



MICROFINANCE

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Europe

Microfinance:

*An economic integration tool
for young people in Europe*

The Debate

By Martin Ferry and Raymond MAES •

Youth entrepreneurship – part of the solution for the young generation

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Young people and microcredits, hand in hand to create jobs

By José Francisco de Conrado – President of MicroBank •



European
Commission

“Microfinance Europe”

is the bi-annual EMN magazine. It provides clear insights into European microfinance programmes, with a specific focus on policy measures that could support the development of the sector. Its in-depth articles offer an up-to-date commentary on what is happening in the different European countries, how policies and practices are implemented and evolving and what recommendations can be made by practitioners, researchers and academics to promote microfinance and microenterprise development in the European Union.

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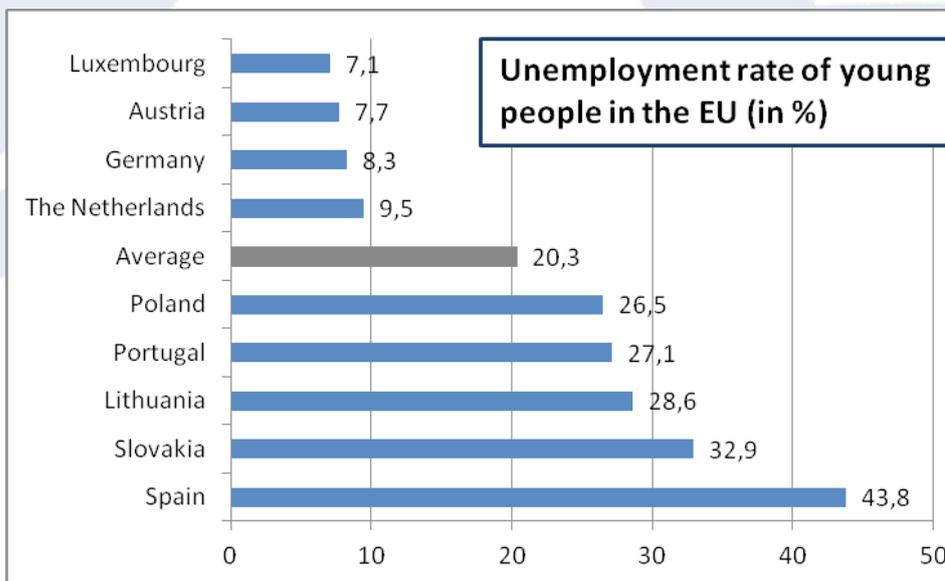


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Introduction

In Europe youth unemployment is on the rise. In line with the general unemployment rates, youth unemployment shows a steady upward trend since 2008 due to the effects of the recent crisis on the labour market. In July 2011, more than 20% of people between 18 to 25 years in the labour force (i.e. excluding full-time students) was not employed, but looking and available for a job (Eurostat). Youth unemployment rates are particularly high in Spain, Slovakia, Lithuania, Portugal and Poland. The Netherlands, Germany, Austria and Luxembourg are the only Member States with a momentary youth unemployment rate below 10 %.



This reflects the great difficulties faced by young people in finding jobs. At the same time, studies show that young people are more likely than others to prefer self-employment to employment (Flash Eurobarometer 283 "Entrepreneurship in the EU and beyond", 2009). However, they have a hard time in realizing this ambition due to lack of own funds and limited access to external finance to invest into a business idea, as well as a lack of necessary skills in business related issues (ibid).

As underlined in the EU Youth Report "Youth - Investing and Empowering" published by the European Commission in 2009¹, "there is no clear-cut definition of youth". Indeed, if age is a useful indicator, it is insufficient to characterise the transition from childhood to adulthood. EMN defines youth as people between 18-25 but different organisations apply different age limits, as can be seen in the articles of this issue of Microfinance Europe. Young people are mainly characterised by their lack of business experiences, their difficulties in integrating into the economy, and consequently the importance of microfinance as a social insertion tool for them.

¹ http://ec.europa.eu/youth/news/doc/new_strategy/youth_report_final.pdf

by Stefanie Lämmermann and Sandra Hidden
European Microfinance Network

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Microfinance organisations address the main issues that hinder young people from starting a business or getting self-employed, as they offer alternative guarantee arrangements, adapted repayment plans and intensive business support. The EMN publication “Microfinance and its outreach to target groups” (June 2011) shows that 30% of the European microfinance providers specifically target young people. Microfinance thus bears great potential for young persons who wish to become self-employed or start a business in Europe.

The articles in this issue of Microfinance Europe present diverse initiatives implemented by policy makers and microfinance organizations in Europe to assist young people in becoming entrepreneurs. As such, “The Debate” features a discussion between the UK-based business support agency Prince’s Scottish Business Youth Trust PSYBT and the European Commission Taskforce Youth employment, entrepreneurship and microfinance. It shows some of the operational challenges that a business support agency working with vulnerable young people faces and possible answers from a European policy perspective.

Policy for encouraging and supporting youth entrepreneurs is also the main focus of the European Youth Forum in its article. It highlights the necessity to control and reduce the risk of becoming an entrepreneur. This can be done by adapting social security systems to young people who are engaging in entrepreneurial activities and providing them with concrete tools such as microcredit.

Other contributions focus on specific programmes for young people implemented by microfinance organizations such as Microbank in Spain (microcredit for entrepreneurs), Adie in France (Créajeunes programme) and Besa Fund in Albania (Youth loan). They highlight the positive effects of access to tailored microfinance products and services for young people coupled with intense business support and also stress the very good repayment habits of young people. In addition Romanian EMN member Post Privatization Foundation presents its efforts to build a new generation of entrepreneurs and overcome reluctance to business through its innovative initiative, the School for Start Ups.

Although many initiatives exist, more needs to be done to help young people to find a job or set up their company. We hope that this Magazine will contribute to the discussion and bring up ideas that will be replicated in other European countries. Building up more entrepreneurship opportunities for young people in Europe will not only be a prerequisite for the well-being of our future generations, but also a guarantor of economic growth and political stability.



STOP

FOR THE PRESENT ARTICLE, EMN ASKED A REPRESENTATIVE OF A MICROFINANCE ORGANISATION WORKING WITH YOUNG PEOPLE AND A REPRESENTATIVE OF THE EUROPEAN COMMISSION TO ANSWER QUESTIONS REGARDING THE RELATIONSHIP BETWEEN MICROFINANCE AND YOUTH ENTREPRENEURSHIP IN THE EUROPEAN CONTEXT.



Martin Ferry is Head of Development at PSYBT. Martin has a degree in Mathematics and a background in accountancy, finance and economic development. Having previously worked in a client-facing role as a Regional Manager for PSYBT, Martin now has responsibility for planning, change management, technology and Government/EU funding.

The Prince's Scottish Youth Business Trust (PSYBT) was launched by HRH The Prince Charles, Duke of Rothesay, in 1989 to help young people to start up and continue in business. The Trust has a network of 18 regional managers throughout Scotland. With the encouragement of over 700 volunteers and by working in close partnership with the business community, local enterprise agencies and other charitable organisations, PSYBT provides last-resort funding, as well as a comprehensive package of business mentoring support, to enable those young people who need our help most get into business. So far, over 11,500 young people across Scotland have been supported with a total investment of almost £36 million.



Raymond Maes joined the European Commission in 2000. He is currently acting head of the unit for "Youth employment, entrepreneurship and microfinances facility" in the Employment, Social Affairs and Inclusion DG. One of the unit's tasks is to monitor the operation of the European Progress Microfinance Facility (www.ec.europa.eu/epmf) and develop initiatives to support entrepreneurship and self-employment as a means of fighting unemployment and social exclusion.

