Field Notes

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Youth Entrepreneurship: Lessons from India

In India alone, the devastating tsunami of December 26, 2004 took more than 10,800 lives and affected over 2.79 million people. The cost of damage — to fisheries, housing, infrastructure, and agriculture — exceeded US$575 million[1]. While immediate relief efforts received widespread media coverage, another story — of efforts to rebuild lives and livelihoods over the long-term — remains largely untold.

Presented here is the experience of the Community Collective Society for Integrated Development (CCFID), a local non-governmental organization, in supporting youth livelihood development in affected communities in India through the Tsunami Reconstruction Initiative. Launched in 2006 by Nokia and the International Youth Foundation (IYF), the Initiative sought to promote long-term recovery efforts in tsunami-affected areas of India, Indonesia, Sri Lanka, and Thailand. Its goal: to help young people rebuild their lives through providing access to training, jobs, apprenticeships, and/or microcredit loans.

Through the three-year program, CCFID directly impacted the lives over 7,000 young people, ages 16 to 30, indirectly benefiting more than 26,000 youth and community members. More than 1,900 youth received skills training, 80% of whom are now working. Over 5,800 loans were made totaling US$880,000, enabling 1,500 small enterprises to take root.

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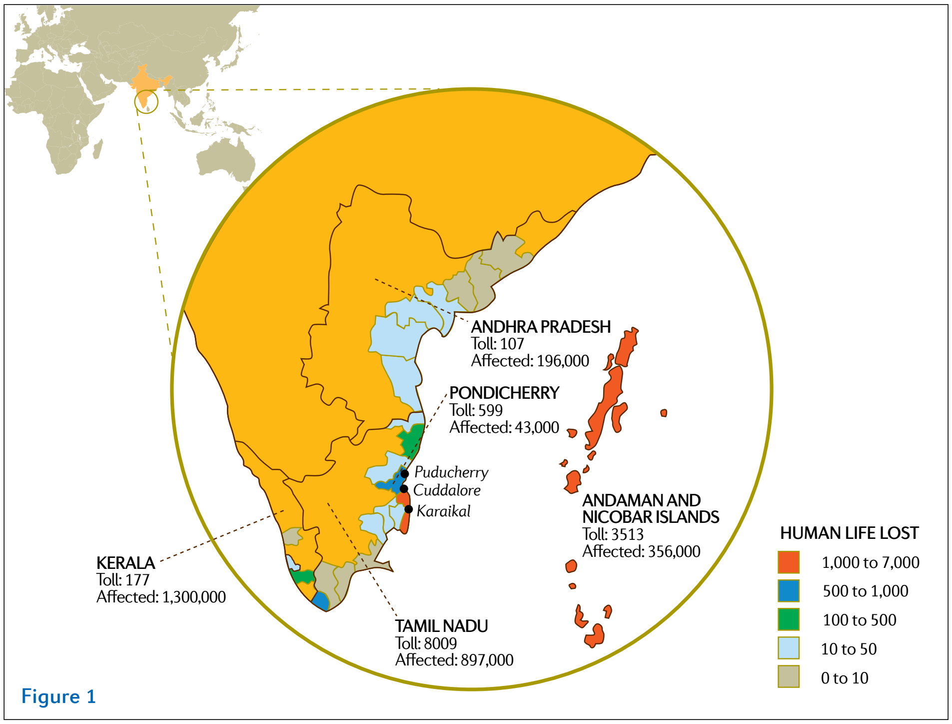

Figure 1

From cashew processing to soda making, from sari weaving to handicraft production, CCFID contributed to the creation of a range of local businesses. CCFID recognized early on that providing credit alone would not be sufficient to support businesses with the potential for growth. Instead, it developed a comprehensive set of livelihood support services — offering assistance with product development and business planning, linking producers to markets, and pursuing diverse business models designed to increase the profitability and scale of local enterprises.

"CCFID went beyond a purely microfinance-based approach, identifying and scaling up businesses with the potential for real growth," says IYF Vice President Peter Shiras. "Its strategy increased employment opportunities and positioned local businesses to contribute to long-term economic growth."

With climate-related natural disasters expected to increase in the coming years, what lessons from CCFID's experience might be applied to future natural disasters? How might its approach be adapted to meet the needs of youth living in post-conflict or comparable high-risk situations (e.g., urban slums)? This report presents an overview of CCFID's strategies and key lessons learned.

