileged category" of society without collateral or security. This refers to:

- A young person who cannot access funds from any other source
- Total monthly income of the family divided by the number of members does not exceed INR 50,000 (USD 1,100)
- Potential savings available but the entrepreneur is under-resourced

Young people with entrepreneurial capabilities who do not fulfil BYST criteria are signposted to other sources by field officers. BYST conducts site visits of potential applicants to verify family background and whether the business is already in operation.

Applications are also evaluated by a technical expert for market potential of the business idea as well

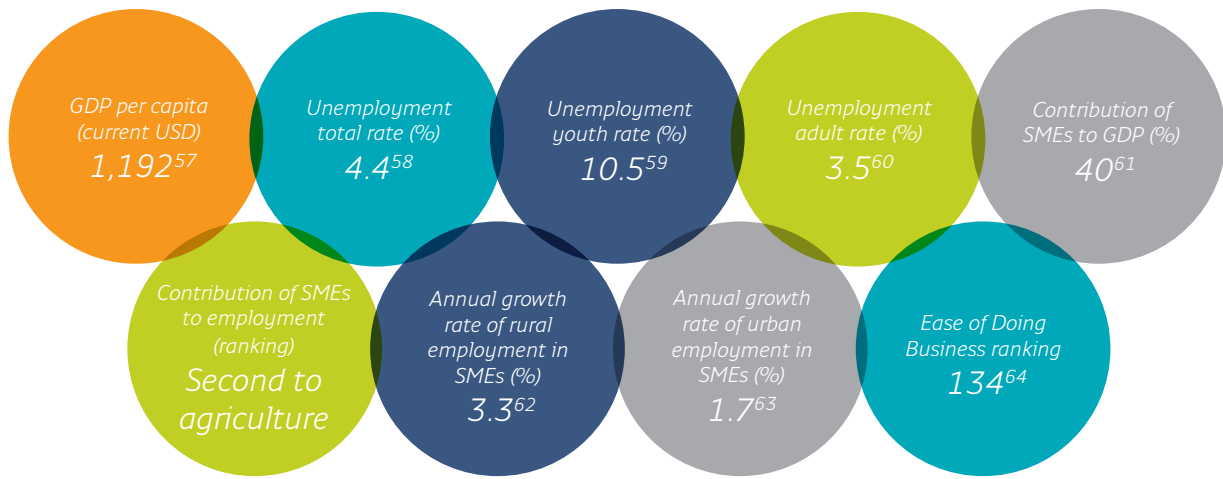
as for technology requirements. BYST operates an Entrepreneur Advisory Panel to reach out to potential entrepreneurs, with representation from NGOs as well as technical and vocational training schools.

The banks administer the loans and are requested to report monthly to BYST on disbursements and sanctions. It is a significant feature of the partnership that the young entrepreneurs become clients of the banks. BYST is responsible for monitoring the performance of each entrepreneur's business, and is requested to send quarterly business performance reports on each entrepreneur to the appropriate bank.

A fee of 1 per cent is charged on guaranteed amounts up to INR 5,00,000 (USD 11,000) and 1.5 per cent up to INR 1,00,00,000 (USD 220,700). Interest rates to the borrowers must not exceed 3 per cent above Benchmark Prime Lending Rate (BPLR). Indian Bank charges -1 per cent of BPLR on loans under INR 2,00,000 (USD 4,410) to Micro enterprises and BPLR +1 per cent for small enterprises. Bank of Baroda's interest rates are BPLR -3 per cent on loan amounts up to INR 50,000 (USD 1,100); -2.5 per cent for loans up to 5,00,000 (USD 11,000); -1.5% up to 10,00,000 (USD 22,100); -0.75% up to INR 250,00,000 (USD 551,700), and no more than BPLR up to INR 50,00,000 (USD 110,400).

## *Recognising the value of non-financial support*

In the long negotiations between BYST and the two banks to establish the lending partnerships, the provision of non-financial support by BYST was the deciding factor. As the then Chairman of Indian Bank noted,



*“Indian Bank is very happy to have done this partnership; it is the successes of entrepreneurs made possible through BYST’s extensive mentoring programme in partnership with the business community that has encouraged IB to give it special focus<sup>67</sup>”.*

*M.S. Sundera Rajan, Chairman,  
Indian Bank*



BYST has been at the forefront of introducing mentoring for small business management in India. According to the agreements with the banks, mentoring for (at least) the first 24 months of the loan period is “an integral part” of the support package for young entrepreneurs. BYST has developed a flexible mentoring model to meet the challenges that arise as a result of the size and diversity of the country:

- One-to-one mentoring – most popular in urban areas where each entrepreneur is matched to an individual mentor who typically interacts with the entrepreneur regularly (at least once per month)
- Mentor mobile clinics – mentors drawn from diverse backgrounds and skills travel together to visit and guide entrepreneurs in rural areas
- Emergency mentor clinics – mentors form groups based on expertise to revive emergency situations facing a young entrepreneur’s business, again predominant in rural areas

**BYST’s mentors play a central role in monitoring entrepreneurs’ performance and in driving BYST’s operations,** providing a key link between the entrepreneur and the local BYST offices.

Mentors are organised into a national governing body (also including BYST representatives), which oversees Chapter clusters, responsible for mentor recruitment and networking as well as identifying potential new entrepreneurs. By taking ownership of all aspects of their contribution through the Chapter structure, BYST mentors have shown to increase their commitment and involvement.

All mentors must undertake a formal training and accreditation scheme, which requires completion of a minimum of ten hours practical training, plus a six hour interactive online learning programme covering all aspects of the role of the mentor. This Mentor Online (MOL) Program was developed with the active participation of mentors themselves. The agreements with the banks also allow for charges for the services delivered by BYST that are built into the terms of the entrepreneur’s loans.

In addition to mentoring, BYST operates a broad range of training and other entrepreneur support services. For example, opportunities are created for entrepreneurs to increase their exposure, make new contacts and realise marketing potential at trade fairs and exhibitions. A Green Business Ideas Contest encourages the creation of environmentally-responsible enterprises and an Eco-preneurs Club facilitates networking and lesson sharing. BYST entrepreneurs also benefit through a network of their own peers. BYST facilitates interaction among



the entrepreneurs through regular meets and get-togethers. An important service that the partnerships enable is referral by BYST for entrepreneurs who have shown high growth in their business and a good track record in repayment of loans to banks and other financial institutions for further financial assistance. Systematising this process brings significant benefits in terms of access to finance. Ultimately the aim is to encourage commercial lenders to recognise young entrepreneurs as bankable.

Nevertheless, the banks were still initially reluctant to develop a full-scale commercial partnership with BYST, such were the perceived levels of risk of youth enterprise lending. The relationships thus commenced through a one-year pilot, focused on reaching repeat BYST entrepreneurs rather than brand new start-ups, and with a INR 5,00,000 (USD 11,000) limit on loan size. In fact during this phase, the divide between repeat and new borrowers was less unbalanced than anticipated: 60 per cent of the entrepreneurs financed were repeat borrowers; a significant 40 per cent were first-time borrowers.

The repayment rate over this pilot year was an impressive 95 per cent, which was a key indicator in broadening the partnership for subsequent years. On the basis of these results, the banks agreed two important changes in extending the partnership: to raise the maximum loan size available to INR 50,00,000 (USD 110,400) and to cover a greater number of new start-ups.

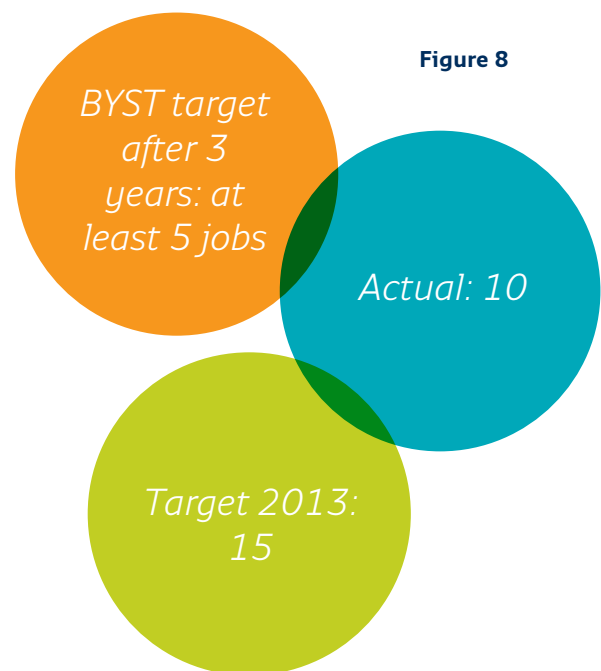
BYST's partnerships with the two banks are not without their implementation challenges. The agreements require that the banks sanction loans between two and five weeks after approval, depending on loan size. However, paperwork and bureaucracy can hold up applications. For example, in the southern region, the internal committee approved 70 young entrepreneurs last year, but only 30 of those have so far been processed by the bank<sup>68</sup>.

BYST is planning to scale further through the bank partnerships, with a focus on employment and wealth creation. At the end of three years from the

date they first receive support, entrepreneurs are expected to create at least five jobs, and increase the size of their initial investment by a factor of three. On both measures, BYST in fact achieved ratios of 1:10 last year. There has also been growth in the number of entrepreneurs supported since the partnerships began in 2008. In the first year, the number of entrepreneurs doubled (from 126 to 254).

Over a five year period (from the start of the partnerships in 2007 until 2013), the shared target is to reach 5,000 additional entrepreneurs in total (from around 1,500 to 6,500) and increase the job creation ratio to 1:15. This represents an expansion in the loan portfolio over the same period from INR 5,00,000 (USD 11, 000) to INR 50,00,000 (USD 110,000).

### Job Creation



With the non-financial support, five per cent of BYST's entrepreneurs (starting out with a INR 50,000 loan / USD 1,100) achieve a turnover ranging from INR 1 million – INR 25 million (USD 22,100 – 552,000), and with the potential to grow to well over INR 100 million (USD 2.2 million). To meet their expansion needs, BYST launched the BYST Growth Fund.

This Special Purpose Vehicle (SPV) provides both debt and equity options through partnerships with VenturEast and Aavishkaar Venture Management Services and with seed money from The Small Industries Development Bank of India (SIDBI) and the International Finance Corporation (IFC). The current fund's investments range from USD 10,000 to USD 200,000, depending on requirements of investees.

Mentoring remains compulsory to help these successful entrepreneurs scale further. The Growth Fund has a social objective to create the wealth and jobs that will lift people out of poverty. Financial returns of around 5 – 6 per cent are combined with social indicators such as job creation, environmental standards and good governance. This Fund helps young entrepreneurs to access commercial finance, in some case, as commercial clients of Indian Bank and Bank of Baroda<sup>69</sup>.

This range of financing options makes an important contribution to closing the gap for **“missing middle” young people in India** i.e. those in need of start-up support between the existing services available in the microfinance and commercial finance sectors. However, with a growing youth population, there remains considerable unmet demand, and BYST is ambitious to play its part.



**Alejandro Contigliani, aged 31, Argentinean, male,**

**1 year as a mentor for Fundación Impulsar, 3 entrepreneurs served**

*“I understand that mentoring has been useful to support and strengthen the capabilities of the entrepreneur. My work as mentor has consisted primarily in empowering their skills and building their confidence.*

*For me, the gains of mentoring have to do with personal fulfilment. For the entrepreneurs, they value my contribution and their venture grows and advances. I appreciate seeing the power of the entrepreneurs and how they overcome most obstacles and limitations, as well as the collaboration between mentors.”*

57. World Development Indicators 2009 <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>  
 58. ILO Key Indicators of the Labour Market, 2005 [http://www.ilo.org/empelm/what/lang--en/WCMS\\_114240](http://www.ilo.org/empelm/what/lang--en/WCMS_114240)  
 59. Ibid  
 60. Ibid  
 61. <http://www.bankofindia.com/smepol.aspx>  
 62. <http://ruralindia.blogspot.com/2008/06/some-numbers-on-sme-activity-employment.html>  
 63. <http://ruralindia.blogspot.com/2008/06/some-numbers-on-sme-activity-employment.html>

64. World Bank Doing Business 2011 <http://www.doingbusiness.org/rankings>  
 65. In its introduction to its Credit Guarantee Fund Scheme for Micro And Small Enterprises <http://www.dcmsme.gov.in/schemes/sccrguarn.htm>  
 66. The partnership with Indian Bank was established in April 2007 and with Bank of Baroda in February 2008.  
 67. Mr M S Sundera Rajan, Chairman, Indian Bank <http://www.energybyte.com/blog/promotingyoung-underprivileged-indian-entrepreneurs-success-story>  
 68. At the time of writing  
 69. For more information about the “BYST Growth Fund”, please see <http://www.ventureeast.net/microequity>

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## **YBI CASE STUDY 4: The Commonwealth and the government of Dominica join forces to expand youth entrepreneurship opportunities through Dominica Youth Business Trust (DYBT)**

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Entrepreneur Renauld Deschamps from the island of Dominica set up his business with the support of the Dominica Youth Business Trust.

## Introduction



As a small island state, Dominica faces a dual demographic challenge to the development of the national economy. First, counter to the global trend, population growth is negative due to external migration<sup>78</sup>, with young people accounting for a significant proportion of the decrease<sup>79</sup>. Second, in Dominica young people are three times more likely to be unemployed than adults<sup>80</sup>, and more than a quarter of the total labour force is classified in vulnerable employment<sup>81</sup>. Moreover, there is serious concern that drug-related crime and violence could spread to Dominica from other Caribbean islands. This makes it imperative to expand employment opportunities to young people, in particular to open up opportunities for them to contribute to the relatively strong small business sector.

