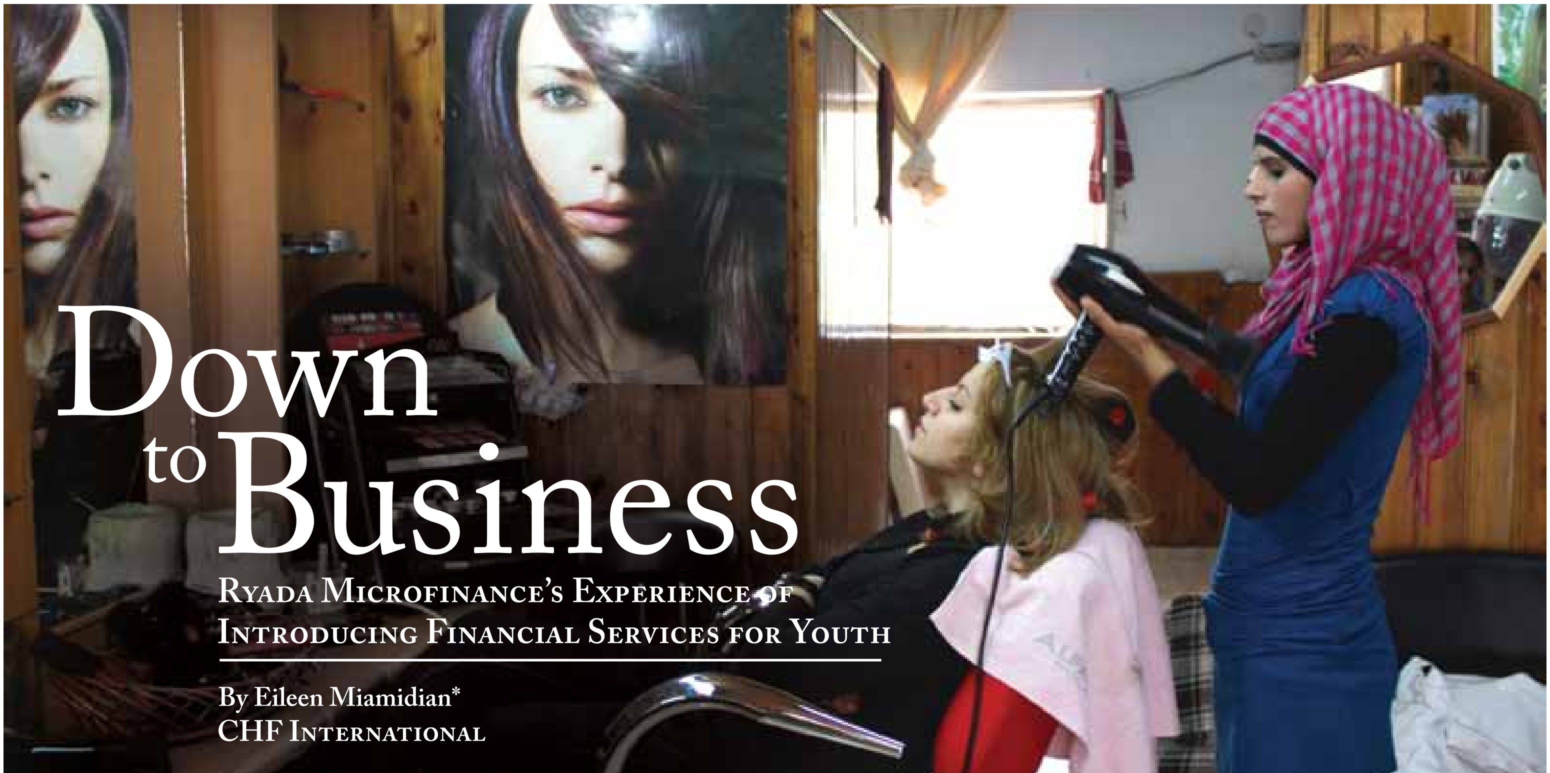

Down to Business

Ryada Microfinance's Experience of Introducing Financial Services for Youth

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1. Background

For the past six years, numerous financial institutions around the world have undertaken intentional market research to better understand the demand of young people for financial services.[1] However, there is little documentation that describes the challenges an institution faces in the design and delivery of these services.[2] This focus note presents the story of one microfinance institution (MFI), highlighting where it has confirmed emerging guidelines and presenting new insights for MFIs seeking to work with youth.

