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First Middle Eastern Microfinance Bank Puts Youth First

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This case study series is part of a collaboration between Making Cents International and The MasterCard Foundation on the Youth-Inclusive Financial Services Linkage (YFS-Link) program. This strategic partnership is built on the mutual belief that given the opportunity to learn and build their human and financial assets, young people have the potential to transform their lives and improve the economic opportunities of their families and communities.

Abstract

A pioneer in Islamic microfinance, Al-Amal Microfinance Bank (Al-Amal) was established in October 2008 as the first microfinance bank in Yemen. Dedicated to providing poor micro-entrepreneurs with access to financial services, Al-Amal targets youth and women with microcredit, savings, and insurance, among other services. To date, Al-Amal has developed two youth-friendly products, Youth Fund (credit) and Child Savers (savings). Through slight adaptations to its product offerings, including collateral requirements and minimum balances, Al-Amal has quickly grown its reach to thousands of Yemeni youth. By the end of 2010, Al-Amal had disbursed 6,317 loans to young entrepreneurs between the ages of 18 and 30 and had opened 8,833 savings accounts for children under the age of 18. In this case study, Al-Amal discusses techniques for providing young people with appropriate financial services, including staff training and youth-friendly marketing and delivery channels.

Background

Yemen is one of the Arab world's poorest countries. One third of the population suffers from chronic hunger and 40% of the population lives on less than US$2 per day.[1] The Yemeni government struggles to absorb the annually increasing number of local workforce (39% growth in just nine years) and to generate appropriate job opportunities for different social segments, specifically young people. In 2005, national unemployment rates were estimated to be at 35% for the nation. Today, young people below the age of 25 now comprise 75% of Yemen's population and have an unemployment rate of approximately twice that of adults.[2] This lack of opportunity raises many fears of political and social instability.

Small and micro enterprises are the outlets upon which the government and many development organizations rely to curb poverty and unemployment rates, including among the youth population. These small businesses, both formal and informal, help to absorb the local workforce. However, most young entrepreneurs lack the required financial services necessary to sustain themselves and grow. Currently only 4.2% of Yemen's population has access to financial services.[3] Youth have been historically excluded from the financial sector and, as a result, face limited options for building livelihoods for themselves and their families.

I. Making the Case for Youth Financial Services

Al-Amal Microfinance Bank (Al-Amal) is the first of its kind in the Middle East and North Africa (MENA) region. Founded in 2008, Al-Amal was created based on the principal of financial inclusion for all, particularly for Yemen's unbanked population including young people and women. As part of its institutional charter, Al-Amal specifically targets youth market segments, including young women and men, with tailored financial services.

To do this, Al-Amal entered into a partnership with Silatech, a Qatari institution that works to devise solutions for youth unemployment in the Middle East. Together, these two institutions created the Youth Fund, which aims to provide young women and men ages 18 to 30 with sustainable financial services. In addition to the fund, Silatech also provides entrepreneurship training to youth clients and equips Al-Amal staff to better serve younger clients.

Originally, Al-Amal aimed to reach 800 young people within the first year of the project. Less than a year later, however, Al-Amal had already disbursed 5,200 loans through Youth Fund, 63%

[1] UN World Food Program 2010, http://one.wfp.org/appeals/projected_needs/documents/2010/OMC.pdf
[2] Educational Quality Improvements Program 2008, http://pdf.usaid.gov/pdf_docs/PNADN990.pdf
[3] Central Bank of Yemen 2008, http://www.centralbank.gov.ye/newslettar.aspx?keyid=47&pid=46&lang=1&cattype=6

of which went to young women. By the end of 2010, Al-Amal had 6,317 youth loan clients (43% of Al-Amal's total loan client base) with a youth loan portfolio of US$1.3 million.

Al-Amal also developed a voluntary Child Savers account for children under the age of 18. By the end of 2010, Al-Amal had mobilized over US$31,000 through 6,710 child saving accounts (44% of its total saving accounts). In addition, over 5,000 youth over the age of 18 had opted to open a savings account through the existing Al-Amal [adult] Savings product.