Focus on Youth Livelihoods

Livelihood: *A set of economic activities, which may include self-employment and/or wage employment, and which enables a person to meet his/her individual and household requirements.*[2]

CCFID was established in 2004 with a mission "to promote diverse, sustainable livelihoods for women and youth, and to facilitate access to financial resources for livelihood promotion." Its founder, R. Sudhakar, was on a management track at India's third largest software company when he decided to put his business skills to work in the service of long-term, sustainable development benefiting poor communities.

A fledgling organization when the tsunami struck, CCFID's focus on livelihood development targeting women and youth positioned the organization well to play a key role in addressing long-term livelihood needs. IYF selected CCFID to implement the Tsunami Reconstruction Initiative in India based on its role as a locally-rooted, professionally-run organization capable of delivering on the Initiative's goals.

Having responded to the tsunami with an immediate donation of funds and in-kind support, Nokia conceived of the Initiative as a means of promoting long-term recovery in affected regions. It invested over €2.4 million, with subsequent donations made by the Sylvan/Laureate Foundation and Unocal. The Grameen Fund also joined as an implementing partner in Indonesia.

Why the specific focus on youth livelihood development? Needs assessments conducted in the aftermath of the tsunami underscored the urgency of supporting youth, given that nearly half the region's population was under the age of 35, with young people suffering interruptions in their educations and a severe loss of livelihood opportunities. Indeed, the waves that hit the southwest coast of India on December 26, 2004 traveled more than 1.5 kilometers inland, destroying boats, small-scale enterprises, transport vehicles, and other vital assets. Seawater flowing into the mainland affected

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>
> *— R. Sudhakar, Chief Executive Officer, Community Collective Society for Integrated Development*

7,300 hectares of agricultural land. In all, the livelihoods of roughly two million people across 13 districts in Tamil Nadu and three districts in Kerala were impacted[3] (see figure 1).

While well intentioned, the outpouring of relief aid in the aftermath of the tsunami resulted in some well-documented negative consequences.[4] Resources were concentrated in coastal areas. Not enough attention was focused on the entire value chain, according to Sudhakar, and on the men and women whose livelihoods were connected to coastal producers, or those who lived inland who were impacted by the inundation of agricultural lands with seawater. Over time, a 'handout mentality' started to spread[5].

CCFID carved out a niche for itself in promoting livelihood development and addressing the critical employment needs of youth in the region. "When it comes to livelihoods, you can't have a throw away approach," says Sudhakar. "There needs to be built in accountability. Breaking the cycle of dependency on 'free aid' has taken time."

"Our greatest achievement has been creating a sustainable income for the tsunami-affected population. Other charities provided supplies and materials but there was no sustainable plan to support youth. Nokia's investment also enhanced our capacity and sustainability," says Sudhakar.

The Early Stages

A critical first step in CCFID's work through the Tsunami Reconstruction Initiative was to foster an entrepreneurial mindset among local youth, ages 16 to 30, and equip them with the skills needed to get jobs or create small businesses.

"Children [in the region] often grow up with a fear of asserting themselves," says Meenal Patole, CCFID's Head of New Initiatives. "They are not encouraged to try new things. As they mature, they become increasingly risk averse." Such attitudes were exactly the opposite of what was needed following the tsunami, Patole explains. "We needed to mobilize and sensitize the community to the fact that youth can be trusted with money and succeed as entrepreneurs."

Equipping local youth with life skills such as confidence, goal setting, creative problem solving, and critical thinking, was essential to achieving the program's overall goals. CCFID sought to bridge this skills gap through a process of social inclusion carried out intensively over the first six months of the initiative, and maintained in subsequent phases. Daily trainings in life skills and entrepreneurship were offered. CCFID also conducted frequent competitions and festivals (youth *melas*) to stimulate young people's creativity and spotlight youth groups with innovative business ideas.

Next came the task of organizing the youth and providing vital access to loan funds. "Without experience or collateral, local youth were virtually unbankable," says Sudhakar. Within six months of launching the initiative, CCFID had formed two youth federations — one in Karaikal and one in Cuddalore.

■ Members of a CCFID-supported Self-Help Group learn techniques for painting on cloth.

The two federations represented nearly 600 youth, ages 16 to 30. Participating youth organized themselves into groups of roughly 15 members each. Each federation set up a bank account and elected a board of representatives. CCFID loan funds were distributed through the federations to individual youth groups. Loans, averaging US$150, carried a 24% interest rate and needed to be repaid within ten months. Participating youth groups submitted their loan requests to the federation's credit committee for review. CCFID established rating criteria and management information systems for the federations to use in tracking performance. Monitoring of the loan funds was carried out jointly by CCFID and the federation.

