

ISLAMIC FINANCE TODAY

The pulse of ethical business

APRIL 2016

Special Microfinance Issue

EXCLUSIVE INTERVIEWS WITH

Dr. Muhammad Amjad Saqib,
Founder of Akhuwat.

Paul Rippey,
Co-Founder, Savings Revolution

Timothy Nourse,
President, Making Cents

Musings on Microfinance

Charles Selestine

Some Thoughts on Islamic Microfinance

Malcolm Harper

Islamic finance economic value

Joy Abdullah

Islamic Finance & Financial Repression

Abbas Mirakhor

Talent Development

Abdelilah Belatik





Islamic Finance Today

The Pulse of Ethical Business

Islamic Finance Today (IFT) is a much sought after source of information on Islamic Banking & Finance because of its rich and varied content, reader-friendly style of presentation & design.

The Magazine delivers a mix of scholarly articles, exclusive interviews, view points, news, events, tips & hints, industry trends and profiles relating to the Islamic Banking & Finance Industry. Our objective is to provide readers with the latest up-to-date information on the developments and growth potential of this very happening industry.

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Serving the Underserved

In this special edition focusing on Microfinance, we have pieced together some interesting ideas and observations on this very important yet much underrated area of Islamic Finance by some leading academics and hands-on activists.

We hope that our readers will benefit from the views expressed by our contributors who have devoted much of their life to serving the underserved sections of society. New trends such as crowdfunding are in fact already making their mark in all rungs of society but have yet to percolate to the really depressed sections of society who survive on USD 2 Dollars a day or less and don't have access to any type of financial services. It is to these really deserving sections of society that this special issue of IFT is dedicated.

Particularly interesting is Professor Malcolm Harper's pioneering work on the benefits and shortcomings of various forms of Islamic microfinance based on well known Islamic Financing methods such as *Murabaha*, *Mudaraba* and *Musharaka*.

As the good professor shows, *Murabaha* is overrated and is not much different from conventional interest-based transactions with hardly any real benefit to the poorest sections, hence the need to focus more on profit- and loss-sharing methods such as *Musharaka* and *Mudaraba* if there is going to be any meaningful improvement in these people's lives.

We also have Dr. Amjad Saqib, founder of Akhuwat which provides interest-free loans based on the Qard Al Hasan principle enunciated in the Qur'an to the most deserving communities in his homeland of Pakistan, a nation that has to contend with the twin evils of poverty and extremism engendered by the misguided policies of Zia Ul Haq which has driven that once beautiful country to the plight of failed state.

As such Akhuwat's initiatives should be seen as a silver lining in an otherwise dark cloud. In fact such initiatives serve as a good example of how true Islamic principles could serve as a force for social good, which needless to say is its real purpose.

We also have exclusive interviews with the Founders of Savings Revolution and Making Cents, two organizations that are contributing much to promoting opportunities especially for young people and from whose experience Islamic Finance Providers can learn much.

Also interviewed is the CEO of MicroEnsure, a conventional microinsurance provider whose observations and comparison of microtakaful vis-à-vis conventional insurance is an eye opener for Islamic Insurance providers.

Poverty is a trap and the best way out is giving the victims the means to move out of it. This is what Islamic Microfinance is all about.

Read on....

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ISLAMIC FINANCE TODAY



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MUSINGS ON MICROFINANCE

BY CHARLES SELESTINE

Charles Selestine covered the 18th Microcredit Summit held in March 2016 in Abu Dhabi on behalf of Islamic Finance Today



Charles Selestine holds an MA in Islamic Banking, Finance and Management from the University of Gloucestershire. He has served as a Senior Product Manager with an Islamic bank in Qatar and in 2015 volunteered as a Kiva Fellow in Ukraine.



“What makes you think that Microfinance is about poverty alleviation?” responded Professor Malcolm Harper. I was attending my first microfinance conference in Casablanca 2 years ago, and had asked a question following his keynote speech on 'Shariah-compliant microfinance credit products.'