II. Youth Products and Services

Al-Amal has four distinct loan product offerings for its young clients, in addition to youth-friendly savings and insurance (Takaful) products. Recognizing that youth are an unique market segment that require additional support in starting and growing business, Al-Amal has adapted its lending requirements to make loans more accessible to start-up entrepreneurs. Through partnerships with Silatech and other external organizations, Al-Amal offers its youth clients supplemental non-financial services through training courses such as *Entrepreneurship Education – Know about Business for Yemen* and *Khadijah,* a financial education program designed especially for female clients. In preparation for running a business of their own, exiting youth clients are also given the opportunity to participate in training courses on financial management, marketing and sales, and customer service management.

Al-Amal staff are also available to provide youth clients with business consultations, from conducting visibility studies for their business to making simple suggestions regarding business location.

III. Youth-Inclusive versus Adult Products

***Credit*:** All four of Al-Amal's youth loans carry the same terms as those of its adult loan products. The primary differences in product design for youth credit products include the following:

> **Startup funding**: Youth loans are available for start-up ventures, whereas adult products require that a business be in operation for a minimum of six months.
>
> **Fewer collateral requirements**: Youth products have fewer collateral requirements, and thus use a solidarity guarantee.
>
> **Identification**: Often Yemeni women and youth under the age of 30 do not have national ID cards, which prevents them from opening bank accounts or accessing loans in many formal financial institutions. Al-Amal accepts alternatives to the national ID, such as a confirmation letter from the local municipaler or a marriage agreement, in the case of women.

Staffing: Loan officers who work with Al-Amal's youth portfolio attend an intensive training program on how to serve clients in their homes. Many are also trained in the *Know about Business for Yemen* entrepreneurship course, which equips them to train and mentor their young clients through the business development process.

Delivery: Young people, as well as women of all ages, often feel unwelcome in banks and, as a result, do not frequent them. In order to reach these groups, Al-Amal employs 70 female loan officers who visit female and youth clients in their homes, ultimately taking bank services to the clients.

Savings: Al-Amal offers four different savings products, including Al-Amal [adult] Savings, Child Savings (<18 years), Time Deposits and Certificates of Deposit. The main difference between the Al-Amal [adult] Savings product and the Child Savings are the following:

Lower minimum balance: Child Savings accounts have minimum balance of US$1, as compared to the Al-Amal [adult] Savers, who have a minimum balance of US$2.50. The lower minimum balance allows greater access to those under the age of 18.

Delivery: In addition to allowing child savers to deposit savings directly at the bank, Al-Amal collaborates with schools so that child savers can make deposits into a moneybox at the school. A bank representative collects the pooled money from the moneybox on a regular basis, decreasing operating costs for the bank without requiring the children to spend resources to travel to and from the bank.

Marketing: Al-Amal's Child Savings marketing campaigns also target schools. In addition, bank representatives participate in school events such as graduation ceremonies and half-term celebrations.

Insurance (Takaful): A standard credit-life insurance product is offered to all loan clients, including youth clients. The policy covers the remaining loan balance and provides a cash benefit to clients' families in the event of a client's death. There is no difference in terms for youth and adult clients.

IV. Lessons Learned

Marketing and Delivery

Since opening its doors in 2008, Al-Amal has been challenged to distinguish itself from traditional banks. Because its target clientele, youth and women, traditionally have been excluded from the financial sector, Al-Amal has focused on finding new ways to communicate its message of financial inclusion to these groups. As a result, Al-Amal coined its slogan "The bank of the unbanked." Another marketing challenge is Yemen's low literacy rate, which makes it difficult to use conventional print marketing materials. Al-Amal uses word-of-mouth as its most effective means of marketing, with loan officers focusing efforts on door-to-door promotion.

