



THE FINANCIAL SERVICES IGP LEARNING NETWORK CASE STUDY SERIES



AUTHORS:

Sita Conklin and Veronica Torres, Save the Children
Btissam Derdari and Leila Akhmissse, Fondation Zakoura Microcredit

EDITOR:

Stephanie Chen, The SEEP Network

CASE STUDY:

**Linking Youth with Knowledge
and Opportunities in Microfinance
(LYKOM) Project, Morocco**

A Youth Livelihoods Program Case Study

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The SEEP Network, 1875 Connecticut Avenue, NW, Suite 414
Washington, DC 20009.
(tel) 202-464-3773 (fax) 202-884-8479
Email: seep@seepnetwork.org Web: www.seepnetwork.org

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Summary

Save the Children and Fondation Zakoura Microcredit (FZMC) are implementing the “Linking Youth with Knowledge and Opportunities in Microfinance,” or LYKOM (which means “for you” in Arabic), project with seed funding from the U.S. Agency for International Development (USAID) and cofinanced with private funding from Save the Children and FZMC.¹ The program includes financial and business literacy training; savings promotion; and access to credit for youth businesses.

Lessons learned include:

- Entrepreneurial skills training is not appreciated by all youth;
- The notion of ‘small enterprises’ and of growing businesses gradually is not well understood;
- Current minimum savings levels at La Poste (post office) may be a barrier to youth savings;
- Parents’ influence is strong, and programs may need to change negative parental attitudes about entrepreneurial activity.

Introduction

Youth under 30 years of age represent 50 percent of the population in Morocco, and, according to national statistics, approximately one million Moroccan youth between 15 and 24 years of age live on less than \$1 a day. Not only are these youth most vulnerable, they are also among the most excluded in Morocco. These vulnerable youth lack access to economic opportunities to build assets and protect themselves against crises. In addition, unemployment of young people in Morocco is estimated as high as 17.6 percent (34.2 percent in urban areas and 6.2 in rural areas). According to the International Labor Organization (ILO), while youth population rates have grown over the last 10 years in the North Africa region, participation in the formal labor market has not changed significantly. While at least 50 percent of youth between 15 and 24 are considered economically active, many are still looking for ways to improve their sources of income.²



Young people attend a session on savings

A significant percentage of young people globally discontinue their education after primary and middle school to start searching for work. According to the World Bank Development Report of 2005, the rate of enrollment drops significantly upon completion of primary school, from 92 percent to 32 percent in middle schools, and to just 15 percent in secondary schools. By the age of 15, young people often leave school to seek out income-generating activities to support themselves and their poor families. Yet, they have few opportunities to gain the necessary knowledge and skills to do so, and few have access to financial services. Even though a record 1.3 billion young people aged 12 - 24 are, on average, healthier and better educated than ever before, many of them are without much hope of economic opportunity.³

In Morocco, traditional, formal-sector entry points into the workforce for youth are limited. As a result, there is a growing need to support youths’ entry into informal-sector employment. To support this, programs must provide more dynamic livelihood planning and mentoring interventions, as well as access to new types of financial and non-financial services that support their accumulation of productive assets and their development of broad based financial literacy skills.

Fondation Zakoura Microcredit (FZMC)

Established in 1995, the mission of Fondation Zakoura Microcredit (FZMC or simply Zakoura) is to provide efficient, sustainable financial and non-financial services to the poor. Supported by Save the Children, FZMC implements the

¹ For more information about this program, contact Btissam Dardari, Project Coordinator, Fondation Zakoura Microcredit (bdardari@gmail.com) or Veronica Torres, Senior Specialist for Youth Livelihoods, Save the Children (vtorres@savechildren.org).

² Figures as of 2002 from “Chômage et employabilité des jeunes au Maroc », by Noureddine El Aoufi et Mohammed Bensaïd, 2005/2006. Available at <http://www.ilo.org/public/english/employment/strat/download/esp2005-6.pdf>.

³ Save the Children website. Available at <http://www.savethechildren.org/programs/economic-opportunities/programs.html>

“Expanding Financial Services to Vulnerable Youth in Morocco,” or LYKOM (which means “for you” in Arabic), project with seed funding from USAID/Washington. The LYKOM objectives are as follows:

- Enhance and extend financial and non-financial services available to youth (15-24) and members of their households in Morocco;
- Develop a system to retain vulnerable youth in a program that prepares them to access appropriate financial services; and
- Foster inter-agency linkages for successful delivery of financial and non-financial services.

