An Egyptian case study: financial services for young people who work

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Abstract

Purpose – The purpose of this paper is to show some of the innovative ways loans are being disbursed to help microfinance institutions (MFIs) diversify their portfolios and reach a young and viable market. The paper attempt to highlight how MEDA/PTE's project in Egypt can contribute to the industry learning on microfinance (MF) and occupational hazards and young people.

Design/methodology/approach – The paper presents an Egyptian case study to present how financial products can impact social issues such as working children and at – risk youth.

Findings – The study finds that the young people market has been rarely researched in the MF sector. Children and youth like many other groups face a host of issues especially unemployed and poor ones. Program design has often focused on social interventions and keeping young people away from work and in the school system. Through a rights-based approach, this project is learning that the young people are key actors in many micro enterprises as workers and in some cases as business owners themselves. The market is diverse and so are the needs of the children and youth who are involved. It is time to consider innovation in designing programs for young people. There are alternative learning techniques and skill development for young people in poor countries where school and social services do not meet their needs. Learning within actual workplaces can provide alternate educational opportunities for children provided the work is safe and age appropriate. Programs focused on young people and economic empowerment and job creation will assist many developing nations in stabilizing systems and supporting the productive human assets. The authors have found that despite the rhetoric for youth and employment, the youth arena has been neglected of practical and relevant research. MF industry can advance thinking for young people market. We are finding that MF may impact business owners to improve workplace conditions. Loans also contribute to increase learning, higher wages and lower work hours for young people who work.

Research limitations/implications – Lack of current studies focused on young people and MF. Studies carried out are based on very small samples and vignettes. A recently completed study carried out by MEDA/PTE with financial support from CIDA shows MF impacts on children as workers and business owners but there is plenty of opportunity for increasing levels of research in this area.

Originality/value – This paper shares original case material from Egypt's project, to share lessons on the ground and design and implementation learnings. This paper will be of interest to youth serving organizations, MFIs, banks, child rights community, donors and governments with an interest in children and youth.

Keywords Financial services, Children (age groups), Youth, Loans, Developing countries, Egypt

Paper type Technical paper

Microfinance (MF) has been an effective strategy for increasing household incomes in developing countries and positively impacting low-income women in terms of leadership and personal development. A recent study by MEDA/PTE (Carothers and Fehr, 2006) shows that children and youth are often active participants in the micro enterprises run by adults and are that form the typical client base of microfinance institutions (MFIs). There is an industry pull towards commercialization, scale and

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profitability, which means that MFIs tend to move more up market and operate in urban centers. Making a shift to the young people[1] market may not yet be feasible because in many countries there is still an unmet demand from working adult clients (Nagarajan, 2004).

In countries where the MF market is highly competitive, traditional MFIs may be looking for the next niche, such as young people. Whether MF is new or mature in a country, there is growing unemployment in developing countries where young people are affected twice as much as adults. Poorer markets absorb young people's labor for a variety of reasons: children or youth may work within a family business and maintain business income within the family; the labour of children and youth can support initial business growth when revenues are not sufficient to employ adults; young workers may be less expensive to employ, be able to learn new skills quickly and follow the instructions of business owners. While many children as well as youth do work there are particular concerns about young workers. Children working under hazardous conditions can be harmed and long working hours can make it difficult for children to continue their education or enjoy a normal childhood. The risk of international boycotts of child-made products and trade embargos on countries who turn a blind eye to hazardous work done by children (under 18 years old) can seriously weaken national trade, productivity and financial markets. As a result the microfinance industry may have a role to play in looking at creative ways that financial intermediation can impact businesses employing young people to ensure that children are not harmed through work and that older children and youth are able to find employment within micro enterprises or to operate their own businesses.

MEDA, through their pilot work in Egypt, are finding that the potential of MF can be harnessed to improve the working conditions, economic standards and the learning opportunities of young people who work in developing countries[2]. Like in other developing nations, young people in Egypt have become visibly active in business. In other countries devastated by HIV/AIDS and/or conflict, the emergence of young people who manage their own businesses and households has become a reality.

