



Microfinance, Youth and Conflicts  
Summary of Knowledge Sharing Virtual Discussion  
June 1 - 3, 2004

Chemonics International and the Microenterprise Division at USAID, Washington, DC organized a virtual knowledge sharing discussion forum between June 1-3, 2004 on "Microfinance, Youth and Conflicts." This is part of the early activity under the AMAP Financial Services Knowledge Generation Task Order, funded by USAID and implemented by the Chemonics Consortium.

Participants in the virtual discussion included a total of 42 specialists (exclusively or in some combination) in the areas of youth, conflicts, microfinance and microenterprise development invited from a pool of donors, practitioners, researchers and consultants from around the world, especially from several conflict affected countries.

### Why a Virtual Discussion?

A review of approximately 45 recent documents related to youth, microfinance and conflicts showed that only *three* papers simultaneously discuss youth, microfinance and conflicts in some way. An 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. The review of the available literature revealed the following:

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

- ? Microcredit works in conflict environments but 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; youth participation in conflicts has negative economic consequences;
- ? Jobs are necessary for managing and mitigating conflicts;
- ? Microfinance includes credit, savings, insurance, remittances, leasing, etc.

**II. The Continuing:** These are ongoing debates for which definitive conclusions are pending:

- ? 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.
- ? Trade-offs between outreach, sustainability and impact of microfinance in conflict areas;
- ? Definition of youth, conflict (pre, post and on-going), youth at risk of participation in conflicts, youth affected by conflicts.

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

- ? Youth issues require special focus, especially in fragile states (amid and prone to conflicts, post-conflict);

- ? Microfinance can work with young adults to create and foster entrepreneurship;
- ? Microfinance for youth below 18 years of age may focus more on deposits than on microcredit. 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 need to develop special products to service younger populations;
- ? Microfinance programs for youth require solid commitment on the part of implementers;
- ? There can be some similarities between issues related to at-risk youth in normal environments and youth in conflict situations.

**IV. The Open:** These are areas to explore through further research:

- ? Can microfinance help youth at risk of being involved in conflicts and/or youth affected by conflict?
- ? Can microfinance help redirect youths' focus in conflict situations 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?

In order to explore the continuing, recent and open issues in an effective and efficient way, we organized a virtual discussion to 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.

**Issues discussed**

Over the period of three days, we posted several issues below for discussion to help understand the role of microfinance for youth affected by conflicts and at risk of being involved in conflicts.

- ? How to define youth?
- ? Why are youth involved in armed conflicts?
- ? What do we currently know about youth and enterprise development in general? How are they different from adult programs? What are the common issues and/or obstacles and how are they best addressed?
- ? 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? Are there differences by age group or by gender?
- ? Is microfinance appropriate for youth? 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 constraints for microfinance to serve youth in general and in conflict situations in particular? What measures can be taken to overcome these? Are there best practices that can be adopted to facilitate these measures?
- ? How can donors help youth in conflict situations using microfinance and microenterprise development?

**Some tid-bits:**

There were a total of 64 postings over three day conference from 23 specialists in the areas of microfinance, conflicts, enterprise development and youth. A wide variety of institutions and

countries from Asia, Africa, Latin America, Europe, and North America were represented. Both young and well experienced adults (to be politically correct regarding old folks) actively participated in lively debates to share their personal views and experiences related to the topic. Only minor technical glitches were experienced.

## **Summary of Discussion Outcomes**

### **I. Definition and characteristics of youth**

The concept of youth was considered to be defined by cultural, physiological and developmental aspects. Therefore, the definition of youth is context dependent and should include a flexible age range between 7 to 40 years. While many youth prefer to follow a plan rather than be proactive in conflict situations, they have also been observed as willing to work and having a realistic view of their future.

Youth at risk are those whose lives are exposed to vulnerabilities but cannot respond adequately or appropriately to counter the vulnerability. Some common characteristics of youth at risk include inadequate access to basic services and a lack of engagement in gainful activity.

Youth affected by conflict are characterized by lack of formal education and exposure to a "normal" business environment with very short-term thinking/planning horizon and less respect for traditional structures.

The importance of life cycle events, age cohorts and gender to classify youth and identify their characteristics are highlighted to help with good youth programs.

### **II. Causes and effects of youth involvement in conflicts**

Common causes for youth to become involved in conflicts include: (i) lack of alternatives such as education (job-oriented education) and economic opportunities, (ii) general frustration with the government and/or social structure and lack of political voice or empowerment, (iii) to gain social acceptance or increase social status, particularly in less individualistic societies, and (iv) to adhere to an ideology that provides a packaged solution to what they should do and how to behave.

