Making Cents INTERNATIONAL

IFAD RURAL YOUTH ECONOMIC EMPOWERMENT PROGRAM (RYEEP)
2013-2016

LEARNING REPORT #5:

Start-up and Expansion Lending for Rural Youth in Tunisia

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Young People...Enterprise...Employment...

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TUNISIE

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ABBREVIATIONS AND ACRONYMS

BDS: Business development services
BYB: "Build Your Business" content developed by Microsoft
EFE: Education for Employment
IFAD: International Fund for Agricultural Development
MFI: Microfinance institution
NENA: Near East and North Africa
NGO: Non-governmental organization
RYEEP: Rural Youth Economic Empowerment Program

TUNISIA

1- EXECUTIVE SUMMARY

With funding from the International Fund for Agricultural Development (IFAD) and in partnership with Silatech, Making Cents International implemented the IFAD Rural Youth Economic Empowerment Program (RYEEP), a three-year grant seeking to increase employment and self-employment of young people aged 15-35 in the Near East and North Africa (NENA) countries of Egypt, Yemen, Morocco and Tunisia. The program provided capacity-building and technical assistance to local institutions to pilot models delivering youth-inclusive financial services (YFS) and non-financial services to rural youth and to the enterprises that employ them. **By the program's end, RYEEP pilot projects delivered savings or credit services to 20,543 rural youth and non-financial services to 14,252 rural youth.**

As important as these quantitative outputs was the knowledge generated by five pilots. Thus, a major focus of the program was to capture and disseminate this learning to help IFAD and financial services practitioners develop more effective and scalable programs for rural youth. The program, which built upon proven and successful methods, advanced learning around five research topics:

- Adapting and Developing Effective Financial Products for Rural Youth
- Determining the Appropriate Level and Delivery System for Supportive Non-Financial Services
- Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance
- Linking Products or Institutions to Facilitate Movement from Informal to Formal Financial Services
- Designing Innovative Approaches for Scaling Products in Rural Environments

In Tunisia, access to finance and business support remains a major constraint for young entrepreneurs, especially those located in rural areas. RYEEP partner Microcred Tunisie (Microcred) is a new microfinance institution that was established to provide financing for excluded populations, especially youth. Microcred received its license to operate in November 2014 and initially focused on starting up its operations, training staff, and providing loans to youth and adults in urban and peri-urban areas of Tunis. Under RYEEP, Microcred launched activities in peri-urban and rural areas. It researched and began piloting a start-up loan for youth entrepreneurs who are beginning new ventures and provided expansion financing for existing youth enterprises. While the pilot was intended to generate learning on serving rural youth in general, it was specifically designed to develop lessons learned on serving new and inexperienced rural youth entrepreneurs, especially those who intend to develop larger small enterprises as compared to more typical microenterprises.

The Microcred pilot was delayed almost a year by a lengthy registration process, so by project end, it was only able to complete its product research and initial pilot stages. During this time, Microcred conducted extensive market research on the youth and rural youth markets, designed start-up and expansion lending products, developed accompanying non-financial services, and completed a short pilot. Microcred found that the start-up small business entrepreneur market in rural Tunisia was small and required substantial technical assistance to succeed. In contrast, there was a larger market for Microcred's expansion loans, which capitalize on youth microenterprises begun with family or informal finance. At project end, Microcred had used these initial results to refine and expand these products to additional rural areas and was serving over 100 rural youth with start-up or expansion loans.

This Learning Report is one of six learning products to be delivered by the RYEEP grant. It introduces the learning agenda of the overall program and focuses on what has been learned during the pilot project in Tunisia. Findings have been incorporated into the overall learning Product ("Findings From Five Rural Youth-Inclusive Pilot Projects") which summarizes learning from the five pilots and suggests ways forward to most effectively advance rural youth financial inclusion in the NENA region.

2- THE RURAL YOUTH ECONOMIC EMPOWERMENT PROGRAM LEARNING AGENDA

2.1 The Challenge of Serving Rural Youth

Rural youth in developing countries make up a very large and vulnerable group. Globally, three quarters of the poor live in rural areas, and about half of this population is composed of young people, generally defined as between the ages of 18-30[1]. This young and growing population is confronted with a number of challenges to building sustainable livelihoods. The quality of education in rural areas is worse than in urban areas and does not prepare youth adequately for existing livelihood opportunities. The lack of basic infrastructure such as electricity and water supply limits livelihood options and burdens youth with responsibilities that can reduce training and educational opportunities. While agriculture is for many the most viable livelihood option, growing populations, the ongoing subdivision of land, and soil degradation means that youth often lack access to or control of sufficient land for farming, thus preventing or inhibiting their pursuit of this opportunity. Finally, for girls in particular, more traditional cultural stereotypes in many societies reduce livelihood options to those within the household.

Nonetheless, rural youth are economically active and options exist for improving their livelihoods. In contrast to urban areas, **the problem for youth in rural areas is not one of unemployment,** but underemployment. Youth are active in a variety of farm and non-farm activities and for those who cannot pursue farming directly, the rural non-farm sector can serve as the "ladder" from underemployment in low-productivity, smallholder production, to regular wage employment in the local economy, and from there to jobs in the formal sector.[2] **In this context, the challenge for those interested in rural youth development is to develop the right mix of cost-effective and appropriate financial and non-financial services that increase youth capacity and access to the resources that they can use to invest in farm or non-farm opportunities.**

2.2 RYEEP Pilot Projects

The five RYEEP pilot projects are designed to address many of these challenges and to test different financial and non-financial service delivery models for rural youth. Pilots are implemented by local partners, including commercial banks, microfinance banks, local community development organizations, and for-profit companies, and supported technically by Making Cents International and Silatech.

