



Background Paper for Virtual Conference:  
Microfinance, Youth and Conflicts  
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**Introductory note to participants:**

We would like to thank you for your time and interest. This short background paper is intended to initiate discussion among experts on the intersecting issues involving microfinance, youth and conflicts. The results of the virtual discussion will feed into work conducted as part of the "Microfinance Amid Conflict" research initiative, funded by USAID under the AMAP Financial Services Knowledge Generation Task Order issued to the Chemonics Consortium.

The final outcome of our research will be a broad set of guidelines and practices for microfinance to serve youth affected by conflicts and at risk of being involved in conflicts. After our initial literature review, the virtual discussion is the first step in sharing knowledge on the topic. The conference discussion will be followed by a survey of selected MFIs servicing youth and youth entrepreneurship development programs in fragile states affected by conflicts and at risk of being affected by conflicts. Survey results will be analyzed to develop a final set of guidelines and practices for microfinance to serve you affected by conflicts.

The objectives of the virtual discussion are to:

- Understand youth-related issues, particularly in the context of conflicts (affected by conflicts and at risk of being involved in conflicts);
- Understand strategies and mechanisms required to address youth issues, particularly in the context of conflicts (affected by conflicts and at risk of being involved in conflicts);
- Understand factors that influence microfinance to service youth in general, and youth affected by conflicts and at risk of engaging in conflicts;
- Identify and document microfinance strategies and models that work for youth affected by conflicts and at risk of getting involved in conflicts.

To address these objectives, this virtual discussion will share current practices that participants know, observe or use to provide microfinance (and enterprise services) to youth affected by conflicts (ongoing, post conflict and emerging conflict) and/or at risk of being involved in conflict.

*This paper is a work in progress. Critique, comments and input are most welcome.*

**Sharing Knowledge: From Us to You for Further Learning**

We reviewed approximately 45 recent documents related to youth, microfinance and conflicts. Nearly half of the documents address microfinance and/or enterprise development initiatives targeting vulnerable youth *not* in conflict-affected situations. In addition, a number of the papers (18) address non-financial livelihood programs for at risk youth and youth in conflict areas. We

found only *three* papers that simultaneously discuss youth, microfinance and conflicts in some way. Earlier search of more than 60 of the recent and most relevant documents on microfinance in conflict-affected environments further pointed to the dearth of microfinance programs servicing youth, especially those less than 18 years of age, in conflict areas and/or at risk of getting involved in conflicts<sup>1</sup>.

Our review of the available literature reveals the following<sup>2</sup>:

**I. The Past:** These are debates on which consensus has been reached:

- Microcredit works in conflict environments;
- Microfinance is only one of the appropriate tools in conflict areas. Non-financial instruments may be required to augment its effect at least in the early stages of a post-conflict setting;
- Microfinance facilitates micro-enterprise development and may help in employment generation and poverty reduction. Microfinance is, however, only one of the tools to reduce poverty and create employment;
- Microcredit can serve clients starting from age 18;
- Youth are affected by armed conflicts and are at risk of getting involved in conflicts;
  - Young men played a significant role in the recent conflicts in Fiji, Solomon Islands and Sierra Leone (Curtain, 2001). Thousands of child soldiers actively participate in African conflicts. Street gangs comprised of young people commit urban crimes and violence in both developed and developing countries.
- Youth participation in conflicts has negative economic consequences;
  - Youth crime and violence in St. Lucia was estimated to cost over US\$3 million in social indirect costs and US\$7.7 million in private indirect costs annually. A one percent decrease in youth crime was estimated to increase tourist receipts by 4 percent in Jamaica and by 2.3 percent in the Bahamas (World Bank, 2002)
- Jobs are necessary for managing and mitigating conflicts;
  - Unemployment is now found to be one of the key determinants leading to protracted or re-emerging conflict. Unemployment is also found to lead to frustration and idleness, contributing to gang violence and other forms of interpersonal conflict.
- Definition of microfinance: Microfinance includes credit, savings, insurance, remittances, leasing, etc.

*Intersecting topics addressed in the above debates:* Microfinance and conflicts; Microfinance and young adults; Microfinance and employment generation; Conflicts and youth.

**II. The Continuing:** These are ongoing debates for which definitive conclusions have yet to be reached:

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<sup>1</sup> Both lists of literature will be made available - in a key word searchable format with hyperlinks to most documents - on the AMAP Web site shortly. Details will follow after the virtual discussion.