MFIs are committed to best practices, including scale and financial sustainability, which often means servicing the less poor and urban-based markets. The Year of Microcredit in 2005 challenged the industry players at international events to build inclusive financial services and to impact poor entrepreneurs through access to credit and create opportunities for choice, self-employment and business growth. There are financial services piloted in many corners of the world targeting young people, but the issue of whether MF is a legitimate service for eligible young people is still not attracting serious discussion. The fact is that younger workers and entrepreneurs have no access to financial services and limited business training and education. It is evident that the young people market is diverse and as social services will vary depending on the groups, MF may be an intervention that could assist in improving the work conditions and learning opportunities of young people who work. MF may also be the tool most capable of influencing businesses employing younger workers to adopt safer work technologies, mitigate occupational hazards and develop the skills for young people to learn through work.

MEDA and Partners in Technology Exchange (PTE) have been leading a Canadian International Development Agency (CIDA) funded project called Promoting & Protecting the Interests of Children who Work (PPIC Work) in Egypt through two leading MF organizations since 2002. MEDA is mentoring the Egyptian Association for Community Initiatives and Development (EACID) in Upper Egypt and the Doweika area in Cairo and one of the largest NGOs in Egypt, Coptic Evangelical Organization for Social Services (CEOSS) in the El Salaam area of Cairo. MEDA's partners also include the Egyptian Small Microenterprise Association (ESMA) and the National Council for Childhood and Motherhood (NCCM) that is headed by the Honourable First Lady Mrs. Suzanne Mubarak's.

The MF partners in this project, EACID and CEOSS, are operationally sustainable – and focused on best practice microfinance. In 2003, EACID launched the dual-impact PPIC Work product line in Aswan with a targeted loan portfolio valued at US $150,000. EACID has moved one step further by investing its own surplus revenue into non-financial and educational support programs to assist the development of the young people working in client businesses. EACID has more than 400 PPIC Work loan clients and they are reaching more than 900 young people who work. EACID key portfolio results for 2005 are shown in Table I. The investments into "social programming" do not affect the portfolio quality and EACID views these efforts as a business move to reinforce community presence and solidarity. The non-financial work is outsourced to social officers who are managing the clients as a separate portfolio from the credit agents. Similarly, CEOSS has divided up the work and has given the educational and learning aspect of the project to the social affairs department while the small enterprise and microfinance department manages the loan as rigorously as their other loan products.

Why young people?

Nearly half of the world's population is under 25 years (ILO, 2004). The International Labor Organization estimates that 351 million children under the age of 18 are economically active. The UNFPA research estimates that there are 1.2 billion young people. As effective as MF has become as a development tool for poor women, unmarried working young people have been left out of the adult focused formal and informal lending sectors. Unmarried young people of legal age have been relegated to the sidelines accessing MF services due to perceived risk, age and status in society. Many young people work long hours and accept low wages in the informal sector (Carothers, 2003). Some young people who work combine education (school, vocational training or apprenticeship) with paid work and while this allows children and youth to continue their education, their ability to perform well can be compromised. The ability of children or youth to control the scheduling of their work can allow them to improve their educational performance and controlling work schedules can be done when children or youth operate their own businesses. Unfortunately, one of the biggest

Amount of outstanding loans	5.8 M LE
Number of clients	2,946
PAR	$<$ 0.36 per cent
Average repayment rate	98 per cent
Self sufficiency	120 per cent
Average loan size	$300 USD

Note: Results reflect Aswan-based operations

Table I. EACID key portfolio results 2005 constraints to young people in business is access to financial services (credit and saving services).