Figure 1: IFAD RYEEP - Four Countries, Five Models

COUNTRY	LOCAL PARTNER (Institutional type)	FINANCIAL INSTRUMENT	NON-FINANCIAL INSTRUMENT
EGYPT	Plan Egypt (NGO)	Savings & Credit Groups	Entrepreneurship and life skills training offered through Savings Groups
YEMEN	Al Amal Bank (Microfinance Bank)	Enterprise Lending (for existing businesses)	Financial literacy, entrepreneurship and technical training offered by NGO partners
MOROCCO	Al Barid Bank (Postal Bank)	Individual Savings Product	Financial literacy training offered through mass media and face-to-face training
TUNISIA	Microcred (Microfinance Company)	Enterprise Lending (for start-up businesses	Entrepreneurship and business management training offered by NGO partners
TUNISIA	Pro-Invest (Private Company)	Value Chain Finance (Trade Credit)	Value Chain Development, entrepreneurship and financial literacy offered through SMS

Case studies for each of these pilots have been developed and the overall learning has been encapsulated in a single report entitled "Findings from Five Rural Youth Inclusive Pilot Projects". Those documents can be found on the IFAD and Youtheconomicopportunities.org websites.

[1]Bennell, Paul. Investing in the Future: Creating Opportunities for Young Rural People. Publication. IFAD, Dec. 2010, pg. 1.
[2]Bennell, Investing in the Future, pg. 6.

2.3 RYEEP Learning Topics

Pilot project implementation under RYEEP has been designed to build on the body of knowledge developed by youth financial service practitioners and IFAD. In addition, Making Cents, IFAD and Silatech have decided to focus knowledge management efforts on five learning topics of interest specifically to those serving rural youth.

Learning Topic 1: Adapting and Developing Effective Financial Products for Rural Youth

Inspiration for effectively serving rural youth can be found in successful rural finance models for adults or youth-inclusive financial service programs in urban areas. What are the key aspects of these products that need to be adapted for successful rural environment delivery?

Learning Topic 2: Determining the Appropriate Level and Delivery System for Supportive Non-Financial Services

Rural youth tend to be more poorly educated, have fewer livelihood opportunities, and are harder to reach. What financial capability or livelihood development services should be provided in rural areas, who should deliver them – financial institutions, NGOs or the government - and how?

Learning Topic 3: Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance

Making the business case for providing financial services to rural youth is especially difficult considering youth's general tendency to save less and demand lower loan sizes, combined with the low population density and poor infrastructure in rural areas. How can technology lower the cost of financial service delivery to youth, whether through financial institutions or value chain actors?

Learning Topic 4: Linking Products or Institutions to Facilitate Movement from Informal to Formal Structures

Youth capacity to use financial services develops over time as they grow in experience and knowledge. While informal financial services such as savings groups may be appropriate for youth starting out, how can these services be linked to formal financial institutions to provide youth with the greater variety and sophistication of formal financial services? Similarly, many youth begin informal income-generating activities as their first foray into business; how can financial or non-financial products encourage business growth and graduation from informal to formal enterprise management?

Learning Topic 5: Designing Innovative Approaches for Scaling Products in Rural Environments

Successful pilot projects can be scaled through the government – by policy changes or adoption of services by government agencies, the market – by private sector companies or entrepreneurs seeing value in services and offering them on a for-profit basis, or culture – when public awareness campaigns and behavior change strategies become adopted by communities and new practices are propagated. Which scaling-up pathways are appropriate for successful elements of RYEEP pilots and what strategies can be followed for expansion?[3|4]

[3]Muthoo, Ashwani, David Francis, and Oanh Nguyen. IFAD's Capacity to Promote Innovation and Scaling Up: Corporate-level Evaluation. Rep. no. 2240. IFAD, June 2010. Web.
[4]Cooley, Larry and Kohl, Richard. Scaling Up -- From Vision to Large-scale Change; A Management Framework for Practitioners. MSI and the MacArthur Foundation. March 2006

3- CASE STUDY: Microcred Tunisie - Start-up and Expansion Lending for Rural Youth

3.1 Project Summary

In line with the goals of the global IFAD RYEEP program, Microcred's project in Tunisia aimed **to support youth entrepreneurship in rural areas by building the capacity of Microcred to provide youth non-financial services combined with start-up or expansion loans adapted to youth between 18-35 years old.**

> **Objective 1:** Establish and build the capacity of Microcred to develop and deliver youth start-up and expansion loans for 50 Tunisian small rural entrepreneurs
>
> **Objective 2:** Establish and build the capacity of Microcred to provide youth-inclusive business development services to 100 young rural entrepreneurs

Making Cents and Silatech teamed with Microcred, a newly established microfinance institution (MFI) in Tunisia, in the design and development of "Irada",[5] the first small enterprise start-up loan developed specifically for rural and urban youth in Tunisia. It is a subsidiary of Microcred, a company that establishes MFIs in developing countries globally. It focuses on low-income clients and currently operates in the poorest districts of Tunis.

The service targeted young would-be entrepreneurs seeking financing to build their business, including commerce, services, agriculture and animal husbandry, in rural areas, as well as those in peri-urban areas supporting the development of rural value chains (fruit and vegetable processing or marketing, clothing produced with locally sourced materials, etc.). In order to support its clients' non-financial skills, Microcred partnered with various organizations such as Education for Employment (EFE) and Positive Planet (formerly PlaNet Finance), to design, develop, and deploy a package of business development services (BDS) in conjunction with the Irada product. At project close, Microcred was also formalizing partnerships with public and private organizations specialized in providing services in rural zones. BDS was offered both before and after financing and focused on soft skills development, idea generation, business plan development, financial literacy, bookkeeping and market access solutions.