THE DEBATE

WHAT ARE THE MAIN AIMS OF YOUR PROGRAMME AND WHAT IMPACTS HAVE BEEN ACHIEVED?

Martin Ferry (PSYBT): Since 1989, PSYBT has been helping to address the real issues of financial and social exclusion, delivering a very practical solution for young people who want to start and grow their own business.

During the last 22 years since PSYBT was formally constituted we have supported over 11,400 individuals to start over 10,000 businesses and provided over £35million in funding alongside a whole package of other assistance tailored to the needs of each individual. The top 100 PSYBT supported businesses have a combined annual turnover of almost £124million and provide jobs for over 1300 people in Scotland. Taking into account the direct, indirect and induced impacts, Scottish turnover is anticipated to increase by some £22.6m per annum and employment by 489 FTE's as a result of the support provided to start up businesses through PSYBT.

From the last two decades, we have many role models and great success stories to recount providing inspiration for aspiring young entrepreneurs across the country. The PSYBT model is tried and tested and brings together the private and public sectors alongside the significant contribution of some 800 volunteers.

Raymond Maes (EC DG EMPL): Microfinance alone is often not enough to ensure economic integration. Microfinance needs to be embedded in an overall package of support to the individual. PSYBT provides a strong example of how such a package can be designed and can deliver results. Where role models play a crucial role in motivating young people to become self-employed, the same is true for business support organisations and microfinance providers. PSYBT and the way it is implementing its activities can serve as a role model for these organisations in the rest of the European Union.

The European Commission will beef up its efforts to exchange good practices and allow for peer-to-peer learning. Tangible impact in terms of the number of enterprises and jobs created and turnover can demonstrate the success of the organisation. This in addition to the skills young people acquire. However, the sustainability of the enterprises will need to be measured as well, since beyond the start-up phase and the initial support received, many self-employed and micro-entrepreneurs have difficulties in making their businesses survive.

WHY DOES YOUR PROGRAMME FOCUS SPECIFICALLY ON YOUNG PEOPLE? AND WHAT IS DIFFERENT IN WORKING WITH YOUNG PEOPLE?

Martin Ferry (PSYBT): Young people with a desire and determination to start their own business have great difficulty in gaining access to traditional sources of finance. Despite the modest amounts of finance they require, banks tend to see them as too risky. Because they are starting from scratch, they are usually far too small to be of interest to angel-investors and venture capitalists. The barriers they face amount to more than a lack of collateral and track record. Most young people starting a business also lack the human social capital, the "know-how" and "know-who", as much as the financial capital.

By targeting this client group and delivering a range of wrap-around training, coaching and mentoring services alongside appropriate financial support, microfinance initiatives like PSYBT aim to address the additional barriers that young people must overcome to start and sustain their own business. PSYBT is part of a bridge for the excluded and unemployed to help them back into the economy through self-employment. Our aim is to provide a transitional path for early stage micro-businesses enabling the young entrepreneurs to evolve to a stage where they are more likely to sustain their business and more able to access mainstream financial institutions' support.

Raymond Maes (EC DG EMPL): The ‘Youth on the move’ initiative adopted by the European Commission refers to the dramatic situation of youth unemployment in the European Union. This requires specific action to increase the possibilities for young people to start up their own business or to become self-employed as a way to create their own job and possibly jobs for others. As highlighted, young people face specific obstacles such as the lack of appropriate ‘soft’ skills. A recent Eurobarometer showed moreover that one in seven young adults felt that setting up a business was too risky and another 13% thought it would be too complicated. Although the risk and complications should not be denied, these results also bring to light another aspect: the lack of entrepreneurial mindset among young people in the EU. The European Commission invests strongly in supporting Member States in adapting their education systems in this regard.

WHAT MEASURES ARE NEEDED AT THE POLICY LEVEL TO FACILITATE REACHING YOUNG PEOPLE?

Martin Ferry (PSYBT): There is a clear need at policy level to differentiate between “microenterprise lending” (lending through a range of bank and non-bank financial institutions to nearly bankable individuals) and the level of “inclusion lending” delivered by organisations like PSYBT to non-bankable individuals who will also need access to appropriate business and personal development support services.

For PSYBT, the aim has always been clear : to enable disadvantaged young people to create and grow their own business by providing microcredit when none is available and by providing tailored coaching, training and mentoring support. However, balancing social performance with the financial realities of sustaining and indeed growing our activity is far from easy, particularly in the current economic climate. This is a difficult area. By focusing on young people you are serving a part of the market that is high risk and has high needs. There will always be a level of dependency on external subsidies and without regular and reliable financial support from the public and private sectors and the in-kind contribution of some 800 volunteers, PSYBT would be unable to reach out in the way it does.

The dependency on external sources of grant funding may well be understandable given the market, but nevertheless leaves PSYBT exposed to variations in levels of income. The task to secure adequate funding year on year to even maintain activities is difficult enough. Achieving an appropriate package of funding to grow our activities is but a dream!

Considering the high public costs of supporting an unemployed young person and the macroeconomic cost of social exclusion it does make sense for Government to ‘invest’ money to support the provision of microcredits and appropriate coaching and mentoring. The economic and social return on this investment may not be immediate but the impact of PSYBT over the last two decades is evidence that the return is significant. This return has to be considered when assessing the viability and value of organisations like PSYBT.

Raymond Maes (EC DG EMPL): The European Commission made a first step in the direction of a more systematic support to microfinance in the EU with the setting up in 2010 of the European Progress Microfinance Facility. The objective of the Facility is to increase the availability and accessibility of microfinance, especially for those who have difficulties in accessing traditional banking loans. This includes both the nearly bankable and the non-bankable. The setting up of the Facility showed that the European Commission, the Member States and the European Parliament believe in the fact that investing in microfinance ‘pays off’. For the period 2014-2020, the European Commission proposes to continue this support and, in addition, address some of the missing links such as direct financial support for capacity building of microfinance institutions. On top of this, the Commission intends to strengthen its support, in financial and policy terms, to social enterprises such as the PSYBT. These measures will be announced this autumn in the ‘social business initiative’. All these measures will continue to be complemented by support from the European Structural Funds of which PSYBT is already one of the beneficiaries.

WHAT MEASURES SHOULD BE TAKEN AT THE ORGANIZATIONAL LEVEL TO REACH OUT TO YOUNG PEOPLE?

Martin Ferry (PSYBT): Research, such as that presented by the Global Entrepreneurship Monitor, suggests that young people are more interested in starting a business, less likely to actually start a business and, if they do start to trade, more likely to abandon or fail. In reaching out to this market there is much to consider and the model of service delivery needs to take account of a range of factors including awareness raising and communication as well as the provision of more direct training, coaching, mentoring and financial support. For PSYBT it has been important to deliver a clear and consistent message that shines a light on youth enterprise

activity across Scotland. By focusing on the achievements of the young people we help, we encourage others to enter self-employment, and their example as role models has an enormously strong impact on those who can let their fears overcome their enthusiasm.

The network of Regional Managers and volunteers across Scotland, supported by a centrally based marketing team, is the key strength behind PSYBT's message and outreach – promoting positive attitudes to entrepreneurship and raising awareness of self-employment both amongst young people and their parents! This local knowledge and experience are vital to our ongoing development which is increasingly making use of new social media such as Facebook to reach out to aspiring young entrepreneurs.

The majority of those that we help are unemployed and facing significant other disadvantages. Most need intensive support, and the coaching, training and mentoring provided is designed to complement each award of funding we approve. For any organisation working to help such a potentially vulnerable group there is a responsibility to ensure that the risks and chances for these young people are well balanced and that the accompanying business support measures can help them to develop their capabilities and avoid ending up in precarious personal and financial situations.