The major effects of conflicts on youth are the loss of "normal" social and economic opportunities, the collapse of social support systems, and the breakdown of social sanctions. Conflicts also allow youth to assume new, more powerful social roles (positive or negative) and advance the process of social development (by assuming household head responsibilities).

Youth are found to be more at risk of getting involved in conflicts than adults since they are financially dependent on their families. This creates an opportunity for militant groups to provide them with an alternative. It is also more difficult to pull youth out of military activities once they get involved. Youth at risk tend to perceive that they have nothing to lose by participating in conflicts. The "benefits" of social acceptance from participating in the conflict seem to outweigh the costs. In countries where conflicts have been ongoing for many years, youth have no "normal" reality to remember, which fuels more risk taking behavior. In many conflict situations, simple day-to-day survival seems to drive youth.

All these pose a clear challenge for youth-focused microenterprise development programs in conflict environments.

### **III. Lessons from Youth Enterprise Programs in Conflict Situations**

Avoid ad-hoc and "packaged" services assuming that all youth are a homogeneous group that needs help. Youth are different within various types of conflicts and within the same city. Therefore, programs need to be tailored to the age cohort, gender and environment. Avoid gender bias against female youth.

Youth focused enterprise development programs must take into account the lower basic skills of the target population including low levels of literacy, numeracy, planning experience, negotiation/conflict resolution skills and understanding of "normalcy."

The program should be quick and focused. Militant groups will consider any initiative to attract youth away from positive alternatives, which are direct competition to them. Also, youth get jealous of each other and try to get involved in militant groups unless quick preventive steps are taken.

Youth families/parents and community elders must become more involved as they have mutual interests to prevent their kids from participating in conflicts.

Trained program personnel are required to work with youth since inexperienced staff affect pertinence, quality and impact of the services.

Youth need substantial support/education to enable them to start up enterprises on their own. In conflict situations, this component is more important due to lower educational levels. Thus programs need to be more intense and of longer duration to achieve results.

Avoid subsidizing the learning phase through small grants since the majority of them have often not resulted in positive outcomes. The grant itself becomes the goal, rather than the learning.

Conventional skills training is not effective unless training providers know the market and can tailor the training and provide training at the correct level for all participants. Such training is also costly.

It is difficult to achieve sustainability for training or apprenticeship programs in conflict environments, but it is essential to keep the costs reasonable per client served, provide the right incentive mix to reach the intended goals, and minimize negative impact. Some cost recovery is important to provide the right incentives, however it should be understood that youth will not have access to honest income in these contexts and expecting full cost recovery may reduce the outreach of intended clients.

Youth programs may draw on the unique skill sets of several organizations such as MFIs and Community Based Organizations (CBOs) that work with youth.

Developing youth entrepreneurship may require a holistic approach. Some key elements of this approach may include clear selection criteria of entrepreneurial youth, training in both life skills and work skills, imparting self-esteem, providing opportunity for hands-on experience, mentoring, improving access to microfinance for youth, tracking system for monitoring,

evaluation and follow-up, and development of a network of program “graduates” for peer support.

Many recent conflicts have originated in rural areas. Since most youth programs targeting at-risk youth are concentrated in urban areas, many lessons can be drawn from these programs on conflict affected youth. Also, since conflict usually spurs urbanization, the concentration of youth and conflict programming in urban areas is expected.

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#### **IV. Lessons for Microfinance for Youth affected by Conflicts**

It may be difficult for MFIs to provide MF services to youth in areas still under intense conflicts since survival and not progress may drive the youth. Significant training and preparation may be essential before microfinance becomes an option. Microfinance is of great relevance to countries/societies that have emerged from conflict.

Trying to bend the MF best practices too much and target youth too closely can lead to failure.

A well administered and well thought out grant program can be more suitable for youth in many conflict situations to prepare them to access a loan and engage in an activity for which there exist suitable market conditions.

Microfinance programs are but ONE of the development tools for youth in conflict areas. It should be complemented by other non-financial services provided by interdisciplinary specialists. MFIs may need to build linkages with programs that work with youth to help mitigate the perceived risks of working with this population group.

MF projects should be designed by incorporating the environmental context in which they will operate and with a realistic expectation as to what microfinance can provide to people who probably need a range of other tools as well.

Microfinance for youth is a complex activity. MF needs to fit into a youth life cycle and be offered to them at the right time when they demand it. Also, MF requires specialized and well experienced personnel in youth and microfinance to provide appropriate services.

Not every youth is an entrepreneur or a potential one. Therefore, MF should only be offered to those who are entrepreneurial from within the pool of youth participating in an enterprise development program.

Microcredit to youth may only be effective when coupled with significant training and preparation that can help youth use the loans. Savings presents an exception where capital can be accumulated developing the discipline necessary for future businesses.