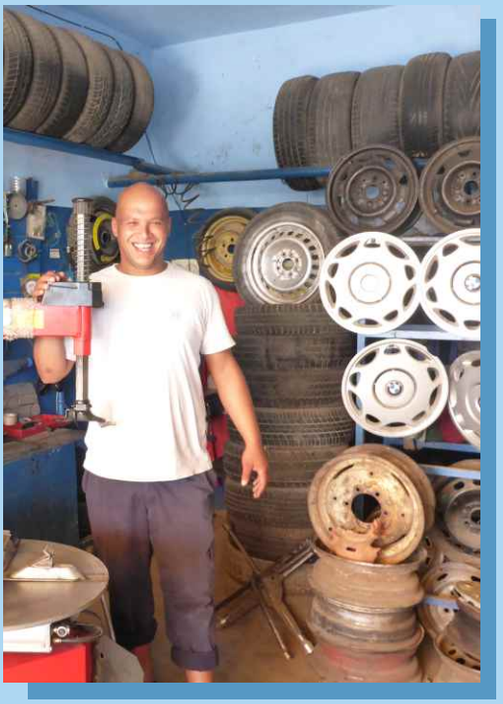
The learning from this project was intended to inform how best to serve rural businesses, especially start-ups, through a combination of financial and non-financial services.

IRADA ENTERPRISE CREATION PROGRAM: AT A GLANCE

- **Geographic area:**
  Tunisia - 5 Governorates: Tunis, Ariana, Ben Arous, Beja and Manouba
- **Local partners:**
  - Education for Employment
  - Tunis Business Center
- **Target beneficiaries:**
  Rural, semi-rural and urban young would-be entrepreneurs aged between 18-35
- **Results:**
  - 800 applications for the Start-Up Loan (Irada)
  - 130 trained (30 in rural areas)
  - 96 coached on development of business plan
  - 13 start-up enterprises financed (3 Rural)
  - 91 youth rural enterprise financed with expansion loans valued at 206,409 USD
- **Duration:**
  July 2013 - February 2016

[5] "Irada" means 'the will' in Arabic

CLIENT CASE STUDY 1



NAME: Achour Hbibi
AGE: 27
ACTIVITY: Tire repair
LOAN DURATION: 12 months
LOAN AMOUNT: 2,800 DT (1,400 USD) Monthly
REPAYMENT 275 DT (138 USD)
DELEGATION: Borj el Amri
GOVERNORATE: Manouba
ENVIRONMENT: Rural

Achour started working in the tire repair workshop next to his house when he had free time as a young student. When the business moved to another region, Achour decided to start his own tire repair workshop. To accomplish this endeavor, he took a small loan (250 USD) from a neighbor to buy the initial tools needed. Situated on the main road connecting central governorates to Tunis, Achour's business was well-located and he invested his time and energy in its success. Within his first two years running the business, Achour managed to set enough money aside (3,500 USD) to purchase a new compressor and tire iron for his workshop.

Achour's ambitions were larger than his savings could sustain, so he began to look for loan financing. Achour borrowed 2,500 USD from Microcred through its Expansion Loan program to buy used tires to keep as stock. Achour expressed that he would not have visited a bank to take out this loan, as he does not feel that his request would have been approved.

Achour's main clients at his repair business are travelers 'passing by' on the road to or from Tunis, but Achour also works closely with farmers who bring their tractors in for repair. Achour provides delayed payment options for farmers so that they may pay for services after the harvest.

Today, Achour employs two young people who he trained himself. Conscious of the lack of services available to his peers in his rural surroundings, Achour hopes to expand the services that his business offers, as he knows the demand is high. Achour estimates that he will need approximately 20,000 USD to fund additional installations and materials to expand his services, but, in the short term he hopes to improve his workshop's appearance by tiling the wall and installing air conditioning.

3.2 Target Beneficiaries

Under RYEEP, Microcred targeted rural and urban youth between the ages of 18-35. The inclusion of urban youth as part of the project enables Microcred to diversify its portfolio and compare the performance and cost of providing financial and non-financial services to rural vs. urban youth.

In Tunisia, rural and semi-rural areas are often characterized by high **illiteracy** and **poverty** and low skill levels, especially in **financial acumen and business skills**. The relatively low levels of human capital have led to higher unemployment in comparison to Tunisian urban areas. Most of the rural population depends on agriculture and relatively small retail services and trade activities for employment and livelihoods. Rural youth are interested in beginning micro and small businesses, but often lack the confidence, skills, and start-up capital to begin or succeed.

Youth start up loan Market Research Study:
Profiles of Potential Loan Applicants

Young entrepreneurs expressed the most interest in the services and trade fields (34% and 33% of the sample), whereas agriculture was of interest to only 14% of the survey participants (17% outside of Tunis). Investing in the food service industry was of interest to 10% of the sample in Tunis and 7% in other areas. Youth without university degrees were most interested in agriculture, animal husbandry and food services.

Source: Sigma Conseil study commissioned by Microcred Tunisia

3.3 Partners

Microcred drew upon the expertise of a number of organizations to develop its financial and non-financial services. These include its parent Microcred, technical service providers such as Positive Planet[6], and non-financial service providers such as EFE[7]. Whereas Positive Planet helped with adapting and creating tools for selection, training, and coaching of young would be entrepreneurs, EFE supported the program by training a part of Microcred's Irada applicants in Build your Business (BYB) skills. Silatech also supported the pilot with a revolving fund and a technological tool for selecting applicants.

Locally, Microcred also approached Tunisian organizations that could help recruit and support loan applicants, including:

- Ministry of Agriculture
- Training centers for agriculture (Manouba and Mornag)
- Farmers trade union
- Business centers (public centers supporting youth entrepreneurs)
- Program for promotion of sustainable agriculture and local development, implemented by the German Development Agency GIZ (Die Deutsche Gesellschaft für Internationale Zusammenarbeit)

3.4 Financial Services Offered

Microcred developed the Irada start-up loan product with the help of Positive Planet. The team used information from a local market study (conducted by Sigma Conseil), a Human Centered Design study, and two focus groups with potential young entrepreneurs to better understand the target market and its financial needs. The expansion loan product, designed to serve both adults and youth, was developed through a separate process, but used some of the outcomes of the youth market research to inform its design.