I was surprised as I had thought and read until then, that the *raison d'être* of microfinance, was the elimination/reduction/alleviation of poverty. In the two years since, I have delved deeper into the world of microfinance – researching Islamic Microfinance for a Master's dissertation, volunteering in Qatar and Ukraine, completing an academic certification, and attending a range of training courses, workshops and conferences on microfinance.

These reflections on microfinance are not from a development specialist, but from someone who has is intrigued by the idea of providing financial services sustainably and effectively to underserved people, and thereby, hopefully, serving as a force for good.

Poverty alleviation

Can the poor afford to get into debt? Should microfinance remain within the social sector?

Wouldn't commercial microfinance ensure that more money is channelled to the target groups?

Is it possible to measure the impact of microfinance accurately? Could a single road linkage to a rural village be more effective than providing loans to the poor? Ultimately, isn't good governance the best antidote for poverty?

Subsequent to being stumped by Prof. Harper's question, I had the opportunity of interacting with a whole host of people expounding a range of opinions. It appears that microfinance had initially oversold its poverty reduction capability. The poor itself are of different categories, and the ultra-poor need a different set of services compared with the economically active poor. If poverty alleviation is the goal, is microfinance an appropriate tool to achieve that goal?

We drove for around 2 hours from Addis Ababa, as part of a field trip for a Microfinance course designed for funders. After the presentation by the Microfinance Institution (MFI), we stepped out and witnessed a group meeting in progress in the yard. The manager of the MFI was translating. In the course of the conversation he replied that their customers were mainly smallholder farmers, who grew teff. He clarified that it was rain-fed crop. On further probing, the Manager said that a single irrigation project for the community would have a much greater effect on raising income levels, compared to all the microloans they were giving out.

Yet, didn't those farmers feel that access to finance was valuable to them? Would the community grouping and organization provided through the NGO-MFI, make it easier for the farmers to derive benefits from the irrigation project when it came?

Some critics wonder whether by overplaying its poverty reduction credentials, microfinance has crowded out more essential interventions. Well if not poverty reduction, then what?

Financial Inclusion

While poverty reduction remains a cornerstone in the microfinance discourse, I see it leaning towards Financial Inclusion. Would being included within a formal financial system be beneficial to excluded populations, mainly poor people?

The answer seems an obvious, yes. Why shouldn't poor people have access to financial services, especially non-credit products?

Not many people are aware that you can take out your credit card right now, and through Kiva.org, make a USD 25 loan to a needy person-MFIs in 84 countries across the world. Kiva runs a Fellowship Programme, and a key responsibility of a Kiva Fellow is to do an onsite 'audit' of randomly chosen borrowers from Kiva's partner MFI. The 10 borrowers on my list were spread right across Ukraine, where I spent over 4 months last year. Meeting and interacting closely with the borrowers is one of the most rewarding parts of the Fellowship.

Financial exclusion is not just about destitute or poor people. The 10 borrowers were mainly micro-entrepreneurs, who simply had no access to credit other than through the MFI serving them.



In the midst of the war, and even in peacetime, these hard-working people deeply valued the microfinance services, which empowered them to maintain and grow their businesses, being job creators in difficult circumstances.

Beyond microcredit

For a long time I had equated microfinance with microloans. I remember being surprised when reading the **Micro Savings** module in my microfinance course, to discover that poor people generally value savings more than credit. Their economic formula, unlike conventional theory would read:

Expenses = Income minus (predetermined) Savings.

Poor people who have grown economically, are vulnerable to many shocks which make them slide back in to poverty. It was moving to hear harrowing stories of hard-working people devastated by the same afflictions/events, the effects of which better-off segments of society are protected against.

Can **Micro-Insurance** provide excluded populations with some degree of protection, reducing their vulnerability? Will these insurance products meet their actual needs like health and crop insurance?

For migrant workers and other groups, to be able to send small sums of money to their families, in a cheap and secure manner is a big deal. Would the ability to make payments digitally, increase access to services and products, expanding economic opportunity? Using digital and mobile technologies to improve **Remittances and Payments** solutions for the poor would benefit them immensely. These non-credit services are an integral part of microfinance.



