The Prince's Youth Business International

Youth entrepreneurship
Beyond collateral

How to increase access to capital for young entrepreneurs

A thought piece

The third report in YBI's Making Entrepreneurship Work series

Executive Summary

In the wake of the global economic and financial crisis, expanding the opportunities of entrepreneurship to young people in particular becomes even more critical to sustainable growth and social development. This article makes the case that non-financial support should be recognised as an alternative to traditional types of collateral and guarantee to expand access to start-up capital for young entrepreneurs.

SMEs are the engine of economic growth, yet there remains an acute SME financing gap. Microfinance has brought life-changing financial services to the poor and underserved, but deals mainly with the informal sector. Venture capital tends to be out of the reach of many start-up entrepreneurs. Young people in particular, with a high risk profile due to lack of collateral and track record, and relatively small business propositions, are disproportionately excluded.

As members of the global Youth Business International (YBI) network, our aim is to expand the support available to this young 'missing middle'.

YBI organisations target young people typically aged between 18 and 35 through an integrated support package, combining financial and non-financial support. The three main pillars are: access to start-up loan capital without the need for guarantees or collateral; a local volunteer mentor for personal development as well as business advice; and business development support, from drafting a business plan to training, to expanding a growing enterprise.

Such non-financial mechanisms of support to young entrepreneurs reduce their risk profile and improve their repayment rates. We believe it is time that they are recognised as a tangible and quantifiable alternative to traditional forms of collateral and guarantee for youth enterprise lending.

Every US$1 that the YBI Indian member, Bharatiya Yuva Shakti Trust (BYST), lends to young entrepreneurs is multiplied ten times in the turnover of the businesses they support.

Research by our Canadian member, Canadian Youth Business Foundation (CYBF), found that their annual loan write-off rate decreased steadily from 11.4% in 2004 to 5.7% in 2010 since mentoring became mandatory for entrepreneurs.

Our vision is for recognition of non-financial support to catalyse **cross-sector partnerships** at the national, regional and ultimately global levels.

YBI's experience with Inter American Development Bank (IADB) funding to a number of our Latin American partners is a particularly pertinent example. The IADB funded a US$9 million programme over 54 months to assist low-income youth interested in becoming entrepreneurs, by providing continuous support in the form of mentors, technical assistance and small loans through YBI members in Argentina, Columbia and Mexico. For this project, the IADB recalculated its standard 1:1 match funding requirement and reduced it by half, based on monetising the value of non-financial support; in other words, the counterpart funding was generated half through cash and half in-kind. Establishing this practice on a more formal basis calls for a coordinated cross-sector response:

The public sector

- focusing on national governments and regulators – should be encouraged to set an enabling framework for youth enterprise lending and to expand good practice, building on past successes. Regional and intergovernmental bodies such as the EU and the G-20 also have an important role in framing policy, and, along with international development banks, could be crucial in catalysing cross-sector investment flows into youth enterprise lending, for example through grants or credit guarantee schemes.

The private sector

– namely commercial banks – should be flexible and responsive, with a willingness to recognise the case for non-financial support as assurance against increasing the viability of capital to young entrepreneurs and to scale up successful partnership lending models. This might be through adjusted guarantee requirements and / or credit scoring.

Civil society
- including our network – has a responsibility to make the case for this type of youth lending in particular to relevant public and private sector parties, both by demonstrating the effectiveness in practice of non-financial services in reducing the risk of supporting young people into business, and by sharing best practice. Improving the quality of performance and operational data is crucial in this. As members of a global network dedicated to youth entrepreneurship, we will continue to maximise our efforts to help unlock start-up capital for young people – and we call on others across sectors to play their part.

As members of a global network dedicated to youth entrepreneurship, we will continue to maximise our efforts to help unlock start-up capital for young people – and we call on others across sectors to play their part. We believe that entrepreneurship can give young people a unique opportunity to transform their life chances; and that entrepreneurialism builds sustainable economies, strong societies and connected communities.

Innovations in other financial sectors have shown that, "the poor are bankable if the right lending mechanism is used". For young people, our experience shows that start-up capital combined with a range of non-financial support– including mentoring – is one of the most effective and efficient lending mechanisms to open up the potential opportunities of entrepreneurship.

We urge a concerted and coordinated response across relevant actors in public, private and civil society sectors to recognise the value of non-financial support and expand access to capital to young entrepreneurs.

This article is published on the occasion of Global Entrepreneurship Week 2010 (15 – 19 November). YBI is a Global Partner of GEW, and this article has been co-authored with six of YBI's official GEW Host countries:

www.youthbusiness.bb

www.bystonline.org/byst

www.cybf.ca

www.youthbusiness.org/contact-us.aspx

www.fundacionparaguaya.org.py

www.sesp.org.ua

Introduction

Young entrepreneurs have great difficulty in gaining access to traditional sources of financing. Because they tend to have little experience and few assets, financial institutions tend to see them as too risky despite the modest amounts of investment that many require. And because they are starting from scratch, they are often too small to be of interest to most angel investors and venture capitalists. Governments therefore should support alternative mechanisms and institutions that provide young entrepreneurs with the capital they need to start and grow their businesses.