There are obvious financial risks in supporting aspiring young entrepreneurs; an organisation such as PSYBT only exists because no one else is prepared to take these risks. We do not want to become too risk averse and see our mission drift but we need to find the correct balance. By adopting certain appropriate measures, including use of more innovative financial products, we can continue to reach out to our target group whilst also reducing our dependence on external subsidy. It is not an easy balance to find.

Raymond Maes (EC DG EMPL): Across the European Union, we already have a suitable measure at our disposal: The European Social Fund (ESF), which has a long history of supporting people who want to start their own companies and be self-employed. In their Operational Programmes 2007-2013, seventeen Member States have included self-employment and business creation as an explicit funding priority, and allocated some €2.75 billion of ESF funding for developing skills and providing advice, coaching and mentoring to become self-employed and start a business, as well as financing, training, guidance and consulting to help the new businesses to survive and endure.

However, we see that in many member states and regions the effectiveness of measures and actions for self-employment and business creation is hampered by a fragmentation of responsibilities, resources and strategies. Member States and regions have therefore not been able to fully exploit the opportunities of the ESF for entrepreneurial support in terms of scope, scale, outreach to target groups, and synergies between different schemes and programmes. Effective use of the ESF in the next programming period will require a strengthening of key success factors such as a strategic approach, taking into account the needs of target groups, and good governance, as well as putting in place the main elements of sound monitoring, evaluation and impact assessment.

Therefore, the European Commission will offer technical assistance through expert panels and peer learning to support the improvement of quality and performance of national and regional support systems for starters from vulnerable groups, notably young people, micro-enterprises and social enterprises. This assistance will contribute to awareness raising, mutual learning and capacity building, and to developing interfaces between measures financed under the Structural Funds, in particular the European Social Fund, national and regional programmes, and the European Progress Microfinance Facility.

It is expected that this assistance would in particular strengthen the inclusiveness dimension of public support, by designing it to reach and implementing it to get it through to disadvantaged target groups such as young people; It would help to mobilise key actors to improve governance structures and processes, by streamlining delivery, working across institutional boundaries, exploiting synergies and network benefits, and establishing effective linkages between financial and business development services.



PART OF THE SOLUTION FOR THE

By Santa Ozolina - Policy Officer Employment and Social Affairs at the European Youth Forum

The European Youth Forum is the independent, democratic, youth-led platform made up of 98 National Youth Councils and international youth NGOs from across Europe. It works to empower young people to participate actively in society to improve their own lives, by representing and advocating their needs and interests and those of their organisations. Youth employment is one of the strategic priorities of the European Youth Forum, and its actions show a good example of how young people can mobilise to fight trends and developments that they do not find acceptable.



European young people have been struck by unprecedented high levels of youth unemployment. This is not only an individual tragedy for millions of young people in Europe but it also puts a whole generation, and in general the whole society, at stake. Billions of euros have been incurred in losses to the economy. No doubt - concrete solutions are needed and are expected to follow.

THE SOLUTION IS IN JOB CREATION

Lately there have been proposals to introduce a youth guarantee – a policy commitment that ensures that no young person is without education, employment or training longer than four months. The European Youth Forum believes that, accompanied by proper monitoring, respect for youth autonomy and right to a minimum income, this is the best proposal available.

If there are only a very limited number of jobs available, training, retraining and education are only solutions of a temporary nature. The answer is in fostering entrepreneurship – job creation. Commitment to a youth guarantee encompasses a lot of different measures that eventually lead to its overall goal – not to leave any young person behind. Youth entrepreneurship should be part of this guarantee for the young generation, an alternative way to be active in the labour market, obtain income and realise their potential. However, the number of young people that engage in entrepreneurial activities is still very low. Entrepreneurship is not only a form of employment but also a way of realising innovative ideas and solutions. Entrepreneurship creates jobs, fosters wealth for the society as a whole and, in particular, via social entrepreneurship including green entrepreneurship, contributes to community development, supports environmental sustainability and produces social capital.

FROM ENCOURAGING AND ENSURING...

The number of young people engaged in entrepreneurial activities remains very low. Only a small percentage of young people are actually running their own businesses. According to the EU Youth Report, only 4 % of young people aged 15-24 and 9 % of those aged 25-29 in Europe were self-employed in 2009. The main reasons why 15-39 years olds have a preference for employee status rather than being self-employed are that they prefer a regular fixed income, stable employment with fixed working hours and protection via social security or insurance¹.

When addressing youth entrepreneurship, the stability and security aspects have rarely been at the centre of the discussions. However it might actually be one of the key elements. Firstly, because, in some societies, entrepreneurs are perceived having a risk prone or “gambler” nature. Secondly, because this image might very often be based on reality – unfortunately, in many countries, becoming an entrepreneur means taking all the risk yourself, including health and social protection.

¹ European Commission, (2009), EU Youth Report “Youth – Investing and Empowering”, page 36

YOUTH ENTREPRENEURSHIP: YOUNG GENERATION

Although risk taking is an inevitable feature of entrepreneurship, it can be controlled and reduced. There should be access to balanced and objective information on what it means to have your own business. For example, young people have to be made aware that running individual and micro- enterprises can often mean a low income and long and non-standard working hours.²

Another important subject is social security for young people who, as entrepreneurs in most countries, are themselves responsible for assuring their social welfare. Doubts about welfare provisions and health insurance can stop young people from

choosing entrepreneurship as a real alternative to wage employment. In most countries, this would mean being fully responsible for one's own social security payments, holidays and other social benefits. Furthermore, health insurance can be more expensive and less accessible. All these aspects require not only good knowledge of the different systems in place but also the ability to save and plan one's earnings. When targeting young people and encouraging them to become entrepreneurs, these aspects cannot be neglected and therefore need to be properly explained. At the same time, governments have to continue modernising social security systems by adapting them to the new ways of how income is earned in society - basic social and health protection has also to be available to all young people who are engaging in entrepreneurial activities. Trade unions have to step-up their efforts, especially in protecting not only the self-employed but also those running individual enterprises.

In some countries there is a trend towards "false self-employment" where employers encourage their employees to register as self-employed while the nature of the work and the ways it is delivered do not change³. The existing differences in requirements between employed and self-employed thus allow employers to make savings at the expense of social security payments. Actions should be taken to stop such trends in false self-employment, and efforts should be made to ensure that both employed and self-employed people can enjoy equal levels of access to social security and insurance. Regarding aspiring young entrepreneurs, efforts should be made to explain the importance of social security contributions and health insurance both in the short and long term.

As young people have less experience, when encouraging them to choose entrepreneurship as a means to become autonomous, professional guidance and counselling should be widely available, especially in the early stages of starting their own business.



- 2 European Foundation for the Improvement of Living and Working Conditions, (2009), Self-employed workers industrial relations and working conditions, page 63
- 3 Eurofound definition of false or bogus self-employment: formal self-employment which is fraudulently used to disguise contractual relationships which should be properly registered as dependent employment, in order to avoid the protections and costs (both wage and social contributions) connected with the latter, specifying whether it concentrates in any sectors and/or occupations.

...TO CONCRETE TOOLS FOR BUSINESS START-UPS

Once the decision has been made to choose entrepreneurship, it is time to provide a number of concrete tools to allow young people to realise their business ideas. There are three very important concerns for young people - reduced administrative obstacles, bankruptcy laws that are more favourable to young entrepreneurs and better access to finance, especially microcredit. Microfinance programmes need to be further expanded and adapted to the specific situation of young people, especially when it comes to accessibility (for example, conditions, guarantees, etc.). Overall, there needs to be further investment in microfinance and more information for young people about its availability. Better access to business incubators, better training and business services are also among the critical aspects, as young people face challenges such as analysing markets and finding a market niche. Less bureaucracy and fewer administrative burdens for entrepreneurs could be achieved through the introduction of a one-stop-shop service delivery, e-government and better regulation.