Beyond Murabaha?

The risk sharing and profit-loss sharing ideals of Islamic Finance are much bandied about. Murabaha remains the most dominant credit product within Islamic Microfinance. I do not see a problem with this, as long as the Murabaha product is properly designed and delivered to match appropriate economic needs. For a poor, unsophisticated person, a Murabaha could be more accurately understood than interest based product rules and conditions.

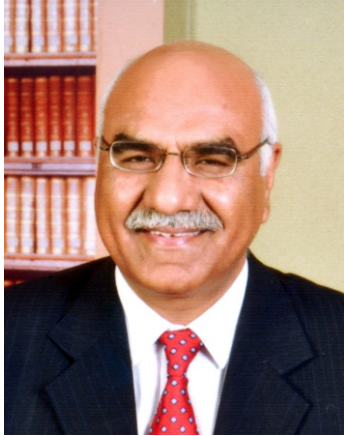
Basix's Islamic Microfinance pilot project in Nuh, northern India was in its second year of operation, when I visited them as part of my research. Besides Murabaha for shopkeepers, they had successfully launched Salam for agriculture, and Diminishing Musharaka for dairy farmers, with other interesting ideas on the drawing board.

Yet, the challenges of information asymmetry for profit-loss sharing modes of financing, and other practical difficulties has meant that one does not come across many non-Murabaha Islamic Microfinance ventures operating at scale. Neither have I heard of mudaraba-based micro-deposit accounts, nor non-life micro-takaful solutions, operating at a reasonable degree of scale. All that said, Microfinance is a great fit with the social justice ethos and values of Islamic Finance.

*For this Special edition focused on **Microfinance***, we interviewed a number of leading players. We hope you will be especially inspired by our conversation with the Founder of the **world's largest Islamic Microfinance programme**, and with what they have achieved over the past years, appealing to the higher ideals in people.

In going beyond micro-credit, we speak with the ex-CEO of a MFI, who was so taken in by the benefits of **savings groups** for poor people, that he has eagerly promoted it since 2002. The CEO of a social enterprise gives us insights into what it takes to deliver practical **micro-insurance** solutions to the vulnerable poor. We round off the series by speaking with the President of a development consultancy that promotes **youth financial services**.

Enjoy this special edition, and please do share your thoughts and feedback with us. IFT will continue to support and publicise initiatives that deliver crucial services to poor, marginalised and underserved segments of society, to benefit them.



HELPING HANDS – A CONVERSATION

**with Dr. Muhammad Amjad Saqib,
Founder of Akhuwat.**

Akhuwat is a multiple award-winning social movement founded in Pakistan in 2001. It provides opportunities for the impoverished through interest free loans. While inspired by Islamic finance traditions, it draws on the higher ideals for all mankind and does not discriminate based on religion, or gender.

IFT: How would you describe or classify Akhuwat within the social sector?

Dr. Saqib: Akhuwat seeks to support, develop and nurture a society in which people can achieve their dreams and where they are treated with dignity, honour and can maintain self-respect.

There are many ways to realize this, such as through political inclusion, education, capacity-building etc. Our chosen path is financial inclusion, though we would not describe ourselves solely as a microfinance programme. We would not have pursued this path, if it did not meet our objectives.

Microfinance should be a means to a greater end, though as the industry has grown, it has become an end in itself. Except for access to finance, we provide educational and health services and we work with the marginalized communities in Pakistan such as the Khwajasira (transgender) community.

What is the model that you use to deliver your service?

Akhuwat is not a charity which could negate the dignity of the individual. Nor are we a business as that could lead to profit maximization or even exploitation. Our model can be described as 'sharing'.

Donors endow us with funds, out of which typically 90% are used to provide Qarz-e-Hasan (benevolent, interest-free loans), and the remaining 10% is used towards administrative and operational expenses. There is a minimal loan application fee to screen serious applicants, and 1% of the loan amount is pooled on a Takaful (mutual guarantee) basis to provide various insurance benefits.

