

Financial Services

The Prince's Scottish Youth Business Trust (PSYBT) – Microfinance for young people – United Kingdom

Objective: *Support the young people in starting their own business with financial and non-financial services*

Target Group: *young entrepreneurs*

Key words: *Financing; BDS; young entrepreneurs*



IMPLEMENTING ORGANISATION

The Prince's Scottish Youth Business Trust PSYBT is a limited company with charitable status and is funded by both the public and private sector. PSYBT was formally constituted in April 1988 with a Board of Directors comprising representatives from the public and private sector with a mission: "to provide essential finance and professional support to young people in Scotland aged 18 to 25, whoever they are and wherever they come from, so that they can start up and continue to run their own business".

Nowadays, PSYBT is firmly established throughout Scotland in 18 Regions. Regional Managers, located within the Business Gateway, are responsible for organizing pre-start training and aftercare support for young people helped by PSYBT. Regional panels of volunteers interview all applicants and make decisions on awards. The Head Office in Glasgow sets policy, establishes procedures, directs training, manages most administration centrally and devolves operational matters to the 18 Regions. PSYBT has a staff of 36 people and over 750 volunteers providing a range of advice, guidance and mentoring support to young businesses across Scotland.

GOOD PRACTICE

PSYBT brings together a mixture of private and public sector supporters. In this way it has built a strong network thanks to which it can reach out to any young person in Scotland who would like to start his own business.

PSYBT offers loans to young people for start-up businesses and for developing businesses. Loans range from £1,000 (€1,148) up to £25,000 (€28,718). It also offers services in the pre-start phase including training, advice and test marketing. Furthermore it supplies an important one-to-one support, thanks to the aftercare mentors, a critical factor in the success of their clients. The PSYBT Aftercare Programme has been a key part of its product portfolio since its inception in 1989. The provision of aftercare begins as soon as the young person receives the funding and continues for a minimum of 2 years. A volunteer is matched with the young business owner and his/her role is to:

- Provide support and guidance;
- Facilitate learning using practical examples and experience of business;
- Motivate and encourage;
- Help with forward planning;
- Capture business performance data that PSYBT can use to demonstrate impact.

TARGET GROUP

PSYBT's task is to help those young people aged 18 to 25 with the imagination, energy and determination to start their own business.

RELEVANCE

The PSYBT's action plays a key role in the economic development of Scotland. In fact self-employment is one of the few routes available in this area to young people who need to generate income. Moreover in the longer term, it allows the creation of jobs for others in the communities in which these activities are established. For this reason, PSYBT's action is a perfect fit with the Scottish Government Strategy to support Scotland's economy.

Whilst the rationale for PSYBT was, and continues to be, based on supporting start-ups from disadvantaged young people, the organisation has evolved over time to address clear market failures relating to:

- The difficulty of securing finance for young people who typically have much more limited personal finances and a higher reliance on external funding; and
- Risk Aversion – due to a lack of information and experience, young people may have a disproportionately high risk aversion to starting their own business. Both the financial assistance and the guidance and support offered by PSYBT are aimed at addressing such risk aversion.

While these market failures can exist in all age groups they are more acute in the younger age group. A major commissioned government survey showed that nearly 60% of respondents reported that the most serious issue for them in setting up a business was raising the necessary finance. Furthermore 43% reported early cashflow considerations as a concern with 25% reporting not knowing how and where to start.

Scotland has a poor performance in business formation and survival and the level of start-ups has long been recognised a significant weakness in Scotland's economic performance. It has a lower business birth rate than comparator regions, a lower "conversion rate" of interest in entrepreneurship and historically more negative attitudes towards entrepreneurship. This market failure is evident across the board, but some issues are of greater significance than others including the low level of start-ups by young people and the issues they face in accessing microcredit.

PSYBT has demonstrated success in responding to these needs and continues to promote awareness amongst young people and to provide a range of support services from pre-start to business growth.

ACCESSIBILITY

Crucially, PSYBT is prepared to back only those young people who have failed to find support for their idea from other sources, whether this is because of social or economic disadvantage. Although very much a national initiative, PSYBT is given a local focus via a Regional Structure throughout Scotland.

INNOVATIVENESS

PSYBT is unique in that it brings together a mixture of public and private sector supporters, some 600 volunteers, and partnerships with local councils and chambers of commerce. This network allows the organization to reach out to any young person in Scotland who would like to start his or her own business. Moreover, for the moment PSYBT is the only organisation that finances young entrepreneurs in this region with microcredit.

PSYBT has very well structured Business Development Services representing one of the core elements of its activity. In fact, the network of Volunteer mentors is the lifeblood of PSYBT since its inception in 1989; thanks to them it has developed the Aftercare Programme that is one of the key part of its portfolio. The provision of aftercare begins as soon as the young persons receive their funding and continues for a minimum of 2 years.