In response, the Commonwealth Youth Program -Caribbean Centre (CYPCC) partnered with the government of Dominica and the Organisation of American States (OAS) in 2004 to guarantee micro

and small business lending to young people, helping turn Dominica's youth population into productive contributors to the national economy through expanding access to entrepreneurship<sup>82</sup>.

YBI member the Dominica Youth Business Trust (DYBT) was founded to manage the guarantee fund on the condition of providing non-financial support in addition to the loans. A range of financial institutions partner with DYBT to provide loans under this guarantee fund; in the first instance, public banks and credit unions. After six years in operation, the loan guarantee limit was extended to expand further access to finance to the 18 – 35 year olds in Dominica who make up a third of the total population (31 per cent)<sup>83</sup>.

As a sign of the success of this lending model, DYBT has been approached by two commercial banks to enter into partnership to provide larger loans to higher potential entrepreneurs. Through this integrated approach combining guaranteed credit and non-financial support, DYBT is making a real difference in changing the entrepreneurial culture of Dominica: small enterprise is increasingly regarded as a valid option for all, whereas previously it was seen as a less ambitious 'fall back' position for those unable to obtain qualifications<sup>84</sup>.



**Delroy N. Williams, aged 30, Dominican, male,**

**2 years as a mentor for DYBT, 1 entrepreneur served**

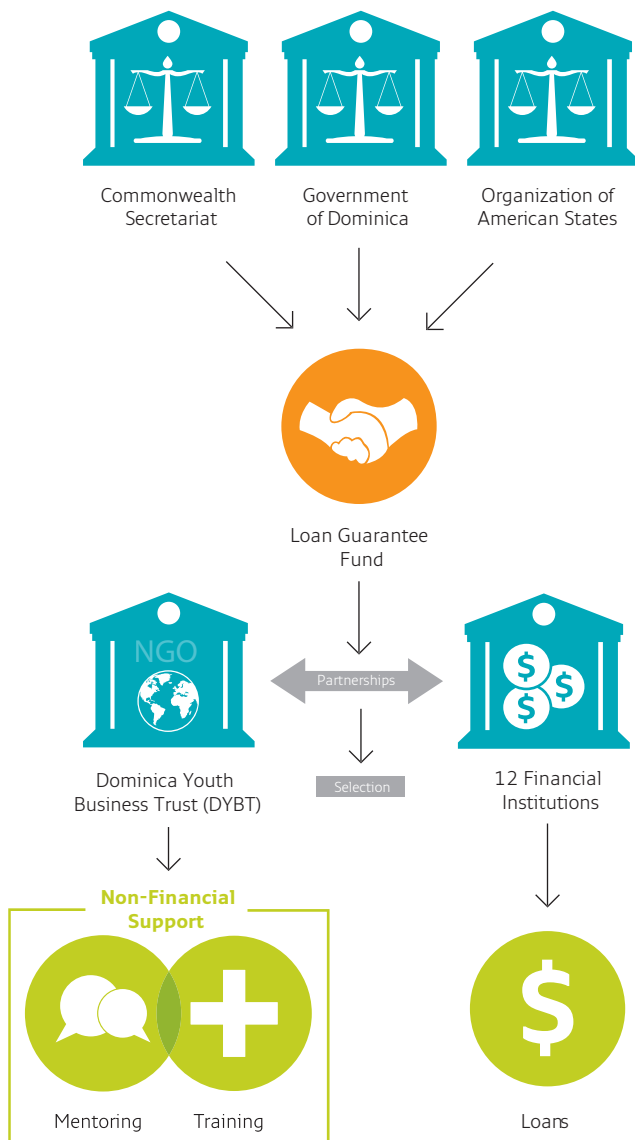
*I became a mentor to assist young people to start and develop their own businesses, as I am aware of a lot of issues/difficulties and pitfalls that one can be exposed to as an entrepreneur. I am also very aware of the role of small business and entrepreneurship in poverty alleviation and socioeconomic development of small island states.*

*I have gained wonderful insight and understanding from mentoring. It has given me much pride to see the mentee continue to grow and reach his goals.*

## Structure of access to finance partnership

The diagram below represents how young entrepreneurs in Dominica access start-up capital through DYBT.

**Figure 9**



DYBT has sole responsibility for the administration of the guarantee fund, as a programme of the Government of Dominica and the Commonwealth Youth Programme. Lending to the young entrepreneurs is currently implemented through partnerships with twelve financial institutions, a combination of banks and credit unions:

1. Dominica Agricultural Industrial and Development Bank
2. National Development Foundation of Dominica
3. National Cooperative Credit Union (Roseau, St. Paul and Vieille Case)
4. The Central Cooperative Credit Union (Goodwill & Portsmouth)
5. The Calibishie Cooperative Credit Union
6. The West Coast Cooperative Credit Union
7. The South East Cooperative Credit Union
8. The Castle Bruce Cooperative Credit Union
9. The Saint Mary's Cooperative Credit Union
10. The Woodfordhill Cooperative Credit Union
11. The Grand Bay Cooperative Credit Union
12. The Marigot Cooperative Credit Union

The first agreements between DYBT and the financial institutions were signed in 2005. Under the terms of these agreements, the maximum loan size available to young entrepreneurs was XCD 20,000 (USD 7,407) and a limit of 75 per cent of a loan was set for the guarantee. The loans are administered on the terms and conditions of the lending institutions, according to their agreements with DYBT. However, DYBT negotiates on a continuous basis with the lending institutions on behalf of the clients. Interest rates range between 5 per cent and 11 per cent. The repayment period is determined by the size of the loan and the recipient's ability to pay. The average repayment period is sixty months. The moratorium arrangement with the lending institutions is quite flexible. The average moratorium granted to entrepreneurs is six months.

Young entrepreneurs are screened through interview panels. Selection is based on criteria supplied by the Commonwealth and modified by DYBT, according to the local operating environment. The lending institutions report on a quarterly basis to DYBT on the performance of the loans, with DYBT responsible for follow-up with the entrepreneur in cases of poor performance. Each entrepreneur is free to choose their preferred institution for their loan, and DYBT validates their business case and sends a letter of recommendation on their behalf in support of their application.

In the first quarter of 2011, the 75 per cent limit was extended to 100 per cent to enable more young entrepreneurs to access support to start up in business. The government of Dominica in particular is committed to maximising access to entrepreneurship support for all young people in Dominica, including the underprivileged and marginalised who, even under the 75 per cent guarantee, continued to be excluded.

The full guarantee coverage requires rigour on the part of DYBT in terms of screening and training entrepreneurs to ensure the ongoing sustainability of the portfolio. The same maximum loan size applies under the extended guarantee, although in practice DYBT approves some larger loans on a case-by-case basis if the potential for return on investment and job creation is evident.

In recognition of the effectiveness of this lending model, DYBT has been approached by two commercial banks to enter into partnership, First Caribbean International Bank and National Bank of Dominica. Both banks have indicated their interest to partner with DYBT to assist higher growth potential young entrepreneurs for the development of the small business sector in Dominica. This marks significant progress in meeting the needs of this underserved demographic. The intention is for these loans to be made available for the first time in late 2011, although at the time of writing, negotiations continue.

## *Recognising the value of non-financial support*

This cross-sector approach to youth entrepreneurship – coordinating public sector, private sector and civil society partners – has had a significant impact on expanding access to credit for young entrepreneurs in Dominica. The guarantee fund underpins the credit facility, but core to the agreement between DYBT and the financial institutions is the provision of non-financial support as a condition of lending to the young entrepreneurs both before loan disbursement and throughout the repayment period.

DYBT's non-financial support is comprehensive and

rigorous. DYBT undertook a period of peer learning, in particular from Barbados Youth Business Trust (BYBT), a fellow YBI member, and the National Development Foundation of Dominica (NDFD). A central component of the non-financial support is the mentoring provided by local volunteers from the business community. This is considered critical in the case of many financial institutions agreeing to enter into this lending partnership – **the mentoring programme is the only one of its kind in the country**. DYBT is charged with the responsibility of establishing “an excellent relationship with the private sector and resource persons for the provision of effective mentorship services to young entrepreneurs on a voluntary basis.”<sup>85</sup>

Mentors are expected to hold at least one meeting with mentees on a monthly basis, and submit quarterly monitoring reports to DYBT. The mentorship relationship is for a minimum period of one year and a maximum of three years. DYBT has introduced a certification system for mentors who perform at a defined standard and has awards for mentors who excel in the dispensation of their voluntary services.

The criteria to become a mentor include a minimum threshold of ten years of business knowledge, experience and skills. Within the context of the Caribbean, experience has shown the need to adapt mentoring to suit the environment to avoid conflicts between the entrepreneur and the mentor. A successful approach is to avoid assigning mentors to young entrepreneurs with similar businesses and/or in similar sectors. The greatest need in any case has been shown to be business management mentoring rather than technical mentoring. In cases where technical mentoring is needed, DYBT has a responsibility to help in sourcing<sup>86</sup>.

In addition to mentoring, DYBT offers a range of training, centred on two tailored and compulsory courses that can both lead to access to finance. For young people who have never had any enterprise experience, a four-week Entrepreneurship Development Program (EDP) is delivered, while a two-day Small Business Assistance Facility (SBAF)

targets those who have already had some experience in running a business. Both courses are compulsory to be able to apply for a loan and are facilitated by a dedicated technical team. Participation is through selection by a trained recruitment panel.

Selected recruits to the four-week EDP must pay a commitment fee of XCD 25 (USD 9). The first week of the EDP involves a five-day residential retreat, focusing on Personal Development and Achievement Motivation Training. The second to fourth weeks are phased to focus on more technical aspects of starting and growing a business. A short-term business attachment in collaboration with private and public agencies forms part of the practical training component.

The two-day SBAF provides tools and techniques for specific aspects of small enterprise management as well as personal development and evaluation modules. DYBT targets a maximum of thirty participants per programme, and the training team. A written and oral evaluation is administered at the end of each training program, and the training team conducts periodic review sessions of the training package.

On completion of their pre-loan training, each entrepreneur's business plan must be approved by the dedicated Business Plan Assessment Committee in order to proceed to loan application. A one-month business plan consultation phase includes input from the financial partners.

Since establishment, 197 young entrepreneurs have completed training in the EDP; 93 men, and 104 women. 107 have applied for loans under this facility; of these 60 entrepreneurs have been successful (27 males and 33 females). This constitutes a loan approval rate of 56 per cent. The value of EDP loans is XCD 838,100 (USD 310,400) with XCD 643,800 (USD 238,400) guaranteed by the DYBT-managed fund<sup>87</sup>.

134 entrepreneurs (66 men and 68 women) have been trained under the SBAF. 42 have applied for loans under this facility, 19 successfully – equivalent to a loan approval rate of 45 per cent. The total value



**Bernard Bontiff, aged 50,  
Dominican, male,**

**2 years as a mentor for DYBT, 1  
entrepreneur served**

*I love business (since I am an entrepreneur myself) and I love young people, and sharing my experiences to help a young person attain their dreams is simply one of my passions. When I was contacted about serving as a mentor there was no hesitation, nor reluctance on my part.*

of loans disbursed under this facility is XCD 323,300 (USD 119,700) and the total guaranteed is XCD 213,800 (USD 79,200)<sup>88</sup>.

**Loan distribution has grown by 30 per cent over the last two years, with a significant increase also in training and mentoring activity.**

Following concern over loan default rate, a more active policy with entrepreneurs and financial institutions succeeded in reducing defaults. The default rate of the main loans is 14 per cent and of the Small Business Assistance Facility 6 per cent; a consolidated default rate of 11 per cent or a repayment rate of 89 per cent. DYBT plans to commission a comprehensive business incubator by September 2014 to accommodate at least ten enterprises per eighteen-month incubation period in order to target those enterprises showing weak or negative growth and to boost job creation rates in particular.

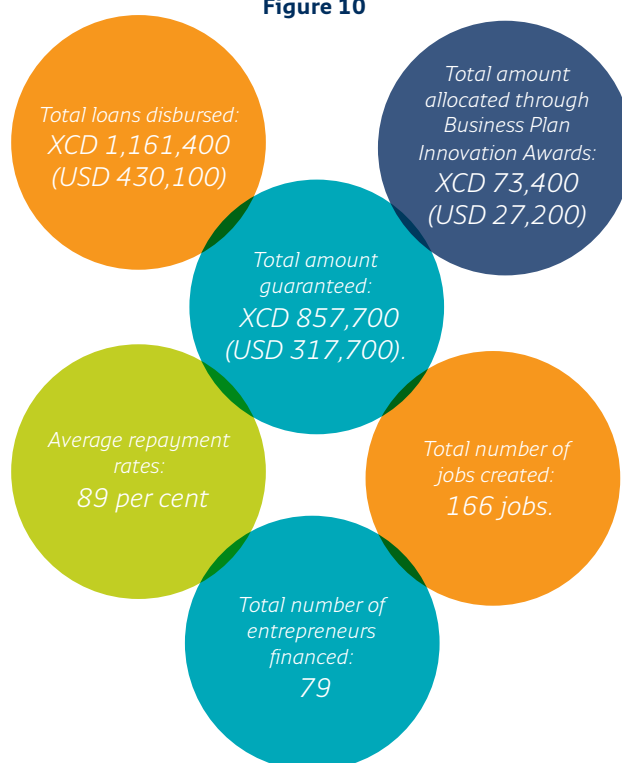
Once the loan is disbursed, DYBT continues to provide targeted support to clients. This includes opportunities to: participate in local, regional and international business conferences, trade shows and expositions; and assist in the establishment of a business club which is able to make representation to policy makers on the behalf of small business owners.