[6]For more info: http://www.positiveplanet.ngo
[7]For more info: http://www.efe.org/our-network/tunisia

The following table compares the two financial products offered by Microcred:

Figure 2: Microcred's Irada Youth Start-up and Enterprise Expansion Loan Product

FEATURES	FINANCIAL INSTRUMENTS PROVIDED THROUGH MICROCRED	
Product Name	Irada Program	Enterprise Expansion Loans
Product	Individual loan	Individual loan
Purpose	Start a microenterprise	Grow a microentreprise
Amount	• Range between $100-$10,000; avg. of $2,000 (4,000 TND), Covers up to 95% of the investment	• Range between $100-$10,000; avg. of $2,500 (5,000 TND)
Duration	6-36 month	3-36 months
Interest rate	2.6% decreasing per month	2.6% decreasing per month
Collateral	• Promissory note + Guarantor under $2,500 • Promissory note + Guarantor + physical assets above $2,500 (including item financed by the loan)	• Promissory note + Guarantor under $2,500 • Promissory note + Guarantor + physical assets above $2,500 (except item financed by the loan)
Other	Grace period up to 6 months	Grace period up to 3 months

3.5 Non-Financial Services Offered

Considering the higher risk involved with financing start-up clients, especially less experienced young ones, Microcred, with the help of Positive Planet and an exposure trip to Al Majmoua in Lebanon, developed a suite of non-financial services to not only build client capability, but also provide Microcred the opportunity to further assess applicants during the underwriting process. This non-financial support was only provided to Irada loan applicants.

The non-financial services were delivered at three stages in the loan selection and delivery process described at right.

Group Training: After the initial selection, loan applicants completed a week-long training on business management. The curriculum was based on the BYB content developed by Microsoft, adapted to the local context (Tunisian dialect, local examples, simpler terms etc.) BYB was delivered by Microcred's Irada trainer or by EFE.

Pre-Financing Coaching: Microcred offered individual coaching by branch loan officers after the training to help applicants develop simple business plans. The role of the coach was to help applicants reflect on the business (figures, characteristics, strategy, etc.) and elaborate the plan. In cases where the applicant had trouble writing the details, the coach could transcribe the ideas.

Post-Financing Coaching: Loan officers provided on-going coaching to the applicants whose loans had been approved. The coaching was designed to help the borrowers launch and build their businesses, especially during the first few critical months.

Independently from the Irada program, Microcred offered financial education to all clients visiting its branches through short videos provided by Mercy Corps. Additional details related to the content and delivery of the non-financial services is included in the figure at right:

Figure 3: Microcred Irada start-up loan process - from intake to post-financing

Figure 4: Microcred's "Irada" Youth Start-up and Enterprise Expansion Non-Financial Services

FEATURES	NON-FINANCIAL INSTRUMENTS		
Type	Entrepreneurship Training	Individual Coaching	Individual Coaching
Delivery Vehicle	In-class training	Loan officers	Loan officers
Purpose	Strengthen life skills and entrepreneurial knowledge to enable business plan development and better enterprise management	Support the beneficiaries within their business planning work	Support the clients who received a loan in the launch of their project
Topics	• Soft skills • Business planning • Record-keeping/ Cash flow management/Projection • Marketing / Sales • Inventory management	• Market Study • Technical study • Financial projections	• Project start-up • Loan use • Problem solving
Audience	Youth would-be entrepreneurs from 18 to 35 years.	Youth would-be entrepreneurs who received the in-class training	Youth would-be entrepreneurs who received a loan
Duration	30 hours delivered in a one-week intensive course	Variable, depending on project complexity and maturity, client involvement, etc.	Throughout the loan cycle

4- PROJECT RESULTS AND LEARNING

The Irada pilot was launched within the Greater Tunis area, allowing Microcred to test the program in its core market of urban and semi-rural areas. This pilot phase aimed at gathering initial insights from the field and improving the product before launching a second phase more specifically focused on the rural areas of Beja and Jendouba.

Between March and December 2015, Microcred completed the pilot phase and by project end was rolling out the Irada product more broadly. During this time period, Microcred received over 800 applications, and 130 young people with start-up projects were trained (30 in rural areas), with the support of EFE, Microcred's local partner. Among those trained, 96 received individual coaching to complete their business plan and loan application, and 13 youth entrepreneurs (3 rural) received Irada loans.

In the same period, 91 loans with an average size of 2,269 USD (206,409 USD total) were disbursed to rural youth for business expansion. This loan size is 10% smaller than was distributed for business expansion by urban entrepreneurs, reflecting the smaller markets in rural areas. Borrowers are all located in the rural areas on the west side of Tunis and are engaged in a variety of activities, from livestock farming to operating grocery stores and clothing shops. The average age of the clients was 28 years old.

During this market research and initial implementation stage, Microcred gained learning in a few of the areas covered by the RYEEP Learning Agenda. The section below describes learning to date in the first year of operations.

Learning Topic 1: Adapting and Developing Effective Financial Products for Rural Youth

Use different research tools to gain a complete understanding of the target market

Through this project, Microcred's objective was to serve youth in rural areas through both a standard micro loan for existing enterprises, and a loan for small business start-ups for youth called "Irada." Since the latter product is less common and potentially more risky, Microcred chose to focus its research and product design efforts on the development of the Irada loan. Microcred followed a rigorous research process, employing secondary research to gain a picture of the market in general, and primary research, including quantitative surveys, individual interviews, and focus groups, to understand rural youth behaviors. Some of the tools used and insights learned about youth include:

Figure 5: Microcred's Youth Research and its impact on loan terms and delivery

RESEARCH	INSIGHTS	IMPLICATIONS FOR PRODUCT DESIGN
1. Quantitative Study 1,342 unemployed young would-be entrepreneurs, selected randomly using the quota methodology, were surveyed through face-to-face interviews. This study was implemented in 13 mainly rural regions of Tunisia, with 70 % of the interviewees coming from out of Grand Tunis area.	i) 83% consider access to financing the largest constraint to starting a business; ii) 26% consider administrative procedures the largest constraint to registering and starting a business; iii) 65% could not identify organizations/programs that support youth entrepreneurship (coaching, training, or financing); iv) 93% believe they need to borrow to begin a business, and very few can contribute to their initial capital (39.7% have no funds to invest, 32.9% can contribute from 0-10%); v) Only 38.4% save regularly, of whom 37.1% save informally in their homes; vi) 71.1% have been unemployed for more than one year, and 14.5% from 6-12 months; vii) 34.6% would like to receive training before starting a business; and 62.1% believe training should cover business management topics.	i) Confirmed demand for start-up loan product; ii) Training on administrative procedures should complement loan delivery; iii) Opportunity to link credit with other youth entrepreneurship structures; iv) Loan amount should comprise a large percentage of the initial investment (95% in initial design); v) Financial education on savings and using formal financial services should complement loan delivery; vi) Youth are vulnerable and can use non-financial services to build confidence and knowledge for business start-up.
2. Individual Interviews 10 prospective clients using a Human Design approach focused on the key factors that should be considered in the selection of successful borrowers and entrepreneurs.	I) Identifying "perfect" candidates is difficult; many potential candidates will need significant support to succeed; ii) Candidates lack confidence and feel they need moral and technical support to complete the application process and start their business; iii) Candidates would like additional post-financing support to help their businesses succeed.	i) Use additional tools in selection process -interviews, psychometric tests, and maturity of the project idea; ii) Provide business plan information and coaching; develop linkages with training centers; through success stories and other information, develop spirit of entrepreneurship among youth; iii) Assign each new entrepreneur a peer coach to provide on-going support.

RESEARCH	INSIGHTS	IMPLICATIONS FOR PRODUCT
3. Focus Groups 3 groups of potential clients were interviewed to help shape loan features.	i) Many start-up ideas would take time to become profitable, were not feasible or required too much capital; ii) Guarantors would be a barrier for young clients; iii) Youth express the need for coaching and support, (e.g. someone to confide in and share fears/setbacks with).	i) Target tested projects that are ready to start, and those that have high cash turnover; ii) Consider a longer grace period; iii) Develop partnerships with institutions that could offer co-financing; iv) Alternative forms of collateral, including character evaluations and home visits will be included in the selection process; v) Help youth develop strategies for finding guarantors; vi) Assign each new entrepreneur a peer coach.
4. Secondary Research World bank and other research on Tunisian youth were consulted to confirm or deepen findings from primary research.	i) Self-employment is relatively common among young men, but rare among young women; ii) The education levels of self-employed youth are very low, and most have not completed secondary education; iii) Education levels are the lowest in rural areas where most self-employed youth left school before completing secondary education (83%); iv) Most young entrepreneurs work in low-productivity sectors with limited economic returns (60.1% of women and 68.8% of men in rural areas, vs 58.9% of women and 57.2% of men in urban areas).	i) The market for youth micro entrepreneur loan exists; ii) Need to adapt the business management training to the youth education level; and develop individual coaching that focuses on practical, rather than theoretical concepts; iii) Market products to both university and secondary school graduates, especially the latter in rural areas; iv) Linking borrowers to technical or additional business management training may help to increase business profitability.

Based on the above research, Microcred adjusted its Irada loan characteristics in the following ways:

- **Increase in the allowable debt-to-assets ratio up to 60%:** Research confirmed the debt-to-asset ratio of youth was typically much higher than for adults because many young entrepreneurs start their ventures while living at home with their parents and have very few assets of their own.

- **Reduction of loan collateral:** Also reflecting the lower asset ownership of young entrepreneurs, Microcred enabled item(s) financed by the loan to serve as collateral, a provision that is not allowed for Microcred's other products.

- **Reduction of the co-financing requirement to only 5% of the total investment:** The studies revealed that 72% of youth entrepreneurs cannot contribute more that 10% of their financing as collateral.

- **Grace period extended from 3 to 6 months:** The extension reflects the fact that launching a new business is challenging, especially during the first months of activity.

- **Support during the loan application and selection process:** Youth were closely supported when preparing their loan application. After receiving several visits by the loan officer/coach, all youth start up applicants received a visit from the branch director. The family was involved as well during evaluation to provide additional support/guidance.

Innovative outreach strategies are necessary to reach targeted youth sustainably

During the pilot phase of the program, Microcred recognized that its initial outreach strategy that relied on traditional marketing methods was insufficient to attract enough bankable clients. After meeting with staff and clients, Microcred identified four main issues:

- **Lack of Market Penetration.** Microcred was a new institution and was not known to or trusted by rural populations. In response, Microcred worked to develop partnerships with government agencies and other programs, such as the Grand Tunis Business Center, that have outreach to youth.

- **Lack of Access.** Microcred's initial branch locations were too far away from potential rural clients. At an average distance of 25 km from rural centers, the branches were inaccessible, especially for clients who had to take public transportation (a two-hour trip). Microcred responded in two ways – (i) opening a new branch in a more rural area (Beja) and (ii) allowing loan repayments at the branches of a partner, Amen Bank – which has a larger presence in rural areas. Microcred is also considering digital payment solutions, however, regulatory hurdles make this strategy difficult to pursue.

- **Loan Product did not meet client needs in Agriculture.** Microcred did not design its lending product for agricultural production, but intended that it could finance certain on-farm or agriculture-related activities. During the pilot phase, however, Microcred learned that some features discouraged investments in this area, especially the relatively low loan amount and short cycle of the loan. Microcred addressed this issue by (i) identifying economic activities in rural areas that it can finance that have shorter cash flow cycles or require lower investment levels and (ii) testing flexible repayment schedules that may be more suitable for the seasonality of agriculture. In addition, Microcred began to lobby the Central Bank to be allowed to provide loans valued at more than 20,000 dinars (10,000 USD) to finance the relatively more investment-intensive agricultural activities that its clients demand.