In order to effectively reach youth, Al-Amal also targets its marketing campaigns to young peoples' interests, while adapting its services to meet the needs of the youth population. For example, Al-Amal reaches out to youth at universities, where young people often spend time, and has partnered with vocational training institutions, television networks, radio stations, and lottery campaigns. The bank also extended its hours, now operating an 8-hour schedule, in order to accommodate youth's school schedules and other responsibilities. Currently, Al-Amal is exploring ways to decrease transportation costs to youth clients, including through a partnership with the post office, to provide a broader network of locations for young people to bank, while helping to save on operating expenses.

Staff training

Serving young people effectively requires a special set of skills. As a key point to building a strategic relationship with the client, Al-Amal, with the support of Silatech, trains its loan officers to communicate effectively with their young clients and to treat them with dignity and respect. By building youth loan officers' customer service, sales, and marketing skills, Al-Amal strives to acquire young customers' long-term loyalty.

Youth loan officers also receive additional training to equip them to better support youth clients in their businesses. Many youth loan officers are given the opportunity to attend the youth entrepreneurship course that many Al-Amal youth clients participate in. This supplemental training helps staff to relate to the training that many of the youth clients are receiving. For those youth clients who are not able to attend the entrepreneurship training, Al-Amal loan officers assume the responsibility of equipping them with similar skills and information.

Performance

Despite the increased perceived risk in lending to youth, Al-Amal reports a minimal 0.03% portfolio at risk >30 days. The bank attributes this success to a few key factors including tailoring financial services, including marketing and delivery mechanisms, according to the particularities of the youth market; and training staff in how to effectively serve younger clients and manage risk. Table one outlines Al-Amal's performance to date:

Table 1.

Al-Amal Microfinance Bank	December 2010
Total Loan Portfolio in USD	$4,142,718
Total Number of Loans	17,565
Youth as % of Loan Portfolio (# of accounts)	36%
Youth as % of Loan Portfolio ($)	33%
Young Women as % of Loan Portfolio	17.6%

Al-Amal Microfinance Bank	December 2010
Total Savings Portfolio in USD	$604,544
Total Saving Accounts	18,512
Youth as % of Savings Portfolio (# of accounts)	44%
Youth as % of Savings Portfolio ($)	15%

In 2010, the average Youth Fund loan was US$220, just 11% smaller than the average non-youth loan (US$245). A larger difference is seen in the average savings account, with the average Child Saver accumulating a balance of US$5 in December 2010, as compared to US$16 for the average Al-Amal [adult] saver. Time Deposit and Certificate of Deposit account holders had significantly higher average balances at the end of the year, at US$554 and US$2,071, respectively.

V. Next Steps for Al-Amal

Based on the initial success of Youth Fund and Child Savings and overwhelming demand for financial services from young clients, Al-Amal is poised to continue to deepen its engagement with young clients in 2011. As a key component of their strategic partnership, Al-Amal and Silatech have agreed to the creation of a broad-based technical support facility, the Social Innovation Fund (SIF), which will drive the development and roll-out of a comprehensive set of support services for young clients, including institutional strengthening, and ongoing client support services. Under the SIF, Al-Amal and a consortium of partners have committed to launching a Youth Savings Scheme to complement the existing Child Savings account. Although the account terms have not yet been finalized, they will aim to better enable youth to build assets for personal and/or business use, while building a credit history that will support future economic activities.

Al-Amal continues to explore a number of additional methodologies to increase their youth-specific products and services, including the use of technology such as mobile banking and SMS; partnerships with higher educational institutes; formalizing a graduation scheme; and focusing on significantly disadvantaged groups including orphans.

Annex I: Bibliography of YFS-Link Case Studies Series

1. Abeywickrema, C. (2009, September). The role of the Hatton National Bank in creating access to financial services for youth in Sri Lanka. Hatton National Bank. Accessible at: http://www.makingcents.com/products_services/resources.php

Hatton National Bank (HNB), a prominent commercial bank in Sri Lanka, has been committed to providing financial services in rural areas and to more vulnerable populations for years. More recently, HNB has begun to focus on serving youth in two key ways: 1) establishing Student Banking Centers in schools 2) targeting youth in rural areas in their village microfinance programs to receive both financial and non-financial services. This case study examines key methodologies to effectively serving youth with financial services through a commercial lending model.