*DYBT young entrepreneurs create on average two jobs per business; particularly significant given that only 5 per cent of the total number of self-employed in Dominica are creating jobs for others<sup>89</sup>.*

The figures below illustrate the increase in access to finance facilitated by DYBT. DYBT young entrepreneurs create on average two jobs per business; particularly significant given that only 5 per cent of the total number of self-employed in Dominica are creating jobs for others<sup>89</sup>.

Additional credit is available to young entrepreneurs through DYBT's Business Plan Innovation Awards scheme, created and delivered in collaboration with the Commonwealth Youth Program – Caribbean Centre (CYPCC) and the Dominica Agricultural Industrial and Development Bank (DAIDB). Each year six stand-out young entrepreneurs receive a grant to help start-up their new business, following the completion of the training cycle and assessment by the Business Plan Assessment Committee. The overall winner receives XCD 5,000 (USD 1,850), and there are five Merit Awards of XCD 1,000 (USD 370) each.

**Figure 10**



70. World Development Indicators, 2009 <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>  
 71. ILO Key Indicators of the Labour Market, 2001 [http://www.ilo.org/empelm/what/lang--en/WCMS\\_114240](http://www.ilo.org/empelm/what/lang--en/WCMS_114240)  
 72. Ibid  
 73. Ibid  
 74. DYBT Strategic Plan 2011 – 2015  
 75. Ibid  
 76. World Development Indicators, 2009 <http://data.worldbank.org/indicator/IC.BUS.NREG>  
 77. World Bank Doing Business 2011 <http://www.doingbusiness.org/rankings>  
 78. From 2005 to 2010 the annual population growth rate decreased by three per cent, and on previous figures, the labour force decreased by 13 per cent over two years (from 33,228 in 1999, to 27,865 in 2001) – from DYBT Strategic Plan 2011 – 2015  
 79. 43 per cent over 1999-2011 – from DYBT Strategic Plan 2011 – 2015  
 80. According to the latest figures available for Dominica, 8% of adults are unemployed compared with 26% of young people, equivalent to a ratio of youth unemployment rate to adult unemployment rate of 3.3 (ILO KILM)

81. ILO KILM (latest data available for Dominica, 2001)  
 82. This partnership results from a Commonwealth Youth Credit Initiative being adapted for the Caribbean, following successful pilots in Africa, India & South Pacific. The main objective of the Initiative is: "the creation of employment opportunities for unemployed young people through training and credit support. Disadvantaged young women and men are trained in financial and enterprise management and are approved for credit to establish successful businesses."  
 83. DYBT Strategic Plan 2011 – 2015  
 84. Evidence provided by YBI's independent accreditation of DYBT from the Worshipful Company of Management Consultants, through interviews with bank officials, mentors and trainers.  
 85. DYBT Strategic Plan 2011 – 2015  
 86. Evaluation of the DYBT's business mentoring programme commissioned by the Caribbean Development Bank (CDB), 28 June – 2 July, 2010.  
 87. As of 30 June 2011  
 88. Ibid  
 89. ILO Key Indicators of the Labour Market 2001 (latest available data)



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## **YBI CASE STUDY 5: Keren Shemesh partners with Koret Foundation and Otsar Ha-Hayal Bank to serve young entrepreneurs in Israel**

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Gal Kilman and Oren Sinai who run a wine bar in Tel Aviv, discuss issues with their mentor Patric Edri (right). Gal and Oren were supported by YBI Israel member, Keren Shemesh.

## Introduction

Otsar Ha-Hayal Bank is a national commercial bank in Israel that had been unable to find a viable route into the largely untapped but potentially significant market opportunity of the youth client base. More generally, young Israelis remained largely excluded from access to start-up finance, not least through the stringent collateral requirements: according to a study by the European Union, the usual collateral demanded by banks amounts to 30 per cent of the loan.

In 2006, YBI's member in Israel Keren Shemesh structured an arrangement for Otsar Ha-Hayal Bank that reduced the risk of lending to new, youth-led start-ups through the provision of non-financial support and guaranteed credit as an alternative to collateral. The third key partner is Koret, a loan allocation non-profit fund focused on entrepreneurship with a mission to "demonstrate how philanthropy could be deployed efficiently into the private sector to spur economic development and create jobs for recent immigrants and veteran Israelis alike."<sup>97</sup>

This three-way partnership allowed Otsar Ha-Hayal Bank to reach the youth demographic sustainably. Under the terms of the agreement, Keren Shemesh subsidises interest rates and co-guarantees loans with Koret, who effectively acts as an interface between Keren Shemesh and the Bank, providing also the required deposit per loan to the bank.

Keren Shemesh leads the provision of the non-financial support that improves the performance of the portfolio, with the two financial partners inputting their expertise and business acumen to the entrepreneurs through business plan support and entrepreneur screening. Sharing risks and responsibilities in this way generates a sustainable source of financing to the key youth demographic, enhancing their bankability credentials. This enables the creation of a growing number of small businesses in Israel with the capacity to create jobs and innovation as well as tax revenues and savings in social security. The average survival rate of businesses in the wider community is 20 per cent after five years. Keren Shemesh is targeting a sustainability rate of around 70 per cent and achieving a rate of around 90 per cent<sup>98</sup>.

## Structure of the access to finance partnership

The partnership structure to enable access to start-up capital for young Israelis is illustrated in the diagram below.

Figure 11a

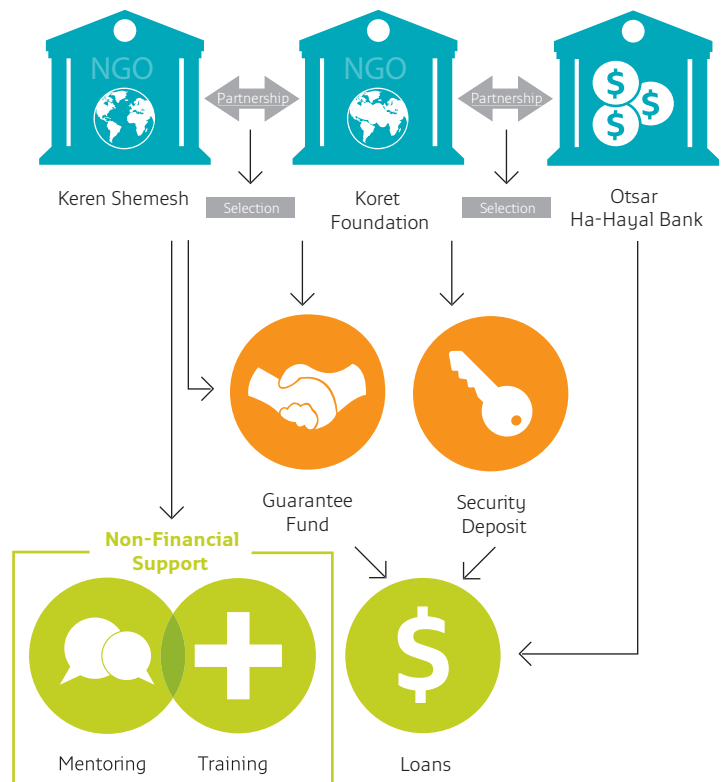
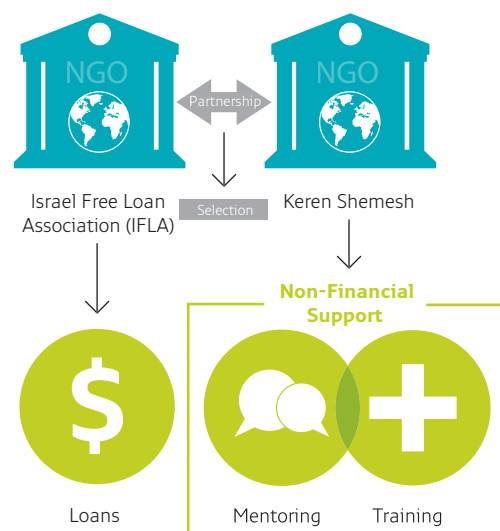
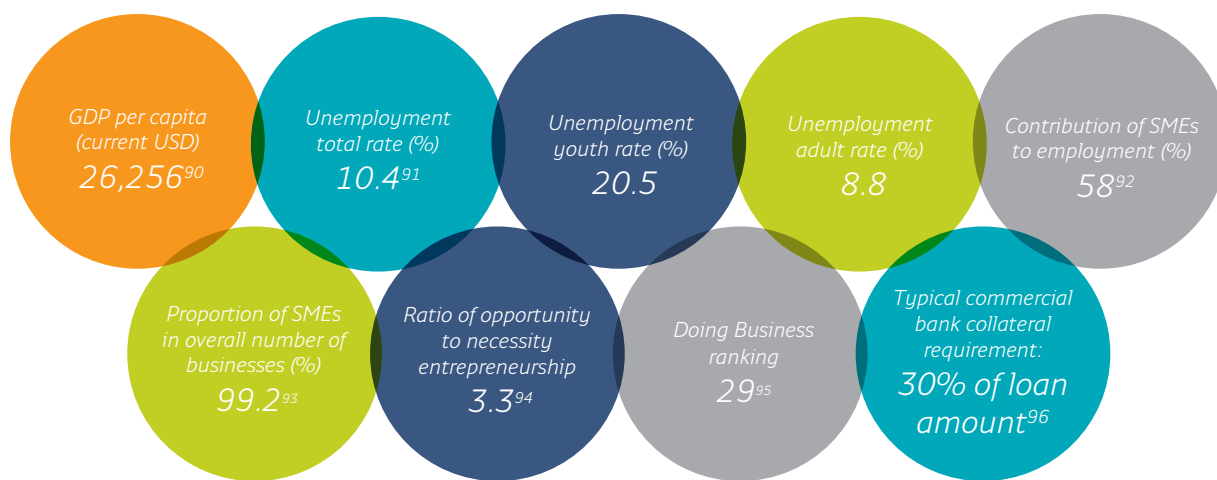


Figure 11b





Keren Shemesh is the driver of this financing partnership with Koret and Otsar Ha-Hayal Bank. Each loan applicant is negotiated individually, with Keren Shemesh **enabling access to credit for a more disadvantaged demographic** than either Koret or the bank would independently serve. Through this partnership, the beneficiaries become clients of the bank, an important step in achieving financial independence.

Loans of up to NIS 90,000 (USD 24,000) are available to young entrepreneurs over a repayment period of three to five years with a grace period of three to six months. An interest rate below prime is negotiated for each entrepreneur, with Keren Shemesh subsidising the additional interest costs. Koret provides a 16 per cent security deposit for each loan, required by the bank under the terms of the partnership. The bank takes 30 per cent of the risk of each loan; the remaining 70 per cent is shared between Keren Shemesh and Koret. Koret finances its part in this scheme through its Small Business and Micro enterprise Loan Funds programme, designed for:

“leveraging loan guarantees and providing interest subsidies to facilitate financing to small, home-based and micro businesses lacking access to credit on reasonable terms...”<sup>99</sup>

Keren Shemesh targets entrepreneurs aged between 20 and 35 with the initiative to start a legal business, or who have been in legal business for under twelve months. Priority is given to young people who are:

- unemployed
- ineligible for financial assistance for standard banking channels

- from minority and other ethnic and underprivileged groups, including women
- planning to establish a business in the periphery.

Keren Shemesh is responsible for screening applications and selecting candidates by interview for preliminary approval by Koret and the bank. The former conducts a feasibility check and the latter a credit check. A Loan Review Board, composed of two or more external representatives serving on a voluntary basis, and one Keren Shemesh representative, is responsible for final approval. External members are invited from a pool of candidates, typically senior executives with significant relevant experience and/or training.

Selected entrepreneurs are expected to present at least one guarantor who at least earns the minimum wage and has been employed for at least one year. These are not considered sufficient security by any standard for any financing organisation. The requirement is designed to force the entrepreneur to appreciate that he is responsible for people other than himself. Each entrepreneur must also be able to allocate 15 per cent of the loan. If the business is a partnership, the entrepreneur must hold at least a 50 per cent voting share.

Koret is responsible for management of the loan portfolio, providing a monthly report to Keren Shemesh reflecting the total value of outstanding loans, interest and other finance costs, as well as any late payments and/or loan defaults.

A key support partner in the delivery of entrepreneur support by Keren Shemesh is “MATTI”, a network of entrepreneur centres under the Government’s Ministry of Industry. MATTI provides business support services and refers any entrepreneur to

Keren Shemesh that fits their profile and is in need of financing. This partnership affords Keren Shemesh national coverage. A few private consultancy agencies provide the same referral services.

In cases where entrepreneurs are rejected for a loan through Keren Shemesh's partnership with Koret and Otsar Ha-Hayal Bank, Keren Shemesh operates an additional bilateral partnership with IFLA, a non-profit organisation that provides interest-free loans to disadvantaged individuals, businesses and NGOs in need. This constitutes only a small part of Keren Shemesh's portfolio (around 10 per cent), but it is an important component in expanding access to finance to underserved young entrepreneurs in Israel.