We use religious infrastructure, such as mosques and churches to keep our costs very low. We see it as our responsibility to operate very efficiently and cost effectively. This has an added benefit of promoting communal harmony and revitalizes the role of religious institutions as community spaces.

Many people/institutions have tried unsuccessfully to implement a Qard Hassan programme at scale. What makes Akhuwat different?

Akhuwat has taken modern microfinance practices and applied the filter of highest ethical and faith-based values, with the result being Akhuwat's current practice. What makes Akhuwat different is the fact that our borrowers are positively motivated to repay their loans, firstly as the loans are a part of a revolving fund which means that 100% of the repaid money goes directly to another borrower.

If the borrower does not repay they know that another person may be deprived of the similar opportunity. This idea hones the spirit of solidarity and brotherhood towards other borrowers. Secondly, the fact that we have utilized religious places as spaces for signing the loan agreements and loan disbursements adds to the moral, or even spiritual, motivation for repayment.

But the most important thing is interest-free or zero interest dimension of these loans. People feel someone wants to help them without any personal financial motive. This promotes sharing, caring and selflessness, the values needed to make this world a better place to live.

Could you please share some of the philosophy/background to Akhuwat?

We derive inspiration from the event of “Hijra” which took place 1400 years ago. When the Sahaba (companions) of the Holy Prophet (PBUH) arrived in Madinah from Mecca, penniless, shelterless and without relatives, he asked one Ansar (resident) from Madinah to adopt one Mohajir (migrant from Mecca) who had just arrived. The Mohajir did not want to seek charity, and with the help of the Ansar, they got back on their feet through trade, industry and hard work. The bond of brotherhood that resulted is called Muakhaat.

Akhuwat manifests this ideal of social solidarity. The loan given through Akhuwat is a demonstration of brotherhood, an expression of a desire to support the borrower. Akhuwat provides an opportunity for a better-off donor to support another member of society to harness their potential.

Since Akhuwat does not charge interest, it gives us the moral ground to advise or even plead with our borrowers to conduct business ethically. By not taking advantage of our borrowers, and instead working through compassion and sharing, we hope to turn a vicious cycle where exploitation is transferred within society, to a virtuous cycle where customers are served with a sense of brotherhood.

Can you give us an idea of the growth of Akhuwat?

The total value of loans we gave in the first 10 years combined together amounted to USD 10 million. Now, after 15 years, we give loans of over USD 10 million each month.

We operate on two basic assumptions, which have been proven right over the past 15 years: firstly, that there are people who want to give – we have disbursed USD 230 million loans since we started. Secondly, that people want to return the loans – our repayment rate is 99.93%.

We have expanded to more than 490 branches all over Pakistan, and we have helped more than a million families.

Please give us some insights about your borrowers.

We cater to the impoverished and disadvantaged but economically active and able people who need financial means/access to improve their businesses and achieve sustainable means of livelihood. Giving them Zakat would be counter-productive to enabling them to become self-sufficient.

Our borrowers do not believe in charity. They are honest, hardworking with strong willpower – they seek an opportunity to help themselves. They also want to help others once they themselves come out of poverty. They are our partners and aligned to overall vision of Akhuwat to build a society where everybody leads a poverty-free and dignified life.

The average loan size is around Pakistani Rupees 22,000 (USD 210). A significant proportion of our loans are given to women borrowers – for example, 40% of all loans in January 2016.

It should be specially noted that 70% of our donors are previous borrowers. They see it as their responsibility to help, once they have improved their lives and raised themselves above poverty. Our borrowers want to be givers not just takers. They are our partners and we want them to feel as valuable members of the organization.

Are your borrowers generally aware of Islam's prohibition of riba?

Yes, they are aware. Many of our friends, Mullahs, politicians and bankers propagate that riba is haram, but without providing solutions. Akhuwat's 3000 employees are providing practical Shariah compliant solutions every day, across the country.

Have others approached you to start similar programmes?

Many have come to study how to replicate Akhuwat's programme. We have suggested a pilot programme for the World Bank to be implemented in the Mindanao region in southern Philippines.