- **Attrition during the process.** For a start-up loan product, Microcred realized that it would need a large number of applicants to find appropriate candidates. During the initial phase, the organization learned that it needed approximately 100 applications to obtain 10-15 appropriate candidates for training. A winnowing of candidates is normal during the selection process, especially for a start-up loan that requires an entrepreneurial, but realistic applicant. However, Microcred is considering how it can streamline the process – for example, making the training optional – to reduce the attrition rate.

Learning Topic 2: Determining the Appropriate Level and Delivery Systems for Supportive Non-Financial Services

Consider carefully the costs and benefits of directly delivered or outsourced non-financial services

Microcred's market research indicated that rural youth clients lacked business experience and confidence, and were less educated than their urban peers. In response, Microcred decided to offer business training adapted to rural youth's education level as part of

the loan application process and provide post-training coaching to support these new entrepreneurs as they developed their business plans and began their enterprises. However, Microcred was unsure as to whether to provide the training/coaching directly or to outsource that service.

To determine which approach would work best, Microcred tested both methods. As an outsourcing option, Microcred established a partnership with EFE, an NGO that provides youth with skills and resources to find a job or start a business, and with Mix Learning, a company that provides coaching services. Internally, Microcred also trained its loan officers to provide both non-financial services. Nine months of testing the two options revealed:

The benefits of outsourcing were:

- The ability to train a greater number of applicants,
- No direct cost initially, due to grant funding that EFE and MixLearning received from other sources)
- Leveraging these specialized organizations' expertise in training and coaching
- Freed up loan officers to conduct further outreach/loan monitoring

However, the advantages of delivering the training and coaching internally were as follows:

- Enabled better underwriting, since loan officers were able to get to know the candidates personality
- Built capacity of Microcred staff to adapt the training in the future
- Better client selection, since Microcred loan officers gained a better understanding of their specific target market
- Utilized existing capacity – Microcred loan officers were naturally strong trainers/coaches due to the experience of working with multiple borrowers
- Developed the relationship between loan officers and clients which could help support loan repayment and local marketing efforts
- Non-financial services were more closely associated with Microcred's activities, building trust among clients about the institution

Microcred ultimately decided that using staff for coaching and sometimes for training (when there was excess capacity), helped to build staff understanding of the target population and to develop appropriate non-financial services. As important, it served as a marketing and trust-building mechanism that was critical for Microcred to gain acceptance in these rural communities. In the longer term, however, outsourcing of the training component will be a more efficient strategy for expansion and reaching scale assuming that (i) partners are carefully identified, (ii) Microcred is still part of the selection and sourcing of clients through coaching, and (iii) the parties communicate effectively on client character and training feedback.

Conduct cost analysis to determine most effective mix of rural and urban services

While Microcred plans to cover the costs of its intensive Irada training through interest income from the product, its experience to date indicates the difficulty of this proposition. Based on its urban experience, Microcred estimates that the product can break even with 60 loans. However, considering the increased costs of working in a rural area, Microcred will need to deliver 101 loans to break even. In response, Microcred plans to deliver one rural Irada loan for every three in urban areas, a proportion which lowers the threshold break-even point to 87 loans but slows rural service provision. Microcred is also seeking additional subsidies and support to lower the costs of training by arranging free training rooms with NGO partners, negotiating guarantees, and soliciting donor support for marketing and salary costs. The figure below provides a simplified analysis of the cost of urban and rural non-financial service provision.

Figure 6: Simplified Cost Comparison of Rural vs. Urban Loan Provision

SIMPLIFIED COST COMPARISON OF IRADA PRODUCT DELIVERY – URBAN VS. RURAL

Line Items	**Urban** (Greater Tunis experience)	**Rural** (Béja experience)
Interest	1,641	1,641
Opening Commission	117	117
Revenue per loan (based on average Irada Loan)	**1,758 TND**	**1,758 TND**
Variable costs	855	1220
Irada Loan Officer initial visit costs	40	40
5% Time of a loan officer	720	720
Training costs	23	360
Total follow up transport fees	72	100
Fixed Costs	54,000	54,000
Coordinator/ trainer Salary	36,000	36,000
Branch Manager and Supervisors time (supervision and input into underwriting)	18,000	18,000
Cost per 100 loans	**139,500**	**176,000**
Revenue per 100 loans	**175,800**	**175,800**
Break-even threshold point	**60 loans**	**101 loans**

Other associated costs not accounted for in this calculation:

- The cost of money
- Related headquarter and branch costs (support functions, rent etc.)
- Marketing and communication (leaflets, salons etc.)
- Room rentals for training
- 20% time of program manager on improving the pilot (structure, collaborations, organization etc.)

Be wary of partnerships with public institutions

As part of its non-financial service delivery strategy, Microcred planned to partner with public institutions that could supplement its training with additional technical assistance, access to markets, or business development information. Unfortunately, Microcred had little success engaging with these institutions due to their lack of interest and drawn-out procedures to engage in an official partnership. One partnership developed during the project that shows promise was with the « Centre d'affaires » (business center) of the Greater Tunis area, which connected Microcred with youth entrepreneurs who have already received training on entrepreneurship and starting businesses. In the future, Microcred will continue to seek partnerships, especially in new rural areas, but will spend less energy in this area considering the low return on its efforts.

Learning Topic 3: Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance

Microcred is experimenting with a number of technologies to (i) perform better underwriting, (ii) enable remote payments, (iii) market its services and (iv) improve the efficiency of its loan officers. Initial lessons learned from its use of technology include the following:

Psychometric tests offer promise but may be hard to implement with rural populations

Considering the relatively high risk of the Irada product – which provides start-up capital to young entrepreneurs – Microcred sought additional information to inform its underwriting process through psychometric testing. The computer-based Tamheed test, developed by Microsoft with support from Silatech, offered one option. The test measures personality traits – achievement striving, passion, taking control, creativity – that are considered to be important for successful entrepreneurs. Microcred adapted the test to Tunisian Arabic and for youth with low to medium education levels (TVET diploma, secondary school diploma, school dropouts).