Livelihood Mapping

Equally important during the Initiative's early stages was "mapping" livelihood opportunities with the greatest potential for business growth and employment generation. Livelihood mapping takes into consideration the natural, human, social, financial, and physical capital needed to sustain a given livelihood option.[6]

CCFID's extensive surveying of potential livelihoods assessed opportunities in six key sectors: agriculture, animal husbandry, fisheries, manufacturing, trading, and services. Detailed research was carried out related to a given livelihood's loan absorption potential, marketing channels, and existing credit options. For example, in the case of textile production, CCFID looked at the skills training needed, the availability of electricity, the cost of power machinery needed to scale up production, and available loan options and marketing channels.

Based on this research, CCFID identified three focus areas for its support of livelihood initiatives:

- **Financing** (e.g., to purchase raw materials or equipment or expand business activities)
- **Marketing** (e.g., to access regional markets, develop salesmanship skills)
- **Technical Training** (e.g., in specific skills such as computer services and cashew processing)

The mapping exercise also explored existing sources of credit. These included bank loans, microfinance institution (MFI) loans, and informal loans (e.g., from moneylenders). Interest rates ranged from 9-13.5% for a bank loan to 24% for an MFI loan to 55% for a loan from a moneylender.

With the information derived from its livelihood mapping exercise, CCFID was able to target business opportunities with the potential to succeed. These were then grouped according to whether they were best pursued by individuals, by clusters of individual producers, or by larger associations/federations. CCFID was also able to determine the structure of its own loan mechanism (see figure 2), and to identify those business opportunities with the potential to generate additional jobs.

Figure 2

KEY TERMS

Loan recipients – Given the diverse needs, experience, and credit histories of borrowers, CCFID maintains a flexible approach, making loans available to individuals and groups, including:

- **Self-Help Groups (SHGs)** – Village-based intermediaries typically comprised of 15-20 local women coming together to pool their savings and/or link to a bank for the delivery of microcredit.
- **Joint Livelihood Group (JLGs)** – Loan receiving units of five to ten members who are able to access microcredit loans (e.g., $100) and who make frequent (e.g., weekly) repayments to establish their credit worthiness.

Financial instruments – CCFID offers different types of loans and assistance depending on the needs and level of complexity required by borrowers.

- **Microcredit** – The extension of small loans of US$100-$1,000 to the unemployed, poor, entrepreneurs, and others living in poverty who are not considered bankable (e.g., they lack collateral, steady employment, and a credit history).[7] Support to borrowers is limited to credit, with no technical assistance provided.
- **Livelihood Financing** – A flexible, adaptable, comprehensive approach to supporting loan recipients that provides not only credit but ongoing technical assistance. Loans are above US$1,000, with no defined caps. Repayment schedules vary from two to three years.

Livelihood Resource and Training Center

To better address the needs of its clients, in 2007, CCFID launched the Livelihood Resource and Training Center (LRC), a pioneering effort to provide customized financial and non-financial products to better meet the needs of youth entrepreneurs and women (see figure 3). Going beyond a 'credit only' approach, the LRC offers a holistic set of supports. Recognizing that most micro-enterprises lack market linkages and access to business development services, the LRC works to fill these gaps.

Center services are offered in four areas:

- **Business Counseling** – Providing aspiring and established entrepreneurs with skills training, proposal development assistance, and troubleshooting.
- **Knowledge Management** – Conducting research to assess the feasibility of products, carrying out pilot studies, and developing ICT solutions to address business owners' needs.
- **Institutional Development** – Helping small-scale producers combine their efforts to increase negotiating power, pool resources, scale up production, and increase profitability. Institutional support is offered in creating Self Help Groups, Joint Livelihood Groups, cooperatives, federations, and producer companies.
- **Investment Services** – Providing financial linkages, a guarantee fund, and developing products in-house.

Through this flexible approach, clients can access specific services when they need them, returning when necessary for trouble-shooting or to access a new package of services. For example, 28-year-old Bhuvaneshwari first came to the LRC looking for business counseling prior to opening an internet café. After assessing her previous training, skills, and the market demand for the service she sought to offer, Center staff advised Bhuvaneshwari to open an IT processing center instead.