Young people engage in short-term savings activities in an informal way immediately after conflicts to accumulate funds to invest in small businesses. Therefore, deposit services for youth are equally as important as loans, but often neglected by MFIs.

Community based grants and loans to youth may lead to under-coverage of clientele and may also increase elder's control over youth. Therefore, youth should be involved in the decision making process and be stakeholders in MF operations.

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## **V. Role for donors: Some suggestions**

Need to be patient and have a long-term perspective since youth programs are complex and it takes a long time to develop and show results.

Need to incorporate youth. Youth require immediate attention and should be addressed by donors at all stages (relief, development etc.,) of any pre, amid and post-conflict situations to manage and mitigate conflicts.

Support only those programs that can succeed and do not negatively impact the market. To that end, it is important to think of the longer-term, even if the funding itself is short-term. The poorly planned and implemented donor-funded, (or government funded or NGO sponsored program) does spoil the rest of the industry. Market research, pilot testing, and planning are all skills that need to be considered by donors and FSS, OSS, to ensure development of sustainable MFIs to service youth.

Promote better coordination between different players. Many training programs start in post-conflict environments. A good solution might be to coordinate better with the MFIs who provide the financial services to the youth and to develop more appropriate curricula for youth. Youth-focused education/training that introduces them to MF principles and programs would be effective.

Coordination at the donor level in conflict affected countries is also important. UNCDF has taken the lead in a few countries to promote donor cooperation for investment decisions in local MFIs and to strengthen the financial sector. Uganda had an agreement signed by all donors that basically said – *we promise to follow good practices*. This is very useful in pre, amid and post-conflict environments to avoid polluting markets through poor practices.

Innovation grants that allow an established MFI or an organization with MED experience to pilot new products/approaches for serving youth may be an appropriate way for donors to spur developments in this area. These grants could be offered through the Implementation Grant Program or separate funding opportunities.

Young entrepreneurs willing to start microfinance services in areas with active conflicts face fund raising problems since donors are skeptical of success in an unstable region (eg. Palestine) and worry about the diversion of money to terrorist groups. Young entrepreneurs may require support to develop a small pilot project to test their concept.

The limited availability of alternatives in conflict affected environments poses a huge challenge. Often there is disruption in schooling or what is offered is nearly worthless. Also, there are few enterprises with enough resources to take on the additional burden of training young people--who may even be perceived as possible threats to the business. Thus, in a conflict environment, donors must also address “supply side deficiencies” in the market.

## **VI. Live Examples on Microfinance, Youth, Conflicts**

The Christian Children's Fund in East Timor ran a microcredit pilot project last year to curb violence among youths in Baucau town with some mixed results.

In Namibia, government and donors are attempting to address the issue of youth unemployment through a longer term microcredit intervention starting in 2004.

Programs in the US targeting ex-convicts: the participant is provided housing and food during the retraining period and then gets paid for the work upon completion of the training / internship.

In 1996/97, UNDP/UNOPS in Liberia operated a cash-for-work public works program with the demobilized combatants, many of whom were youth. During lunch breaks, they were taught the basics of doing small business. The project ran for about 8 months. A number of the combatants that had participated in the project went back to school when the project ended. But, when the war started again in 2003, many of them were forcefully recruited back into the warring factions.

Alternatives Credit Union in New York (<http://www.alternatives.org/dfd.html>) runs a Student Credit Union which provides savings accounts, visas, personal loans as well as other products and services to youth under 19 years old. Youth participate by volunteering their time to work in the credit union and are trained as tellers, loan officers, marketers, etc. Loan products offered to youth are co-signed by an adult who is a member of the credit union.

For at risk youth in Columbia and Bolivia, involvement in production, processing, distribution, marketing, other support services of the coca value chain appear a very attractive economic option for those with limited farm and off-farm opportunities in their rural settings. Youth often receive both finance and training, and even embedded services from the economic actors engaged in this illicit activity to reduce the inefficiencies in this value chain and secure quality control.

In a cluster of mechanics workshops, older, skilled mechanics sub-contracted excess work to young mechanics working nearby. For each job, they provided the young mechanics with minimal technical training to ensure they produced a high quality product and lent the appropriate tools for the job.

A more skilled (generally older) local person e.g. a baker, was identified by a development organization and trained as a trainer. Groups in the community got together, contacted the trainer directly and paid her to visit them for half a day to provide on the job training. Thereafter, the trainer visited the group whenever they had a problem and requested further training.