G-20 Young Entrepreneur Summit 2010 Final Communiqué

These conclusions, taken from the G-20 Young Entrepreneur Summit 2010 Final Communiqué, are at the heart of our beliefs and are not just a matter for governments – they are critical also for the private sector in particular. As a network dedicated to supporting young entrepreneurs, we are passionate that the capability to access appropriate and affordable finance to start-up and grow a business is a vital part of building strong economies and driving social mobility throughout the world. This article

proposes an alternative mechanism for youth enterprise lending that we urge all sectors of the international community to recognise

in order to transform the life chances of millions of young people around the world.

Whilst not suitable for all, entrepreneurship presents a sustainable and empowering response to the persistent challenge of unemployment and underemployment among young people that risks leaving behind a generation, and reducing life chances through missed economic, social and personal opportunities. In the wake of an unprecedented financial crisis, never has this challenge been more pressing: this year – designated UN International Year of Youth – youth unemployment reached a record high[1].

This week, the third Global Entrepreneurship Week (GEW)[2], is an occasion to focus the international community on the opportunities that starting and growing their own business can create for young people. GEW's focus this year is on 'dismantling barriers'. From our experience working with young people, we know that the barriers of entrepreneurship, and all the benefits it brings, are many: economic, social and cultural. Our focus in this article is on one of the principal obstacles that young people especially face in seeking to set up a business[3]: access to start-up capital.

SMEs are the engine of economic growth[4], yet there remains an acute SME financing gap[5]. Microfinance has brought life-changing financial services to the poor and underserved, but deals mainly with the informal sector. Venture capital, as the G-20 YES Communiqué above states, tends to be out of the reach of many start-up entrepreneurs. Young people in particular, with a high risk profile due to lack of collateral and track record, and relatively small business propositions, are disproportionately excluded. **Our aim is to expand the support available to this young 'missing middle'.**

Unlocking capital for this group from both public and private sectors would unleash a significant multiplier effect in economies across the world.

Our approach – as the Youth Business International (YBI) global network – combines financial and non-financial support. YBI member organisations target young people typically aged between 18 and 35 through an integrated support package, comprising three main pillars: access to start-up loan capital without the need for guarantees or collateral; a local volunteer mentor for personal development as well as business advice; and business development support, from drafting a business plan to training, to expanding a growing enterprise.

Such non-financial mechanisms of support to young entrepreneurs reduce their risk profile and improve their repayment rates. We believe it is time that they are recognised as security against a start-up loan.

The attention of the international community is increasingly turning to the challenge of access to finance[6]. This article does not purport to propose a comprehensive response. **It seeks to add to the current debate, by making a specific case for recognition of a new alternative to existing forms of collateral as a response to the urgent challenge of expanding access to finance to help young people work their way out of disadvantage and become contributors to economic growth.** We believe that all young people deserve to be able to make the most of their lives. We have a vision of a financial system open and fair for all, that reliably meets the needs of young people wanting to set up in business.

Entrepreneurship challenge... and opportunity

For too many young people, turning a business idea into reality remains a distant dream, not least through a lack of adequate financing options. The current situation is particularly stark. The year 2008-2009 saw the largest rise in youth unemployment in at least a decade, and rates are expected to increase through 2010 to an all-time high of 13.1% or 81.2 million. The impact of the economic crisis on young people has proven to be greater than that on adults: the 1% youth rate increase over 2008-09 is double the adult rate of 0.5%. Overall young people are 2.7 times less likely to be employed than adults[7]. Research for a major ILO-IMF joint conference found that, of all the determinants of unemployment, over the past three years, age (i.e. youth) has been the most significant – more than geography, education level and gender[8].

Yet unemployment is only the tip of the iceberg. Vulnerable employment and working poverty trap young people. According to the latest figures, more than a quarter (28%) of all young workers in the world worked but remained in extreme poverty in households surviving on less than USUS$1.25 per person per day. Again, young people suffer disproportionately, accounting for 24% of the world's working poor compared with 18% of total global employment. In Sub-Saharan Africa 82% of workers above the age of 15 years live in poverty. Over the past two years in Latin America, the two key indicators of vulnerable employment increased significantly (the number of own-account workers by 2% and the number of contributing family workers by 4%[9]).

The YBI member organisation in England and Wales, The Prince's Trust, has calculated the national economic cost of youth unemployment at £4.7 billion (US$7.5 bn) per year, or £90 million (US$144 mn) every week[10]. The ILO has described "the global jobs crisis" as "one of the biggest security risks we face today[11]".

Put simply we cannot afford the costs, both economic and social, of not acting to support what the IMF Managing Director has described as **a "lost generation" of unemployed[12].** Not only are we facing **a "youth bulge"** in many countries, notably across Sub-Saharan Africa, southern Asia, the Middle East, and the Pacific Islands, but ageing populations in some countries increase the pressure: for example, in Canada some 70% of existing entrepreneurs intend to retire within the next five to ten years, leaving a critical economic gap.

Micro, small and medium enterprises on average make up over 90% of enterprises in the world and account for 50-60% of employment, in particular in developing countries[13]. The potential gains from positive action are significant. **Halving the world's youth unemployment rate could add an estimated USUS$2.2 to 3.5 trillion to the world economy[14].**

At the individual level, running a successful enterprise brings higher living standards and better life chances, with more reliable access to healthcare and education for the entrepreneurs themselves as well as for their dependents. Productive youth are less susceptible to engagement in social unrest and conflict. A more vibrant business community, especially with relationships strengthened through mentoring, training and other support, builds social capital. Young people are empowered with renewed confidence and capability, financial, commercial and personal.