YOUTH CAN HELP!

The promotion of entrepreneurial values and activities cannot and should not be the sole responsibility of governments and their formal education programmes, because informal education is a basic and ideal environment for promoting a culture of entrepreneurship and self-expression and contributing to the employability of young people. Youth organisations play the leading role in informal education, so they should be considered as the experts in understanding and satisfying young people's needs for self-expression. Furthermore, establishing and building up a youth organisation can be considered as a form of entrepreneurship in itself that fosters a culture of entrepreneurship among young people.

In recent years, youth organisations have demonstrated their aptitude for tackling employment issues, including promoting entrepreneurial mind-sets among young people. Recognising that issues relating to employment and entrepreneurship have a transnational context, youth organisations have been organising themselves into international platforms in order to address these issues in a holistic way. For example, through the Youth Employment Action project⁴ of the European Youth Forum, youth organisations from across Europe have exchanged best practices and organised international meetings on topics such as quality internships, interview preparation and developing an entrepreneurial attitude among young people. Thus the European Youth Forum makes youth employment one of its strategic priorities and not only when addressing external actors but also when encouraging its Member Organisations to address youth employment matters more actively.

EU Structured Dialogue with Youth is another way of bringing forward the options, suggestions and ideas of young people. The structured dialogue brings together institutional decision-makers and young people, in order to jointly reflect on the priorities, implementation and follow-up of European cooperation in the youth field. During the Spanish, Belgian and Hungarian EU Presidencies, the main topic of discussion was youth employment where the aspects of youth entrepreneurship featured prominently.

⁴ For more information: <http://www.youthemploymentaction.org/>

CONCLUSIONS

Discussion on encouraging youth entrepreneurship is very timely in these crisis times for youth unemployment because it is a way to stop it. Unfortunately, when looking at the numbers, entrepreneurship is not seen as a widespread choice among the majority of young people. This should serve as further motivation to discuss with those who have never considered entrepreneurship as something for them and then address their concerns.

The need for young people, as future entrepreneurs, to feel stable and secure with regard to their income, social protection, health insurance, and the ability to reconcile work and family life should not be underestimated. There is not enough information about the existing welfare and insurance systems, and most of these systems do not ensure minimum protection for people who are entrepreneurs. The social taboo of failure and bankruptcy further alienates young people from choosing entrepreneurship.



YOUNG PEOPLE AND A SECURE

By Gérard Buron, volunteer with Adie's communication service



Formerly in charge of internal communication with a group of cooperative banks, Gérard Buron is now working as a volunteer with Adie's communication service. His skills in the fields of information and training are valuable to the association's activities related to its different target populations.

Adie is a not-for-profit organization that helps persons who are excluded from the labour market and from the traditional banking system to start their own enterprise and thus create their own job with the help of microcredit. In addition to microcredit Adie provides the microentrepreneurs with adapted business support.

Hit by unemployment, young people are becoming more open to entrepreneurship. Adie's priorities are to remove the brakes, to train young people and to support their first steps using well known tools, such as microcredit and support services, but also by devising original approaches such as Créajeunes, a programme dedicated to young people between 18 and 32.

At the end of 2010, 22.3% of young French people were struck by unemployment. A percentage that rises to 40% in some neighbourhoods ... For two decades, Adie's mission has been to help the poor to start their own businesses. The approach of creating their own jobs, meets young people's motivations as 52% of young people under 25 want to start a business (against 25% for all age groups)¹. Young people are, however, handicapped by a lack of resources, ignorance of the economic environment and a lack of management training.

TESTED TOOLS: MICROCREDIT AND SUPPORT SERVICES

The principal obstacle to business creation by young people is obviously financial. According to studies conducted by the French business support agency APCE, 65% of young entrepreneurs under 30 start without bank credit and 55% have less than €8,000 as initial capital. Microcredit allows young people to have the finance needed to create a very small company in the most sought after areas: catering, fashion design, street trading, telecommunications, computers ... But also in craft industries where there is a problem with the succession to seniors wishing to retire: masonry, plumbing, painting, hairdressing...

The process of applying for a microcredit at Adie is simple: after a first contact, in person or by phone, people with a project that are ready to begin meet an adviser who studies their project and evaluates with them their financial needs and their reimbursing capacity. Then, a credit committee, organised at the regional level, approves the microcredit, taking into account all the human qualities of the applicant as well as the project's economic viability. The project proposers financed by Adie can benefit, if



¹ IFOP for CCI Entreprendre en France, Baromètre « Les français et la création d'entreprise », January 2010

ADIE: PATH TOWARDS AUTONOMY

they want to, from support meetings: both before the start-up (1 to 3 meetings to finalise the project) but also after the start-up (to help them with administrative procedures or to provide them with market advice).

The results are convincing. In 2010, one in three of those funded by Adie was less than 32 years old, which represents nearly 3,000 young people, including nearly 1,000 under 25. Contrary to the image that the media often give of them, young people do not find it more difficult than others to repay their loans. The reimbursement rate for people under 32 years old is in fact 89.5% compared to Adie's average of 90.58% at the end of 2010. Another indicator: the survival rate of start-ups launched by young people under 30 years old funded by Adie is close to the average, being 60.7% compared to an average of 63.5% for all entrepreneurs financed.

CRÉAJEUNES: A SPRINGBOARD FOR THE POOR

To expand its market among young people and further improve the results among the poorest populations, in 2007 Adie launched a unique initiative, CréaJeunes. This new programme is aimed primarily at young people with significant problems, mostly from underprivileged neighbourhoods. Fifty-eight percent of young people entering the programme are less than 26 years old, 46% are women. Regarding the level of education, the spectrum is very broad: 31% do not have A-levels but 25% have studied for two years after their A-levels or have taken university courses for longer. Despite the high level of education of some of them, 32% of the young people entering the CréaJeunes programme are beneficiaries of the ARE (French unemployment benefits), 14% are beneficiaries of minimum welfare payments, and 5% are beneficiaries of other welfare payments. 24% of them have no social income.

The CréaJeunes programme meets the strong desire of young people, especially young people from underprivileged neighbourhoods, to set up their own businesses. It was designed for the thousands of young people excluded from the economic system, who have ideas and commitment, but lack experience and tools. The challenge is to show that creating one's own job through CréaJeunes may be a relevant means of professional and social insertion for young people. The goal is ambitious: to give the opportunity to 35% of young people benefiting from support services to start their business within 10 months following their entry into the programme. To achieve this goal, the programme is built around an adapted pedagogy, flexible and dynamic, involving young people at every stage of their learning path and making them players in their projects. It is not only a question of giving them the technical tools to enable them to realize their business project, but more importantly allowing them to question themselves, their motivations, their potential, and to reflect on their careers. In this spirit, the programme focuses on three areas: a programme of collective training, an individual support with a volunteer tutor, and networking activities.

The training programme, that lasts on average six weeks, includes five types of educational modules, each one containing workshops in groups, each group being made up of five to 10 young people. A personal development module trains students to speak in public, to gain confidence, to manage one's time and to develop one's network. This module also contains training on the IT tools needed to develop one's project. A commercial module allows students to become familiar with key management tools (market research, sales techniques, prospecting for new customers, etc.). Finally, the programme includes three modules on the legal and tax environment of the very small business, fundraising and accounting and financial management.

Coaching is carried out by a volunteer tutor (usually one appointment per week) for a period of eight weeks to four months. It aims to support young people in the concrete preparation of their project, to validate the learning outcomes and to address any special difficulties. Finally, networking activities, using the relationships established during internships, are a major factor in the development of the business created.