Ours is not a programme that is tied down to Pakistan or any specific religion. Compassion and solidarity with the impoverished is a universal value. We derive inspiration from all religions and faith. We do not discriminate on the basis of caste, colour, creed or religion.

Having established a successful interest-free microcredit programme, what do you see as future challenges or new initiatives?

We hope to continue doing more of what we are doing right now. We all are poor if even one person on this planet is poor. We need to remain trustworthy, transparent and dedicated to our vision.

We are also trying to expand our Education Services and Health Services. Akhuwat University in Faisalabad is an initiative we are now trying expand through our “Buy a Brick, Build a University” campaign. It is a model of education that provides a fee-free education and residential expenses to talented students from impoverished families from all over Pakistan. We want to create a state-of-the-art institution to hone young Pakistani talent who will subsequently help build this world on the values of love and giving.

In closing, can you share some anecdotes that come to mind?

One of our borrowers, an old lady was asked, “If you are still poor, why are you donating.” She replied, “Donating is the best thing that someone taught me, and gives me the most happiness I have ever derived”.

This is a common theme we hear from our borrowers. “Akhuwat has taught me to help others – When we give, we get more”; “We thought that the poor cannot donate, now we see that we too can!”

Between market economy and life on doles and charity there is another world – a world of sharing. If three billion rich people of world support three billion poor and share some of their resources to help them stand on their feet, life will be beautiful for us all. Without resorting the charity and without the help of the state and international agencies we can build a world free from deprivation, misery and exploitation.

My message is: don't wait for others to do this, just act and support one low-income family. As they say, a journey of a mountain starts with the first step. People will follow, as they have done in the case of Akhuwat.





SPRINGBOARDS OUT OF POVERTY

**An interview with Paul Rippey,
Co-Founder, Savings Revolution**

Savings Revolution is an independent source of information and ideas about Savings Groups (SGs) and similar informal financial associations.

IFT: Could you describe Savings Groups in a nutshell?

Paul: People getting together, making promises to support each other in regular savings, towards achieving whatever goals they have.

How did you get involved in Savings Groups?

After I had worked for six years with Association Al Amana, a large Microfinance institution in Morocco, I visited a savings group programme in Uganda. Observing this enthusiastic, self-managed self-capitalized group, voluntarily coming together to conduct their business just felt right to me. Especially, when compared to a microcredit machine that pressures customers to take on more debt. This was the trigger that plunged me into Savings Groups.

Do you find it counterintuitive that savings services are valued more than credit by poor people?

Between the first year an SG is established and the second year, there is usually a huge jump in the amount saved, which is a good indicator of the value of SGs to poor people. Poor people cannot afford the risks of debt.

What would you say are the main benefits of Savings Groups?

Savings Groups opens options for the poor, helps them build assets. It inculcates the discipline of managing savings and credit, which frankly, all people need, not just the poor. A West African proverb says, "Debt is like a rope around your neck".

Are there cultural differences in accepting Savings Groups, or is it universally accepted?

The legacy of President Moi's strictures to form Ladies' and other groups has meant that organizing Savings Groups is easier in Kenya. This is as opposed to, say, South Africa where savings is not in the mind-set, and there is more of a spending culture there.

How does the Microfinance industry view Savings Groups (Sgs)?

It is difficult to say conclusively, as there are a wide variety of Micro Finance Institutions (MFIs). Some MFIs have lost whatever pro-poor urges that got them started, and have moved from non-profit to profit maximization.

There are MFIs who are fascinated by the benefits of Savings Groups (SGs) though they will not gain any tangible/monetary benefit from implementing it, other than the vague possibility of future profitability.

If an MFI is looking for profit from SGs, then it has nothing to offer. If an MFI is looking for impact from SGs, then it has a lot to offer.

“Microcredit has overpromised its poverty reduction capability”. Your comments please.

Though opinions are varied, I thought that statement was not in dispute anymore. Microfinance by itself does not make a difference to poverty reduction.

Do SGs reduce poverty?

Rather than say they reduce poverty, it is more accurate to say that they make the lives of poor people easier. But in the long run, people with easier lives are more likely to have the foundation on which to stand to climb out of poverty.