PSYBT also has a Growth Fund which was launched in response to research, which highlighted gaps in the information and funding available to young businesses considering growth. To date, 174 businesses have been supported with an investment of £2.05 million. This has levered out a further £5.45 million. The businesses have collectively predicted an increase in turnover of £22.4 million in the 12 months following the investment and the creation of 259 jobs. 84% of the businesses supported through the Growth Fund are still trading.

Finally PSYBT runs the Elevator programme that is programme of events inspiring networking opportunities exclusively for young people aged 18 to 30 who are in business.

IMPROVEMENT

Over the years PSYBT has at the same time increased the number of both its locations and its volunteer mentors in order to reach out to a larger number of young entrepreneurs, and support them with an efficient service. At with its traditional Aftercare Programme, PSYBT has added some services in the pre-start phase such as training, advice and test marketing, and the Elevator programme that helps young business owners to develop their own business network.

EFFECTIVENESS / EFFICIENCY

2009 was the 20th anniversary of PSYBT and provided a perfect reason to celebrate the success of over 11,000 young people who have received PSYBT's support in starting up and continuing in business. This support to over 11,000 young people has seen an investment of over £34 million (€39 million) with a current Loan Fund of £6.2 million (€7.12 million) and with total repayments to the loan fund being 82.5% of the original principal.

The evaluation undertaken by DTZ Consulting in 2007 confirmed that PSYBT has a strong fit with the Scottish Government strategy to support Scotland's business birth rate, to contribute to the pipeline of growing businesses and to encourage a culture of entrepreneurship. The report also measured that every £1 (€1.15) of public sector investment in PSYBT generates £26 (€29.87) of additional net sales. In 2005/06 the total impact of PSYBT was estimated at £22.6 million (€25.96 million) and 489 full time jobs, demonstrating significant added value.

- The average investment per business is £3,417 (€3,925).
- The average age of a beneficiary is 23 years.
- Over 80% of the loan funding is paid back.
- Some 52% of the young people we help were unemployed.
- 38% of business owners are female.

Table 1 : Outreach Achievements

Outreach Achievements			
	2006-07	2007-08	2008-09
Active Borrowers	640	653	678
Female	243	258	270
Male	397	395	408
Unemployed	333	321	312
Disabled	35	34	61
Criminal Record	19	21	32
Average Disbursed Loans	€ 3981	€ 4079	€ 3.618
Portfolio	€ 3.938.535	€ 3.786.159	€ 3.527.407
Number of Branches	19	19	19
Staff	20	21	22
Loan Officers	16	16	16
1 £ = 0.90400 € (at 30.12.2009) / 1 £ = 1.106194 €			

Source: Giordano Dell'Amore Microfinance Best Practices Award 2010: The experiences of the finalists 2010 and winners 2009

ADAPTABILITY / REPLICATION

PSYBT delivers a simple model of support to young entrepreneurs in Scotland and places significant emphasis on creating individual solutions for individual needs - the focus is on building relationships with businesses rather than offering off-the-shelf products or programmes. By combining access to microcredit with a package of wrap-around support activities, delivered by a core team of staff and volunteers, PSYBT has been able to offer a service to aspiring young entrepreneurs, which helps them to overcome the barriers they face in creating their own self-employment. The contribution of volunteer mentors is a particularly significant feature of PSYBT and one that could easily be replicated in other similar programmes.

PSYBT continues to work closely with *The Prince's Youth Business International (YBI)* to be able to share best practice and intellectual property with other established YBI programmes across the world as well as providing a model for new and/or evolving programmes.

In 2008, PSYBT hosted a major conference on Youth Enterprise. It was attended by some 150 delegates from 38 countries, all totally focused on supporting young people in enterprise and entrepreneurship.

SUSTAINABILITY

Funding to sustain the work of PSYBT is secured from loan repayments made by the young people it helps (40%), core funding from Scottish Enterprise (20%), private sector fundraising (30%) and support from the European Union (10%). PSYBT does not envisage that it will ever be completely independent from public funding but over the next five years aims to achieve financial sustainability of microcredit activities.

USEFUL LESSONS

- A focus on building relationships with businesses rather than offering off-the-shelf products or programmes is a pre-condition of working with disadvantaged young entrepreneurs.
- Intensive one-to-one pre- and post-loan support is a critical factor in the success of young clients.
- Dedicated staff, a large network of volunteers and strong partnerships with private as well as public sector organisations, are key elements for developing an effective support for young entrepreneurs.

Sources

Websites: www.psybt.org.uk

Documents :

- Giordano Dell'Amore Microfinance Best Practices Award 2009: The experiences of the finalists
- The Prince's Scottish Youth Business Trust Report and Accounts 2008/2009