In a war-affected border region of Guinea, ARC wanted to promote employment generation and entrepreneurship among youth and ex-combatants, but only had a one year long funding cycle, with little chance of renewal. Apprenticeships were created to rebuild a local artisan base and provide youth with a sustainable source of training. Grants were provided to local artisans to buy materials/machinery and in return they took on a small group of apprentices. Since the apprenticeships gained some skills during the program time period, it was to the artisans' advantage to retain them as hired labor once the program ended. In conjunction with the training, ARC worked with local microfinance organizations to increase their outreach so that they could provide loans to some of the newly trained artisans as well as to youth in general in the area. The program is currently ending but initial reports are encouraging.

ARC is also experimenting with a sustainable intervention in Sierra Leone where local NGOs are provided with business training tools developed by Making Cents offered on a cost recovery basis. To prime the market and give the NGOs experience, ARC subsidizes services through vouchers, especially for those who may not be able to afford the cost of the program. ARC is also working at the same time to increase the outreach of local microfinance providers (both an

MFI and traditional ROSCAs) to the general population, with the idea that they will also serve youth. This program recently started. See <http://www.archq.org>

The Make a Connection program operated by the Youth Development Trust (YDT) in South Africa is a comprehensive youth employment/youth entrepreneurship program. It targets unemployed university graduates and provides them with three months of life skills, entrepreneurial skills and ICT training. Internships, job placement and assistance with business start-ups are also provided. Access to microcredit for youth is one of the next areas that YDT proposes to tackle. See [www.ydt.co.za](http://www.ydt.co.za)

Making Cents has been working since 2004 on a youth microenterprise project in Nigeria. Community ownership is incorporated from the start to ensure sustainability of the program beyond the life of the 18 month grant. See [www.makingcents.com](http://www.makingcents.com)

In the 1990s in Uganda, USAID provided a grant to CARE International for a Reintegration, Employment and Income (REIN) activity to provide cash through labor intensive community road rehabilitation and to train in cash management and small business development. Part of the cash payments were withheld as savings (the beneficiaries actually voted to increase the savings percentage) until rotational savings and credit groups (ROSCAs) were formed and trained. While not focused on youth, many of the beneficiaries were youth who had been formerly abducted child soldiers with the Lord's Resistance Army (LRA). The savings, loan and business development aspect of the project was considered a success, with numerous small trading and animal husbandry activities developed. There were 10,000 beneficiaries, about half of whom were women, with many of the "men" being former child soldiers. This took place in areas that had been closed off by insurgency and hadn't seen any cash for several years. In mid-2002, the conflict with the LRA escalated, most of the areas opened up by the program became insecure again, people were forced to flee to IDP camps, roads went back to bush and small businesses disappeared. It is likely that the skills and business attitudes which developed remain and are used in the camps.

Jozoor Microleasing operation in Palestine, started with funds from family and private investors, is at its pilot stage. See [www.jozoor.org/solution/microfinancing-equipment.html](http://www.jozoor.org/solution/microfinancing-equipment.html)

The Steetkids International ([http://www.streetkids.org/index\\_f.htm](http://www.streetkids.org/index_f.htm)) and population council ([www.popcouncil.org](http://www.popcouncil.org)) are engaged in several activities to improve living conditions and employment for adolescents in developing countries.

### **How to Access More Information on the Topic**

You can access more information on the topic including the papers produced for this project, and also post your comments for discussion among a community of practitioners by joining our **Community of Practice!**

To become a member of the Microfinance Amid Conflict Community of Practice, first request a username and password for microLINKS. Go to [www.microLINKS.org](http://www.microLINKS.org), find the login box on the left-hand side of the screen and click "Join microLINKS." You will be asked to explain briefly why you wish to be a member. Your message will be sent to a page administrator, and you will be sent an email once you have been approved.



Once you receive your username and password for microLINKS, you can join the Microfinance Amid Conflict community by clicking on “Communities” – listed on top of the left hand side bar. Then click on “Microfinance Amid Conflict” and click “Join This Community” in the “Participate” box on the left-hand side of the screen. Again, your request will be sent to the Community Coordinators for approval, and you will receive an email confirmation when your request is approved.

### **Future Course of our project**

The final outcome of this knowledge generation activity 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, this virtual discussion was the first step to share knowledge on the topic and obtain feedback on the status of the field. Our next phase of the activity involves survey of selected microfinance institutions servicing youth and youth entrepreneurship development programs in fragile states affected by conflicts and at risk of being affected by conflicts. The feedback from the virtual conference will be incorporated in developing the survey instrument and in selection of participants. Survey results will be analyzed to develop a final set of guidelines and practices for microfinance to serve youth affected by conflicts.

Please stay tuned to the website [www.MICROLINKS.org](http://www.MICROLINKS.org) and also join the Community of Practice to enhance knowledge sharing on this topic.