Zakoura’s Strategy

Given the current challenges for youth in Morocco, FZMC supports young people’s ability to improve their economic opportunities by:

- Working on building youths’ confidence, financial/business literacy and entrepreneurial life skills through non-financial services;
- Using its strategic relationship with La Poste Marocaine (post office) to foster access to safe savings and encourage youth in planning for their futures;
- Working with families to create awareness and support for young people and their economic activities and entrepreneurial potential; and
- As appropriate, creating access to credit services – testing out start-up business loans that either invest in youths’ existing economic activities or match investments in new ones.



The first group of youth receives their training completion certificates in Tiflet

These strategies are carried out by credit officers in Zakoura branches or within a partner NGO’s technical training center. The credit officers implement the following activities with the youth and their families:

- Engagement of youth through current client base at the branches, via the technical/vocational schools or existing job sites for those already working and who have a know-how in a special trade;
- Visits to families to discuss their children’s participation in the program, discuss young people’s existing and potential contribution to the household, their economic activity and future plans, and gain commitment from families to engage in the project on a regular basis;
- Workshops conducted with groups of 12-15 young people, aged 15-24 years old twice a week over a two month period;
- Orientation sessions on La Poste to provide information on savings options and the potential of savings;
- Support to youth in applying for credit from Zakoura; and
- Business development support to youth in the start-up phase of business, over a three-month period.

LYKOM has been successful thus far. Young people at the technical and vocational schools are accessing non-financial services and opening up savings accounts; business development services are in place; and loan officers are delivering training and credit.

However, there are challenges as well. For some young people, the non-financial service component lasts too long, and so there is some program dropout. Young people may be deterred from opening up savings accounts at La Poste, due to a high initial deposit amount. Program participants struggle with the notion of a “small business” and are seeking large loan amounts. Finally, loan officers are finding that the youth population is far from homogenous, and that program services may need to be adapted to respond to young people’s range of needs.

“Being able to have someone to go to for advice is really one of the most important things. Also, have the desire to really implement your idea, and being able to gain practical experience is important. Quality of work and customer service is also important. These are things we talked about during our training with Zakoura.”

Abdelmajid, group participant, 22

Zakoura's Approach

FZMZ's approach stresses the importance of building their confidence through four components: entrepreneurial skills, financial education, savings, and family engagement.

1) Entrepreneurial Skills: The first training component focuses on enabling young participants to recognize their strengths and weaknesses, build confidence in themselves and their business idea, and explore what kinds of competencies are needed to be successful with that business. The three-hour component gives young people an opportunity to interact and get to know each other; it is also a safe place to talk about fears and dreams for the future. Young people in Morocco whose families no longer have access to a safety net are often forced to engage in subsistence activities to earn an income and provide for their families. Many working youth have had little access to coaching or guidance on how to improve and stabilize their business, and productively re-invest their earnings.

“For starting your own business, most important are the desire and the initiative, and then also being able to gain practical experience and know how to manage your money and invest it.”
- Moumia, group lesson participant, 22

Lesson learned: Young people who approach Zakoura for credit are already willing to take risks and are indicating that the entrepreneurial skills component is not relevant to them. In the future, Zakoura will exclude this component for young people who already have some entrepreneurial experience.

2) Financial Education: The financial education components focus on basic financial and market literacy. This includes learning about planned savings and deposit options, understanding the financial products offered by Zakoura, running market feasibility studies, and organizing business ideas. The sessions take place twice a week for two hours over the course of two months. Participants learn by both theory and practice, by going out and mapping the market, identifying gaps in product and service availability, and talking to business owners and clients to determine if their business idea is viable. Young people are able to share new knowledge about the steps they need to take to be able to start up an activity. For many, this learning gives them a space to test their business idea and explore ways of operationalizing it.

Lesson learned: Loan officers find it challenging to discuss the idea of a small business with youth. Some youth believe that starting small means the business will stay small. The notion of building assets, and either growing the business or changing investment, is not widely practiced in Morocco. Future sessions may need to pay more attention to changing this attitude.

3) Savings: Another key activity in this project is providing access to safe savings for young people. As Zakoura Microcredit cannot take deposits, it has an informal partnership with La Poste Marocaine, a government-supported institution that provides savings services to over 25 percent of Zakoura's clients. La Poste agreed to provide orientation sessions for participating youth. La Poste officers are invited to Zakoura branches to describe savings options and account deposit services. At a youth group meeting in Tiflet, the Manager for La Poste discussed the importance of using savings accounts to build assets, using regular deposits to develop the ability to deal with unforeseen expenses, emergencies, pay for education or make business investments. La Poste is becoming an important partner not only in facilitating access and information for young people, but also in giving youth a place to put into practice the concepts they learn. Youth participants have adopted these new attitudes, expressing the importance of savings, and the benefit of having their own capital and therefore not needing to borrow as much.