In Rachuonyo District, Kenya there was a prevalence of widows and children after an AIDS epidemic. A member of a SG that was established there was commenting on the change in her life from joining the SG. She said, “Earlier my children would cry at night when they were hungry, and I would go around the village for a loan from my neighbours to buy food. Now I borrow from my group, and I don't have to face that humiliation.”

Tell me, how do you put a number on the value of reduced humiliation for a poor person?

What are the main challenges for the growth of Sgs?

One is making full use of new technologies that can improve efficiencies. For example, spreading full training modules through mobile phones, ensures there is no loss in translation when cascading down to Sgs.

Another challenge has resulted from the success of SGs. As the amounts grow significantly, there are opportunistic individuals and institutions who try to part the poor from their money, which someone described as “hyenas circling the hut”.

Any anecdotes that you recollect from your vast experience with Sgs?

When asked why she joined a SG, a lady in Pakistan told me, a bit embarrassed, “We love each other. That is why we are in this together.” Such solidarity among the poor is the foundation of many good things.



PROVIDING A SAFETY NET

**A talk with Richard Leftley, CEO,
MicroEnsure**

Founded in 2002 by Opportunity International, MicroEnsure is the world's first, largest and fastest growing mass-market insurance service provider.

IFT: Can you provide us with some background of the microinsurance industry in terms of numbers?

Richard: There are about 4 billion low and middle income people with no insurance or inadequate insurance. About 500 million have insurance, but this is mainly credit life, while they need more than that. MicroEnsure currently serves around 25 million people. The term microinsurance itself was first published in 1999.

Do you find that the acceptance/perception of insurance differs from countries, or is it universally welcomed by the poor?

Some very religious communities hold the view that “God will take care of me”. In other, mainly former communist countries, the view could be, “The Government will take care of me”. As a result, some countries are more open to insurance.. Irrespective of the group, mass market emerging customers are acutely aware of the risks they face on a day-to-day basis.

If an insurance company wants to be successful in micro-insurance, what should it know/do?

One, the simpler the product the more the customer will trust you. The friction in selling and servicing is thereby reduced. Two, the customer needs to be educated. Three, having appropriate IT systems are critical. Four, pay claims quickly – preferably in 2 days or less. Your customer needs the money immediately.

Can you tell us about the impact of micro-insurance?

A recent World Bank study in India found that, out of 100 emerging customers (above the poverty line, earning at least USD 1.90 per day) who visited the hospital, 40 fell below the poverty line as a result of that visit. It is a question of when disaster strikes, not if. Microinsurance provides a desperately needed safety net to low income people.

In Malawi, another study found that when a crop failed, a smallholder farmer would pull a child out of school. With crop insurance they could keep all their children in school, while providing them with 3 meals a day.

What would you say is the greatest challenge in microinsurance?

The top challenge is distribution – selling and servicing. Underwriting itself, which is the pricing of risk, is not a big issue. You could say the product challenge is 5%, and proposition or process challenge is 95%. Many people talk about the potential of digital, which is real. Yet, a poorly designed product put on a digital platform will not help.

The biggest opportunity?

It is estimated that only 2% of the emerging market populations are covered by insurance. There are not too many markets left, where 98% is yet to be tapped. Today's low income person is tomorrow's well-off, which presents a huge opportunity for insurance companies to start small and cultivate their brands in minds of potential long-term customers

It is said that insurance is sold, not bought. Is it the same for microinsurance?

Many low-income people have the perception that insurance is complicated and is for the rich. If you design a simple product, a simple process and pay claims quickly, then those people who need it most will be attracted to buy insurance.

Is there a demand for microtakaful?

Generally customers for whom this is relevant, state a preference for microtakaful, especially when they are in a group. But, when the specific features and the T&Cs are explained, they tend to lean towards conventional insurance, which is less complicated.

How did you get into this field?