Ryada, which means "pioneer" in Arabic, is a leading MFI in Palestine. In 2010, it received a grant from the USAID-funded Expanded and Sustained Access to Financial Services Program (ESAF)[3] to launch a pilot start-up business loan. An assessment of its portfolio revealed that, in 2010, 40% of Ryada's clients were between the ages of 18 and 28. Those who have successfully accessed funding were either employed or self-employed. Ryada recognized, however, that the large, unemployed youth population represented an opportunity both in achieving its social mission, and in reaching a large, underserved market. Ryada is restricted by regulatory barriers to offering credit only, which limited the tools it could use to reach this market. Given this limitation, it understood how important it was to develop a product which both mitigates the chances of over-indebting young clients and restricts its own potential losses. To achieve this, the organization worked with Making Cents International to design its pilot, using its training on sound practices, youth-friendly market research tools, product design and product testing processes. The 11-step process took Ryada a full 18 months to move from decision to pilot. (See figure right.)

1. Introduction to youth-inclusive financial services training course
2. Assessment of potential youth-serving partners
3. Market research
4. Product Design Workshop
5. Identification of possible consulting firms to provide basic business development services
6. Visit to MFI implementing YFS
7. Recruitment of Financial Analyst to provide basic BDS since the consulting firm idea did not work
8. Product concept testing
9. Staff training
10. Recruitment and development of promotional materials
11. Pilot launched

* This article is based on *Lessons Learned in Designing and Piloting a Finance Service for Young Clients* by Mariko Scavone and Veronica Torres, of Making Cents, written in July 2011 after a workshop with Ryada staff.

[1] Visit http://yfslink.org/resources/case-studies for case studies.

[2] Reference http://yfslink.org/resources/case-studies for case studies about Save the Children and Zakoura in Morocco and Population Council and K-REP bank in Kenya.

[3] ESAF is an Associate Award under USAID's FIELD-Support Leader with Associates cooperative agreement, managed by FHI 360.

2. Confirmation of Emerging Guidelines

Emerging Guideline 1: Involve youth in market research and product design

The market study confirmed Ryada's expectation that start-up business loans are in demand. It was the richness of the information, however, that not only enabled Ryada to design the product, but also challenged pre-conceived notions of staff about youth. For example, Ryada found that unemployed youth often save though savings may be erratic, showing greater levels of responsibility than anticipated. Although Ryada had a commitment to developing the youth product, only with the research, it began to sense the enormity of its task: it would entail taking risks, changing mind-sets and making long-standing processes more youth-inclusive. It would require simultaneous learning on various fronts, such as new marketing techniques, financial and character analysis, the provision of more and different but also clear and transparent information, and the ability to offer guidance in business planning. In fact, Ryada did not really understand its own appetite for risk until it began the process.

Emerging Guideline 2: Develop products and services that reflect the diversity of youth

Ryada was already reaching employed and self-employed youth, but not the large number of unemployed youth, where it could make a significant contribution to the economy. It took a new twist on segmenting the market by considering the business development cycle at it relates to age and life stage. Market research revealed that savings and borrowing from friends and family was common before people went into business, and only after two years in business did they approach MFIs. This demonstrated a relationship between the business development cycle and age in Palestine. Ryada complimented this naturally occurring cycle with a financial product to allow young entrepreneurs to borrow earlier in the cycle.

Ryada further segmented the market by the level of assets and social support networks available to the youth. A helpful start was to take its existing youth clients and imagine them with less. It decided that its target market would be those young entrepreneurs with some finance available to invest in a start-up business, as well as a guarantor willing to vouch for their credit-worthiness. Successful applicants would need to be able to work with Ryada staff to develop an acceptable business plan. The organization was not willing go so far down-market as to work with clients with an idea but not assets or plan. This clarification of the target market made the product manageable for the credit department and enabled Ryada to finalize the product design, the underwriting processes and staff training. Definition of the target market had as much to do with Ryada's risk appetite as it did with market demand.