"Our goal is to limit potential risk to clients," says Sudhakar. "In working with individuals, the very first question we ask is: Can this business be sustained?"

CCFID loaned Bhuvaneshwari US$4,100 which she used to purchase computers, a photocopy machine, and scanning equipment. Center staff also provided life skills training and technical assistance in marketing and business planning.

Now, Bhuvaneshwari generates US$12,000 per year and employs five full-time and five temporary staff. "I gained more confidence as a result of the training and help I received," she says. "Because of this, we provide good customer service and quality products." In the future, Bhuvaneshwari hopes to expand her business to another location.

Through its institutional development arm, the LRC helps other small business owners to develop strategies for uniting their efforts

■ **Women crochet bags out of banana fiber (above). A youth-run enterprise recycles plastic (right).**

to achieve greater output and collective bargaining power. For example, the LRC is helping the makers of clay dolls — handcrafted statues sold during annual religious festivals — to form an association that will enable them to sell their products directly to buyers in large cities, allowing them to avoid going through less profitable local middlemen.

While the microfinance sector has been steadily growing in India, CCFID's experience reinforced the need for new, comprehensive approaches that integrate nonfinancial components to bring about sustainable, long-term change in people's lives.

"Microfinance is increasingly viewed as not going far enough," says Sudhakar. "It emphasizes small loans but overlooks other important financial services like savings and insurance."

For this reason, CCFID put into place a livelihood financing structure with features including a larger loan size, lower interest rates, longer repayment periods, and flexible payments. While currently livelihood financing loans comprise less than 4% of CCFID's loans overall, in the future it plans to double this amount. To date, 2,600 of CCFID's beneficiaries have also received life insurance as part of their loan package, thereby further reducing risks.

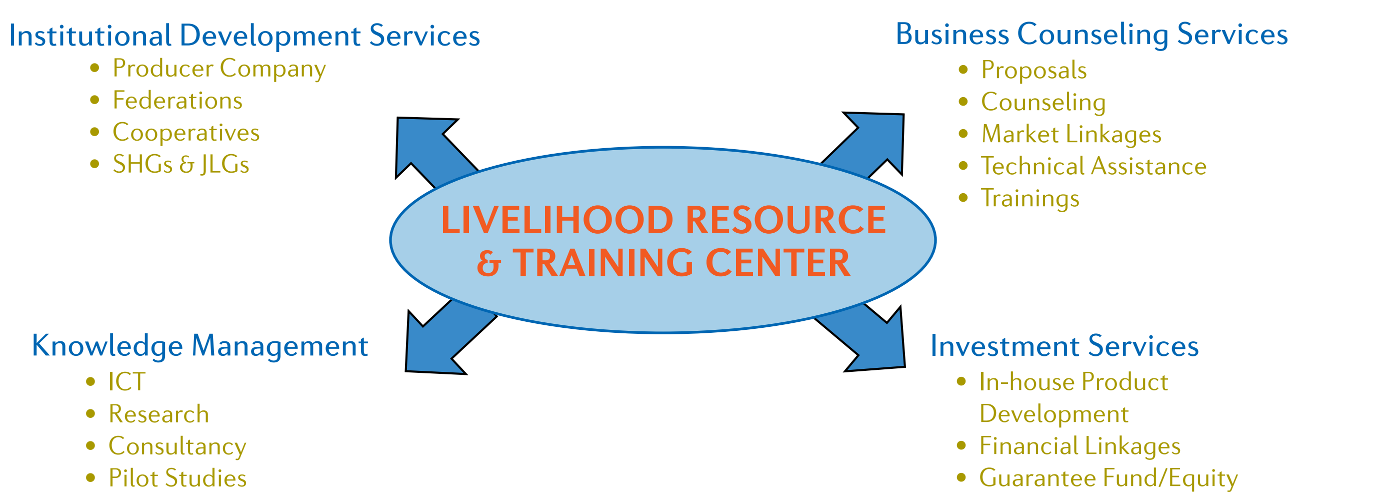

Figure 3

CRAB FATTENING

Diners at fine restaurants in Singapore pay as much as US$100 for the delicacy of jumbo crab, unaware that the shellfish on their plate could easily have originated in Killai, a coastal village in southern India, once devastated by the tsunami. A stone's throw from the beach in Killai are a half dozen large netted enclosures, where crabs of varying sizes are fed and cared for by rural women — and increasingly men.