## *Recognising the value of non-financial support*

For reasons of risk and reputation, banks are reluctant to draw on guarantees to underwrite bad loans. The demonstrable value of the provision of the non-financial support to entrepreneurs by Keren Shemesh is crucial to securing and sustaining this lending partnership. In turn, mentoring is a crucial component.

As an external assessor of Keren Shemesh noted:

*“ By enabling the transfer of years of experience between generations, the programme has created a new paradigm in community service<sup>100</sup>”.*

Indeed the name of the organisation is derived from the added value of its mentoring programme. The “Shemesh” in “Keren Shemesh” denotes: “a unique mentors project that offers the young entrepreneur, in addition to a loan, a mentor – a spiritual guide – an experienced business person with interpersonal abilities to instruct, guide and train the young entrepreneur who is just starting out.<sup>101</sup>”

A volunteer mentor is matched on approval for a loan. So far 100 per cent of Keren Shemesh entrepreneurs are matched with a mentor, a critical component in their success. Keren Shemesh draws from a pool of 250 volunteers from the local business community to serve as mentors each for approximately five hours per month for up to two years. Three Israeli universities have supported the design of the mentoring programme.

Keren Shemesh's strategy includes a “commitment to mentors” to ensure their personal and professional development through experience with structured training, networking and awards. Keren Shemesh organises for example, an introductory seminar, monthly meetings, networking clubs, quarterly trainings on the relationship, learning tours, and “mentor appreciation” events.

The mentors' responsibilities include assessment of the entrepreneurs' training needs for recommendation to Keren Shemesh and a role in monitoring the entrepreneurs' business performance through quarterly (minimum) visit reports. Ultimately the aim for mentors “is to lead the entrepreneurs to independence from Keren Shemesh within an average of two years”, and if this is not possible, “to recommend continued assistance for a defined period of time”.

Beyond mentoring, different types of non-financial support are targeted at different stages in the loan application and management process to build the entrepreneur's capacity and potential for success in business, including as a reliable banking partner. Prior to loan application, entrepreneurs receive intensive support in the preparation and development of their business plan, delivered by MATTI and the other consultants involved in referrals. Up to seven hours of full-paid advice and consulting is provided, more if required in special cases.

In addition to this work with external business plan advisers, entrepreneurs are also offered a forty-hour ten-week business management course at MATTI centres, transferring key tools and skills for the entrepreneur's operations and marketing. The financing partners also play a role in developing the business plans and advising the entrepreneur

through interview. At the point of loan approval, there is another opportunity to receive non-financial support: the Loan Review Board has the authority to allocate thirty hours of additional external business advisory services with subsidisation of 75 per cent of the costs. The outsourcing of much of this training helps drive quality as well as efficiency.

This cross-sector lending partnership has facilitated a significant expansion in access to finance for young entrepreneurs in Israel. **A total of 775 young people have been assisted in starting and/or growing businesses, of whom 685 received a bank loan** (90 non-financial support only, including mentoring). These businesses have created **2,500 new jobs** and contributed approximately **NIS 350 million (USD 102 million) in revenues to the Israeli economy**, which in turn generate significant savings in social security. The average loan size of Keren Shemesh entrepreneurs is USD 20,000, which indicates that in recent years some USD 1.5 – 2 million in loans has been disbursed. Their businesses operate at an annual average turnover of USD 200,000 after three years. **Keren Shemesh is achieving a 90 per cent survival rate of start-ups after five years<sup>102</sup>**, a strong differentiator to the prevailing market average of 20 per cent.

The year-on-year performance has inevitably been affected by the economic climate. 2010 saw the lowest number of applications since the first loan was approved in May 2006. 388 applications were forwarded by Keren Shemesh to its financial partners, compared with 413 in 2006, 710 in 2007,

596 in 2008 and 470 in 2009. However, as a sign of a maturing partnership, the rate of approved loans has increased relatively gradually from 18 per cent in 2006 to 31 per cent in 2010. In 2011 Keren Shemesh aims to increase the number of new business start-ups from 120 in 2010 to 180 in 2012 (150 comprehensive support plus 30 non-financial support only) to a total of 370 per annum by 2015 – with a maximum write-off rate of 5 per cent.

### Loan disbursement: actual and projected 2006-2015

Year	Number of loans disbursed	Loan approval rate
2006	413	18%
2007	710	
2008	596	
2009	470	
2010	120	31%
2012	180	
2015	370	




Figure 12

90. World Development Indicators, 2009 <http://data.worldbank.org/indicator/NY.GDP.PCAPCD>  
 91. ILO Key Indicators of the Labour Market, 2004 [http://www.ilo.org/empelm/what/lang--en/WCMS\\_114240](http://www.ilo.org/empelm/what/lang--en/WCMS_114240)  
 92. [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba\\_fact\\_sheet\\_israel\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba_fact_sheet_israel_en.pdf)  
 93. Ibid  
 94. Ibid. According to the Global Entrepreneurship Monitor: Opportunity entrepreneurship is “where entrepreneurs are pulled into entrepreneurship because they recognize an opportunity that can improve or maintain their incomes or increase their independence”, as opposed to necessity entrepreneurship: “the pursuit of self-employment when there are no better options for work.” <http://www.gemconsortium.org/download/1311670746196/GEM%20GLOBAL%20REPORT%202010rev.pdf>

95. World Bank Doing Business 2011 <http://www.doingbusiness.org/rankings>  
 96. [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba\\_fact\\_sheet\\_israel\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba_fact_sheet_israel_en.pdf)  
 97. <http://www.kiedf.org/home/overview.html>  
 98. As at August 2011  
 99. [http://www.kiedf.org/home/programs\\_business\\_smallandmicro.html](http://www.kiedf.org/home/programs_business_smallandmicro.html)  
 100. YBI accreditation assess members on a range of key criteria, including governance, financial sustainability, quality and efficiency of service delivery, and is conducted independently through the Worshipful Company of Management Consultants based in the UK. Accreditation conducted February 2011  
 101. Keren Shemesh Operations Manual  
 102. As at August 2011

*The following case study features TechnoServe, who helps hard-to-reach entrepreneurs access cash awards, loans and investments based on a programme of non-financial support delivered through its business plan competition.*

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## **TECHNOSERVE CASE STUDY: TechnoServe builds financing partnerships to expand its business plan competition in Central America and the Andean regions for hard-to-serve entrepreneurs**

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A poster advertising TechnoServe's business plan competition

## Introduction

Business plan competitions have become a popular development methodology to identify and, to varying extents, to train aspiring entrepreneurs. Yet access to the necessary start-up capital to implement their idea can remain a challenge even for successful candidates. In a full-scale study of its thirteen Central American competitions, TechnoServe found that 73 per cent of participants who did not achieve business success cited lack of access to capital as the most significant obstacle<sup>103</sup>.

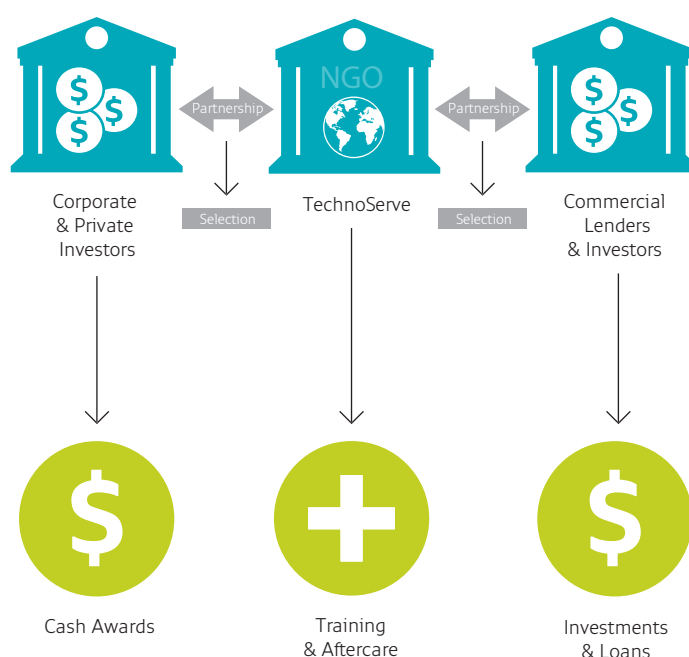
In response, TechnoServe is pioneering opportunities to integrate financing (and market access) into their business plan competitions through partnerships created in recognition of the value of the non-financial support they provide to Competition winners and finalists. The competition is essentially a training and networking programme delivered in the most part over a period of around eighteen months. Two main financing avenues are being established. First, private and corporate donors are providing seed capital in the form of no-interest loans or grants as cash awards to selected entrepreneurs delivered in phased instalments throughout the competition's 18-month aftercare support. Second, linkages to a range of commercial lenders, including banks, microfinance institutions, private equity, social investment funds and angel investors are making available debt and equity funding as appropriate to the specific needs of each enterprise.

These partners recognise that the entrepreneurs supported by TechnoServe are well positioned to succeed in business and need primarily capital to start and scale. From the point of view of the commercial lenders, the risk of their investments has been reduced. Indeed entrepreneurs in receipt of TechnoServe's non-financial support demonstrated significantly improved performance on a range of measures: sales growth; job creation; likelihood to formalise; survival rates; and importantly, ability to mobilise further capital to grow their business. TechnoServe is identifying innovations to evolve this integrated approach to ensure that the needs of the entrepreneurs, and the expectations of the financial partners, continue to be met effectively.

## Structure of the access to finance partnership

Establishing partnerships to support access to start-up or growth capital is a significant extension of TechnoServe's national business plan competitions (BPCs). Drawing on the experience and evidence from the competitions in thirteen Central American countries and four Andean countries in particular, the diagram below denotes the structure of TechnoServe's access to finance partnerships:

Figure 13



By nature of applying to the competition, participants have been unsuccessful in sourcing adequate assistance to launch or scale their business. The training and aftercare programme designed by TechnoServe increases the likelihood of accessing finance. TechnoServe developed two main financing routes for high-performing candidates in the competition: (i) cash awards (grants and no-interest loans); (ii) investments and loans with interest.

The **cash awards** are the first and most significant in terms of number of entrepreneurs supported. Up to fifteen participants are awarded, who perform strongly throughout the competition and are judged to have the strongest business plans at the end. The cash is allocated through a series of disbursements, each on the basis of compliance with a set of pre-agreed performance milestones to encourage

commitment and discipline. Awards typically range between USD 6,000 and USD 12,000. The funding for these is provided by corporate and private donors.

To enable access to **investments and loans** for competition winners and finalists, Technoserve has developed a series of bilateral partnerships with lenders and investors. Potential partners are identified by Technoserve and each partnership is created and built on a one-to-one basis. Different suppliers have different motivations, but the common denominator in partnering with Technoserve is the recognition of the value of the non-financial support.

*Different suppliers have different motivations, but the common denominator in partnering with Technoserve is the recognition of the value of the non-financial support.*

There are three broad categories of partners for investments and loans. First, commercial banks and microfinance institutions (MFIs). Banks tend to lack the time, information and outreach required to lend effectively to at-risk entrepreneurs, and are unwilling to bear the disproportionate costs of small transactions. They are also typically risk-averse in their approach to growing their portfolio, prioritising established entrepreneurs. MFIs, on the other hand, tend to struggle to supply larger loans beyond traditional working capital, so entrepreneurs are ‘squeezed’ between these two sources.

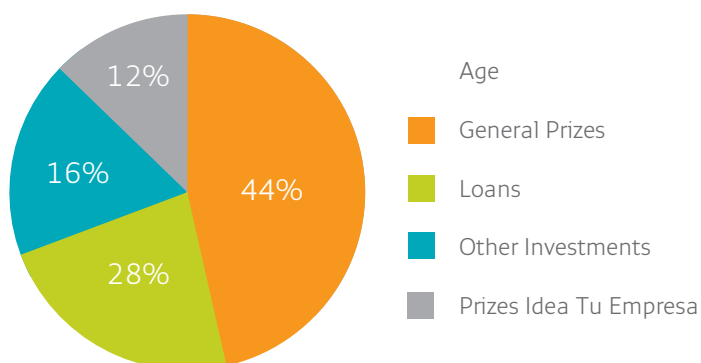
**The non-financial support that the potential clients have received from Technoserve is recognised for significantly reducing the risk of lending.** Normally reluctant financiers readily assess recommended applications. Normally the institutions apply their standard screening, scoring and lending procedures, but in Venezuela, one bank, Banco Mercantil, has entered into a lending partnership where Technoserve takes responsibility for selection. Importantly, through this mechanism, the entrepreneurs become fully fledged clients of the

bank, a significant step in enhancing their future bankability credentials.

The second category is private equity and social investment funds. Technoserve has found that these partnerships are more difficult to broker because of the funds’ typically very rigorous due diligence and high return expectations. As a result, Technoserve approaches the funds on behalf of a particular entrepreneur, having ensured that all the scoring criteria are met. It is a targeted and relatively labour-intensive process, but the Technoserve entrepreneurs are building up a track record of success, which may in time help develop a more systematic partnership for future applicants. Again, standard fund terms apply, and the investment becomes part of the fund’s main portfolio.