Emerging Guideline 3: Ensure that youth have safe and supportive spaces

One message which emerged clearly from the market research is that the youth want to feel welcome and respected in a financial institution. For Ryada, this underlined the need to make the messaging simple and clear and train the front-line staff to work effectively with young people.

Emerging Guideline 4: Link youth to complementary non-financial services

Ryada attempted to identify partners to offer non-financial, training and coaching services to its clients. Unable to find appropriate institutional partners in the West Bank[4] , it looked for business consultants to whom Ryada could provide a subsidy to work with youth clients. The prohibitive consulting fees left Ryada with no choice but to bring the service in house. Thus, after 12 months of trial and error, Ryada decided to select high performing loan officers – comfortable in working with youth and able to learn more complex financial analysis – to pilot the new product. The on-going pilot will reveal whether combining these tasks in the loan officer is indeed successful, but the important lesson for Ryada is that appropriate non-financial partners may be hard to find, so MFIs need more learning on how to build in-house capacity, if needed.

Emerging Guideline 5: Focus on core competencies by utilizing partnerships

Ryada is able to support a new client in turning an idea into a financial plan. It can provide advice to potential clients about the location and/or trajectory of certain planned businesses. It can also offer a friendly, safe environment for youth applicants. It cannot, however, provide on-going coaching and mentoring. It is also unable to offer long-term assistance even in the planning phase. This value proposition will be useful for Ryada, as the market changes and new partnership opportunities emerge. It will enable Ryada to present a complete picture of what it can offer and what its clients need to make partnering easier and more effective.

[4] 80% of Ryada's business is in the West Bank. It was able to partner with Save the Children in Gaza, which offers business training.

Emerging Guideline 6: Involve community

Youth are very involved in their families and communities. Financial contributions to households, as well as donations, make up a portion of young people's spending. Their parents' perceptions of them were very important to these young people. This information resulted in two decisions: 1) ensure that the social mission of Ryada is communicated in interactions with potential clients and 2) require a guarantor for youth clients to vouch for, and ideally aid, the young client in his/her first loan.

3. New Lessons on Preparing for Youth-Inclusive Microfinance

Lesson 1: Identifying and Empowering the Right Champion

The concept of a champion in introducing a new product, especially for a different target market, is not new. At Ryada, the director championed the development of a youth product, but had too many competing priorities to give its development his full attention. As such, a high-performing branch manager with an interest in the product was selected as the product leader. Ryada's experience shows that the following considerations need be in place:

1. The product manager does not need to be dedicated to the youth pilot, but needs sufficient authority.
2. The head of credit needs to formally give the product manager his/her full support to especially to facilitate adjustments to work out kinks.
3. A temporary adjustment to the product manager's job description and level of authority may be required
4. The branch managers in pilot branches need clear instructions as to how the pilot will be managed. Formal documentation of their responsibilities will greatly facilitate.
5. Clarification of the relationship between the product manager and pilot loan officers is also important. Without this, branch managers in pilot branches may feel undermined to have their loan officers reporting to the product manager, and not lend necessary support. Ryada found that it was best that branch managers be copied on all email communications and updated on verbal decisions.

Lesson 2: Getting Buy-in

Ryada staff were concerned about the riskiness of the new product. Whether the issue was primarily due to the start-up business loans or to the age of the target market is difficult to discern. Major concerns included:

- Higher risk of some of the young clients whose businesses were at an earlier business cycle stage
- Greater time commitment related to the time required to process a loan and work with young people
- Need for increased staff capacity
- Increased costs, as loan officers spent more time with fewer clients

It was very helpful that senior management, especially credit staff were part of the design. Also, testing the product internally (with staff) is a good gauge of how receptive they will be.