A consensus is emerging at the highest level around enterprise driving equitable growth, primarily through sustainable employment creation. President Obama of the United States is championing "a new era of entrepreneurship" "...because throughout history, the market has been the most powerful force the world has ever known for creating opportunity and lifting people out of poverty[15]". The UK Prime Minister David Cameron has committed his government to "acting to build a more entrepreneurial economy" in order to drive the country's economic recovery[16].

The YBI Canadian member, the Canadian Youth Business Foundation (CYBF) launches two new businesses every day, and forecasts four per day by 2015. They have calculated that

for every CA$1 it spends on its youth entrepreneurship programme, CA$3 is generated in tax take alone for the national economy

(considerably more when export revenues and savings in welfare are taken into account.). Estimates by YBI's Paraguayan member, Fundacion Paraguaya, put return on investment at 5:1.

Yet the YBI network is only able to meet a fraction of its potential. In Ukraine 52% of young people want to start their own business[17] but only 5% will be able to access the support they require. Our Ukrainian member, Youth Business Ukraine (YBU), was able to meet the needs of just 15% of young people who approached them for assistance. YBU calculate that if they were able to support successfully all 52% of potential entrepreneurs, they would be able to generate savings of around US$151 million to the state budget every year. In Barbados just 5% of potential young entrepreneurs are able to be reached by the YBI member, Barbados Youth Business Trust (BYBT). They calculate **the annual cost of non-intervention at US$75,000 per young person,** based on the average turnover of the businesses they support, so again, excluding welfare costs. In Paraguay around 10% of the 161,000 young people entering the labour market each year are interested in starting their own business; of these Fundacion Paraguaya can reach only 10%.

In India some 90% of the population works in the informal sector[18]. The most recent census[19] showed a 10% fall in the number of jobs available in the formal sector at a time of rising youth population. In Ukraine half of young workers are active in the black market. Strengthening formal youth entrepreneurship opportunities is vital to a sustainable economic recovery.

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Drivers of financial exclusion

However, there remain significant barriers for young people to enter the labour market, and in particular to start a business. These barriers hit the poorest hardest: "poor youth face more (persistent and structural) barriers to entry than middle income youth[20]". Of the key labour market barriers identified by the ILO[21], lack of access to financial capital arguably presents the greatest challenge, most notably following a global economic downturn[22]. **As the IMF Managing Director asserted, "the policy goal of ensuring financial access has taken on even greater relevance in the context of the global financial crisis[23]"**.

The issue of financial inclusion is broad, spanning a range of financial products and services appropriate to all segments of the population, including savings, credit, insurance, and investment instruments, that are necessary for people to "grow their businesses, shield themselves against unforeseen shocks and make better lives[24]". Our focus is specifically on access to start-up capital for young people.

There is broad consensus that economic independence at the household level and equality and economic growth at the macro level unlocked by access to finance are significant drivers of development[25]. There exists **"mounting empirical evidence that increasing financial access is both pro-growth and pro-poor[26]".**

So why do so many (young) people continue to be excluded from the type of finance they need to set up their business? Five key drivers of financial exclusion identified by a consortium of leading development economists, The Financial Access Initiative[27], provide a framework to explain the challenge of youth access to start-up capital:

1. *Demographic factors (age; gender; background)*

2. *Socioeconomic and cultural factors (GDP per capita; income; level of urbanisation; standard of infrastructure both financial and non)*

3. *Regulatory and policy environments*

4. *Actions of individual financial services providers (affordability, reliability and relevance of products and processes)*

5. *Economic climate (global and national)*

More specifically, the inaugural G-20 Young Entrepreneur Summit defined thirteen barriers that young people face when attempting to pursue entrepreneurship[28]. Among these, high risk profile due to lack of collateral is key, and it is our focus in this article[29].

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Innovations to offset risk

Over the past three decades in particular, there have been a range of innovations to overcome these barriers and expand access to finance. Various micro and SME financing initiatives have demonstrated the link between profitability, sustainability and scale in terms of a disadvantaged demographic. As Gates Foundation research concluded: "In the last 30 years non-collateralized micro lending models have demonstrated that traditional financial arrangements can be **successfully adapted** to work for lower income people[30]".

As previously stated, YBI differentiates itself from microfinance in that: we provide an integrated package of non-financial support as well as a loan to meet the specific needs of young people who require start-up financing on a scale greater than provided by grassroots interventions but insufficient to attract venture capital investment. In this context, we believe that rethinking the offsetting of the risk of lending to young people should be an important part of this movement towards "**successful adaptation**".

There are three principal ways for financial institutions to ensure that loans are repaid: first, accelerated pay back of the full loan amount; second, litigation; and finally – and most relevantly – a type of collateral or guarantee equivalent to the value of the original loan[31]. Under this last category, physical collateral (either cash or fixed assets such as land and jewellery) and third-party guarantees (whereby a guarantor agrees to pay the local financial institution money owed to it by the borrower in the event the borrower defaults on the loan) are the most common types of security accepted in most financial systems. The young people that YBI members reach are unable to qualify on these terms.