The third and final category is angel investors. Again, Technoserve establishes one-on-one funding relationships for selected entrepreneurs. Typically the approach comes from the investor, who defines their demands to Technoserve, who in turn identifies potential candidates for consideration by the investor, based on their defined requirements. Eight competitions were held in the four Andean countries. Of the entrepreneurs who managed to access finance, 56 per cent were winners who received cash awards. The other 44 per cent – judged as finalists – secured capital for their business as a formal loan or an equity investment: 28 per cent loans, compared with 16 per cent equity.

**Breakdown in forms of Business Plan Competition financing: predominantly prizes, rather than formal loans or equity**



**Figure 14**



Technoserve has calculated that the cost of connecting entrepreneurs to a suitable lender or investor is between USD 2,000 and USD 8,000 per entrepreneur. This cost includes the resource involved in identifying and matching funders as well as in delivering financial training to the entrepreneurs to build their investment-readiness.

*Technoserve has calculated that the cost of connecting entrepreneurs to a suitable lender or investor is between USD 2,000 and USD 8,000 per entrepreneur.*

The competitions are open to entrepreneurs with 'inclusive' business plans i.e. they benefit people at the bottom of the economic pyramid as a supplier, a distributor, a customer or a partner. In some markets they prioritise applicants with a business idea in certain sectors of strategic importance to the relevant country. For example, in Colombia there was an emphasis on the fields of energy, food, health, housing, basic services and information technology. In Honduras, there were three competition categories: agro-industry, manufacturing and tourism.

## *Recognising the value of non-financial support*

The Technoserve business plan competition is a training and networking programme delivered in the most part over a period of around eighteen months. Finalists receive a range of non-financial support in phases from trainers and private mentors. There are four main components of the training, focusing on developing a business plan with the ultimate goal of raising capital at the end of the programme. Established local entrepreneurs provide personalised feedback on candidates' plans. Participants in the Andean competitions were asked to rate each component of the training out of five. Support on how to build a business plan and support in entrepreneurial vision both ranked highest with 4.2, followed by organisational structure support with 3.9 and financial training with 3.3.

Finalists receive post-competition non-financial support over about a year, including mentoring and consultancy, as well as vouchers for business services. For example, the South American BPCs supported by the Microfinance Investment Facility of the Inter-American Development Bank offer finalists up to one year of "light-touch ongoing services after the competition, consisting primarily of ad hoc consultancies and access to business networks".

Central American entrepreneurs participating in the early competitions where no aftercare was provided reported a need for sustained support to address unexpected challenges such as entering a new market, negotiating with large customers and raising capital from alternative sources. Allowing for the effects of the different environments, Technoserve's research has found that when aftercare support is provided, the Return on Technoserve Investment (ROTI<sup>104</sup>) is 70 per cent higher. The precise services offered vary by country, depending on the local partnerships and supporters. For example, in Venezuela, where about a third of the population lives on less than a dollar a day, Technoserve is working with Cargill who offers opportunities to participate in its supply chain. Training in financial capability has become a core component to complement and improve the likelihood of success of the practical component connecting entrepreneurs to lenders and investors. The training helps entrepreneurs in cash management and alternative capital-raising.

In order to reach potential applicants to the BPC in the first instance, Technoserve engages in a range of mass and targeted marketing initiatives, from newspaper advertisements to screening the supplier and employee databases of large companies. Applicants are screened according to a Test for Entrepreneurial Ability, designed by a Harvard economist. The test has three components: fluid intelligence ("street smarts"); entrepreneurial personality; and an intuitive (not knowledge-based) business case. In the microfinance context, this test has been shown to be a more accurate predictor of the likelihood of loans being repaid than traditional credit-scoring mechanisms. It is

also designed to predict more accurately future business profitability. This test, which measures a person's talent rather than knowledge, is intended to improve the previously less reliable section criteria, and also 'level the playing field' between poorly- and well-educated entrepreneurs, expanding the programme's inclusiveness<sup>105</sup>.

The range of financial partners that Technoserve is developing to enable access to finance for its successful BPC entrants demonstrates the level of interest in finding ways to expand portfolios to support potentially riskier businesses.

**Underlying all these partnerships is the recognition that the non-financial support provided through the competitions improves the likelihood of the entrepreneurs being successful over the long-term.**

To measure the impact of the BPCs, Technoserve undertook a full-scale study of its thirteen Central America competitions. They compared the performance of the businesses supported through the competition with that of those businesses that were rejected from the programme. Business performance was measured by a range of indicators: sales growth; job creation; capital mobilisation; launch and sustainability rates. The study found that relative to non-participants, participants:

- generated 2x the one-year sales growth and 2.5x the two-year sales growth;
- created nearly 2.5x more jobs over two years;
- mobilised nearly 3x as much capital;
- were 1.5x more likely to follow through on their plans to start or expand their business, and then much more likely to formalise it; and
- (amongst new businesses) were nearly twice as likely to survive two years<sup>106</sup>.

The non-financial support was also shown to deliver consistent improvements, with performance improving from the early to the late phases of the competition. **The study also showed that the BPCs generated USD 3.70 in client business sales over three years for every programme dollar spent and one full-time job per USD 700 spent.**

According to the latest monitoring of the Andean participants, average sales per entrepreneur increased by 220 per cent before and after the competition. Half of the businesses that entered the competition merely as an idea were supported to launch. The number of jobs created by the supported businesses rose by 96 per cent, an increase of five jobs on average per entrepreneur, following the competition. This equates to 1,056 additional jobs across the four countries. Some 250 per cent more people from the base of the pyramid were involved in the value chain of each business on average<sup>107</sup>.

The significance of having access to finance for business performance was also captured in the assessment of the Andean competitions, by comparing the relative success of those entrepreneurs that managed to access capital with those that did not. In terms of job creation, those entrepreneurs in receipt of some form of funding increased the number of jobs in their business by an average of 110 per cent after the competition, whilst employment opportunities grew by 57 per cent in businesses where the owner had been unable to attract additional capital after the competition. In terms of likelihood to launch, 46 per cent of entrepreneurs that secured funding turned their business idea into a reality, whereas just 13 per cent reached take off without raising more capital.

**Increase in job creation on average per entrepreneur**

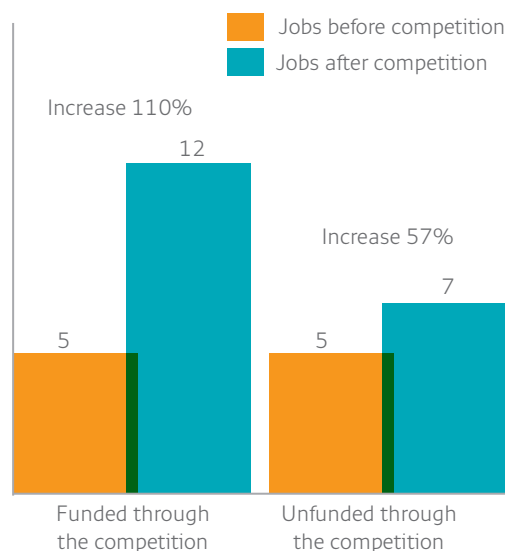


Figure 15

The growing evidence base of the improved performance of businesses supported by the training and networking of TechnoServe's BPC programme is helping to develop new and strengthen existing partnerships with financial suppliers, and significantly increase access to finance for disadvantaged entrepreneurs. Across the four Andean competitions, more than **1,000 new jobs** have been created by the supported businesses in the past three years, and an **increase in sales of USD 8 million** has been reported. The majority (69 per cent) of entrepreneurs were able to access some form of financing. Yet there remains a financing gap: almost a third (31 per cent) of participants were still excluded, even after receiving the non-financial support from the competition's training and networking programme.

*Yet there remains a financing gap: almost a third (31 per cent) of participants were still excluded, even after receiving the non-financial support from the competition's training and networking programme.*

Technoserve continues to apply the learning from evaluating the different competitions, to ensure that it maximises the opportunities for at-risk entrepreneurs to access finance to start and grow their business.

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103. According to a 2009 survey of 590 participants and non-participants to evaluate the Business plan competitions. The proportion would naturally be higher for entrepreneurs who have not received any non-financial support. In these countries, as elsewhere, financial and entrepreneurial ecosystems are relatively weak and exclude many aspiring entrepreneurs from long-term success.

104. ROTI calculates impact per dollar spent e.g. in terms of revenues created by TechnoServe-supported enterprises

105. Early results are positive. Although not comparing like with like, it is

noteworthy that in Peru, where this Test was not used, entrepreneurs improved sales by 287 per cent in their first year of operations after the competition; whereas in Ecuador, where the Test was applied, sales over the same period increased by 1,059 per cent. Of course many other factors will have affected the difference in results, plus further improvements to the BPC were made between these two experiences.

106. Business plan competitions Study 2009, TechnoServe Practice Brief <http://www.technoserve.org/assets/documents/bpc-practice-brief.pdf>

107. As at end June 2011

*The following case study illustrates the value of non-financial support being recognised as a matched funding equivalent by a development bank.*

## **YBI CASE STUDY 6: The Inter-American Development Bank (IDB) monetises non-financial support to scale youth entrepreneurship initiatives in Argentina, Colombia and Mexico**



Hugo Choque established his Serigraphy silkscreen business with support from YBI Argentina member, Fundación Impulsar.

## Introduction

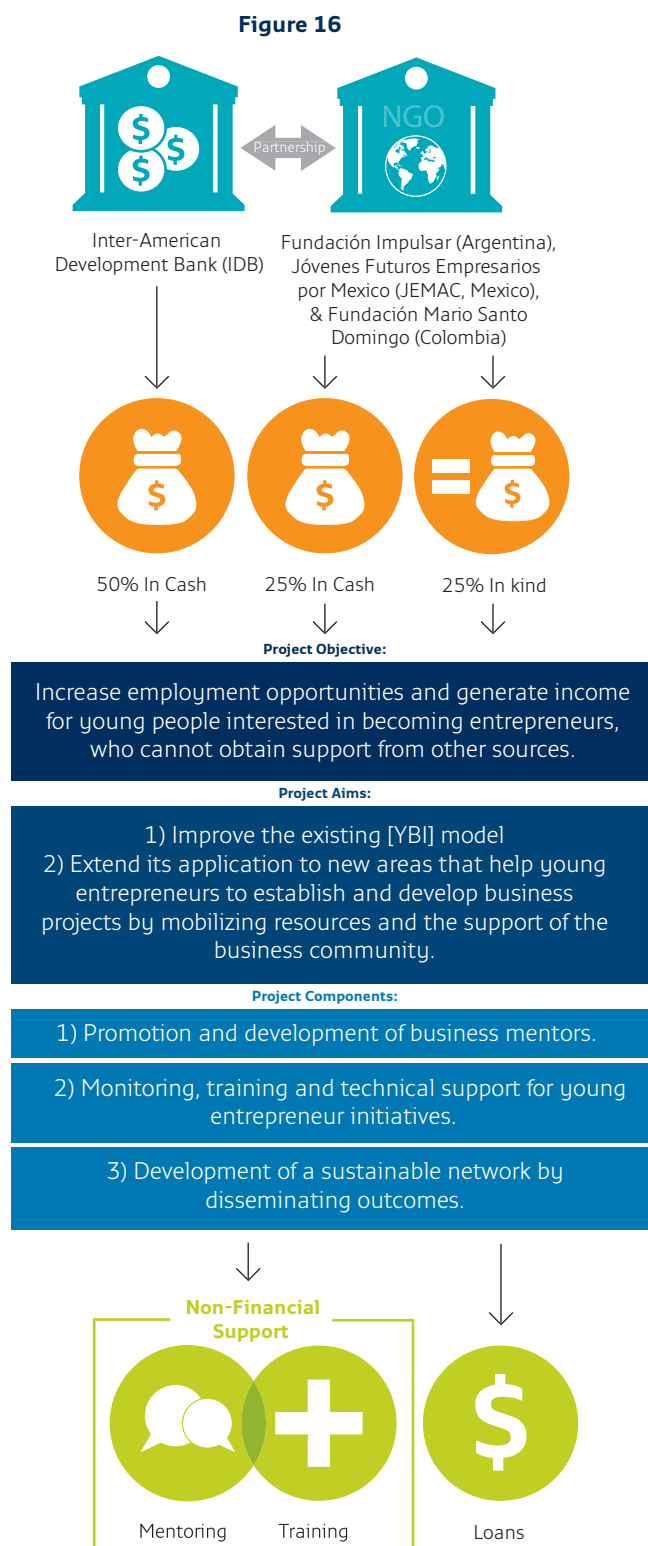
Research by the Inter-American Development Bank (IDB) has demonstrated the importance of providing both financial and non-financial services for effective entrepreneurship support. Bank-commissioned studies demonstrate: “the need to develop integrated strategies for training entrepreneurs, including corporate culture, business support networks, financing, and entrepreneurial skills.” Furthermore, mentorship is considered a fundamental part of these ‘integrated strategies’: “a key factor in training entrepreneurs is the use of exemplary entrepreneur models that young entrepreneurs feel inspired to imitate. Nevertheless, in Latin America very little use is made of more experienced entrepreneurs as role models, compared with Asian countries.<sup>117</sup>”

In 2004-05 IDB developed an agreement with three YBI members to improve the reach and sustainability of youth entrepreneurship support across Argentina, Colombia and Mexico<sup>118</sup>. The agreement was made possible by the IDB recognising the monetised values of mentoring and other non-financial services, in the calculations of their matched funding requirements. The IDB contributed over USD 3.4 million to the total USD 7 million project; the remaining counterpart contribution was divided almost equally (27%:25%) between cash and in-kind components. The ‘in-kind’ contribution represents the monetisation of the non-financial services provided by the three participating organisations, Fundación Impulsar of Argentina, Jóvenes Futuros Empresarios por Mexico (JEMAC) and Fundación Mario Santo Domingo of Colombia (delivered through Jóvenes Empresarios de Colombia, JemCOL<sup>119</sup>).

