

Reaching Sustainability: A Case Study

Enlace/CRS

In 2010, the population of El Salvador was 6.2 million with 33 percent of the total under the age of 15. Forty percent, or 2.4 million, of El Salvador’s population is under the age of 18 and, of these, 43 percent live with only one parent. Youth unemployment is a critical problem in El Salvador, where approximately 33 percent of people aged 20 to 24 are out of work. Furthermore, it is estimated that 25 percent of youth aged 15 to 19 are out of school and unemployed. Unemployment has been linked to increased gang activity in El Salvador, primarily affecting young men between the ages of 13 and 25.

Enlace currently offers savings and lending services to youth between the ages of 12 and 24. Enlace’s work with youth began through its community bank methodology that facilitates loans to groups of 7 to 25 people based on group solidarity guarantees. Enlace began offering mixed community bank groups of youth and adults in 2006 and youth-exclusive savings groups in 2010. In 2009, Enlace combined its community bank methodology with CRS’s savings and internal lending community (SILC) methodology and adapted the services for young people. Later in 2009, Enlace began organizing and running their own savings groups, with technical support from CRS. Outside of the youth clients in savings groups, Enlace is also currently providing loans to 1,800 young people with prior business experience.

Enlace has examined the financial sustainability of its youth products and developed a plan to reach sustainability within one to one-and-a-half years, using a combination of the following activities: recruiting more youth clients into savings groups, increasing the number of external loan clients in the saving groups, and increasing loan amounts. Enlace will maintain at least 3,000 active young clients (300 per branch) in its savings groups and expects that 900 youth (i.e., 30 percent, or 60 clients per branch) in these savings groups will access external loans with the microfinance provider. The organization estimates that the cost of administering savings groups is approximately \$28 per group member. With 30 percent, or 900, of the young people in savings groups also becoming Enlace loan clients, the cost of administering loans becomes \$94 per loan client. In order to recover this investment, Enlace examined different options for the loan amount. If youth clients access an average loan in the current amount of \$50, the investment in creating and running savings groups would exceed 68 months to recover. However, as the loan size increases (table 1), interest earned increases and the cost of administering the loans decreases¹. Enlace determined that the optimum loan size was \$300 - an amount large enough to provide clients with sufficient loan capital, but not so large that it was likely to create dangerous levels of indebtedness.

Table 1. Alternatives for Enlace Youth Loan

	CASE 1	CASE 2	CASE 3	CASE 4	CASE 5
Loan per youth	\$50.00	\$100.00	\$200.00	\$300.00	\$400.00
Monthly interest rate (%)	4.33%	4.33%	4.33%	4.33%	4.33%
Operational cost (% of loan amount)	-0.92%	-0.92%	-0.92%	-0.92%	-0.92%
Financial cost (% of loan amount)	-0.67%	-0.67%	-0.67%	-0.67%	-0.67%
Income from interest	\$2.17	\$4.33	\$8.67	\$13.00	\$17.33
Total cost	-\$0.79	-\$1.58	-\$3.17	-\$4.75	-\$6.33
Net income	\$1.38	\$2.75	\$5.50	\$8.25	\$11.00
Investment recovery time of \$94 cost per client (in months)	68.4 mos	34.2 mos	17.1 mos	11.4 mos	8.5 mos

¹ Interest rates on larger loan sizes for youth clients are comparable to those charged to Enlace’s adult loan clients.

Enlace also examined three different scenarios for increasing its return on youth financial products.

Table 2. Alternatives for Increasing Enlace’s Return on Youth Products, by Client Segment

STEP 1	STEP 2	STEP 3
Client segment: Youth savings groups with no links to loans/credit	Client segment: Current youth loan clients ^a without links to savings groups	Client segment: New youth clients eligible for loans who can form new savings groups
Total clients 3,821 (actual)	1,746 (actual)	2,400 (target)
Age		
Less than 12 years old		
Between 12 and 24 years old	Between 18 and 24 years old	Between 18 and 24 years old
Older than 24 years old		
Occupation		
Student	Own business	Own business
Employed	Own business	Engage in business activities
↓	↓	↓
Link eligible clients to loans	Encourage to become part of youth savings groups	Link to loans/credit and youth savings groups

Note:^a These loan clients are participating in Enlace’s Community Banks and Solidarity Groups.

In addition to adjusting their loan product and methodology for youth loans, Enlace is working to decrease the cost of mobilizing and administering savings groups. In order to do so, the microfinance institution (MFI) has determined that it must complement the actions of savings group promoters (who currently receive a salary plus incentives) with the support of community leaders (who currently work on a voluntary basis), by creating an incentive plan for community leaders that links their personal loans to the creation and implementation of Enlace savings group. Having incentives for both promoters and community leaders could result in an increase in savings group branch targets, while lowering the cost of mobilization. Although Enlace cannot currently mobilize savings, it plans to transform itself into a deposit-taking institution in the near future. In the meantime, informal youth savings groups allow the MFI to develop a culture of savings among future deposit clients.

About Catholic Relief Services and Enlace

Catholic Relief Services (CRS) is the official international humanitarian agency of the Catholic community in the United States. Currently working in approximately 100 countries worldwide, its mission is to alleviate suffering and provide assistance to people in need. CRS has been working in El Salvador for 40 years helping people to improve their livelihoods with a focus on food security, the environment, family relationships and civil rights.

Enlace is a Salvadoran microfinance institution established in 2002 with a mission to improve the lives of entrepreneurs by offering specialized financial services, focusing its attention on poor clients and specifically targeting women who are heads of households. Enlace has identified youth financial services as an important niche in the Salvadoran market² and in 2010 partnered with Catholic Relief Services to implement the “Jovenes para el Progreso” (Youth for Progress) program. This comprehensive program seeks to design, develop and implement suitable financial services including savings and credit to youth aged 12 to 24.

² According to the United Nations Development Program (UNDP), approximately 62% of Salvadorian youth are currently unemployed.