<sup>2</sup> The subtitles organizing the literature findings – the past, the continuing, the recent and the open – are acknowledged to J.D. von Pischke.

- Appropriateness of microfinance best practices in fragile environments;
- Effectiveness of targeting microfinance services (in general and in conflict areas) by gender, poverty status, type of firm and geography.
  - Targeting is also a key dimension of youth interventions. However, ineffective targeting may fail to reach the most vulnerable youth and may even create social exclusion and program-related stigmas.
- Trade-offs between outreach, sustainability and impact of microfinance in conflict areas;
- Definitional issues: Youth, conflict (pre, post and on-going), youth at risk of participation in conflicts, youth affected by conflicts.
  - For example, several definitions based on age exist for youth. While the United Nations (UN) and the World Bank consider population between 15 to 24 years as youth, the Commonwealth uses 15 to 29 years. In some African countries, such as Ghana, Kenya and Tanzania, the definition of youth used for policy purposes ranges from 15 to 35 years. In Nigeria, it ranges from 12 to 30 years. South Africa's National Youth Policy defines youth as any person between the ages of 14 and 35 years (Mkandawire 2000).

*Intersecting topics addressed in the above debates:* Microfinance and conflicts; Microfinance and employment generation; Conflicts and jobs, Conflicts and youth.

### III. The Recent: These are the latest debates of interest to our research topic:

- Youth issues require special focus
  - Youth issues have now emerged as a key development focus since youth represent a large proportion of the human and social capital of developing and transition countries. Of the 3 billion people surviving on less than \$2 a day, approximately half are below the age of 24 and live in developing countries. Youth unemployment is high and is increasing in many regions. The ILO estimates that approximately 74 million young people are unemployed globally, accounting for 41 percent of the total unemployed population.<sup>3</sup>
- Youth issues require focus, especially in fragile states (amid and prone to conflicts);
  - Youth are affected by conflicts and easily become involved in conflicts due to several factors, such as living in areas with high unemployment rates, few job opportunities, few opportunities to engage politically and in the community, and/or areas with ethnic tensions. The events of September 11, 2001 has heightened the concerns to understand and address the needs of disgruntled youth who are vulnerable to engage in violent conflict and are affected by conflicts. Channeling youth's energy into productive employment and providing with hope for better future may help reduce their propensity to engage in crime, civil unrest, gangs, and even international terrorism.
- Microfinance can work with young adults to create and foster entrepreneurship;

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<sup>3</sup> The 1998 Braga Youth Action Plan at the UN Youth Forum, the 2000 UN Program of Action for Youth, the Youth Development and Outreach Program at the Inter-American Development Bank, and USAID's YouthNET and YES, World Bank's YouThink/Youth Voice are recent efforts addressing youth issues. The Millennium Development Goals include specific targets and indicators to be measured that relate directly to youth (literacy rates among 15-24 year olds, ratio of literate females to males of 15-24 year olds, HIV prevalence among 15-24 year old pregnant women, unemployment rate of 15-24 year olds). There are programs such as Junior Achievement, Making Cents and Street Kids International (to mention a few) that provide services to youth at risk.

- Microfinance for youth below 18 years of age may focus more on deposits than on microcredit<sup>4</sup>. Microcredit for youth below 18 (and unmarried girls in certain countries) may need to be combined with training and education;
- Use of grants may be warranted more than loans for servicing younger populations;
- Microfinance programs may require the development of special products to service younger populations;
- Microfinance programs for youth require solid commitment on part of the implementers;
  - Some countries in sub-Saharan Africa initiated microcredit to stimulate self-employment among young men and women. The credit programs, which were financed and controlled by governments, initially required two weeks of business skills training. Young people mobilized and protested against having to receive two weeks of training when participants in other microcredit schemes received loans without any training at all. Therefore, training was reduced to two days. The governments were quick to respond because of the highly political nature of their relationships with young people. The credit programs eventually failed and resulted in high default rates and a sense of failure among young men and women (Population Council, 1999).
- Issues of youth in normal environments vis-a-vis issues of youth in conflict and fragile areas (i.e., what are the similarities and differences?);
- Issues of at-risk youth (urban conflicts) as proxies for issues of youth in armed conflict areas;

*Intersecting topics addressed in the above debates:* Microfinance and conflicts; Microfinance and youth, Microfinance and employment generation; Conflicts and youth.