The project was implemented across the three countries over 2005-09 for evaluation in 2010, reaching some 1,200 young entrepreneurs, who created a total of approximately 3,200 jobs in the region. USD 2.4 million in loans was disbursed.

## Structure of the access to finance partnership

The scheme below provides an overview of the structure of the IDB-YBI project. As well as documenting the project objective and aims, it shows the three main project activities or ‘components’ that make up the 25 per cent in-kind contribution to the total funding:



The 75 per cent-25 per cent split between financial and in-kind contributions in the overall project funding shows how non-financial support can be valued to improve the viability of supporting young entrepreneurs. This 75 per cent-25 per cent funding breakdown of the total USD 7,080,000 project is presented in more detail below:

### Breakdown of IDB and counterpart funding (in USD)

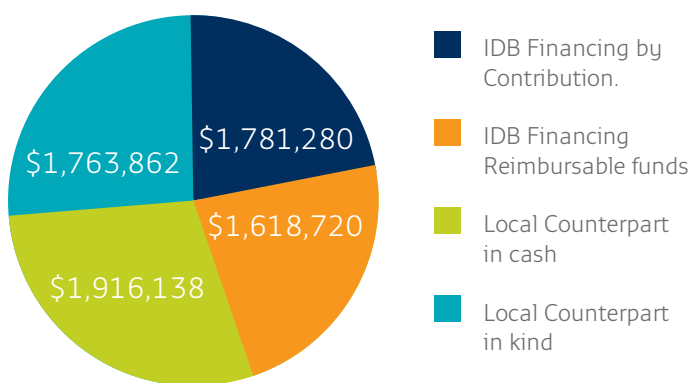


Figure 17

As per standard IDB stipulations, an overall 1:1 ratio of IDB to counterpart funding was required. The IDB allocated USD 3.4 million (48 per cent of the total) to the project, and the local counterparts across the three countries contributed USD 3.7 million

(52 per cent of the total). Just over half of the IDB's funding was reimbursable (over a ten to twelve year repayment period without interest); just under half was non-reimbursable ("By Contribution").

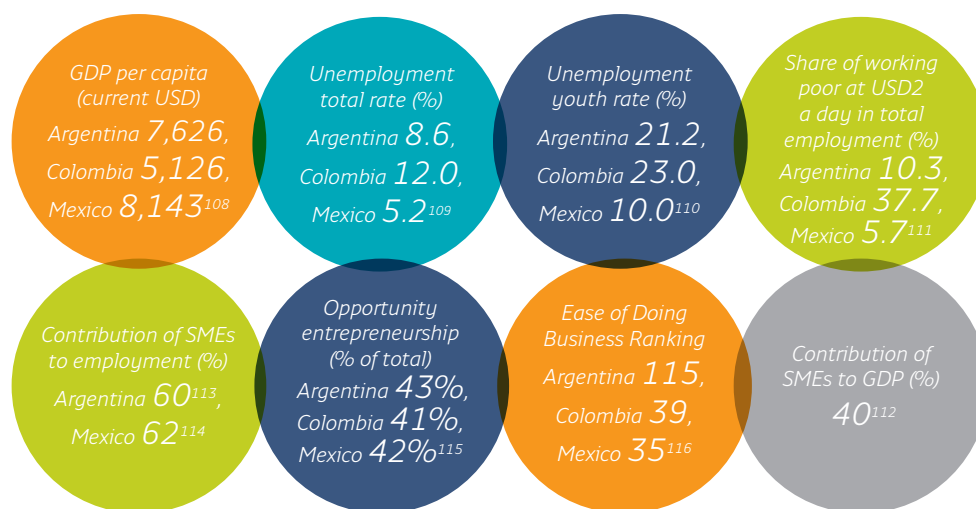
The innovation is in the make-up of the local counterpart contribution: instead of the full match-funding requirement simply being met in money, around half of it (a quarter of the full project funding) was accounted for through calculating the monetary value of the non-financial support provided by/to YBI members. This was known in the budgeting as 'in-kind' rather than 'cash' contributions. The full breakdown of the core and counterpart financing is set out in the table below. It shows:

- The 48%:52% split between the core and counterpart financing
- Of the local counterpart financing, the 52%:48% split between the cash (27%) and in-kind (25%) components
- The split of both the core and the counterpart financing across the three organisations

The cash components of the local counterpart contributions came from a variety of sources, including loan repayments of the entrepreneurs; foundations; government grants; fundraising events; private sector partners.

Figure 18

	Fundacion Impulsar	% of total	JEMAC	% of total	Fundacion Mario Santo Domingo	% of total	Total	% of total
IDB Financing <sup>120</sup>	1,500,000	47%	1,000,000	45%	900,000	54%	3,400,000	48%
Non Reimbursable funds	674,400		594,400		512,480		1,781,280	
Reimbursable funds	825,600		405,000		387,520		1,618,720	
Local Counterpart	1,710,000	53%	1,200,000	55%	770,000	46%	3,680,000	52%
Cash	910,000		612,485		393,653		1,916,138	(27%)
In-kind	800,000		587,515		376,347		1,763,862	(25%)
<b>Total</b>	<b>3,210,000</b>		<b>2,200,000</b>		<b>1,670,000</b>		<b>7,080,000</b>	



## Recognising the value of non-financial support

**IDB recognised that non-financial support has a monetary value.** Four components made up the final calculation of the non-financial support. By far the most significant contributor was the mentoring provided by the YBI members to the young entrepreneurs. The value of the mentoring was calculated by multiplying a stipulated number of hours delivered by an accepted market rate for the services. In terms of the number of hours stipulated, mentors were expected to spend a minimum of three hours per month with their entrepreneur; and in terms of an accepted market rate, the standard per hour rate of USD 30 was halved to USD 15 / hour:

**[3 hours min per month] x [USD 15 per hour]**

The IDB set key qualifications for participating mentors: (i) business experience; (ii) a commitment to devote at least three hours a month to youth; (iii)

a clean record as an honest entrepreneur; and (iv) a willingness to encourage the young, be patient, and establish a good relationship with the target group. Importantly the entrepreneurs received training in addition to their mentoring in a range of modules, including how to start a Micro enterprise; how to draw up business plans; how to conduct a market study; how to handle cash flow; and business administration. In total, 839 mentors participated in the project: 318 in Argentina, 170 in Mexico and 351 in Colombia.

The other three components of the calculation were the monetary equivalent values of pro bono services for (i) the administration, (ii) auditing and (iii) legal advice of the project. The country-by-country breakdown has been calculated in the table below. The total values correspond to the country 'in-kind' figures in Figure 18.

**Figure 19**

	Argentina		Mexico		Columbia	
Promotion and Development of mentors	669,600	84%	504,315	86%	316,202	84%
Legal Advice	16,000	2%	28,000	5%	-	0%
National administration of the organization	94,400	12%	43,000	7%	40,144	11%
Audits	20,000	3%	12,000	2%	20,000	5%
<b>Total</b>	<b>800,000</b>		<b>587,515</b>		<b>376,346<sup>121</sup></b>	

*I find it interesting to help someone from the professional perspective and see how useful my knowledge could be for others.*

*Through the contribution made I see how the beneficiary can organise his enterprise and make decisions based on real data and information and not rely solely on their desires or perceptions.*

*I help the entrepreneurs manage and grow their business and provide knowledge of markets. Many times you learn alongside the entrepreneur and it is important to know your limitations. The experience as a mentor is highly rewarding. It allows you, along with the economic support [provided by Fundación Impulsar], to help transform a dream, job or a person's ability into a means of living.*

**Federico Rivelli, aged 30, Argentinean, male,  
7 years as a mentor for Fundación Impulsar, 3 entrepreneurs served**



The evaluation of the original Latin American project shows implementation met projected targets on a range of measures. Nearly 1,200 young entrepreneurs were supported in total across the three countries (563 in Argentina, 305 in Mexico, 320 in Colombia). These entrepreneurs created some 3,200 jobs (955 in Argentina, 1,738 in Mexico, 500 in Colombia), equivalent on average to 2.7 jobs per entrepreneur over their first four years in business. The rate of job creation in Mexico was considerably higher at 5.7 jobs per entrepreneur. Around half of the businesses started by the young entrepreneurs were in the services sector in both Argentina and Colombia. In Argentina, there was an equal divide in the remaining businesses between industry and trade, but in Colombia the divide was more pronounced: 41 per cent industry, 8 per cent trade<sup>122</sup>.

The eligibility criteria set by the IDB for the young people to receive support through the project were:

1. be between 18 and 30 years of age
2. be unemployed or underemployed
3. have an economically viable business idea
4. apply personal skills or knowledge to the project
5. have no access to other sources of financing
6. be socioeconomically disadvantaged
7. have no criminal case pending with the authorities, including environmental authorities.

In Mexico, 78 per cent of the young entrepreneurs

were unemployed or underemployed before the programme, 58 per cent considered themselves as economically disadvantaged and 87 per cent did not have access to other sources of financing<sup>123</sup>. Levels of education tended to be relatively higher in Colombia and Argentina, although exclusion from access to mainstream finance was still defining.

A total of USD 2.4 million of loans were disbursed, half in Argentina. The average loan size was similar in all three countries: around USD 2,000. A maximum loan amount of USD 3,000 was set up front by the IDB.

Loan repayment rates exceeded the Bank's expectations and requirements: targets were set at 60 per cent in the first year; 65 per cent in the second year; 70 per cent in the third and fourth years. At the end of the first year (2006), the average repayment rate in Argentina was 87 per cent and in Mexico 92 per cent, but they fell to between 70 per cent and 75 per cent over subsequent years, largely as a result of the financial crisis. In Colombia the rate was 85 per cent every year of the project.

This leading practice by IDB of monetising mentoring in particular shows how non-financial support can be valued to enable greater access to finance for young entrepreneurs. This funding structure has been replicated in a USD 2.5 million project across four countries through YBI members in Barbados, Guyana, Trinidad & Tobago and Belize.

108. World Development Indicators 2009

109. ILO Key Indicators of the Labour Market 2009

110. ILO Key Indicators of the Labour Market Argentina & Mexico 2009, Colombia 2008

111. ILO Key Indicators of the Labour Market 2006

112. For Argentina and Mexico [http://www.espae.espol.edu.ec/images/documentos/publicaciones/documentos\\_trabajo/entrepreneurship/CriticalAspects.pdf](http://www.espae.espol.edu.ec/images/documentos/publicaciones/documentos_trabajo/entrepreneurship/CriticalAspects.pdf) and [http://siteresources.worldbank.org/INTDEVIMPEVAINI/Resources/3998199-1286435433106/Mexico\\_Impact\\_Evaluation\\_of\\_SME\\_Programs\\_Nov26th.pdf](http://siteresources.worldbank.org/INTDEVIMPEVAINI/Resources/3998199-1286435433106/Mexico_Impact_Evaluation_of_SME_Programs_Nov26th.pdf)

113. <http://cfed.org/assets/pdfs/FUNDES.pdf>

114. [http://siteresources.worldbank.org/INTDEVIMPEVAINI/Resources/3998199-1286435433106/Mexico\\_Impact\\_Evaluation\\_of\\_SME\\_Programs\\_Nov26th.pdf](http://siteresources.worldbank.org/INTDEVIMPEVAINI/Resources/3998199-1286435433106/Mexico_Impact_Evaluation_of_SME_Programs_Nov26th.pdf)

115. Global Entrepreneurship Monitor 2010. Opportunity entrepreneurship is "where entrepreneurs are pulled into entrepreneurship because they recognize an opportunity that can improve or maintain their incomes or increase their

independence", as opposed to necessity entrepreneurship: "the pursuit of self-employment when there are no better options for work."