Tamheed Screening for Enterprise Training (Tamheed SET) was developed to predict entrepreneurial potential and trainability by screening applicants for various training programs that focus on preparing youth for self-employment. The screening is done using a combination of personality and cognitive processing assessments.

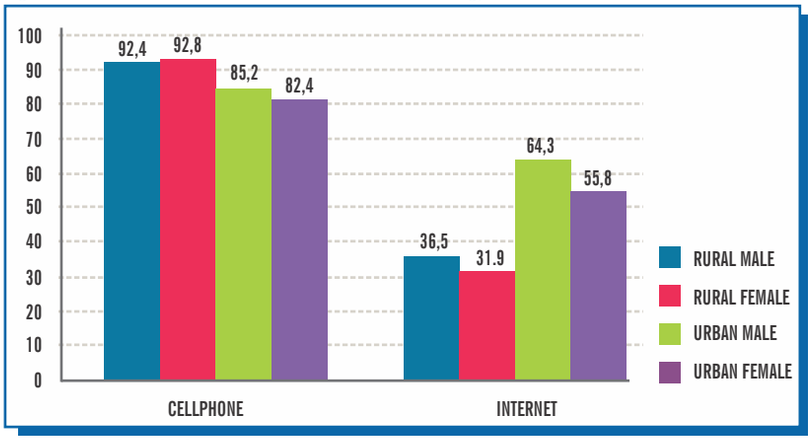
The Tamheed cognitive assessments measure aptitudes and processing in a number of areas, ranging from basic numeracy and literacy to reasoning and logic. Depending on the educational level of the participants and the content of the training, specific packages of cognitive assessments are included in Tamheed SET. (http://www.tamheed.org/)

Unfortunately, the test was not well suited for rural youth. Most were unable to complete the test at home as originally envisioned, and youth still had difficulty when the test was administered at the office. Results were also unreliable, with good candidates scoring poorly and vice versa. Microcred concluded that the Arabic was inappropriate for its target population, most of whom don't easily read Arabic, and weak computer skills led to mistakes and resistance to completing the test. Due to these setbacks, Microcred discontinued using the test in the short term but is open to considering other tests of this type in the future, especially if they can be conducted on smart phones in the local Tunisian dialect.

Consider using social media to market to youth

Access to basic information and communication technology is widespread in Tunisia. More than nine out of 10 young Tunisians in rural Tunisia own a mobile phone. A recent survey (Sept. 2015, Sigma Conseil) confirms that Facebook is the second-most-used form of media by youth aged 15-35 with 70% of users, against 80% for TV, 60% Internet (outside Facebook), 40% for radio, less than 10% engaging traditional press. Nevertheless, access to the Internet is still limited in many rural areas.

Figure 7: Access to Information and Communication Technology—Rural Versus Urban



Source: World Bank, 2012

Considering the lack of rural access to internet, MIcrocred relied mainly on using traditional word of mouth or loan officer one-on-one interactions to promote the Irada product. Nonetheless, it continued to experiment with other media. In December 2015, Microcred launched a marketing campaign that focused on rural youth. It broadcast a radio campaign on two main radio stations listened to by youth; employed a Facebook campaign aimed at youth aged 18-35 in a radius of 30km around Tunis, thereby covering rural areas; and advertised using billboards situated in rural areas in about 50% of cases. Initial results were positive – Microcred's Facebook page increased its likes from 3,000 to 20,000 and branches were flooded with inquiries. The number of those engagements that will be translated into good clients, however, is still being analyzed.

Develop partnerships with other banks to overcome the long distances to branches

One of Microcred's main constraints to serving rural clients is the distance between its branches and rural areas. Currently, some clients are situated in rural areas 25 km away from Microcred's closest branch (clients from Ben Arous Governorate), and traveling to branches via public transport can take two hours (clients from Manouba Governorate). Microcred would like to develop a network of correspondents in rural areas to whom clients can repay loans, but current regulation prohibits this strategy. Instead, Microcred partnered with Amen Bank, a bank with a large network of branches (including 60 in the Greater Tunis area) to provide clients with a larger number of proximate repayment points. Although it took training and significant time to establish the partnership, in the first month and a half after launch, more than 50 transactions were made through Amen Bank branches. Encouraged by this positive result, Microcred decided to scale up this strategy by marketing it more widely to clients and developing partnerships with additional banks in other geographic areas. At project end, over 5% of the global portfolio was using Amen Bank, and Microcred anticipates that this will increase to 10% in 2016.

Use field-based technology to increase data accuracy and improve loan officer efficiency

To make its loan officers more efficient and increase the institution's ability to work in higher-cost rural areas, Microcred introduced mobile phone applications for its loan officers. Through their smart phones, loan officers could have real-time access to their portfolio data in the field, develop sample repayment schedules for their clients, manage visits, and monitor overall portfolio performance. Microcred plans to upgrade the application in 2016 so that loan officers can create client and loan applications in the field, record client GPS coordinates, and visualize client location on a map. This is the first step in Microcred's overall efforts to digitize the complete loan file, increasing productivity, data storage, internal controls, and client service. Considering that loan officers are only half as efficient in rural areas as in urban (as measured by possible client visits) due to lower population densities and weak infrastructure, technology investments such as these will be critical to sustain future rural expansion.