CréaJeunes entrepreneurs can also benefit from the provision of post-creation support services offered by Adie for a period of 18 months. They have the possibility of obtaining financing: a maximum bonus of €1,000 in addition to an Adie or bank loan, in case there is no mechanism to promote business creation for young people locally, and eventually a microcredit, an unsecured loan and a reimbursable State advance.

This programme, in existence since 2008 and nowadays available in 18 French cities, has enabled more than 2,300 young people to move forward in their project. Among them, around 30% have created their enterprise in the ten months following the end of the programme.

A CRITICAL ISSUE FOR YOUNG PEOPLE: LACK OF EQUITY

Very often, young people approaching Adie do not have any income and have no personal capital contribution. Their repayment capacity being limited, Adie can hardly finance their project through debt only. The public programmes that provided access to equity or quasi equity have disappeared. The only existing programme in this regard, NACRE, focuses on projects with an average financing plan of €67,000 and it is in fact only a mechanism of subsidising interest rates. Some regions grant incentives to entrepreneurs funded by Adie, but some of these regions exclude businesses created within the framework of the self-employment system.

In order to address these difficulties, Adie launched a zero interest loan fund intended for young entrepreneurs, giving them access to the quasi-equity they absolutely need. The purpose of this fund is to allow 1,000 young people each year to take advantage of quasi-equity in the form of zero interest loans, in addition to a microcredit to finance the creation or development of their business.

IT IS NOT ENOUGH TO DO WELL, IT IS NECESSARY TO COMMUNICATE IT...

Because there are still too many who are starting their own businesses under difficult conditions, or who are not able to do so due to lack of advice and money, Adie launched a major communication campaign for young people from 10 to 14 October 2011. The objectives of this campaign were simple: to inform the largest possible number of young people about how to start a business, to raise awareness about Adie and its support and funding services, to strengthen the links between Adie and its partners so as to develop collaboration on a daily basis. The target audience: entrepreneurs between 18 and 32 years old, ready to start a business or with an idea of a business. Throughout France, debates and information events on how to start a business were organised in partnership with local associations that help young people to integrate into the job market (called "missions locales"), employment centres, and other partner networks of Adie. Young people were invited to have discussions with young entrepreneurs who have started their own businesses, and who shared their experience. They were also able to receive a diagnosis of their project in individual appointments.

If insertion into professional life is becoming more and more difficult for young people, Adie's results show that effective solutions are available. The economic but also social impact of business start-ups by young people does not have to be demonstrated anymore. Adie's objective is consequently to become known by the young population, to inform young people about the process of starting an enterprise and to offer them its range of services.

“YOUTH LOANS FOR START-UP



Prof. Ass. Dr. Altin MUÇA is an economist with 19 years of work experience, holder of an MBA degree (2000) and of a PHD (2003). Altin MUÇA has a deep knowledge of Albania's microfinance sector, its development and its transformation over the years. He is Lector in International Marketing and International Business, and is co-author of the book "Marketing Management", published in 2000, and of "International Marketing" and "International Business" published in 2009.



Prof. Ass. Dr. Bajram MUÇA is Executive Director of Besa Fund j.s.c. since its creation. He is an economist, with over 26 years' experience, holder of an MBA degree (2003) and of a PHD (2005). He is Lector in International Marketing and International Business, and co-author of the books "International Marketing" and "International Business" published in 2009.

Besa Fund j.s.c: The lending activity of BESA Fund j.s.c started in 1993 within the framework of the World Bank's "Alleviation of Poverty in Albania" programme. On 26 December 2008, BESA Fund was licensed by the Bank of Albania as an NBF. Its mission is to contribute to the country's economic growth and poverty reduction by promoting the micro and small enterprise sector in Albania. As of July 2011, Besa Fund accounted for about 18,600 active clients with a total outstanding of US\$ 44.4 million (73,039 loans in total with a cumulative portfolio of about US\$ 282 million). At present, BESA Fund operates from 48 offices all over the country, covering more than 80% of the Albanian territory. At the end of 2007, BESA Fund was recognized (by Forbes) as one of the fifty best Microfinance Institutions in the World.

INTRODUCTION

Microcredit and more generally microfinance are considered to be tools for financial and social inclusion. Giving people access to financial services increases their chances of social inclusion. Strengthening them financially means giving them the opportunity to get out of poverty, to increase their income and to become employed. It gives people the support necessary to face all aspects of exclusion, such as poverty, low income, lack of employment – which have a direct impact on their social exclusion.

Considering employment as "the key" to financial and social inclusion and to the whole country's steady socio-economic development, BESA Fund j.s.c has a special focus on financing young people. It aims to give them the possibility to start up their own business, to become self-entrepreneurs, in order to improve livelihood and well-being and reduce poverty, limit emigration and integrate youth into society. We believe that financial institutions and especially microfinance institutions have an important role to play in supporting this target population.

Statistics show that the present-day unemployment rate in Albania is 13.43% (as of March 2011). Young people, persons with a low level of education, and poor people are the most severely affected by unemployment. As at the end of 2009, out of the total registered unemployed, 37% belong to the 21-34 age group. As the most active workforce, this target group is considered as

BUSINESSES IN ALBANIA”

A TOOL FOR SOCIAL INCLUSION

the engine of the socio-economic development of the country. But because they are unemployed they are less able to contribute effectively to the country's overall development and have fewer opportunities to exercise their legitimate rights as citizens. Unemployment means reduced income, less spending as customers, difficulties in satisfying basic needs and difficulties in being socially integrated and having a social identity at the same time.

As everywhere else, in Albania, young people set out in life with dreams, hopes and aspirations. Though they are becoming visibly active in business, they still face different challenges in the labour market. One of the reasons why many young people still tend to find a work abroad is because our market suffers from a lack of employment.

Since 1990, Albania has undergone dramatic economic changes with the transition from a centralized economy to a market economy. This situation left people unemployed, which had negative consequences, both socially and economically, on people's lives.

We strongly believe that if young people can be given opportunities to be employed, it will be a critical element in poverty alleviation, sustainable economic development, growth, welfare for all, and both financial and social inclusion. It will also have a significant impact on restricting emigration of the active labour force.

Young people bring numerous assets to the labour market: relevant and recent education and training; hope, enthusiasm, and new ideas; willingness to learn and to be taught; openness to new skills and technology; realistic expectations on entry to the labour market; mobility and adaptability.

In this context, at the end of 2003 Besa Fund j.s.c. launched a new product that is youth-specific, called “Youth Loans for Start-up Businesses”. Young people in Albania (aged 15-29) represent about 27% of the population¹. Our challenge with this product is to bring this young force into employment. We fully understand that the importance of youth employment is not limited only to stable economic development, but goes beyond the economy – Besa Fund believes that investment in youth yields benefits for individuals, the community and society as a whole. Decent work for young people has a multiplier effect throughout the economy and society, boosting investment and consumer demand and ensuring more stable and cohesive social ties across generations. It shifts young people from social dependence to self-sufficiency, helps them escape poverty and enables them to actively contribute to their own welfare and that of the whole society.

“Youth Loans for Start-up Businesses” is a loan product that targets people 18-30 years old that are unemployed and intend to start up their own business (mainly as a self-employment operation). In total, Besa Fund j.s.c. has disbursed 184 loans with a total amount of US\$ 1,006,947 (figures as at July 2011).