116. World Bank Doing Business 2011 <http://www.doingbusiness.org/rankings>

117. 'Entrepreneurship in Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia', Inter-American Development Bank, 2002 <http://www.cietec.org/documentos/Libro%20BID%20Entrepreneurship.pdf>

118. The project was initially conceived for four members, but Brazil was not part of the final agreement

119. The JemCOL programme was suspended at the close of the IDB project due to lack of sustainable resourcing

120. All figures are expressed in US dollars

121. Again, all figures are expressed in US dollars

122. Data in this area for Mexico is unavailable

123. According to a study conducted by the project evaluators (available in Spanish only)



*The following case study features Silatech, who provides micro loans to young people in business through a partnership in Yemen with a microfinance bank.*

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## **SILATECH CASE STUDY: Silatech partners with Al-Amal Microfinance Bank in Yemen to give young entrepreneurs their first opportunity to access formal finance**

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Entrepreneur Fuad Al Suwari was able to establish his handicrafts production business with a loan from the Silatech Youth Loan Fund in Yemen

## Introduction

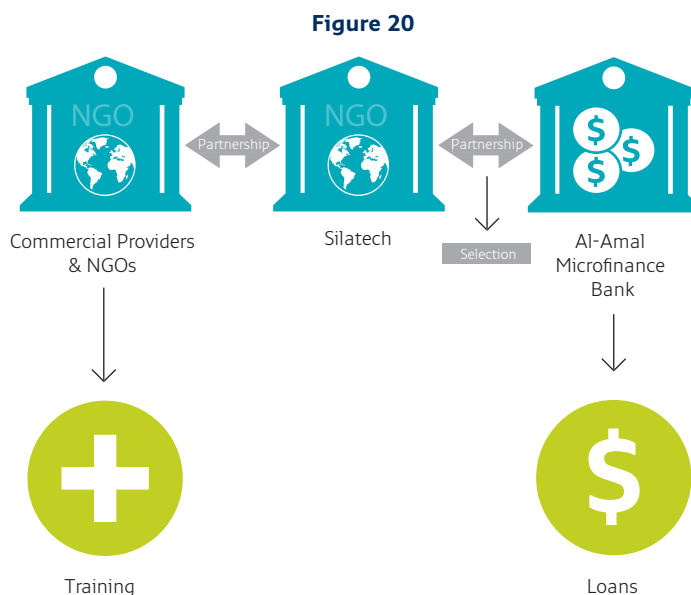
Although financial sectors tend to be large relative to GDP across the Middle East and North Africa (MENA), access to financial services remains relatively restricted, especially for young people. Yemen is one of the most economically challenged countries in the Arab world, with average annual incomes of USD 1,100 and unemployment levels over 20 per cent<sup>124</sup>. Just 10 per cent of the population have access to bank deposits<sup>125</sup>. Young people make up a third of the country's population and over 40 per cent are currently unemployed. They are being particularly excluded from formal financing by market bias against them, where older, more established clients are typically preferred over newer, younger ones<sup>126</sup>.

In response, Silatech established a strategic partnership with Al-Amal Microfinance Bank (AMB) in 2009 to launch a joint Youth Loan Fund to facilitate access to loan capital and non-financial support to young Yemenis aged between 18 and 30. The partnership has a specific objective to support young people through the transition from micro enterprise to small business, with a strong emphasis on long-term sustainability and job creation. For many of the young clients, these loans provide their first experience of formal finance.

The terms of the partnership are based on Silatech's microfinance team's experience providing sustainable entrepreneurship support for young people in other parts of the world. For AMB, the combination of financial and non-financial support services is crucial to successfully providing credit to a youth client base. As a result, the bank has been able to waive its usual requirement of a six month minimum business operating experience to accept applicants with no prior experience or track record. Since December 2009, over 9,700 youth owned business have received formal financing for the first time, creating or sustaining an estimated 15,000 youth jobs. Youth loan products now constitute the bank's fastest growing segment and over 40 per cent of its business.

## Structure of the access to finance partnership

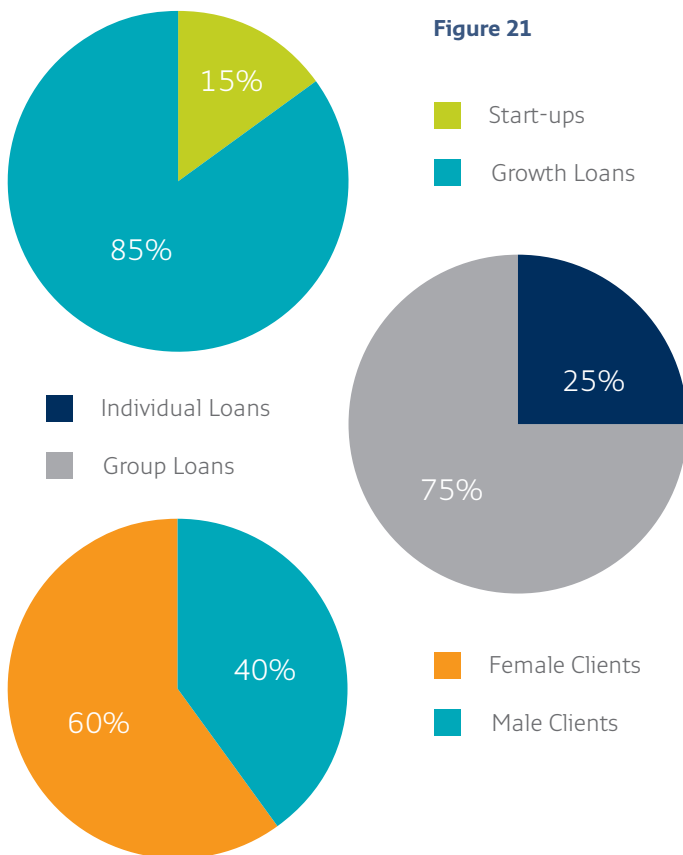
The diagram below captures the lending partnership between Silatech and Al-Amal Microfinance Bank in Yemen.



The Youth Loan Fund is the first of its kind in Yemen, and open to any young local person aged 18-30 who has been unable to access formal sources of finance to support their business needs. AMB is responsible for the screening and selection of applicants to the Fund, based on its existing client qualification standards. The same terms of interest and repayment rates as AMB's other loan products also apply. Typically loan terms are six to twenty-four months. Both start-up and business expansion loans are available between USD 50 and USD 1,000 per applicant, depending on their needs. Average loan sizes are around USD 250. Loans for start-ups are typically smaller.

For new businesses, group lending is available, and indeed preferred by AMB as an additional method to offset the risk of lending. The maximum group size is eight and the average size is five. The gender balance is overwhelmingly in favour of women. Start-ups represent around 15 per cent of the total portfolio of the Youth Fund, with a split between group loans and individual loans of 75/25. Young women make up 60 per cent of all clients and 75 per cent of start-up loan clients.

## Youth Loan Fund portfolio overview



A key factor in this partnership is the training and other non-financial services that the young entrepreneurs receive. Pre-finance training received by Fund applicants is considered an alternative form of guarantee. Young people who have received non-financial support from AMB validated training institutions are offered “priority access” to applying for loans from the Fund.

As a result, the bank has been able to waive its usual requirement of a six month minimum operating experience to accept applicants with no prior experience or track record.

In order to facilitate the establishment of the joint Youth Loan Fund, Silatech provided a seed investment in the form of a concessional loan, matched by AMB. Prior to launch, Silatech also provided technical assistance through a grant and in-kind support to test the market demand for formal financial services among the target youth demographic.

## Recognising the value of non-financial support

*The crux of the partnership between Silatech and Al-Amal Bank is the integrated approach to entrepreneurship support – providing access to credit linked to the receipt of pre- and post-loan non-financial support.*

The crux of the partnership between Silatech and Al-Amal Bank is the integrated approach to entrepreneurship support – providing access to credit linked to the receipt of pre- and post-loan non-financial support. Silatech and AMB have brokered a broad range of agreements with educational and training institutions, non-governmental organisations (NGOs) and civil society organisations (CSOs) that support self-employment opportunities for youth and private training providers that provide post financing business development services.

Providers are validated by AMB through reviewing and testing their curriculum to determine relevance to client needs and through in-person meetings with management and training teams to assess factors such as delivery capacity and professionalism. A formal agreement is signed between AMB and approved providers.

Pre-finance training starts with preparing young people for self-employment. Entrepreneurship education is delivered by partners either as part of the core curriculum (schools, technical colleges and universities) or as stand-alone programmes (in the case of NGOs and CSOs).

Pre-finance training also includes business training and incubation services as well as support to develop a business plan. In 2011 the pre-finance support on offer is being extended to include financial literacy training and mentorship support, both pre- and post-financing, through local and regional voluntary mentoring platforms.

Successful young clients are eligible for ongoing business development services after they receive financing to help them sustain and grow their business. The training is delivered in two tracks: managerial, covering

the general aspects of growing a successful business; and technical, focusing on sector-specific needs. Silatech and partners arrange this training through commercial providers at a subsidised rate, although the young business owners are expected to pay a reasonable fee. The courses range from a one-off one-day session, to a few hours weekly over a period of one to one-and-a-half years, to daily night classes for two to three weeks.

Silatech has begun an evaluation of these post-finance business development services using indicators including client revenues, repayment rates, uptake of additional financial services and employment creation.

Since December 2009, over **9,700 youth-owned businesses** have received formal financing for the first time, creating or sustaining **an estimated 15,000 youth jobs**. Youth loan products now constitute the bank's fastest growing market segment and over 40 per cent of its business.

*Youth loan products now constitute the bank's fastest growing market segment and over 40 per cent of its business.*

AMB now openly recognises that young people were an under-served segment of the (micro-)finance market in Yemen and one that continues to offer significant opportunities for growth.



*“Before Silatech, we at AMB did not fully appreciate the opportunity of investing in youth. By working with Silatech to change our lending policies to intentionally focus on youth we have seen significant positive impacts,”*

*Mohammed Al-La'i, AMB CEO<sup>127</sup>.*



Moreover, there has been a measurable shift in the bank's perceptions of lending to young entrepreneurs:



*“the youth we loan to have proven to be excellent, reliable clients, something which has changed perceptions amongst our staff and the wider community about the responsibility and maturity of young people in Yemen<sup>128</sup>.”*

*Mohammed Al-La'i, AMB CEO .*



Recognising the strong performance of the partnership and the significant market demand, Silatech and AMB have now mobilised close to USD 5 million for this Fund through their own and other investments, and have committed to extend financial and non-financial support to an additional 50,000 young business owners by 2013. It is estimated that these loans will create or sustain around 75,000 youth jobs over the same period.

Silatech and AMB are working closely to build on the success of the partnership, through the development of new youth-focused products and services as well as marketing and outreach solutions using regional and global partnerships and innovative technologies. One new product set to launch in 2011 is a Youth Savings Scheme, which will provide young people and their families with a safe place to deposit their savings and accumulate assets over time.

Silatech works with over ten microfinance organisations in five Middle East and North African (MENA) countries to develop initiatives that increase youth access to financial services. Silatech has the objective of supporting 150,000 young people across the MENA region access sustainable financial services by 2013.

124. [http://www.silatech.com/index.php?option=com\\_content&view=article&id=102&Itemid=34](http://www.silatech.com/index.php?option=com_content&view=article&id=102&Itemid=34)

125. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/EXTMNAREGTOPPOVRED/0,,contentMDK:22746249~pagePK:34004173~piPK:34003707~theSitePK:497110,00.html>

126. [http://www.silatech.com/index.php?option=com\\_content&view=article&id=180&Itemid=143](http://www.silatech.com/index.php?option=com_content&view=article&id=180&Itemid=143)

127. [http://www.silatech.com/index.php?option=com\\_content&view=article&id=158:youth-microfinance-initiative&catid=33:yemen&Itemid=84](http://www.silatech.com/index.php?option=com_content&view=article&id=158:youth-microfinance-initiative&catid=33:yemen&Itemid=84)

128. Ibid

# Section Four

## Lessons from the case studies

The nine case studies in this report illustrate that, when lending to young and other underserved entrepreneurs:

Providing non-financial support alongside finance reduces the risk of lending and increases the likelihood of business success.

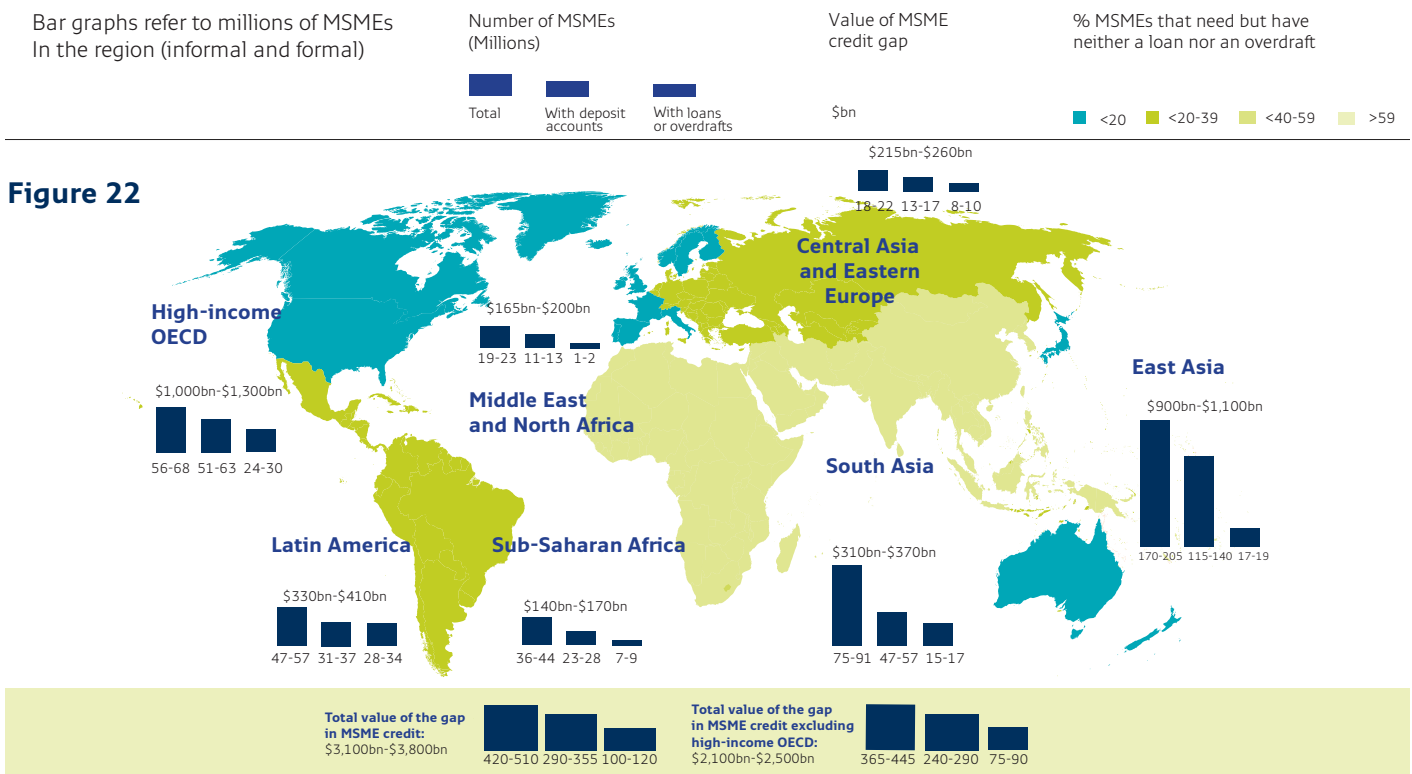
Non-financial support should be recognised in the same way as collateral and other types of guarantee.