2. Ahammed, I. (2009, September). A case study on financial services for street children.Padakhep. Accessible at: http://www.makingcents.com/products_services/resources.php

Padakhep is a non-government organization (NGO) in Bangladesh that strives to reach street children through an integrated approach. This case study details the innovative "Introduction of Financial Services" program which provides both credit and savings services to Dhaka street kids to encourage them to initiate income generating activities of their own. A key lesson that emerged was that flexible terms and conditions of financial products are essential for working with an extremely vulnerable target population like urban street children.

3. Austrian, K. &Ngurukie, C. (2009, September). Safe and smart savings products for vulnerable adolescent girls in Kenya & Uganda.Population Council &MicroSave Consulting Ltd.
Accessible at: **http://www.makingcents.com/products_services/resources.php**

This case study details the unique partnership between Population Council, a research-focused NGO, and MicroSave, a consulting firm, to develop and deliver critical financial services to adolescent girls by partnering with four financial institutions in Kenya. This case study shows that by offering girls secure savings products they can mitigate some of the hardships they endure as well as encourage positive savings habits, thereby increasing their economic stability as they transition to adulthood.

4. Chandani, T. &Twamuhabwa, W. (2009, September). A partnership to offer educational loans to nursing students in Uganda.Banyan Global & Equity Bank. Accessible at: http://www.makingcents.com/products_services/resources.php

Equity Bank-Uganda and Banyan Global have successfully partnered in Uganda to develop an innovative loan product that links workforce development in the health sector with microfinance. This case study describes the key elements of success of their pilot to bring education loans to aspiring nurses between the ages of 17 and 24. Equity Bank proves that by approaching youth who are formally affiliated with a training institution can be critical to alleviating risk, gaining trust and achieving market share.

5. Kashfi, F. (2009, September). Youth financial services: The case of BRAC and the adolescent girls of Bangladesh. BRAC. Accessible at: http://www.cyesnetwork.org/sites/default/files/Case%20Study%20on%20BRAC%20and%20Youth.pdf

Ten years after beginning adolescent-focused initiatives in Bangladesh, BRAC realized that financial independence can play a key role in empowering adolescent girls further. This case study focuses on the Employment and Livelihood for Adolescents (ELA), which offers both credit and savings services to adolescent girls. Findings indicate that using a holistic approach to financial service delivery customized to the needs of adolescents will equip the girls to invest better and take higher loans on average.

6. Gepaya, L.Y. (2009, September). Youth inclusive financial services: Marketing and delivery is what matters. Panabo Multi-Purpose Cooperative. Accessible at:http://www.makingcents.com/products_services/resources.php

The Panabo Multi-Purpose Cooperative (PMPC) is a cooperative based in the Philippines and a part of the global World Council of Credit Unions (WOCCU) network. This case study describes how PMPC discovered that partnerships with schools can be an effective form of growing membership, promoting a culture of savings at a young age, and delivering much-needed financial services to underserved youth populations.

7. Harnest, J. & Neilson, E. (2009, September). Microfinance and "the next generation" The FINCA Aflatoun curriculum implemented in an MFI setting. Finca Peru &Aflatoun. Accessible at: http://www.makingcents.com/products_services/resources.php

Aflatoun, an organization committed to social development and financial literacy for children between the ages of 6-14, has begun partnering with select microfinance institutions (MFIs) to offer its curricula to clients' children. This case study discusses Aflatoun's work with FINCA Peru detailing the strengths, weaknesses, opportunities and challenges associated with implementing Aflatoun curricula in a non-formal school setting with children of microfinance beneficiaries. Findings from this project indicate that children who consistently attend classes have demonstrated a strong willingness to save.