Innovations to expand access to finance for the underserved are most effectively considered in terms of correcting a market failure[32]. The market failure of concern to our network is that young people are underserved by enterprise finance in their local market. Typically, they are perceived to present an increased risk of default due to limited or no collateral or track record, or living in countries with poorly functioning legal systems. Thus the objective becomes:

creating alternative mechanisms to control risk from traditional forms of collateral and guarantees.

We have seen three important innovations in this context for microfinance clients: group lending; adapted credit bureaus; and mobile banking.

The group-liability contracts that have come to define traditional microfinance especially in developing countries effectively shift the responsibility of screening, monitoring, and enforcement from the lender to clients, thus shifting the responsibility for default. Credit bureaus that have been adapted to serve the needs of poorer clients have come to pay a valuable role in helping them understand financial systems and secure loans. Mobile technology has demonstrated massive potential for extending banking capabilities, again especially in developing countries. As a benchmark, the largest mobile operator in a country usually has 100-500 times more airtime reseller outlets (a form of cash deposit) than banks have branches[33].

However, these developments do not directly ease access to capital for young entrepreneurs. What they do illustrate is that we are in a phase of innovation. During this phase, the priority is for practitioners and policymakers to identify, capture and scale what works to support underserved groups. Innovations in alternatives to traditional forms of collateral have been a primary driver in extending access to finance. The view that "the achievement of microfinance is the development and promotion of collateral substitutes[34]" is right – and it is time to apply this logic beyond microfinance to start-up capital for young people. **On the basis of our experience serving young entrepreneurs, we have a vision that the provision of non-financial support will allow systematically for the unlocking of increased amounts of loan capital from both private and public sectors for young entrepreneurs.**

The view that "the achievement of microfinance is the development and promotion of collateral substitutes[34]" is right – and it is time to apply this logic beyond microfinance to start-up capital for young people.

The value of non-financial support

Our central proposition is that the YBI non-financial entrepreneur support services, including mentoring, training and individual monitoring, should be recognised as a substitute to traditional types of collateral for young people vetted by our members to secure a loan.

Essentially the non-financial support, sustained typically over three years, equates to a methodology that reduces the risk profile of the entrepreneur through enhancing their personal and commercial credentials via guiding their business planning, registration, launch and development. This process of supporting entrepreneurs is strengthened by the assurance of high quality operating standards contained within the robust accreditation process that organisations must adhere to in order to join and remain within our global network. This acquired knowledge about both the characteristics of the entrepreneur, and the strength of their business should be monetised as a guarantee against excessive risk.

The value of non-financial support is reflected in a range of indicators in the performance of the YBI network including above-average rates of loan repayment, business sustainability and employment creation. Of the organisations co-authoring this article, the average repayment rate is around 90% - in some countries it is as high as 95%.

Every US$1 that the YBI Indian member, Bharatiya Yuva Shakti Trust, lends to young entrepreneurs is multiplied ten times in the turnover of the businesses they support. Research by our Canadian member, Canadian Youth Business Foundation (CYBF), found that their annual loan write-off rate decreased steadily from 11.4% in 2004 to 5.7% in 2010 since mentoring became mandatory for entrepreneurs.

The global YBI Network has supported a total of over **105,000 youth-led SMEs,** each creating on average 3 (3.3) jobs and with **70% still trading after three years** – in many countries this is well above the average success rate of new entrepreneurs supported by banks. The number of start-ups grew by 25% from 2008 to 2009, and YBI's goal is to enable our network to **support 100,000 new young entrepreneurs annually by 2020**. Recent research in the US found that job numbers in start-ups remain at 80% over 5 years and 70% over 25 years – considerably higher than the durability of the firms themselves, creating a lasting impact on the economy[35].

A cross-sector response

For the systematic recognition of non-financial support to increase credit availability to young entrepreneurs, a coordinated cross-sector response is required. We must all play our part. It is when the private and public sectors come together with civil society that we will make the most impact. In its first report in its 'Making Entrepreneurship Work' series, YBI recommended that:

"banks and microfinance institutions should partner with community organisations to improve young people's access to financing[36]."

(whilst recognising that partnerships are not appropriate or viable in every market). Such partnerships will be more readily and effectively brokered if non-financial support is recognised as an alternative to collateral for young borrowers. **Our vision is for recognition of non-financial support to catalyse cross-sector partnerships at the national, regional and ultimately global levels.**

Both the YBI network and external organisations present valuable evidence of finance being lent to young entrepreneurs in recognition of non-financial support reducing their risk profile.

However, this practice remains niche and must be scaled and systematised if we are to unlock the potential of the next generation.

National partnerships
Many members of the YBI network manage their lending to entrepreneurs in-house. However, within our network we have a range of experience of successful lending partnerships established in recognition of the value of our integrated approach. The Centennial Fund (TCF), our member in Saudi Arabia, acts as an application manager for Saudi Credit and Saving Bank loans to otherwise underserved young people, retaining control over lending criteria and decisions. Loans are available between US$13,400 and US$53,400 over five years. In 2009 some 2,030 young people were supported in starting a business. In Indonesia our local member, Young Entrepreneurs Start-Up Programme (YES), has developed a partnership with Sahabat UKM (Koperasi Mitra Sejati), a registered microfinance institution, to provide the only collateral free loans (up to US$ 5,555 over three years) targeted specifically at young people within the country. It is also feasible that a youth entrepreneurship organisation share the risk burden with a financial institution, especially under regulation designed specifically to reach disadvantaged groups, such as the Community Reinvestment Act in the United States.