CCFID's initial research into business opportunities identified "crab fattening" as a relatively low-cost enterprise with the potential for high returns. Small crabs could be purchased for just over one US dollar, fed, and sold 40 days later, weighing more than double, for US$2.50-3.75 each.

CCFID introduced the concept to local villagers and provided them with business counseling. Self-Help Groups, each comprised of 15-20 women, ages 21 to 30, joined together in forming the Water Crab Federation, governed by a board of 14. As a Federation, the SHGs benefited from purchasing raw material in bulk at a reduced price and had greater negotiating power when it came to selling the fattened crabs.

At the same time, CCFID entered into partnership with the Asian Development Bank, which provided funding, and the government of Tamil Nadu, which helped implement the program. As an added benefit, CCFID recently negotiated with the Bajaj Allianz, an insurer, to provide all loan recipients with accidental death and life insurance worth US$400 each.

CASHEW PROCESSING

In the months following the tsunami, CCFID's extensive livelihood mapping identified cashew processing as a business opportunity with the potential to be scaled up. Despite soil damage from seawater, certain regions of Cuddalore maintained much of their cashew growing capability. Local residents were also skilled at cashew processing and successfully imported raw nuts from the neighboring state of Kerala.

CCFID began by mapping the entire production cycle and the skills and resources needed to obtain, process, market, and sell the nuts. The mapping exercise underscored two key constraints to expanded production. The raw cashews could only be purchased during three months of the year, requiring a substantial cash outlay. Once processed, the nuts needed to be transported to wholesalers in urban areas. CCFID also identified areas where producers could benefit from enhanced knowledge (e.g., in growing techniques) and skills (e.g., quality control, marketing).

CCFID began by providing small loans (e.g., US$1,000) and technical assistance to a handful of cashew producers. Today — more than two years later — it's supporting 800 cashew growers and processors. One of those is Venugopal, now 31 and the father of two. Venugopal received a CCFID loan of US$1,550, which he expects to repay in two years.

CCFID is currently negotiating with the National Bank for Agriculture and Rural Development in hopes of obtaining working capital of US$300,000 to mobilize cashew growers into a producer company, enabling them to purchase additional processing equipment, negotiate better prices, and improve the quality of cashews sold.

Results and Lessons Learned

Over nearly three years, CCFID met or exceeded its initial targets. Based on surveys conducted in late 2008:

- 86% of participating youth had increased their knowledge of business management;
- 60% of youth were able to develop a business plan;
- 93% of youth increased their knowledge and skills in a particular job/trade;
- 38% of youth created businesses requiring two or more employees.

An important success indicator has been the 4,500 new jobs created by the initiative's youth-owned small businesses over three years.

Key learnings:

Growing an organization – A positive challenge has been managing CCFID's growth — from a staff of 7 working in 2 locations in 2004 to 45 staff working at 6 branch offices in mid-2009. To accommodate the growing sophistication of its model, CCFID needed to access new skill sets (e.g., experts in livelihood financing and value chain analysis). To do so, it forged partnerships with academic institutions (e.g., the Indian Institute of Forest Management, Pondicherry University), bringing in outside researchers on a temporary basis.

Job placements – Placing youth in jobs has also been difficult, with many of the opportunities identified by CCFID located in cities (e.g., Chennai) requiring that youth leave their homes and relocate. In one instance, CCFID placed 16 youth in jobs in Chennai, with the two who accepted eventually returning home to be closer to their families. To address this issue, CCFID is offering life skills trainings to the parents of job seekers to create a more conducive support

(*continued over*)

THE LOAN FUND

Nokia's support of the Tsunami Reconstruction Initiative in India included a loan fund of US$270,000. Loans took two forms: microcredit loans of approximately US$500 and livelihood financing loans of US$1,000 and above. Loans were given at an interest rate of 24%. While higher than bank rates, which average 9-13.5%, CCFID's loan structure includes technical support and demands far less time and scrutiny than traditional bank loans, which most low-income borrowers don't qualify for. Negotiating loans with banks in the region often requires costly travel, upfront application fees, and long waiting periods.

Over three years, more than 3,835 first-time, 1,651 second-time, and 409 third-time loans were distributed, with a repayment rate of 93 percent. These loan funds helped to create employment opportunities for 4,500 young people.

CCFID: Keys to Success

Below are core elements of CCFID's approach to addressing youth livelihood needs.

Social sensitization: Even the most well-intended initiative cannot deliver on its promise if those it seeks to reach don't participate. To encourage an entrepreneurial spirit within an environment where youth can be passive, and where limited opportunities exist in the formal sector, CCFID holds events to spark interest among youth and showcase the accomplishments of its loan recipients.