Learning Topic 4: Linking Products or Institutions to Facilitate Movement from Informal to Formal Structures

Support business formalization

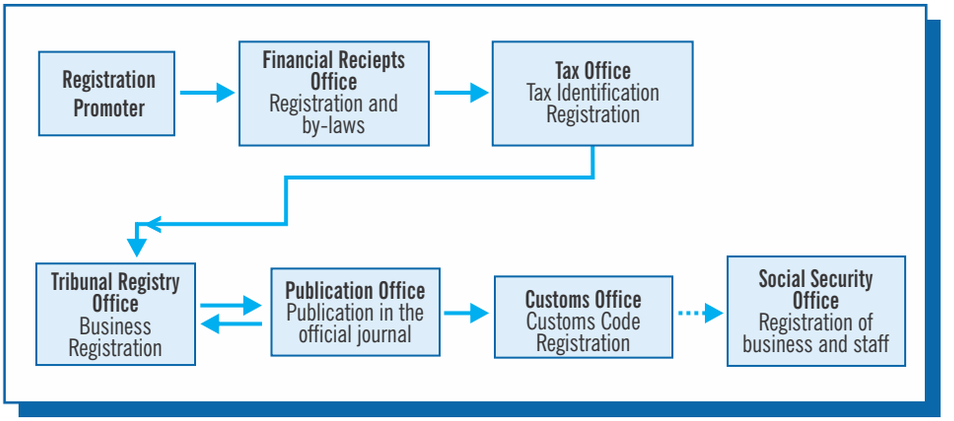
A World Bank survey on business in Tunisia[8] finds that one-third of all self-employed youth struggle with the burden of bureaucracy, including the costs, difficulties, and delays involved in obtaining required licenses. As a result, many small firms choose to remain informal, a situation that hinders their ability to access markets and requires they operate in unfavorable locations to avoid fines and extortion.

In response, Microcred provided its clients with information on how to register their business during the Irada training. Half a day of training was dedicated to the importance of registration and the steps to formalization. Microcred encourages enterprises to take

[8]Tunisia: Breaking the Barrier to Youth Financial Inclusion, World Bank, 2014, Malika Idrissi.

advantage of the "Guichet Unique" (single counter) that the Ministry of Industry and the Ministry of Commerce have established it as a much easier and faster registration process (24 hours) than visiting all the required public offices individually (see below for the traditional process):

Figure 8: The Traditional Registration Process for a new Enterprise



Learning Topic 5: Defining Innovative Approaches for Scaling Products in Rural Environments

Master your core business, then innovate

Microcred's core business is financing existing small or microenterprises, mainly in urban areas. In November 2014, Microcred initiated operations with its first branch in the Ezzahrouni district of Tunis that also covers the Manouba Governorate. After one year, Microcred reached the following governorates that have rural portions: Manouba (26% rural), Ben Arous (9% rural) Ariana (9% rural), and Beja (59% rural). The next step in 2016 is to open four branches in other rural areas.

The first year focused on:

- Testing the product (methodology, rates, procedures);
- Preparing the staff (training, follow-up etc.);
- Knowing their clients (major insight on each type of activity, sector, family and work realities etc.);
- Developing a cadre of loan supervisors (promoted loan officers).

At project end, once the core processes and strong staff were in place, Microcred Tunisia began focusing on expanding to reach more youth and rural populations. Planned activities include:

- 4 Branch openings in interior governorates dominated by rural or agro industries;
- Research using mobile branches to reach rural areas;
- Partnerships with additional banks to offer more places for rural clients to repay.

While the IFAD partnership through RYEEP helped Microcred establish a rural presence earlier than its original strategic plan envisioned, the double duty of getting established in urban and rural areas simultaneously challenged staff and did not significantly accelerate the rural expansion. In retrospect, it would have been easier to begin the partnership with Microcred after it had established itself and its urban lending procedures, so that it could truly focus on the challenges and opportunities of rural expansion.

Mini Souk Antar

CLIENT CASE STUDY 2

NAME: Mejdi El Ouni
AGE: 28
ACTIVITY: Wholesale
LOAN DURATION: 12 months
LOAN AMOUNT: 6000DT (3,000 USD)
MONTHLY REPAYMENT: 588 DT (294 USD)
DELEGATION: Mornaguia
GOVERNORATE: Manouba
ENVIRONMENT: Rural

Mejdi is 28. He comes from Mornaguia, the capital of the rural delegation of Mornaguia, situated in the greater Tunis area. Mejdi studied finance and commerce before working as a sales representative in a trading company. He decided to launch his wholesale grocery thanks to his solid background and initial capital from his father (10,000 USD to equip the premises, buy a pick-up truck and initial stock). He first studied the market, visiting grocery shops in the surrounding rural areas to measure their needs. He then created and registered his company and started negotiating with importers and local factories for his supplies. His business works well: he sells on site or delivers, thanks to his two trucks, generates around 15,000 USD a month, and pays taxes as well as staff: he recruited his friend to help manage the business, his cousin as an accountant, and two drivers, one of whom is full time.

He applied for a loan of 3,000 USD before Ramadan to increase his stock of tuna and dates, both of which are consumed more heavily during that period. Although he has an account in a formal bank, he never asked them for a loan, as he is convinced they would not lend to a young entrepreneur his age. He also prefers the peer and individual relationship provided by Aymen, his Microcred loan officer.

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5- CONCLUSION

The Microcred pilot was designed to test start-up loans for rural youth entrepreneurs who were considering beginning larger small enterprises. Through extensive research, pilot of the Irada loan, and extension of its Expansion loan product to rural youth, Microcred was able to test the rural youth market and determine the best strategy for future expansion. Unfortunately, due to delays in the original registration process, Microcred's experience was limited to market research and a short pilot of its services. Nonetheless, key findings included:

- Start-up lending for youth is possible, however, an established institution is more likely to be successful delivering this service considering how important trust-building, capacity-building and client knowledge are in the participant selection and loan delivery process.
- For new entrants in rural areas, partnerships with other financial institutions can increase the number of access points, accelerating product uptake.
- Technology investments in loan officer efficiency, rather than marketing or new ways to screen clients, may yield the largest return on investment for rural finance provision.
- While outsourcing non-financial services may be more efficient from a cost perspective, valuable information about rural youth clients that can be used in the underwriting process may be lost.

As Microcred continues to expand into rural areas, it will learn more about the potential of this approach as a tool for rural youth financial inclusion.

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