In addition to the above findings, it was interesting to learn that of the 902 organizations in 96 countries listed under the Microcredit Summit's Council of Practitioners, only 21 organizations were found to include youth in their title (Curtain, 2001). Nonetheless, there are numerous microcredit programs directed at young adults over age 18.

A number of reasons have been cited for the reluctance of microfinance institutions to service young people, including the requirement in most programs for clients to be at least 18 years old to ensure that they can sign a legal contract. Many programs, particularly in Asia, are more likely to target married women as opposed to unmarried women on the assumption that there is a high risk of default for loans to unmarried young women who might stop repaying their loans once they get married and migrate to their husband's house. Some programs also have minimum asset requirements to qualify for participation, excluding adolescents, who rarely possess physical assets such as land or housing that could serve as collateral. Younger population are also considered high risk takers and inexperienced in business. In addition, few MFIs finance the types of start-up businesses that are common among young entrepreneurs.

Please see the appendix for some examples from the field on microfinance for youth.

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<sup>4</sup> Some oppose employment by young adolescents on the grounds that they may be vulnerable to exploitation on the job; that working may divert adolescents' attention from schooling; that it may curtail the physical and psychological development of adolescents; and that young, lower-paid workers may "steal" jobs from adults.

**IV. The Open:** These are frontiers to explore and that are still open for research:

- The role of microfinance for youth employment in conflict areas and for at risk youth: In developing countries, where formal job opportunities are few, enterprise development offers a potential source of job creation, as well as an outlet for energy and creativity. Can microfinance help youth at risk of being involved in conflicts and/or youth affected by conflict to gain employment?
- Can microfinance help redirect youths' focus into productive purposes so their involvement in crimes and conflicts can be minimized?
- Should microfinance programs develop special products and services for youth in fragile states?
- What are the effects of and the rationale for grants, subsidies and loans to youth-focused microfinance programs in fragile countries?

*Intersecting topics addressed in the above debates:* Microfinance, conflicts and youth.

### **Sharing Knowledge: Among Us**

There are several issues that require careful examination to help understand the role of microfinance for youth affected by conflicts and at risk of being involved in conflicts. Some specific issues that may be addressed through this knowledge sharing forum may include:

- What are the common causes found in armed conflict environments that explain youth involvement in such settings? What are the factors that would more easily drive young people into conflict? In what ways do various conflict-inducing factors (unemployment, poverty, political disenfranchisement) impact youth differently?
- What do we currently know about youth and enterprise development in general? What are the common issues and/or obstacles and how are they best addressed?
- How should traditional enterprise development programs be adjusted to work with youth rather than adults?
- How is working with youth affected by conflict and/or at risk of being involved in conflict different from working with youth in general? What program adaptations or changes in setting have to be made?
- What types of entrepreneurial training and apprenticeship programs are appropriate for youth groups at risk of being involved in conflict? Are there differences by age group or by gender?
- In what ways do MFIs target youth for loans and deposits? Are there special products or efforts needed to attract youth affected by conflict and/or at risk of being involved in conflict?
- What are the institutional, legal and procedural constraints for microfinance to generate more youth employment? What measures can be taken to overcome these? Are there best practices that can be adopted to facilitate these measures?

- Servicing youth may require special skills and clarity on sustainability and impact on the part of the MFIs. How can they gain them and who will provide them?

We welcome your input into the exploration of these issues.

## Appendix: Microfinance for Youth—Some Examples

### I. Asia (Bangladesh and India)

Grameen does not prohibit lending to those younger than 18 for these very reasons. Recently, the bank has started an experimental credit program for educating the sons and daughters of its borrowers. The program provides loans to pay schooling fees, to be repaid when a student graduates and begins earning income.

The Centre for Mass Education and Science (CMES) in Bangladesh, founded in 1991, offers nontraditional education, skills training, and credit to 20,000 girls between ages 11-18 and young women between ages 18-24 in Bangladesh. Recognizing that girls who have left school still require education that can improve their work prospects, CMES developed a program that integrates learning and earning as part of a larger effort to give girls an opportunity for personal growth and development. Girls are eligible to participate in CMES's varied programs if they are out of school and unmarried. Although CMES did not start out as an organization that extends credit to girls, it soon decided that the ability to earn an income—however modest—is an important part of adolescence. Despite warnings from established large-scale credit institutions that lending to unmarried girls would never work, CMES began lending to this population. Although the organization has encountered some problems—their biggest challenge is ensuring that loan recipients remain in control of their funds rather than giving them to a parent or brother.