The expected young people growth rates will increase by 30 percent by 2010. The growing population and high unemployment rates affecting youth disproportionately making a strong case for MF services to support young people owned enterprises. By working with the next generation, MF could expand its market base. MFIs may be pioneering strong customer loyalty and relationship building for a young market that will be with them for years to come. MEDA has found that EACID has slightly modified their standards loan products but has made major efforts to market their product to businesses employing young people and family-run businesses where the young people tend to manage the daily operations.

Poor working young people[3] are creative, persistent and resourceful and they have learned to think like adults on how to sell, ration, budget and manage risk either completely on their own or with families and/or community networks. Despite the fact that these younger entrepreneurs are self-learned, they are sales savvy, quick with complex math transactions and hardworking, they cannot access financial services. It should be said that not all children and youth will be entrepreneurial nor may microfinance be appropriate for their needs. (CGAP, Focus notes). However, there are competent and viable young entrepreneurs and businesses that employ young people[4] who are in need of credit to run their enterprises more efficiently – and safely – and are viewed as too risky and unbankable.

Egypt leading financial innovation

In Egypt, as in many other countries, children are growing up fast and taking on adult responsibilities unknown to many parts of the developed world. They care for their siblings, elders and themselves by earning a living to pay for food, lodging, clothing, medicines and education. Governments recognize that an educated workforce is better and may reduce risks and poverty, but the local economies cannot afford to subsidize education for all at-risk young people. States also acknowledge that ignoring these young people creates vulnerabilities such as indentured labor, slave-like conditions, prostitution, abuse, and an increase in crime. The Egypt case may be a front runner in delivering financial services to a high risk market such as the youth market.

The microfinance partners have modified their outreach strategy to market their financial services to businesses and family-run businesses employing young people. In its second year of operations, EACID has found that clients employing children have been ready and open to the credit agents' advice on how clients can use their loan to make the work conditions better for their younger workers. A code of conduct governing children's work has been developed through a participatory process with business owners and working children and this has now become part of the loan contracting process. In some cases, EACID credit officers have approved loans to businesses where clients purchase appropriate technology that mitigates work place hazards and brings the business into compliance with the code of conduct. For example, a grocery store client was able to buy a safer slicing machine so that the younger worker did not risk losing fingers with sharp tools as had happened in the past. MEDA and partners are finding that dialogue through the access to microfinance is effective. Businesses are concerned with productivity, efficiency, access to capital and increased earnings, which complements the PPIC Work approach vested in access to safer, more efficient technology to improve the work environment for younger workers.

Microfinance providers and the PPIC Work product line

MEDA's MFI partners have adapted their strategy to bring businesses employing young people into their target market. EACID has not significantly changed their loan products, nor have they expected less in terms of the loan approval process. They have found that there are a number of businesses employing young people who were getting loans and there was not acknowledgement of the young people working in these businesses.

EACID is delivering PPIC Work financial services to adults – business owners – for microcredit (very small loans), fixed assets and working capital but the criteria is to have working children and adolescents and a commitment to apply workplace changes to mitigate risks. EACID is preparing to pilot educational loans through the PPIC Work product line for existing clients.

As seen in the Table II, the product line, PPIC Work, given to employers hiring younger workers have clear conditions to impact the working conditions for the young workers and to implement work place changes to assure safety. The credit officers screen businesses according to capacity and qualifications as per standard policy requirements agreed in the code of conduct. After an initial meeting, the credit officer will learn what kind of loan the clients needs and will determine which of the product lines best meets the needs of the client as well as conforms to loan requirements for each product line. Credit officers managing the PPIC Work product line, verify on-site the business activity and evidence of young people who work. This site visit allows the credit agent to also discuss with the owner what risks exist for the young people who work there, and how the first loan may work toward mitigating these risks. EACID has streamlined the PPIC Work product line into the business plan and loan application. Credit agents use the workplace assessment tool as a reference guideline in coaching and working with business owners to apply safety standards and mitigate risks for their underage workers. This program is proving that MFIs can collaborate with