8. Denomy, J. (2009, September). MEDA works with youth: YouthInvest. Mennonite Economic Development Associates. Accessible at:http://www.makingcents.com/products_services/resources.php

This case study provides an overview of MEDA's work on increasing youth access to financial services, particularly through YouthInvest in Egypt and Morocco. Detailed in this case study, YouthInvest was designed with a strong market research component, the results of which are crucial to designing successful financial and non-financial services for youth.

9. Massie, J. (2009, September). Using innovative partnerships and market research to link financial education and savings products for girls.MicroFinance Opportunities. Accessible at:http://www.makingcents.com/products_services/resources.php

Microfinance Opportunities working with Savings and Economic Empowerment grantees to develop financial literacy modules that will be closely linked to their savings products. For the first time, market research is informing both the design of financial education and financial products for young women. This effort is carried out through innovative partnerships between MFO, youth service organizations, and financial institutions. This case study provides an overview of these partnerships and how they conduct market research, the integral role of these results in designing of appropriate savings products for youth.

10. Nazneen, S. (2009, September). Save the Children's youth financial services: Adolescent girls project. Save the Children. Accessible at: http://www.makingcents.com/products_services/resources.php

This case study describes the KishoreeKontha (Adolescent Girls' Voices) Project implemented by Save the Children in 5 sub-districts of southern Bangladesh. The goal of this intervention is to link savings schemes with other non-financial services, such as health and education, to allow rural adolescent girls to build their human, social and economic assets. Additionally, this case study details how Save the Children dealt with traditional gender roles, as adolescent girls are not decision-makers, through intense community outreach and sensitization.

11. Cilimkovic, S. &Jahic, S. (2009, September). Youth inclusive financial services: A case study from Bosnia. Partner Microcredit Foundation. Accessible at: http://www.makingcents.com/products_services/resources.php

Partner Microcredit Foundation is a non-profit microfinance institution in Bosnia Herzogovina that recently piloted a youth loan product. The goal of this youth program was toincrease self-employment opportunities for young people in Bosnia and Herzegovina by providing access to loan capital in addition to market-oriented business training and

mentorship services for youth clients. This case study describes in extensive detail the experience of Partner MK in conducting market, research, designing a specialized youth loan product, and the preliminary outcomes and lessons learned of this program.

12. Schiller, J. (2009, September). Making financial services and business skills development available to African children and youth: Accomplishments and limitations of research and monitoring. Plan International. Accessible at:http://www.makingcents.com/products_services/resources.php

This case study examines Plan International's situation analysis research carried out in Senegal, Niger and Sierra Leone. This project identifies active youth groups and presents a profile of youth and their activities and their general socio-economic conditions in each locality. This project focuses on the Village Savings and Loan (VSL) program in the three countries. The associations formed are sustainable and replicable, and the local implementing partner institutions have been effective and successful in all three program countries Overall, youth's response has encouraged the project to believe that dramatic upscale is possible.

13. Storm-Swire, L. (2009, September). Exploring youth financial services: The case of ProMujerinBolivia.ProMujer. Accessible at: http://www.makingcents.com/products_services/resources.php

Pro Mujer is an international women's development and microfinance organization that alleviates poverty in Latin America by providing financial services, healthcare and training to poor women entrepreneurs. This case study details the process of developing a group-based loan product targeted at youth, with results indicating that significant investment in proper market research, product development, staff and infrastructure is required to determine the differing needs of this heterogeneous market.

14. Shell, B. (2009, September). Product development for girls: Girls' savings and financial education. Women's World Banking. Accessible at:http://www.makingcents.com/products_services/resources.php

This case study examines how Women's World Banking has helped two of its network members, XacBank of Mongolia and Banco ADOPEM in the Dominican Republic, design and roll out savings products and financial education programs for girls and young woman ages 7-24. WWB found that reaching girls cost-effectively required developing strategic partnerships – with experienced youth education professionals, since the bank did not have that expertise in-house, and with institutions already interacting with girls, since convenience is an important issue for both the products and the financial education program.