Leading microfinance NGO PlaNet Finance has also initiated a programme to increase access to start-up capital for excluded groups in France through the provision of non-financial support. Focusing on unemployed people in sensitive urban neighbourhoods, Entreprendre en Banlieue – also YBI's member in France – increases the likelihood that young people will be financed by partner local banks or microfinance institutions (MFIs) by building their entrepreneurial capability through pre-sensitisation and coaching. According to the latest figures, the programme has created 498 new businesses and generated 638 jobs.

International partnerships
International cross-sector partnerships can be particularly successful in expanding access to capital for young entrepreneurs. The ILO has considerable experience in this area. A new East-Africa focused collaboration with the Youth Employment Network (YEN) and the Africa Commission, The Youth Entrepreneurship Facility, will demonstrate the value of combining financial and non-financial support to expand access to finance to young people, through a package that includes training and advisory services, mentorship, and access to finance. Among other targets, it aims to create 11,500 new youth-led businesses and 23,000 new jobs by December 2014.

TechnoServe, a US-based not-for-profit, leveraged its expertise in providing business advice and access to markets to entrepreneurs in a pilot program in El Salvador to assist SMEs in accessing credit based on valuing remittances as an equivalent of collateral. TechnoServe worked with the business owners to develop detailed business plans and funding applications to a local MFI, and the Microfinance International Corporation compiled a comprehensive credit profile for each entrepreneur that included stable remittance flows. The loans these businesses received were 20% to 50% less expensive than traditional loans thanks to the bundling of remittances into the loan applications[37].

In order to increase access to equity-based growth capital for mature entrepreneurs – as opposed to start-up capital for new entrepreneurs – YBI's Bharatiya Yuva Shakti Trust (BYST) in India received seed funding from the IFC, the World Bank's private sector investment arm, among other partners. The current fund's investments range from US$10,000 to US$200,000, depending on investee requirements. Some 5% of BYST's grassroots entrepreneurs (starting out with a loan of Rs50,000 or less - US$1,100) have been able to grow their business into one with a turnover between Rs 1-25 million (US$22,000-US$539,000), and with the potential to reach a turnover up to Rs 100 million (US$2 million). BYST's research indicates that another 5% of the entrepreneurs it supports at earlier stages of their business life-cycles also have the potential to reach these levels of success, but are hindered by a lack of access to additional finance.

YBI's experience with Inter American Development (IADB) funding to a number of our Latin American partners is particularly pertinent to our case for earning recognition of non-financial support in increasing lending to young people. The IADB funded a US$9 million programme over 54 months to assist low-income youth interested in becoming entrepreneurs, by providing continuous support in the form of mentors,technical assistance and small loans through YBI members in Argentina, Columbia and Mexico. The programme was later extended to the Caribbean. The partnership also incorporated the private sector, with major corporations (such as Diageo, Accenture and Rio Tinto) represented on the project's Advisory Council. For this project, the IADB recalculated its standard 1:1 match funding requirement and reduced it by half, based on monetising the value of non-financial support; in other words, the counterpart funding was generated half through cash and half in-kind. A metric was devised to calculate the in-kind contributions based on a number of factors, including the value of the mentors (number hours worked at a daily rate according to level of experience and expertise), plus the provision of pro bono legal, management and auditing advice by leading organisations to YBI and its partners[38].

Credit guarantee schemes

We believe that facilities to underwrite lending have significant potential to expand access to capital for young entrepreneurs.

In many countries they have already become a central strategy to alleviate SME financing constraints, and there is growing positive experience. Within the YBI network, under the 'Dominica Youth Business Facilitation Initiative', the Dominica Youth Business Trust (DYBT) established partnerships with fifteen financial institutions to make funds available to assist young local people to set up in business based on guaranteeing loans up to a maximum of 75% of XCD$20,000 (US$75,000) and not exceeding 75% of the loan. To date DYBT has disbursed a total of XCD$907,340 (US$339,820) under this Initiative based on guarantees totalling XCD$674,660 (US$253,000). Our Israeli member, Keren Shemesh, along with another established NGO, Koret Foundation, have a joint lending agreement with a local bank (Otzar Hachayal Bank) based on both youth organisations acting as guarantors for the bank's lending to their young clients. The money is leveraged up to six times through a requirement that 16% of all outstanding loans allocated is deposited with the bank.

The public sector in particular can play a significant role in structuring credit guarantee schemes.

On the recommendation of the Africa Commission, the African Development Bank (AfDB) has launched a new African Guarantee Fund (AGF) to ease access to financing for small and medium-sized enterprises through loan portfolio guarantee products and capacity development support to African financial institutions that wish to improve their services to SMEs. The AGF is based on a guarantee capital of US$500 million with a leverage of three times, and risk sharing coverage of 50%, to mobilise some US$3 billion of loans and some US$20 billion of SME investment (1.5% of GDP in Africa). The Fund will set realistic targets for young entrepreneurs and young employees[39]. Underwriting lending – based on the value of non-financial support – is an effective means to increase the likelihood that financial institutions will lend to underserved youth.