Products	Description for loan use	Risks	Impact on young workers
Businesses employing young people	Loans to experienced businesses. Long and short-term. Acquisition of appropriate technology. Improved work conditions and practices. Loan types: micro, working and fixed asset loans	Long-term	Improved safety conditions Training opportunities Learning through work Training and career development tools Fair income
Educational	Existing clients - poor families who cannot pay for school fees. For primary and secondary school fees. Short-term loans	N/A	Right to education
Family-owned businesses	Existing and start-ups. Long and short-term	Start ups Long-term	Safety conditions Training opportunities Learning through work Fair income

Table II.
Types of financial innovation for working children and youth

business owners to address issues that put children at risk. Solutions are coming from the business owners to use the loan in a way that mitigates risks and this may be an effective approach in making positive change in the work place.

Efficiency and social costs

Efficiency indicators measure an MFI's operational costs relative to its average portfolio to determine the MFI's performance and productivity. Mapping the operational processes to determine time and cost efficiency is important to MFIs. MEDA led an efficiency analysis of the new loan disbursement process between PPIC Work and WIF (microcredit) product lines at EACID in May 2005.PPIC Work is EACID's newest loan product on offer. A recent efficiency analysis[1] (MEDA, 2005) determined that the current disbursement of new PPIC Work loans takes approximately twice as long to process and costs 14 percent more than a similar WIF product. The financial costs are affordable relative to the social costs. In addition, EACID is building a younger client base, which can potentially attract long-term business. Some variables affecting efficiency for the PPIC Work loans included: new credit officers were managing the PPIC Work loans; PPIC Work loan policies were not systemically streamlined and effectively tweaked to avoid delays. On-going efforts to streamline and refine the disbursement process of PPIC Work loans may reduce the inefficiencies and related additional costs.

Application of the workplace assessment

MEDA's microfinance providers piloting the PPIC Work loans are testing the workplace assessment tool to examine the types of risks in different sectors where young people work, and to suggest mitigation techniques with the business owners over the course of the loan period. It is expected that microloans for PPIC Work may take at least three loan cycles (averaging five months) to effect changes. Evidence has shown that larger loans may permit the business owner to implement changes faster (Mortagi, 2006). The Workplace Assessment tool (Taha, 2005) assists the MFI in understanding possible hazards, risks and mitigations by work type. The credit officers use the workplace assessment tool as guide detailing the type of occupational hazards (such as ergonomic, biological, physical and chemical) and what mitigations can be taken. It is expected that after each loan cycle, the credit officer will issue loan renewal based on progress toward meeting the conditions of the loan to upgrade technology, apply safer measures and to improve the learning environment for the young people employed at the business. The end of loan cycle, examines the loan application for compliance by the owner and how a second loan may further develop the business while keeping the interest of the working young workers central to the renewed loan.

What is "young people friendly" microfinance?

Repackaging financial services for businesses employing children and youth may have an impact in the industry, and possibly protect child workers from workplace risks. Some MFIs have a relevant role to play in the application of young people MF friendly tools in their organization. MFIs can support working conditions of underage workers in the following ways:

- As a vulnerability reduction mechanism to cushion the effects of economic shocks that may drive businesses employing young people to carry out more hidden and inherently harmful work;
- It can improve income generating activities and allow for the diversification of businesses and youth-run businesses;
- It can support the acquisition of appropriate technology and safety upgrades that increases productivity levels and reduces risk.

MEDA guidelines for young people MF

The pre-disbursement stage will ensure that the disbursed loans improve the working conditions and mitigate workplace hazards for young people:

- purchase of safety equipment (masks, fire extinguishers, first-aid supplies, protective clothing);
- purchase of safer productive machinery;
- improvement in the safety of the premises (electrical wiring, production line layout);
- upgrading and testing ventilation systems;
- improving lighting systems;
- improved production facilities and tools;
- changes to equipment and production facilities that require heavy duty lifting;
- sanitation facilities;
- safer unloading mechanisms for products;
- development of safety trainings, manuals for equipment use and general safety policy;
- safety advocacy through posters and meetings;
- procurement of equipment to develop the technical skills capacity and learning skills of child workers; and
- feed-back from all workers and business owners to reduce and eliminate workplace hazards.