About 15 years ago, while working in commercial insurance, I had volunteered my time to help develop microinsurance products. I was sent for a 2 week field trip to Zambia. While there, I spent some time with a family in a rural area. The lady recounted that they were living comfortably in Lusaka. When her husband fell ill, they had to sell everything for this treatment.

When he passed away, she and the children moved back to her village with virtually nothing – just some clothes, and not even shoes. All their assets were wiped out by that one illness.

Such stories are replayed across the world. I realised then that providing a safety net to low income people was critical to their wellbeing and for them to avoid falling into poverty. As microinsurance specialists, that's what we seek to do at MicroEnsure.



CATALYSING YOUTH POTENTIAL

**A discussion with Timothy Nourse,
President, Making Cents**

Youth unemployment and the resultant societal issues has been marked out as an ongoing, critical global challenge. Making Cents is a development consulting firm that promotes economic opportunities for adults and youth in developing countries. They are considered a leader in Youth Financial Services, among other practice areas.

IFT: Why should Youth Financial Services (YFS) be differentiated from other types of microfinance?

Tim: Youth are at a critical stage starting out their livelihoods. They demand financial services to earn income and advance their learning goals, but generally borrow or save smaller financial amounts which requires product adaptation.

It should be noted that youth are not a homogenous group – adolescents, 18-24s, and 25-35s are different market segments. Specific terms & conditions are needed to match their economic conditions.

To be successful in providing YFS, what would a Microfinance Institution (MFI) need to understand?

The MFI would need a business case that answers why they want to provide YFS, and a clear idea of how they will make money from it.

There needs to be institutional readiness to be prepared for lesser profits in the first few years, and appropriate change processes to accommodate the training and changes to staff, new marketing strategies, refining the products etc.

Are there cultural differences in acceptance or spread of YFS?

Youth finance has been demonstrated to be effective globally and there are best practices and principles that are accepted worldwide.

These include that the product has to be well designed for the local context, the institution trusted and well known, and the product marketed appropriately for the youth segment targeted.

In the Middle East, family backgrounds and upbringing could determine whether the youth are more inclined towards conventional or Shariah Complaint products.

“Everyone is an entrepreneur and has that capability whether they realise it or not”– Muhammad Yunus. Do you agree with this statement? Any other comments please.

Yes, everyone can become a microentrepreneur, if forced too. However, most people prefer to be employed and many microentrepreneurs do not have the capability to grow their business beyond the micro-stage. Finance is important because it can help youth to pursue entrepreneurial aspirations if they have them, or to manage their resources to pursue and remain employed.

Do you think the Microfinance Industry has oversold its poverty reduction capability?

Microfinance is not a silver bullet, and has been oversold as a solution to poverty. Nonetheless, it is a useful tool for young people to manage their finances and achieve their goals.

Is YFS riskier than other types of microfinance?

No, it isn't. With well-developed products the performance for youth will match that of adults. In the case of Al Amal Bank, a Shariah complaint bank in Yemen, the youth segment did better than adults in fact during the present crisis. In any case, savings and transactions should be an entry point for youth financial services, not debt.

What are some of the challenges in providing youth financial services?

Providing non-financial services effectively and on a cost recovery basis is a challenge. For example, it is acknowledged that providing financial education is important for youth. Yet, delivering the right amount of training at the right time, is no easy task. In general, lowering the cost of financial services globally, is another challenge.

Can you share insights from any interesting programmes related to YFS?

A youth savings group in Egypt comprising of 15- 22 year olds would gather to save small sums of money. During their meetings, there would be 30 minute sessions on life skills, communication, financial education etc.

Member of the group could borrow small sums on an interest free basis, of around USD 50 or so, to 'test it out", and see how they could apply what they learnt.

After 9 months, there were very strong outcomes. While the poverty aspect of the group had not changed in that time (which we expected due to the short-time frame of the evaluation), 67% of the group members thought they were better off.

These members felt that they had control over their fate. They felt resilient and were willing to overcome obstacles, and try again if they did not initially succeed. Studies in the US indicate that when youth "agency" increases, overall outcomes in life are better, leading us to believe that this intervention may impact Egyptian youth's long-term prospects.





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