Research: Before investing in specific livelihood sectors, CCFID researches the most profitable livelihood opportunities, the skills and capital investment required, the profit potential, and known risks.

Holistic approach: Recognizing that providing credit alone is not enough to ensure business success, CCFID offers a menu of supports, including nonfinancial services (e.g., assistance with business planning, forecasting, marketing), to address the evolving needs of entrepreneurs.

Public-Private Partnerships: Through building alliances with institutions that share similar goals (e.g., national development banks, international NGOs), CCFID leverages additional funding for its work, as well as complementary expertise.

Professionalization: CCFID encourages staff growth and professionalization. Its organizational culture rewards attention to detail, teamwork, customer-service, and an outcome orientation. Risk-taking and innovation are encouraged.

Continual learning: CCFID places a premium on monitoring the impact of its work, analyzing its effectiveness, and learning, as necessary, from mistakes. University partnerships offer fresh perspectives, short-term staff (often willing to work for less in exchange for hands-on experience), and academic rigor.

Risk mitigation: CCFID plans for the unexpected, pursuing risk mitigation strategies (e.g., linking beneficiaries to insurance) to address potential threats (e.g., bad weather influencing crop yields or animal diseases).

Gender sensitivity: CCFID tailors its approach, bearing in mind gender differences. For example, microcredit strategies in India have largely targeted women due to their track records for reliability. In expanding its approach to men, CCFID trained its staff to provide the support necessary for success.

> "I gained more confidence as a result of the training and help I received [through CCFID]. Because of this, we provide good customer service and quality products. My dream is to open another office."
>
> — *Bhuvaneshwari, CCFID loan recipient; owner, Aruna Computers*

Adapting the Approach to Urban Slums

CCFID's approach is now being adapted in seven impoverished neighborhoods in Mumbai through an affiliated organization, Takshashila Development Services (TDS). In these slum areas, where per capita income is less than US$150 per month, TDS seeks to fill a gap in access to credit, with most microfinance programs targeting rural areas. To date, technical assistance and loans totaling US$38,000 have been made available to small-scale business owners benefiting 300 families.

Borrowing from CCFID's approach, TDS offers both microfinance and livelihood finance options. Microfinance loans of US$60 are given to small groups of five women, the majority involved in jewelry making or producing fabric for large companies. The women's groups make payments every two weeks for up to ten months. Larger livelihood financing loans are given to individuals (e.g., grocers, tailors, beauty parlors) or collaborative business ventures, with monthly repayments made over a ten-month period.

With 99% of loans repaid, more than half of loan recipients have been awarded a second loan. Says Sudhakar, "We hope to demonstrate that this approach can be implemented nearly anywhere."

structure for youth considering a move away from home. It's too early to assess the impact of these trainings.

Improving loan disbursement – CCFID has learned to better calculate repayment schedules for loans related to seasonal businesses with irregular cash flows.

Conclusion

Through the Tsunami Reconstruction Initiative, CCFID has not only supported thousands of youth in building viable enterprises and securing jobs, but strengthened its own capacity to deliver services in the future. According to its current five-year plan, CCFID expects to steadily expand its reach to more than 42,000 youth by 2014. With extreme weather and flooding common in the region, CCFID is better prepared to respond in the event of emergency situations. Risk mitigation strategies, such as insurance provision, are being pursued to help prevent the enormous losses resulting from natural disasters.

In the three other countries where the Initiative was carried out, diverse approaches were implemented depending on the local context and the implementing partner's core expertise. For example, in Sri Lanka, loan recipients were paired with local business mentors. In all countries, approaches were fine tuned and course corrections made in response to local realities. In Thailand, initial plans called for a majority of beneficiaries (70%) to be placed in jobs. This was later changed in favor of supporting youth enterprise development with loans. While context clearly matters, CCFID and IYF are looking at what elements of CCFID's approach could be adapted to meet youth needs in comparable situations.

Endnotes:

[1] *www.undp.org*

[2] *www.ruralfinance.org*

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[6] Pandey, Ravi & Bhagwat, Shiweta. *Exploring Livelihood — Life Skills Enhancement Opportunities in Cuddalore District of Tamil Nadu and Karaikal Region of Pondicherry. Community Collective Society for Integrated Development, Indian Institute of Forest Management.* ©2007

[7] Ibid

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