How to build effective "young people friendly" microfinance

Linking microfinance to child and youth-focused businesses is similar to linking financial services to environmental issues. In linking child-friendly tools in MF the following mechanisms should be present and adhere to the triple bottom line of safe working conditions, sustainable livelihoods for underage workers and MFI sustainability:

- *Viability*. Microfinance must be sustainable. Workplace assessment can be included in the customized product line. Social services cannot dominate the financial services and expect the earned revenue of the loans to pay for all kinds of "plus" programming. The MFI should be experienced in financial intermediation to achieve high levels of repayment, low portfolio-at-risk, and should achieve financial sustainability. MFIs experiencing profits should experiment in this arena.

- *Reasonableness test for improved practice.* The MFI should be fair, reasonable and consistent on what aspects of the child screen to levy on clients in terms of mitigating risks. Clients will invest in their business growth if they are convinced they will have more profits. Clients want to know that as their business expands, that the MFI will provide an appropriate level of cash to invest in advanced and efficient technology. This technology may be costly but can pay off in terms of greater household income, increased productivity and compliance to safer work practices.
- *Work with established and high performing MFIs.* Young people friendly tools will ensure long-term impact if they work with established microfinance providers.
- *Reducing vulnerability of the young poor.* Credit should not be allocated directly to underage young people, who cannot legally sign a contract. MFI will not be able to recover repayments. Non-bank financial institutions may encounter legal issues for working with minors, even with a guarantor. Loans should not fund activities where there is no capacity to repay the loan and appraisal process should entail the same rigor as with adult clients. Some young people are not creditworthy and their hardship situation may need a grant as opposed to a loan. In addition to loans, savings and insurance may also be services to meet the needs of the young poor market.
- *Savings mobilization.* In places where regulated MFIs can collect deposits from clients, a savings product to develop the savings capacity of children and adolescents should be developed. Teaching young people to save at an early age is good and they can have access to their own emergency cash reserve (Chemonics International, 2005).
- *Incentive role.* MFIs may play a vital role in administering benefits and loans to businesses employing young people in return for ceasing unsafe and harmful workplace practices.
- *Youth microfinance.* Combining relevant and applicable education and plus programming to credit for young people.

"Plus" programming

For effective "plus" programming in microfinance, a partnership with youth serving organizations (YSO) may be advisable. Combining education and training components to financial services increases the time and financial costs to an MFI. In the MEDA experience, the MFIs piloting the PPIC Work project were very clear from the outset which additional costs they would cover and which would not. This was a management and leadership decision. Working with children and adolescents and offering non financial services for free will cost the MFI. The MFIs determined how much of their profits would be directed into social programming for MFI clients. Unlike EACID, CEOSS's management outsourced the social services to another department removing this work from the MF operations.

MEDA's experience has shown that many MFIs prefer out-sourcing to expert partner organizations such as YSOs to manage the non-financial training for their clients. MFIs that manage the non-financial training separate it from the financial services in order to track associated costs to the non-financial services. Some MFIs offer outsourced fee-based services for the training while other MFIs offer parallel and unified services in the overall package. An MFI may consider the following three delivery mechanisms in managing plus programs and the financial services:

(1) *Outsource non-financial services to YSO*. The first option may be the most realistic for MFIs striving for best practice and full sustainability. The provision of financial and non-financial services are two distinct activities. This allows a working partnership between a socially oriented organization dependent on subsidies to provide the educational training component and the MFI to focus on delivery of financial services. There may be challenges as a socially oriented organization and a fee-based commercial service may have organizational and cultural differences. It is important that each partner organization understands its role in assisting the client. The separation of the subsidized training from the financial services will reinforce that the client has access to two different services and the interest charge to the financial services will not confuse the client. "It is often difficult for clients to differentiate social services, (usually free), from the financial services, which must be paid for at the market rate especially when both services are offered by the same organization (Ledgerwood, 1999)." The first option clearly separates financial and non-financial services from each other through sub-contracting or referring clients to another organization for the training and plus programming.