In India, there do not appear to be credit programs that target adolescent girls or programs for adolescents that offer credit. A livelihood program, ADITHI, works specifically with girls in Bihar who are 8–14 years old. Girls are given goats and taught to raise, breed, and sell them as part of a savings program. The profits allow girls to start building assets, which distinguishes this program as one of the few that encourage. Another program, run by MYRADA, is linked with one of the major watch manufacturers in India. Unmarried girls between ages 16 and 20 complete a training program to learn about financial management and strategic planning. They then work in an independent cooperative making bracelet links and supplying them to the factory; in the process, they gain skills, income, and savings. In some cases, girls are able to save enough so that their parents ask to borrow money from them! Other girls use their savings for their own education or to purchase jewelry. Saving is important for adolescent girls because it is a means for them to accumulate resources for future use over which they have control. (Reproduced from *Adolescent Girls Livelihoods: Essential Questions and Tools: A report of the Workshop*, Cairo, Egypt, Oct. 13-14, 1999 by ICRW, Washington, DC and Population Council, New York. [www.popcouncil.org](http://www.popcouncil.org).)

### II. Africa (Kenya and South Africa)

A Pilot Project for Extending Credit to Adolescent Girls in Nairobi, Kenya: The Population Council, in collaboration with the Kenya Rural Enterprise Program (K-Rep) has launched a project aimed at young, unmarried women in Nairobi. The project, called TRY (for Tap and Reposition Youth), explores the role of savings and credit in the lives of young women and the feasibility of lending to younger people using current K-Rep products. The participants in the TRY project are between the ages of 16 and 24. They have either graduated from school or dropped out, live in a slum area of Nairobi, and are currently unemployed. Some have previous business experience; all are interested in pursuing business as a career. The first lending cohort is a mixture of married and single women, some of whom are already mothers. The first loans are no larger than US\$200; participants are required to repay the loans at a 15% annual rate of interest, which is slightly lower than current commercial bank lending rates in Kenya. TRY offers both financial and nonfinancial services to participants.

The five key components of their services are savings mobilization, loans, ongoing credit education, basic business management training (including bookkeeping), and life skills. The last category encompasses intangibles such as decision-making, leadership, assertiveness, and gender role awareness. The credit delivery model for TRY closely resembles K-Rep's standard model, which is in turn based on a Grameen Bank model. As of October 1999, there were 105 participants. All went through a week of intensive training in business management before the June 1999 loan disbursement. So far, 90 young women have received loans. About nine have left the project, some willingly and some unwillingly. Some have husbands who have prohibited them from participating, some cited aspects of the project that violated their religious principles, and others were deemed unreliable and asked by their peers to leave. Those who have remained have saved, on average, the equivalent of US\$7 through a variety of business enterprises, including hairstyling, home construction, tailoring, grocery, and selling second hand clothes. Repayment rates after one year were about 70 percent. TRY has learned that they must consider an adolescent's loan eligibility within the context of her family and support structures, in contrast to the way in which older clients are treated. (Reproduced from: Population Council, 2002, [http://www.popcouncil.org/ppdb/adolescence\\_try.html](http://www.popcouncil.org/ppdb/adolescence_try.html), Youth and Development.)

The Umsobomvu Youth Fund, a non-governmental organization funded by the South African Government, provides financial support to programs in South Africa that prepare youth for livelihood, jobs and entrepreneurship. The UYF is

funded by a tax levy on the proceeds from the sale of two state-owned financial institutions with about US \$125,000,000 in 1999. It has been funding youth programs for unemployed out-of-school youth for two years (Hatch, John, FINCA, ED Youth Mail List (USAID); ED Workforce Mail List (USAID); ED.Africa Mail List (USAID), September 12, 2003).

### **III. Latin America (El Salvador)**

A review conducted by the World Bank (2002) of experiences in demobilization of child and youth soldiers in Angola and El Salvador reinforces the importance of a multi-sectoral approach for youth. Successful programs appear to have included psycho-social support for former combatants and focused on reintegrating them into the community. Economic opportunities have been created through apprenticeships and support to small businesses in the community through grants to hire young soldiers (Child Soldiers: Lessons Learned on Prevention, Demobilization and Reintegration" World Bank, May 2002).