1 Albanian Institute of Statistics: “ANNUAL AVERAGE POPULATION BY AGE-GROUPS, 2009”

The attributes of this loan product are the following:

- **Novelty:** The “target group” has little or no chance of getting loans from banks, because banks require collateral. Most of them do not have previous experience in business management and as such BESA Fund assists them with business plan preparation and training on fundamentals of business management.
- **Viability:** The “target group” is provided with soft-loans, so applicants were trained to start and operate their own business based on market conditions and in a competitive environment. The interest rate applicable for this loan product is set rather low, but high enough to cover the necessary administrative expenses and ensure its continuity.
- **Transferability:** There is already a successfully tested lending experience for this “target group”. Operating procedures, training modules, expertise and know-how already exist, so banks or other MFIs can build on this experience and adapt it to their operations.

Besides lending to this group of people, Besa Fund pays great attention to the training and education of “targeted clients” in how to successfully transform creative business ideas into functional enterprises, how to start and manage a small business, how to prepare a business plan and how to apply for a loan. We are aware that educated borrowers may do better and may reduce risks and poverty. Education helps them to enhance their business skills and social empowerment, which further contributes to their social and financial inclusion.

This also has a double impact, because, on one hand it prepares our borrowers to be successful in their undertaking, and on the other hand, Besa Fund will have borrowers well prepared to manage a business and able to pay back the loan. Besa Fund is doing its best to build inclusive financial services and to impact this target population through access to credit and the creation of opportunities for self-employment, business creation and growth. Microfinance with its savings and loan products supports people to plan for their future needs, prepare for life cycle risks, get better living conditions, health services and education and increase their participation in social life.

	2000	2003	2004	2005	2006	2007	2008	2009
Total registered unemployed	215,085	163,030	157,008	153,250	149,794	142,871	140,599	142,068
Male	113,166	85,905	67,334	79,219	77,643	73,025	71,279	70,817
Female	101,919	77,125	74,893	74,031	72,151	69,801	69,320	71,251

From the total registered unemployed:

with elementary education	104,604	86,910	84,066	81,845	81,278	77,009	74,962	76,056
with high education	104,615	73,541	70,219	68,563	65,148	62,531	62,046	62,249
with university degree	5,866	2,579	2,723	2,842	3,373	3,331	3,591	3,763

From the total registered unemployed:

age 15-19	26,737	12,609	11,434	11,060	11,250	10,616	10,220	9,074
age 21-34	97,724	73,396	66,473	63,910	60,119	55,940	52,590	52,560
age over 35	90,624	77,025	79,101	78,280	78,433	76,315	77,789	80,434

CONCLUSIONS

- The development of South Eastern European countries entails problems in integrating young people into the socio-economic life. Most of them have the right education to be an active part of these countries' development, but still, they face difficulties to do so. In this context, giving them access to soft loans is an efficient tool for their economic empowerment and social integration.
- The global economic crisis, which has also affected the EU countries, has caused further increases in unemployment, especially among inexperienced workers, such as recently young school graduates. This target group, entering the labour market at a time of limited job creation, often being engaged in precarious jobs that do not correspond to their skills, are usually more vulnerable to lose their jobs compared to older people. Because of the lack of opportunities to get a decent job, many skilled young people leave their country to emigrate. This is considered a significant waste of resources for the country. One useful approach is to promote entrepreneurship, through giving them access to financing. This restrains the young people from emigrating and gives them a chance to contribute for their own well-being and the overall country economic development.
- The impact of the project "Youth Loans for Start-up Businesses" does not show in the figures, but rather in the fact that this is a pioneer product in the Albanian financial market. We consider our project to be a positive example of how to approach young people considered as engines of socio-economic development with small projects that have a significant impact. Our microfinance institutions need to grow to be able to respond to such unmet demand while, at the same time, being able to reach out more young people who need and want to change their life.
- The microfinance industry in Albania is actually an established reality. As such, all microfinance players have the right expertise to start launching similar or tailor-made products to address the needs of the youth. We all need to be more creative and innovative in developing appropriate products, services and the right delivery mechanisms for the youth target group.
- Such projects would have a more significant impact if donors or governments allocate funds to subsidize a part of the interest rate for loans provided by the microfinance institutions to the young people who want to start their own business. Besa Fund is discussing with different donors to orientate a part of its funds towards financing the youth target group, especially in the northern mountain part of Albania.
- Although we referred to the group of young people, we are fully aware that they are not the only group in need of economic support to become integrated into society. A similar model might be applied to the minorities, Roma people as well as other groups that in different countries have different characteristics.

BUILDING A NEW GENERATION



Péter Barta is a highly experienced management consultant, especially in project management, whose expertise is based on 12 years working in both the profit and non-profit sectors. Currently he is Executive Director of the Post-Privatization Foundation (FPP).

The **Post-Privatization Foundation (FPP)** is the first Romanian foundation devoted solely to entrepreneurship. Created in 1996 by the European Commission, FPP is a private organization that promotes entrepreneurial education and supports initiatives aimed at the sustainable development of the Romanian business environment.

The “entrepreneurship” concept is the source of many misunderstandings in Romania. Romanian society finds it hard to accept such a term, perhaps because of its long communist past that hindered all Romanians’ attempts and dreams of having their own business. Nevertheless, success is trying to assert itself, and more and more young people hitch their hopes and skills to the dream of succeeding. Paradoxically, the recent economic collapse has put big companies and corporations into the shade and has made the business environment focus on the entrepreneurial segment and small and medium-sized companies, which have become more innovative and assertive. Many small and medium-sized companies have been rebuilt in order to cope with the new requirements of the market imposed by the economic crisis: lower prices, higher quality and greater competition. They have become more and more flexible and accessible and many have sought to identify people’s needs to satisfy them in a viable and effective way. As such, there are initiatives to support entrepreneurs who are able to understand the market and to adjust to it, but such initiatives are limited.

WHERE WE STARTED

The Post-Privatization Foundation knows that a sustainable economy, which is developing continuously, can only be built with a lot of effort. We know that the Romanian business environment cannot progress if it is not fed with knowledge from abroad, if success models are not imported and if the ones that already exist in this country are not singled out. However, in our view, simply importing entrepreneurship models from outside without adapting them to the Romanian context is not effective. Learning is a process: you cannot teach a child a foreign language without explaining its rules to him, and especially without speaking to him in that language.

What else have we discovered? That the best understanding comes from practice: you learn a lot better when you see in front of you what the theory has been teaching you so forcefully. The theory exists in Romania, but it lacks concrete grounds and a sound practical basis. Moreover, we have learned that change is brought about by young people who want to overcome all the prejudices in order to achieve success on their own. That is exactly what the Post-Privatization Foundation is trying to accomplish: to support young entrepreneurs in acquiring information and knowledge, with the aid of practical examples and the experience of other people who have succeeded before them. We manage this by means of our programmes of entrepreneurial education. We actually educate young business people and show them where to start and where to go in order to achieve their goals.



OF ENTREPRENEURS IN ROMANIA

EUROPEAN ENTREPRENEURIAL PROGRAMME – SCHOOL FOR STARTUPS ROMANIA



One of these programmes is School for Startups, a programme that was first developed successfully in Great Britain by Doug Richard, a serial entrepreneur, an angel investor and a guest on the Dragon's Den show, a UK television show for young entrepreneurs and start-ups presenting their business plan in front of a range of investors. Why was this programme brought in and not another one built from scratch? The reason was also to import the mentality, a mentality meant to drive changes in the business environment, create jobs, innovate and change radically the way in which business is carried out in Romania. It aims to achieve real, palpable results, which are not intended to become visible during the programme, but later in the way

each attendee conducts his or her business.

Anyone who chooses to attend School for Startups is not a mere participant who sits in a room for several hours just listening. On the contrary, they build the programme, get involved, act, and construct their business in due time. They continuously compete with each other in order to turn their entrepreneurial skills to good account, by means of repeated tests, by positioning their businesses outside the area of comfort and by continuously analyzing their project in order to find the mistakes and the ways to remedy them.