(2) *In-house and parallel service delivery*. The second delivery option may be relevant for microfinance organizations and NGOs concerned about young people. In Egypt the PPIC Work project is working with a multi-sectoral organization, CEOSS, where the small micro-enterprise sector provides the loans and the community and development department provides the educational training to the young people. The program sections have separate functions, cost centers, finances and reporting systems, but have the convenience of being in-house and sharing an organizational culture. There are challenges for the program sections in terms of work and cultural approach to the delivery of services. The microfinance sector may feel vulnerable to clients who see give-a-ways on one side of the organization and not on the financial services side. Similar to the first option, separate accountabilities and operations in-house will prevent confusion to the organization, staff and clients.

(3) *Unified and integrated services*. The third delivery option embeds social programs into the microfinance services. This is also referred to in the industry as a credit with education or credit plus. Unlike delivery options one and two, the third option requires dual-functioned personnel who are both bankers and educational trainers. Depending on the country, employees with dual function capacity may be impractical to find and costly for the MFI (Nagarajan, 2005). There is a separate mind-set and skill set required for each of these functions. Depending on the type of educational component it may be possible to have loan officers assume a dual function and take on the plus programming. Embedding educational services into the financial services will require the MFI to appropriately cost the plus services into the loan product, where clients will pay for the combined package. Designing a standardized education component to meet the needs of younger people may not be feasible due to the

diversification and differences in this market. A combined package may be good in terms of assuring the sustainability for the credit with education services but accruing higher costs to design and deliver non-financial services may not be competitive nor affordable financial services.

Is the young people market smart for business?

MF best practices can serve as a guideline for youth ready MF, and as the experience emerges, alternative best practices relevant for adolescent lending may be considered. From the outset businesses employing young people may appear at odds with reaching industry benchmarks. MFIs may write off Youth Microfinance as a social program and suspect of high transaction costs. However, the MEDA experiment in Egypt is showing the contrary—microfinance providers focused on scale and sustainability can deliver market led and affordable financial services to niche markets. Truth be said, MEDA and its MF organizations have found that integrating new clients into a new product line takes time. Despite the perceived risks, the MFIs have found that capturing a younger market may be profitable in a competitive market and can possibly create a faithful young client base for years to come. Although there is no evidence to prove financial services affecting the younger workers, will assure the MFI of future business, it is a gamble some MFIs are ready to make in a more competitive industry where securing customer loyalty at an early age may pay off in the long run.

Notes

1. Young people have been defined as 26 years and below. The term young people captures "children" (under 18 years) as defined by the Convention on the Rights of the Child and "youth" (defined 15-26 years old in the UN and World Bank).
2. This project is co-managed with a Canadian private firm, PTE.
3. World Bank has defined youth from 15 to 26 years (www.worldbank.org)
4. Children refer to those less than 18 years.

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Richard Carothers is President and Founder of Partners in Technology Exchange Ltd and has more than 35 years of experience in international development. Carothers develops and implements projects in the areas of project management and project delivery covering fields such as: small and micro enterprise development, issues related to children and work, education and learning with and through work, institutional development and training, and development communications. Arising from the work with the micro and small enterprise sector in Egypt, Carothers has led the design and implementation of a project that aims to improve the working conditions and learning opportunities for girls and boys who do work. The project emphasizes a gender-sensitive rights-based approach through a participatory process with working children. Carothers has also carried out studies on the impacts of micro finance programming on children and linkages between private sector development and children's rights.