Bharatiya Yuva Shakti Trust (BYST) developed public-private-partnership lending arrangements with two of India's largest banks, Indian Bank and Bank of Baroda, based on a crucial partial credit guarantee scheme provided by the government and underpinned by the Asian Development Bank. The guarantee covers up to 80% of the value of each loan with a maximum coverage of US$100,000 (the maximum loan size available from both banks is Rs 50 Lakhs, equivalent to US$108,000). Based on the first worldwide review of credit guarantee schemes by the World Bank, the median risk sharing quota is 80% and the median guarantee period is ten years[40].

In order to maximise our role in mobilising funds for young entrepreneurs, we have proposed an innovation that scales our experience with the IADB and that of Bharatiya Yuva Shakti Trust (BYST) in India through the establishment of an international public sector credit guarantee facility[41]. In outline, our model coordinates:

(i) a development bank and/or the World Bank (IFC);
(ii) local financial institutions;
(iii) youth entrepreneurship support organisations (initially YBI network members); and
(iv) YBI (to provide international accreditation and assistance to enhance the quality and sustainability of support).

Based on our pre-existing relationship with IADB, we have suggested piloting this innovation in Latin America, but it has potential for replication in multiple countries and regions through the global YBI network and beyond via third party support organisations. A mechanism of this type would further validate in practice non-financial support functioning as a form of security against youth enterprise lending.

Quantifying the value of non-financial support

The examples above demonstrate the possibilities of recognising non-financial support in offsetting the risk of lending to young people. Establishing this practice on a more formal basis calls for a coordinated cross-sector response, as indicated above:

The public sector

– focusing on national governments and regulators – should be encouraged to set an enabling framework for youth enterprise lending and to expand good practice building on past successes. Regional and intergovernmental bodies such as the EU and the G-20 also have an important role in framing policy, and, along with international development banks, could be crucial in catalysing cross-sector investment flows into youth enterprise lending, for example through grants or credit guarantee schemes.

The private sector

– namely commercial banks – should be flexible and responsive, with a willingness to recognise the case for non-financial support as assurance against increasing the viability of capital to young entrepreneurs and to scale up successful partnership lending models. This might be through adjusted guarantee requirements and / or credit scoring.

Civil society

– including our network – has a responsibility to make the case for this type of youth lending in particular to relevant public and private sector parties, both by demonstrating the effectiveness in practice of non-financial services in reducing the risk of supporting young people into business, and by sharing best practice. Improving the quality of performance and operational data is crucial in this – that is why YBI is investing in the development of a new, global data management system to provide comprehensive, real-time information about key aspects of lending to young entrepreneurs around the world over the long-term.

This behaviour at scale by the different sectors would likely require new or reformed regulatory systems of measurement and implementation. The question of adapting financial regulatory frameworks to enable a new model of credit enhancer would necessitate full and proper consideration by the international community, including national, regional and international regulators and donors as well as providers in the field – beyond the scope of this paper. Here, we call simply for a light-touch response.

The challenge of flexible but firm regulation is a familiar one, especially in financial services. We need to avoid replacing one set of barriers (practical and socioeconomic) with another set (regulatory). David Porteous has coined the term, **"the regulator's dilemma[42]"**. In the context of regulating non-financial support, this means balancing the dual objective of protecting consumers already inside the financial system with expanding access to capital to young people. It is a matter of applying regulatory restrictions of other types of security, such as collateral, whilst not overburdening non-financial support providers. As far as possible the regulatory focus should fall on the already regulated financial institution within the likely scenario of a partnership arrangement. In any case there are benefits to flexible regulation to allow for the maximum number of people to enter the formal financial sector and be subject to industry regulation, and not revert back to informal money transfer outside of official oversight.

In their recent paper, 'Regulating New Banking Models that can Bring Financial Services to All'', Claire Alexandre, Ignacio Mas and Dan Radcliffe (for the Bill & Melinda Gates Foundation) apply "the regulator's dilemma" to their vision of banking beyond branches. They conclude that, "the regulator's dilemma should be viewed more as a policy question of how to prudently boost financial access, than as a narrow regulatory concern of how to protect existing consumers[43]". This is an important insight for recognising non-financial support.
A central consideration is whether the support services or the delivery organisations – or both – should be recognised. In our IADB example above, both are accounted for. Cash equivalent value was calculated in recognition of the YBI accreditation scheme; the pro bono support received by YBI and its partners; and the non-financial services provided, in particular mentoring.

On the provider side, existing standards and certifications provide a basis. For example, the UK has developed an Approved Provider Standard (APS) for mentoring involving twelve quality areas each with detailed requirements, which operates as an accepted benchmark by government departments and other funding bodies. Providers are registered and listed in an online APS directory[44]. YBI has developed – and recently revised – a stringent accreditation process to ensure minimum principles, policies and standards across all network members. Accreditation focus areas include: governance and leadership; financial management; organisational management; performance; and network obligations. Accredited status is granted for a maximum of three years, when an organisation must undergo a reaccreditation assessment.