Lesson 3: Implementing Market Research

Market research requires skills in qualitative techniques as well as ability to work in the local market. Sometimes this requires two parties. If the MFI is not carrying out its own market study, it needs to take on a coordination role. Ryada found that working with an international firm with expertise and a local firm with language skills was not always a straight forward process, as the distance and differing points of view on such issues as the number of focus groups required or the length of time for each group proved difficult for the inexperienced team to navigate. A more open relationship would be helpful, but in this case, where the on-site institution has little experience with qualitative tools, it is recommended that both institutions be in the field for the market study. The workload involved was unexpectedly significant.

A second step in the market research was product concept testing. This enabled Ryada to talk to potential clients about the product idea and get their feedback. This is an invaluable step and greatly facilitated by having a process map for young people to discuss in understanding the application and borrowing processes.

Lesson 4: Staffing for the Pilot

Ryada believes that it will eventually need dedicated loan officers for the youth start-up business loan product, but it did not have the resources to hire new staff for the pilot. As such, it identified high-performing loan officers who demonstrated a capacity to relate to youth. These staff required training in handling young clients and underwriting a start-up business loan for example. Asking existing staff to take on the pilot has slowed its efforts to get the pilot off of the ground, as the loan officers have competing priorities. For this structure to work, Ryada had to review in detail how to incentivize the pilot loan officers to promote the product.

Lesson 5: Appropriate Incentives

Recognizing that pilot loan officers would need to spend more time with each applicant for the youth product, Ryada changed its loan officer incentive scheme such that each youth loan would be counted as two regular loans. At Ryada, loan officers demonstrate a high-degree of pride in the quality of their portfolio and derive credibility from it among their colleagues, so pilot loan officers needed permission to have a slightly lower portfolio health. The incentive system needed to be tweaked to accommodate this. Both size and risk need to be considered in providing incentives for those involved in the pilot.

Characteristic Sought	Standard Proxy	Challenge in Applying Standard to Youth	Youth Proxy
Honesty	Check reference on business data provided by applicant	Less experience with business means that inaccuracies may not imply dishonesty	Provide accurate personal info including experience and capital available
Responsibility	Has at least one dependent family member	Young people often do not support dependents	• Contributes some financial support to household • Worked during his study and after in order to generate personal income and save part of it
Seriousness/ business planning	• Can describe exactly how the loan will be used • Seeks Ryada for information	Inexperience may result in mistakes in the business plan. This does not necessarily imply lack of seriousness	• Has exerted some effort in collecting business data and preparing BP. • Has approached some of Youth Orgs for help
Experience	Has an existing business for at least one year	The target market has no business	Worked as employee in the same field/or similar business

Lesson 6: Character Assessment for Youth Applicants

As is the case with many MFIs, Ryada also relied on evaluating personal qualities such as "honesty" to judge the creditworthiness of a potential client. There was a mismatch between the indicators for making judgments related to character traits and the reality of the target market. To make the evaluation youth-inclusive, Ryada did not change its criteria, but rather identified exactly which characteristics it was seeking, and then adjusted the indicators to allow young people a greater opportunity to demonstrate those criteria. The table to the right provides some examples of adjustments made to the character assessment.

Lesson 7: Youth Lending Entails Risk Taking

This lesson may seem obvious to many MFIs, but understanding its implications is important for an MFI, and would have been useful for Ryada at the outset. Ryada's approach throughout much of the product development and pilot process was to mitigate its own risk. This was reflected in everything, from the target market/client profile to the non-financial services it sought to offer. It wanted to ensure that it found clients to reduce its own risk, but in the process, it became clear that it needed to adjust some of its own standards to allow for this risk and to move forward. An obvious example is in its need to adjust risk levels in the incentive scheme, but also its understanding that support in business plan development was not only to protect the lender, but also to help the client. MFIs looking to work with youth would be facilitated by going in eyes wide open and ready to take on some risk.

4. Conclusion

The emerging guidelines for youth-inclusive financial services have been useful for MFIs, as they seek to serve this market. The industry would be well served by a greater documentation of practical considerations for MFIs as they go through the process. Ryada's experience may serve as a first step.

For more information please read *Lessons Learned in Designing and Piloting a Finance Service for Young Clients*, available at www.yfslink.org

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