BUILDING A NEW ENTREPRENEURSHIP COMMUNITY

Who are the beneficiaries of this programme? The young start-ups, who have a business idea, a lot of ambition and are ready to do their utmost in order to turn their idea into something practical. Apart from these, there are those people who have already experienced having their own business that they have been running for three years at the most; they now need to learn how to consolidate this business once the start-up phase is over. Working with the 200 entrepreneurs participating in the programme has taught us that it is difficult not only to start a business, but also to support it, consolidate it and cement it so as to last. In order to accomplish this, as an entrepreneur, you need to have as many roles as possible, ranging from being a good manager to being a good marketing or Human Resources specialist.

The programme was developed to answer this type of need, by covering the most important fields of activity a young entrepreneur is faced with. Extending over a year, School for Startups is divided into four sessions of two days of face-to-face mentorship with some of the best entrepreneurship trainers in Europe, and it takes place in two of the most important towns in Romania: Bucharest and Cluj. Apart from the face-to-face sessions, the programme includes seven online mentorship sessions, where the participants debate the most important aspects of their businesses such as pricing, marketing or sales and ask questions about the business plan to improve it. These mentorship sessions help them shape their business, step by step, over one year.

What is special about these on-line sessions? They effectively create an entrepreneurship community, which builds a solid tie between the 200 entrepreneurs all over the country, from different fields of activity, with different ages and experiences. Several businesses have already been initiated in different sectors such as a cake shop, a tea shop, a wood export business, a teenager clothes shop or a business cleaning services. It is remarkable to see how 200 people grow together professionally, developing their businesses by supporting each other, sharing all the good and bad aspects related to their activity. And it is wonderful to see how they all grow and set the basis of a new generation of entrepreneurs, which proves that entrepreneurship is not something you are born with, but something you learn.

SOURCE OF INSPIRATION

What is the permanent source of inspiration for these entrepreneurs during the programme? We believe it is the mentors, people with a lot of experience in this field, who have set up and run successful businesses and who are still operating in the economic environment. As an entrepreneur, public speaker and mentor of 10,000 start-ups in the UK, Doug Richard is uniquely prepared to create and deliver effective training in how to start and run a profitable business. Armed with a degree in psychology from the University of California he has the ability to analyse a business perfectly at first sight, to go from the particular to the general and vice versa, to divide the whole into smaller parts and find solutions to each problem. Moreover, to add some sound knowledge from the Romanian economic environment, Marius Ghenea, a businessman, business angel, entrepreneur and professor of entrepreneurship has also accepted to be a trainer in the programme.

THE NEEDS AND HOPES OF YOUNG ROMANIAN ENTREPRENEURS

Working alongside the 200 entrepreneurs, together with the mentors of the programme, has made us, the organizers, ask ourselves some questions. What exactly is entrepreneurship in Romania and how does it manifest itself? What are the qualities an entrepreneur should have in order to succeed? How can we adjust these qualities to the present local and global economic reality? What is the perfect equation between practice, theory and business ethics, which leads to excellent results as a professional entrepreneur? These are a few of the questions we have tried to answer by means of this programme. We still cannot give a definite answer to them, but we have discovered among other things that the Romanian economic environment has resources, that young people want to break free from the communist tradition and to advance towards the Western mentality.

Despite the fact that Romania does not yet have an entrepreneurship culture as developed as in the West, we are aware of the fact that there are niches into which efforts can be channelled in order to build it in time. And the best launching pad is education, both formal education and that which is born of the real needs of the modern economy. Alongside education, changing the mentality is the thing that may counterbalance the regression of entrepreneurship in Romania and bring it to an advanced level.

The participants in the programme have shown us what we already knew, but were afraid to admit. The young Romanian entrepreneurs face many hurdles. The most important ones are the lack of a favourable business environment, lack of real education in the field, lack of funding and investments for start-ups, lack of support throughout their whole career and the lack of contact with the business environment from abroad which would increase competition and break down frontiers in order to bring business to a global level.

These very needs of the young participants, together with the wish of the Post-Privatization Foundation to strengthen Romanian entrepreneurship, have made us extend our programmes. This is the reason why, in 2012, School for Startups will expand and try to build the largest Eastern European community of entrepreneurs. We are going to do this by extending the programme beyond Romanian frontiers and by inviting participants from all over South-Eastern Europe, increasing their number to 700. We will also increase the number of mentors who will teach entrepreneurship, making classes more intense and expanding the curriculum in order to cover as many fields of activity as possible.



A FUTURE PLAN – A NEW ENTREPRENEURSHIP GENERATION

For the first time, Romania has the chance to become a centre of innovation in business, a place where young entrepreneurs from all over Europe can have contact with each other, a space where a sound business environment can be built, which will have a say at an international level. We propose to build a new generation of entrepreneurs, one which can cope with the new challenges of the global economic environment, which can understand how economic and financial markets act and can use them to their advantage, a generation of entrepreneurs who can adjust to the environment they are working in. We have taken on a big responsibility, but we look around every day and we see many young people striving to prove they can succeed.

WE HAVE CHOSEN

- to do more than just watch them, to lend a helping hand, to provide them with the basis they need so they can manage on their own afterwards and contribute to the progress of business in Romania;
- not to stand by and watch the West, but to bring the West to work with us and with the young participants;
- to bring their experience in order to build, in time, the experience of the Romanians.
- It may turn out to be very hard work, but the stories of the young participants, this year, have shown us that there are many successful stories, and we want to be part of them.

YOUNG PEOPLE AND HAND



José Francisco de Conrado has been president of MicroBank, the social bank of „la Caixa”, since 2007. In 1965 he was named executive vice-president of the Regional Council of the Union Banking Industry of the Balearic Islands. Following the merger of Banco Urquijo and Bankunion, he worked at the General Section of the entity and held a managing position in the Balearics. In 1990 he was appointed CEO of „la Caixa” in the Balearic Islands and in 1996, he was appointed assistant general manager. In 2004, he became the executive director of the Social Programme and Chairman of Fundación „la Caixa”. He has also been Counsellor of Culture in the

Balearic Government. He holds a Ph.D. cum laude in Law and has studied at the London School of Economics and at the New York Institute of Finance.

MicroBank, the social bank of „la Caixa”, is the only organisation devoted exclusively to the provision of microcredit in Spain. Since it started trading in 2007, it has granted more than 115,564 microcredits amounting to €730.3 million. It offers microloans to entrepreneurs and small businesses and personal microcredits that are targeted to meet the needs of households to overcome temporary difficulties and facilitate personal and family development.

Marc Nieto, Gimena Pombo and Marc Perallada are three young people from Barcelona, between 24 and 30 years old. After meeting in a former job, they decided to launch their own alternative entertainment store in Barcelona. Nieto says their main problem was neither the desire nor the time they had to invest, nor their business project: „Our main stumbling block was that we were offered all kinds of credits but all of them required a guarantee.” Finally, El Nucli became a reality thanks to a €20,000 microcredit granted by MicroBank that allowed them to begin the process in order to adapt the premises and open the store.

The situation of Nieto, Pombo and Perallada is not much different from that of hundreds of young people in Spain who, once they finish their studies, are outside the labour market, with low income, living with their parents and with serious difficulties in accessing the credit needed to develop their personal and professional projects.

MICROFINANCE PRODUCTS TAILORED TO THE NEEDS OF YOUNG PEOPLE

Microcredit, which originated in developing countries, appears, since its beginnings in the seventies, as a tool for enhancing social, economic and labour integration of people at risk of exclusion. MicroBank, the social bank of „la Caixa”, was created in 2007 with the aim of channelling and enhancing the microcredit activity, that so far had been developed by „la Caixa” through its Social Programme, using some new parameters of rigour and sustainability characteristic of a financial institution.