Agreed measures of impact might provide a means to quantify the non-financial services themselves. Although some aspects of the impact on young people are unquantifiable, such as their enhanced confidence and capacity, measures might include: non-financial support' effectiveness in increasing business sustainability; reducing default rates; and/or creating jobs. In more developed economies it is feasible to monetise the additionality of non-financial support according to savings to the public purse in terms of welfare and fiscal costs. The Canadian Youth Business Foundation (CYBF) has been particularly successful in demonstrating to the Canadian Government that support for CYBF is an investment in the nation's economic growth. In March 2009 the Canadian Government pledged an investment of CA$10 million to CYBF (having previously pledged CA$7.5 million in 2002 and CA$10 million in 2005). CYBF was able to show that in tax dollars alone the return on this investment will be upwards of 200%, thanks in part to a loan repayment rate of 94%.

We note that there are forms of non-financial support offered by other entrepreneurship-focused organisations not necessarily included within the YBI package, such as incubators, as well as those services tailored successfully to other specific client demographics, for example women and ethnic minority entrepreneurs, that also warrant recognition. A training project designed specifically for women in Germany (under the EU's "EQUAL" programme) led to business survival rates of around 80% compared to an average of 30% on normal courses[45]. EU analysis of its support for SME development argues that, "the overall rationale of business infrastructure and advice should not be questioned. The [package of support services] responds to practical needs, particularly acute as far as SMEs are concerned, even more if one considers micro and small enterprises which cannot afford to pay for such services, deemed crucial for their survival rate after three to five years[46]".

We are ambitious to see non-financial support fully recognised in financial systems. Three key variables that will affect the ease and likelihood of uptake within the different sectors are: the levels of (i) complexity versus flexibility within regulatory environments; (ii) coverage of existing financial systems; and (iii) political will for achieving greater access. We are committed to doing all that we can to demonstrate that supporting young entrepreneurs through an integrated package of financial and non-financial services constitutes efficient and sustainable support, and that investment in young people on that basis can underpin future economic growth and social development.

> *We are ambitious to see non-financial support fully recognised in financial systems.*

Concluding vision

In conclusion we believe it is time for non-financial support to be recognised in financial systems in order to turn more of today's youth into the success stories of tomorrow.

As members of a global network dedicated to youth entrepreneurship, we will continue to maximise our efforts to help unlock start-up capital for young people – and we call on others across sectors to play their part.

This paper makes the case for recognising non-financial support as a tangible and quantifiable alternative to traditional forms of collateral and guarantee for youth enterprise lending.

We believe that entrepreneurship can give young people a unique opportunity to transform their life chances; and that entrepreneurialism builds sustainable economies, strong societies and connected communities. Innovations in other financial sectors have shown that, "the poor are bankable **if the right lending mechanism is used[47]".** For young people, our experience shows that start-up capital combined with a range of non-financial support– including mentoring – is one of the most effective and efficient lending mechanisms to open up the potential opportunities of entrepreneurship.

Empowering young people to build better lives will have a transformative effect on economic growth and social and community development.

We urge a concerted and coordinated response across relevant actors in public, private and civil society sectors to recognise the value of non-financial support and expand access to capital to young entrepreneurs.

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Endnotes

1 ILO Global Employment Trends for Youth 2010 http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---trends/documents/publication/wcms_143349.pdf

2 For more information about Global Entrepreneurship Week please visit http://www.gew.org.uk/about

3 For more details about the specific needs of young entrepreneurs, see 'Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people', Ulrich Schoof, 2006 http://www.ilo.org/youthmakingithappen/PDF/WP76-2006-Rev.pdf

4 See page three for more details

5 See for example 'The SME Financing Gap' (Vols. I & II), OECD Publishing 2006-07; and ANDE Aspen Network for Development Entrepreneurs, Background analysis, 2008 http://www.aspeninstitute.org/sites/default/files/content/docs/aspen%20network%20of%20development%20entrepreneurs/ANDE_SGB_BACKGROUND_ANALYSIS_JULY_2008%5B1%5D.PDF

6 G-20, IMF/World Bank, UN, Commonwealth secretariat as well as Gates Foundation and a range of leading academic institutions all have dedicated current initiatives.

7 ILO GETFY 2010 as footnote 1

8 Discussion Paper: The Challenges of Growth, Employment and Social Cohesion, Joint ILO-IMF conference in cooperation with the office of the Prime Minister of Norway, September 2010 http://www.osloconference2010.org/discussionpaper.pdf

9 ILO GETFY 2010 as footnote 1 Own-account workers are those workers who, working on their own account or with one or more partners, hold the type of jobs defined as a "self-employment jobs", and have not engaged on a continuous basis any employees to work for them. Contributing family workers are those workers who hold "self-employment jobs" as own-account workers in a market-oriented establishment operated by a related person living in the same household.

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14 'Youth: Pathways to decent work Report VI Promoting youth employment – Tackling the challenge', ILO, 2005 http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/meetingdocument/wcms_104147.pdf

15 Remarks by the President at the Presidential Summit on Entrepreneurship, 26 April 2010 http://www.whitehouse.gov/the-press-office/remarks-president-presidential-summit-entrepreneurship

16 Prime Minister David Cameron's speech to Conservative Party Conference 2010 http://www.conservatives.com/News/Speeches/2010/10/David_Cameron_Together_in_the_National_Interest.aspx

17 According to the State Family and Youth Institute survey

18 'Is Informal Normal? Towards More and Better Jobs in Developing Countries', OECD, 2009 http://www.oecd.org/document/22/0,3343,en_2649_34487_42529878_1_1_1_1,00.html - the figures are 82% in rural areas and 72% in urban areas when agriculture is excluded

19 2001

20 ILO GETFY 2010 as footnote 1

21 See Figure 15 in GETFY 2010

22 Access to capital is the subject of this paper, but above all we need a coordinated approach that tackles barriers on both the demand and supply sides, including poor signalling and mismatch in skills – in these cases, we need to build awareness of entrepreneurship as a career option and ensure that young people have the specific capabilities to succeed as an entrepreneur.