Recognition of non-financial support by financial institutions – and others supporting the sector – will enable greater access to capital.

**SMEs contribute significantly to sustainable economic development through job creation and innovation, yet they continue to face significant barriers to accessing adequate start-up and growth capital. Young people are particularly excluded.**

Globally there are approximately 420 million to 510 million formal and informal MSMEs (including micro enterprises), and the estimated financing gap is \$3.1 trillion to \$3.8 trillion. Of the estimated 365 million to 445 million formal and informal MSMEs in the developing world, approximately 70 per cent do not use external financing from financial institutions, although they are in need of it.

The graphic below is taken from a report by McKinsey and maps MSME's access to finance worldwide by region:



Latin America has the highest percentage of MSMEs with access to finance (approximately 60 per cent), followed by Central Asia and Eastern Europe (approximately 45 per cent). By contrast, more than 85 per cent of MSMEs in East Asia, South Asia, and Sub-Saharan Africa are un-served or under-served. In terms of the size of the credit gap, approximately 45 per cent (USD 900 billion to USD 1.1 trillion) is in East Asia, more than six times that of Sub-Saharan Africa and more than five times that in Middle East and North Africa (MENA) countries.<sup>129</sup>

**Closing the finance gap** will require a range of interventions by different sectors, to improve both the demand and supply of credit. Detailed recommendations are beyond the scope of this report, but below are five key lessons drawn from the experiences documented in the case studies in this report.

#### 1. **Partnerships.**

Credit from banks remains the most important source of formal external financing (debt or equity) for most formal SMEs. For example, recent analysis of the World Bank's and IFC's Enterprise

Surveys data found that financing from banks accounts for approximately 50 to 70 per cent of the external financing used to fund MSMEs' investments in growth<sup>130</sup>.

#### **Financial institutions need to develop economically sustainable approaches to SME lending, in particular for underserved demographics such as young entrepreneurs.**

Banks and other lenders tend to lack understanding of these underserved markets and face substantial costs in servicing relatively small transactions.

## *Evaluation - Where next?*

Closing the finance gap depends on more rigorous analysis of how the different needs of underserved demographics are most effectively met. These five lessons each spotlight key areas where further evaluation is required to strengthen the case for expanding access to finance for young entrepreneurs and other at-risk groups through recognition of the value of non-financial support.

### **How can partnerships be scaled sustainably and replicated to systematise cross-sector access to finance?**

### **How can guarantees be implemented most effectively to maximise their potential to unlock finance for young and other underserved entrepreneurs?**

### **How can the value of non-financial support earn formal recognition from the finance sector in particular, in the same way as collateral and other types of guarantee?**

### **How can the quality of non-financial support be assured efficiently to enable formal recognition?**

### **How is the cost-effectiveness and impact of integrated lending models best measured and communicated?**

YBI is committed to significantly improving our capacity to gather, analyse and report our performance data<sup>135</sup>. Through an enhanced evidence-base, we aim to support our network and the sector to establish partnerships and other financing models that will increase access to finance for young and other underserved entrepreneurs.

The case studies in this report show how partnerships between commercial lenders and non-profit organisations can overcome these information and profit disincentives, and offer effective ways to meet expected returns on lending to those clients traditionally perceived as risky.

## 2. Guarantees.

The case studies also illustrate **the role of a guarantee mechanism in enabling partnerships between commercial lenders or investors and non-profit organisations that increase opportunities for young and other at-risk entrepreneurs to access capital.**

Over recent decades, credit guarantee funds have become an important innovation to alleviate the constraints on SME financing. Guarantee schemes seek to expand lending to SMEs by reducing the risk to the lender – in cases of default, at least part of the default amount is guaranteed for repayment. Based on the first worldwide review of credit guarantee schemes by the World Bank, the median risk sharing quota is 80 per cent and the median guarantee period is ten years<sup>131</sup>.

The case studies of YBI members in Dominica and India present the value of public-private-partnerships, with governments (and the Commonwealth) providing the guarantee specifically for youth enterprise lending. Scaling this partnership beyond the national level regionally, or even globally, for example with the support of development banks, has significant potential to expand access to SME finance.

## 3. Collateral.

The requirement to provide collateral or some sort of guarantee is one of the main constraints preventing young and other hard-to-reach entrepreneurs from accessing traditional sources of financing to start and/or grow a business.

*“Even an effective enabling environment may not be able to ensure access to some target groups, especially start-ups and very young firms, without sufficient credit history or collateral<sup>132</sup>”.*

Analysis of the impact of the global financial crisis on entrepreneurship financing has shown a contraction in business lending in general, and in SME lending in particular, and an increase in collateral requirements<sup>133</sup>. The central lesson from these case studies is that, **in order to expand access to finance for young and other hard-to-reach entrepreneurs, non-financial support should be formally recognised in the same way that collateral and other guarantee requirements are.**

The evidence from YBI and our partners shows that such services, including mentoring and training, improve the performance of the entrepreneurs in business and reduce the risk of lending or investing.

## 4. Quality control.

**Recognising non-financial support as an alternative to traditional forms of collateral and guarantee for youth enterprise lending depends on the delivery of quality services.**

It is important to note that non-financial support incorporates a range of services that might be offered in different combinations by different organisations, from training to mentoring to coaching to incubators.

As identified in ‘Beyond Collateral’,

*“a central consideration is whether the support services or the delivery organisations – or both – should be recognised<sup>134</sup>”.*

In terms of measuring quality of delivery, the case study of YBI’s member in India demonstrates the option of accrediting the provider of services – via their accreditation scheme for all mentors.

Similarly, YBI's member in Dominica operates a certification system for mentors who perform at a defined standard. At the time of writing, Silatech is considering the option of developing a scheme to accredit the training programmes it facilitates for the recipients of their Youth Loan Fund in Yemen.

**Depending whether the services and/or the providers are registered, agreed measures of quality control would systematise recognition by financial institutions.**

## 5. Monitoring & evaluation.

Ultimately cost-effective improvements in the performance of their businesses will convince commercial lenders of the bankability of youth-led and other underserved start-ups. It was the performance of the young entrepreneurs' portfolio that provided Business Development Bank of Canada with the confidence to double their lending partnership with YBI's member in Canada from a 1:1 to a 2:1 matched funding ratio.

Agreed measures of impact thus provide another possible means to quantify the value of non-financial support, for example business sustainability, job creation and default rates. **It is the responsibility of civil society organisations involved in entrepreneurship finance to be proactive in helping overcome the information deficit of banks and other financiers. Demonstrating the cost effectiveness of non-financial services in reducing the risk of supporting young and other hard-to-serve people into business is key.**

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129. 'Two trillion and counting: Assessing the credit gap for micro, small, and medium-size enterprises in the developing world', McKinsey & Company and IFC, a member of the World Bank Group, October 2010 [http://www.mckinsey.com/client/service/Social\\_Sector/our\\_practices/Economic\\_Development/Knowledge\\_Highlights/~media/Reports/SSO/Two\\_trillion\\_and\\_counting.ashx](http://www.mckinsey.com/client/service/Social_Sector/our_practices/Economic_Development/Knowledge_Highlights/~media/Reports/SSO/Two_trillion_and_counting.ashx)

130. Ibid

131. 'The Typology of Partial Credit Guarantee Funds around the World', Thorsten Beck, Leora Klapper and Juan Carlos Mendoza, The World Bank, March 2008 (Note that only 40% of credit guarantee funds are time restricted) <http://siteresources.worldbank.org/INTFR/Resources/Beck-Klapper-Mendoza.pdf>

132. 'Scaling-Up SME Access to Financial Services in the Developing World',

G20 Financial Inclusion Experts Group, SME Finance Sub-Group, October 2010 [http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/G20SMEFinanceStocktaking/\\$FILE/G20\\_Stocktaking\\_Report.pdf](http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/G20SMEFinanceStocktaking/$FILE/G20_Stocktaking_Report.pdf) The impact study focuses on OECD countries.

133. Ibid

134. See Introduction for the key arguments put forward in 'Beyond Collateral' and how they link to the case studies in this report. 'Beyond Collateral' is available on the YBI website at: <http://www.youthbusiness.org/PDF/BeyondCollateral.pdf>

135. For brief information about YBI's strategy to measure impact, including the development of a new cloud-computing Operating Management System (OMS), please see the Introduction of this report.



## About YBI

Youth Business International is a global network of independent non-profit initiatives helping young people to start and grow their own business and create employment. HRH The Prince of Wales is our President.

YBI members assist underserved young entrepreneurs with a combination of training, access to capital, mentoring and other business development services.

They adapt this common approach to their local context, working in partnership with governments, businesses and multilateral and civil society organisations.

In 2010 YBI helped 6,346 young people to start their own business. We estimate that these businesses will go on to create nearly 20,000 additional jobs within three years.

Through YBI, members exchange resources and act collectively to increase the efficiency and scale of support to young people seeking to start their own business. A network team coordinates and leads this activity, with additional responsibilities for driving network growth, quality and performance.

YBI was founded in 2000. Our members have helped over 100,000 young people to create their own business and generate employment. YBI's goal is to support 100,000 new young entrepreneurs annually by 2020, thereby creating a total of more than one million jobs and making a significant contribution to the global employment challenge.

## Where we work



## About IYF

The International Youth Foundation (IYF) prepares young people to be healthy, productive, and engaged citizens.

We are passionate in our belief that educated, employed, and engaged young people possess the power to solve the world's toughest problems. Every young person, therefore, deserves the opportunity to realize his or her full potential. Our programs are catalysts for change that help youth learn, work, and lead.

Recognizing that no one sector of society alone has the resources or expertise to effectively address the myriad challenges facing today's youth, IYF is mobilizing a global community of businesses, governments, and civil society organizations — each committed to developing the power and promise of young people. Since 1990, 54 public and private sector donors have invested USD 163 million to maximize the impact and reach of youth development programs. In all, IYF has provided grants to 332 organizations in 86 countries.

<http://www.iyfnet.org>

## About TechnoServe

Our Mission — TechnoServe helps entrepreneurial men and women in poor areas of the developing world to build businesses that create income, opportunity and economic growth for their families, their communities and their countries.

Climbing out of poverty in the developing world takes more than hard work; it takes economic opportunities. Entrepreneurs create these opportunities by identifying and capitalizing on good business ideas. TechnoServe helps them turn their visions into reality.

Our programs focus on developing entrepreneurs, building businesses and industries, and improving the business environment. Over the past four decades, TechnoServe's work has led to the launch or expansion of thousands of businesses and transformed the lives of millions of people.

### 1. Empower Entrepreneurs

TechnoServe helps entrepreneurial men and women in developing countries to capitalize on good business opportunities

### 2. Build Businesses & Industries

Businesses assisted by TechnoServe pay wages to local employees and buy products from the rural poor

### 3. Transform Lives

New income sources lift families out of poverty. Communities and families now have more opportunities

<http://www.technoserve.org/>

## About Silatech

Silatech is an innovative social enterprise. The word Silatech (Your Connection) comes from the Arabic word Silah, meaning connection and this concept defines what we do at every level.

Silatech was established to address the critical and growing need to create jobs and economic opportunities for young people. The initiative promotes large-scale job creation, entrepreneurship, and access to capital and markets for young people, starting first in the Arab world, where the highest rate of youth unemployment exists.

Silatech was founded in January 2008 by Her Highness Sheikha Moza bint Nasser with broad support from other regional and international leaders. Three strategic goals comprise Silatech's initial program framework:

1. Mindset: Improve society's recognition and support for young people's contribution to economic and social capital.
2. Policy: Promote adoption of policies to stimulate increased employment and economic opportunities for young people and social inclusion.
3. Access: Improve young people's access to demand driven and market-oriented skills training and job placement services. Improve micro-, small and medium-sized enterprises' (MSMEs) access to capital, business development services and markets.

<http://www.silatech.com>





*Front cover images show (from left to right):*

Indian entrepreneur Ramu Uyyala, whose fast growing business provides employment for more than 40 people. He started his business with support from YBI member in India the Bharatiya Yuva Shakti Trust.

Floral designer Alon Levin with a member of staff in his shop in Israel. Alon started his business with the support of YBI member Keren Shemesh.

Canadian Youth Business Foundation entrepreneur April Glavine with her mentor Kevin Schwenker.

**Youth Business International**  
[www.youthbusiness.org](http://www.youthbusiness.org)