With the creation of the bank, the strategic will of „la Caixa” group materialized to respond to the various segments of population, whose financial needs were not sufficiently covered by the traditional financial system, through a new model of social banking focusing on promoting equal access to credit and other quality financial services.

Youth is found among these segments of population. The under 25-year-olds in Spain are those who experience the worst of the consequences of the economic and financial crisis affecting the whole of Europe. Whereas the unemployment rate of young Europeans between 18 and 25 years old was 20% in 2010, this figure reached 44.4% in the case of Spanish young people

MICROCREDIT: IN HAND TO CREATE JOBS

between these ages¹. It is not trivial to note that, outside unemployment, lack of credit facilities to undertake a project, professional or personal, is one of the main obstacles this population faces when launching its own idea.

MicroBank has microfinance products tailored to the needs of young people with the aim of promoting financial inclusion, productive activity, job creation and self-employment, understanding that their achievement is a major contribution to social cohesion. Thus, microcredits for entrepreneurs, with a maximum of €25,000, allow applicants to benefit from a loan (no collateral required, and a maximum period of five years with a six-month optional grace period) to start their own business. This concept fits with the different studies at the European level whereby young people prefer to be self-employed than to work for others. According to the latest data from MicroBank, about 24% of their customers are young people under 35, representing the age group with the highest level of applications for microcredits in its entire portfolio.

The granting of loans, both for young people and for other segments of the population, comes with advice from a network of over 400 social organisations in Spain. This makes it possible for MicroBank to know first hand the needs of customers and allows microcredit applicants to receive the necessary advice for the implementation of their business project and for the assessment of the feasibility of their project.

Of these associate organisations, Barcelona Activa, the local development and innovation agency of Barcelona City Council, plays an important role. Moreover, since its creation, MicroBank has promoted collaboration with universities and university foundations, aware of the importance of developing entrepreneurship among university students and young graduates. Currently, more than 20 universities have agreements with the bank, which allows it to access a large number of young people under 25 years old. The relationship policy between MicroBank and universities is derived from the conviction that the promotion of entrepreneurship and enterprise creation in the university environment makes the employment of students easier and promotes their personal and professional development.

MicroBank, which is the only organisation exclusively devoted to the provision of microcredit in Spain, is aware of the difficulties faced by young people when it comes to implementing a project. This is one of the reasons that collateral is not requested as a prerequisite for the granting of a loan, as the project itself is the main guarantee for the operation. In a challenging economic environment, confidence in the person and the project is essential for the granting of a microcredit.

MicroBank's activity is part of the trend endorsed by the European Commission and has the backing of its institutions. This has resulted in partnerships with two major institutions through which the European Commission articulates its support policies to microfinance: the European Investment Fund (EIF) and the Development Bank of the Council of Europe (CEB). Both agreements contribute significantly to the design and sustainability of the project.

¹ Data from the Spanish Ministry of Labour, grouped and analyzed by the website datosmacro.com

Of the 6,012 microcredits granted by MicroBank to entrepreneurs in 2010, 58% were used to open new businesses and start up businesses. The remaining 42% were used for the expansion of existing businesses. The sectors for which young people obtaining microcredits are opting are trade (41%), the service sector (35%) and the catering trade (17%).

BENEFITS OF MICROFINANCE FOR YOUNG PEOPLE IN SPAIN

The impact of access to microcredit for young people still has a long way to go since, despite its demonstrated effectiveness, its use is still recent in the European and Spanish financial markets. Despite its recent introduction as a tool for access to credit in developed markets, there are already some indicators of the benefits it can offer. Thus, according to the 2010 report on the social impact of microcredit conducted by the ESADE business school², microcredits contribute to the financial and socio-professional integration of young people, as they allow entrepreneurs to generate income for themselves and self-employment opportunities and even, in some cases, to create jobs. They also facilitate the financial inclusion of the below 30 years old segment of the population, by providing equal access to credit.

According to the findings of this report, in 62% of the cases analyzed, the positive effects of microcredit focus primarily on greater empowerment of the people and on the perception that their quality of life has improved. The improvement of the vision they have of themselves also helps to achieve the repayment of loans contracted. Therefore, 67% of people who applied for a microcredit to start a business indicate that the activity of the business generated enough revenue to repay the loan instalments from the very beginning. This fact is reflected in the delinquency rate registered by MicroBank at the end of 2010, 1.53%, much lower than the one registered by many of the traditional financial institutions.

At a time when Spanish youth has one of the highest unemployment rates at the European level, it is necessary to provide all possible solutions to improve access to the labour and financial markets. Often, young people, although they can benefit from the financial sector, do not get enough attention from the conventional financial system, due either to the small amount of the transaction they request or the fact that sometimes, their economic, professional or personal situation does not allow them to provide adequate guarantees.

The support for self-employment and creation or expansion of microenterprise projects, as well as the support for youth as a basis for the labour market and for a good knowledge of a country is a permanent necessity; in times of economic growth because it promotes access to existing opportunities for professionals who have difficulty getting financial support; in times of recession because it opens new job opportunities to people who may have lost their jobs and supports new entrepreneurs to ensure the viability of their projects.

Having said this, it should be noted that global demand for finance through microcredits for businesses has slowed as, in times such as these, investments are limited to those strictly necessary and entrepreneurship is a more difficult environment. Public Administration and traditional banking institutions are undergoing difficult times that impact the activity of young people who so far possessed a greater variety of funding streams to carry out their projects.

Microcredit opens a range of possibilities available to young people who want to enter the labour market on their own, an upward trend in most European countries³. The sectors in which they can start their careers are varied, from trade to urban design firms. In addition, the limited amount of €25,000 and the repayment period of up to five years of microcredits allow reimbursement in small instalments, thus preventing client over-indebtedness, which in turn could jeopardize the development of their professional and personal path. For MicroBank, a microcredit to an entrepreneur helps to generate on average 1.57 jobs which means that the activity of the bank has contributed to the creation or consolidation of more than 32,000 jobs since its inception.

² Report on the impact of microcredits, March 2010

³ Flash Eurobarometer 283 *Entrepreneurship in the EU and beyond*, 2009

CONCLUSIONS

Microcredit has emerged as a useful tool in the financial integration of large segments of European society. Today, one of the segments hardest hit by the economic situation is that of young people under 30 years old. Microcredits allow them to access a loan, limited in amount but sufficient to start their professional or personal project.

The combination based on the person's own guarantee and confidence in a viable project has been, during the nearly four years MicroBank has been operating, the key to improving opportunities for equal access to credit in Spain. Some facilities to which young people have responded are credits on preferential terms. With an interest rate of 6% through an agreement with the Institute of Youth of the Ministry of Health, Social Affairs and Equality, this allows a first business project that, according to ESADE, is successful in 77% of cases.

Despite of the good qualitative results, the use of microcredit by young entrepreneurs is still very far from its potential, which makes it necessary to continue insisting on both the quality and quantity of supply and demand. Only 4% of the current population in Spain under 30 have become self-employed professionals⁴ (in Europe this rate stood at 5.5%). Assuming that this is one of the main engines of economy and employment recovery, we need to respond to the following different challenges:

- Stimulating entrepreneurship right from schools, enhancing the social prestige of this activity and modifying some socio-cultural patterns influencing the propensity for entrepreneurship among young people, such as fear of failure.
- Promoting awareness of microcredit by young people, so that it is perceived as a useful financial tool for their needs.
- Increasing accessibility to the tool through extensive trade networks and their incorporations into channels used by this group.



⁴ According to the report *Young Entrepreneurs and the European Union*, prepared by the National Federation of Self-Employed People Spain (ATA), Spain, July 2011



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