Opening savings accounts at the branch office with an officer from La Poste

Lesson learned: The minimum deposit amount at La Poste, currently 50 dirham or approximately U.S. \$7, may be too high for youth. Loan officers suggest that La Poste make it possible for young people to open up an account for 5-10 dirham or about \$1. Currently, the issue is being explored with La Poste.

“As a credit officer, I often find myself being the intermediary between the father and the son or daughter. Often the family itself doesn’t have confidence that their child can be successful in a business. The parents are afraid of failure, but need to learn to take calculated risks. Family support of their children’s future activities is very important.”
- Nourddine, Credit Officer, Tiflet

4) Family Engagement: Save the Children is learning that young people’s livelihood planning and decision making is linked to the households in which they live. In Morocco, we have found that working with families to create awareness and support for young people and their future business ideas has become an important activity in the project. In fact, the work with youth begins with an awareness session that engages both youth and their parents in identifying the factors of success in an economic activity. Since December 2007, Zakoura has been running these awareness sessions both in the branch office and through partner NGOs.

Lesson learned: Parents are often the ones who can influence how much risk a young person takes. They have high expectations, yet are very protective and have conservative views of the kinds of economic activities their children should take on. Parents seem to have a strong perception that it is better to wait for a state job that will lead to steady income than try out enterprise. As a result, young people will shy away from risk. In the next cycle of training, parents will be invited to accompany young people in the training.

Progress to Date

The first cycle of the training has reached more than 90 youth. More than 60 percent have opened savings accounts, and FZMC expects approximately 20% of participants to apply for credit. Over the course of the next year, Zakoura aims to reach 600 youth (between 15 and 24) with its sessions; with targets for 350 to open savings accounts, and 240 to use credit services. Thus far, LYKOM participants have indicated increased levels of confidence in themselves and their ideas, and enhanced capacity to plan and turn business ideas into reality.

Overall Challenges

Save the Children and Zakoura have identified some overall challenges in the LYKOM project in Morocco. First, appropriate staffing for the program took longer than expected. The skill set for both the project coordinator position and loan officers was not easy to find. As a result, this contributed to delays in implementation of the pilot services.

Additionally, there was the need to develop a strong entrepreneurial and life skills development curriculum. Zakoura identified only a few organizations engaged in this work in Morocco, which, unfortunately, did not work in the same areas as Zakoura.

Finally, current levels of participation show that many young people enroll in the project, but leave either during the training or afterwards. Most stay through the training, but do not access financial services, although a significant number of youth are accessing savings services. These observations might be the result of how youth perceive what is a ‘good enough’ job or business. It may also be the case that young people can improve their economic activities by just participating in the training, without accessing credit. These questions will be part of a study Zakoura will undertake in the next couple of months.

“What really interests me most about this project is that it is giving a chance to young people. Before there was no one doing this kind of program for youth, and now we are giving them a chance to be successful in their lives, giving them more confidence in themselves and their ideas.”
-Nawal Haddadi, Branch Manager, Tiflet

Program Adjustments

“The most important thing about the financial education training and participating in this program has been building their self confidence. These youth didn’t know each other before coming to the training, but now I see that they support each other, even outside of the training. They like coming to the branch office because it gives them a space to interact and discuss challenges and successes and help support each other.” - Nourddine, Zakoura Credit Officer

A four-day workshop was held in August 2008 with credit officers and the project coordinator to review the challenges and successes of the project. At the workshop, the discussion focused on how best to serve both young people who approach Zakoura for credit, as well as those only wanting the training. The credit officers agreed to continue to serve both populations, but would stress that credit services may only be pursued by those with some experience and looking to develop their enterprise. The training activities themselves are being reviewed to address the need for more practical activities.

The loan product also underwent changes to make it more accessible. Loan officers may offer both individual and group loans, and the group may be as small as three members (the usual group size is five). The same loan officer may offer both products to young people (currently not allowed for regular loans). Finally, parents may be the guarantors for individual loans to youth.

Key Takeaways

1. Specialized staff are needed to implement youth outreach and training programs.
2. Entrepreneurial life skills development is very rare or weak in the current education, business, and NGO systems in Morocco.
3. Family support is critical to program success and to youth uptake of new ideas and behaviors.
4. Savings and asset building may be better options for youth than credit.
5. Flexible loan products are essential to negotiating young people’s credit constraints.