23 http://www.imf.org/external/np/sec/pr/2009/pr09351.htm

24 Princess Máxima of the Netherlands, UN Secretary General's Special Advocate for Inclusive Finance for Development, International Conference on Global Partnerships in Microfinance, University of Greenwich, London, UK, 6 September 2010 http://www.uncdf.org/english/about_uncdf/docs/SPEECH_HRH_P-MAXIMA_LONDON-GLOBAL-PARTNERSHIPS_06SEPT2010.pdf

25 See for example the joint statement by the IMF & ILO on a jobs-focused policy response to the global economic downturn from the September 2010 IMF-ILO conference in cooperation with the office of the Prime Minister of Norway on "The Challenges of Growth, Employment and Social Cohesion" http://www.imf.org/external/np/sec/pr/2010/pr10339.htm and the conference paper http://www.osloconference2010.org/discussionpaper.pdf

26 'Regulating New Banking Models that can Bring Financial Services to All', Claire Alexandre, Ignacio Mas and Dan Radcliffe (Bill & Melinda Gates Foundation), August 2010 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1664644

27 Financial Access Initiative Framing Note, 'Half the World is Unbanked' , October 2009 http://financialaccess.org/sites/default/files/110109%20HalfUnbanked_0.pdf [Launched with a US$5 million grant from the Bill & Melinda Gates Foundation in late 2006, the Initiative is housed at the Wagner Graduate School of Public Service at New York University]

28 Within the parameters of its SME Finance Challenge http://www.changemakers.com/SME-Finance

29 In broader policy terms these barriers should of course in practice not be considered in isolation. Others of particular relevance cited by the G-20 are: unavailability of financial products tailored to SME needs; lack of competition and incentives for financial intermediaries to serve SMEs; and asymmetry of information (i.e. that information on SME borrowers is inadequate and costly to obtain).

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32 Key questions in this context are: (1) What is the exact nature of the presumed market failure? (2) Is there a particular policy prescription that would mitigate a particular type of information asymmetry? (3) Does this particular policy solve, or diminish, the market failure? And (4) does it lead to a welfare improvement?. 'Access to Finance Chapter 2, Handbook of Development Economics, Volume 5', Dani Rodrik and Mark Rosenzweig, eds. By Dean Karlan & Jonathan Morduch, June 2009 http://financialaccess.org/sites/default/files/HDE_AccesstoFinance_June%202009.pdf

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36 'Recommendations for Action: How governments, businesses and civil society organisations can help young people get started in business', November 2009 http://www.youthbusiness.org/pdf/RecommendationsforAction.pdf

37 'The Index of Global Philanthropy and Remittances 2010', Hudson Institute http://www.technoserve.org/assets/documents/index-global-philan-10.pdf

38 Details of the 50%/50% split are contained in Annex II of 'Document of the Inter-American development bank Multilateral investment fund – Regional (Argentina, Brazil, Colombia, and Mexico): Mentoring model for the development of young entrepreneurs' (rg-m1016), Donors memorandum' http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=421161

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44 Developed by the Mentoring and Befriending Foundation http://www.mandbf.org.uk/approved_provider_standard/

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46 'Strategic Evaluation of Financial Assistance Schemes to SMEs', Final Report, DG Budget, 2003 http://ec.europa.eu/employment_social/equal/policy-briefs/etg2-inclus-entr-ibs_en.cfm#_edn3

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About YBI

Youth Business International (YBI) is a not-for-profit organisation that leads a global network of independent country initiatives helping young people start their own business and create employment.

Through our network we assist young entrepreneurs who are unable to find support elsewhere, with a combination of access to capital, volunteer mentoring, and other business development services. Our approach enables the launch of thousands of new enterprises and significantly increases business survival and growth – key factors in job creation and sustainable economic development.

Our role is to increase the capacity and efficiency of our members to enable them to grow, by providing technical assistance, sharing knowledge, developing common tools and quality standards, and by generating resources. We also expand the network into new countries in order to reach more young people in need. To deliver this support, we work with governments, businesses and multi-lateral and civil society organisations.

YBI's goal is to enable our network to support 100,000 new young entrepreneurs annually by 2020, thereby creating a total of more than one million jobs and making a significant contribution to the global employment challenge.

YBI was founded in the UK in 2000 and is one of The Prince's Charities, a group of not-for-profit organisations of which HRH The Prince of Wales is President. The YBI network spans 37 countries across six continents.

Front cover images show (from left to right):
Sri Lankan fashion designer and manufacturer Fathuma Nisreen, YBI's Entrepreneur of the Year 2010
Daniel Matheri, at his carpentry business supported by Kenya Youth Business Trust
Youth Business China entrepreneur, Zhang Yanbin, in his bakery

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