1. **Specialized staff:** As a microfinance institution (MFI), Zakoura is learning that having specialized credit officers for this program is important. A typical credit officer at Zakoura carries a portfolio of 600 active clients, and is not able to devote the time needed to implement the training components. In the beginning, Zakoura tried using existing staff to implement projects, but found that using specialized credit officers works better. The specialized credit officers have a slightly different profile: they must be younger than 30 years old, have a degree in the social sciences or management, and have experience in group facilitation. These officers also received special training on serving youth and on the LYKOM program. In addition, they have authority on all credit applications in their branches from people under 24 years of age.

Thus far, these officers manage a portfolio of only 30 to 40 youth, with a target set for 200 by the end of 2008. This is far less than the standard credit officer. FZMC will be evaluating this mixed portfolio approach at the end of 2008, and may make changes depending on the results. One challenge is managing perceptions among existing credit officers about the new program and the specialized credit officers, particularly regarding the new officers’ smaller portfolio size.

2. **Entrepreneurial life skills:** Zakoura found it very challenging to find NGO partners who were already engaged in self-confidence and entrepreneurial skills development with youth. In Morocco, this type of skills development is significantly lacking in the formal education system and civil society programming. FZMC sees clearly the need for entrepreneurial life skills training, but is unsure if, as an MFI, it is the best implementer for this type of program.
3. **Family support:** Parental attitudes have a strong effect on youth’s behavior, especially when it comes to taking business risks or starting a microenterprise.

“This training has really helped me think about how I will manage my project, and really how to study the market for my business idea. I was not sure about whether this business would work in Tiflet or not, but now after this course I have a much better idea about whether my business would be viable here or not.” - Abdelmajid Chichti, 22

FZMC has observed that it is very important for families to be involved and aware of what young people are doing in this program. It is essential to the success of the program to increase families' awareness of young people's economic roles, and recognize their existing and potential contribution to their families and communities. Parents also can serve as credit guarantors, making access to credit easier.

4. **Credit is not always the best option:** Many of the youth participants who went through the program decided to go back to school, take a technical course or take on an economic activity. So far, only 3% of program participants have decided to take credit. Learning from this, FZMC is placing the emphasis on savings (through a partnership with La Poste) and using savings and asset building as first steps. Zakoura is planning to research further the reasons why young people do not decide to apply for credit.
5. **Flexible loan products:** Though this part of the program is just starting, Zakoura is learning its current loan products and terms may not be appropriate for young people. Zakoura is exploring offering solidarity group loans (in addition to current individual loans), using collateral substitutes (in lieu of the traditional requirement to own or rent a place of business), and adjusting the parameters on loan amounts. Save the Children will work with Zakoura to further explore and develop this service by debriefing learning and helping to identify alternative strategies.

“Having the savings account is very important because it helps you to plan for the future.” - Houcine, 21

Next Steps and Key Questions

Moving forward, FZMC faces several key questions regarding the provision financial and non-financial services for youth:

- **Is a MFI the most appropriate home for a non-financial skills development program?** Both the human resources and the financial needs of non-financial skills development programs are challenging for a MFI such as FZMC. The first hurdle was addressed by hiring and training specialized staff for LYKOM and for youth credit. However, the cost of the non-financial skills training may be unrecoverable. Perhaps more importantly, the conversion rate of youth program participants into profitable youth microfinance clients for FZMC is still quite low. Zakoura will determine the exact cost of the non-financial services, and ascertain if it can cover the cost with its earnings from loans while still remaining sustainable. Perhaps non-financial skills development would be better provided as a livelihoods preparedness program within technical and secondary schools, or within NGOs (such as Zakoura Education, a sister NGO to FZMC) with a link to FZMC for credit provision.
- **What other adjustments to credit services must be made?** Zakoura has already offered several adjustments to its current loan model, including group and individual loans, small group size, and parents as guarantors. Other adjustments, such as smaller individual loans or different loan terms, may also be necessary for FZMC to effectively attract and retain youth clients. However, providing loans to youth is a financial risk, which has implications for FZMC's need for risk capital. Most loan officers at FZMC continue to feel that providing loans to youth is risky.
- **Can the skills development component attract and retain youth?** As noted above, some youth with prior business experience did not feel the entrepreneurial skills component was appropriate for them. FZMC credit officers also expressed concern that youth seeking credit may turn to other MFIs rather than go through the six-week training. Given the positive feedback received thus far, the program quality appears strong; it is now FZMC's challenge to effectively market the program and ensure that it responds to youth demand.

“Everything in this training was really useful. But most of all, what I took away was that you can start small and then grow it if you have a vision.”
- Moumia, 22