Funding Rural Youth

In the last installment on creating employment for rural youth, most of the comments received were requesting for more information on models of actually funding project by youth in rural areas.

> "Government funded programs for young people are mainly generic programs that often do not reflect the specific requirements of rural young people and communities. In general a lack of infrastructure and co-ordination resources limits the relevance and reach of these programs in rural areas. Greater emphasis needs to be placed on designing and promoting models of programs that work successfully within rural communities," The Greens, Australia.

This article will explore some fundamentals of funding rural youth.

Types of Funding

Funding can generally be categorised as either loan, grant or venture capital financing. Loan financing is straightforward: a financier extends a loan and demands payment at a future date or in installments, often with interest. Loans can be secured, having collateral attached, or unsecured, without any form of collateral. Loans can also be considered "soft" if they are flexible and with easy repayment terms. Grants are outright donations which do not need to be repaid. Venture capital involves a financier injecting capital by buying a stake in the equity of an enterprise. The financier receives returns in the form of profit-sharing, and may sell the shares in the future.

Loans are generally the easiest to structure because both the financier and the project proposer stand to benefit. As long as the interest rate is attractive, the financier will see this as a profitable investment. Grants are highly sought-after by project proposers, but they place a considerable strain on any nation or organisation's budget, thus cannot be sustainable in the long term. The success rate of projects which are financed through grants has also been questioned as there may be little motivation to make the project succeed because there will be no debt repayable. Venture capital financing has proved successful in developed economies, in particular with the "dotcoms" that sought angel financing for their ventures – at least until the "dotcom bust" in the late 1990s. Venture capital is unlikely to be acceptable as a form of financing in rural areas because the principles of equity financing may not be clearly understood. The equity partner will want a share of the profits of the venture – this may be seen as a form of usury in a village setting. Venture capital works best where the entity being financed has a thorough understanding of the implications of this type of financing.

Principles of Funding the Poor

There are some immutable principles that guide financing the poor (those who live on less than USD1 per day):

1. The funding should be free of collateral
2. There should be flexible repayment depending on the success of the business over time
3. Repayments should be structured for small daily or weekly payments rather than larger monthly, bi-monthly or annual repayments.

Community Involvement

An imperative in a rural setting is to involve as much of the community as possible in the projects. Rather than funding one individual youth, they can be urged to find others to jointly work with in order to establish cooperatives or joint-venture groups. These would be more accountable structures, and the group effort is more likely to succeed than the individual effort.

In most rural settings, there would be a chief assisted by various headmen. As communal resources may be used for the projects, it is important to involve the community leadership in the development of projects, identification of beneficiaries, formation of cooperatives and partnerships, and in the actual implementation of the project.

The Punjabi Example

The Punjabi State Government (India) has developed programme on Training of Rural Youth for Self Employment. Under this programme. The Central government and the State government each provide 50 percent of the funds. Rural youth aged between 18 and 35, with an income of less than Rs. 11,000 (U$245) per year are eligible to participate in this programme. The age limit is relaxed to 45 for widows, freed bonded labourers, freed convicts, persons displaced due to large development projects and cured leprosy patients. Training is imparted through formal training institutions including industrial and servicing units, commercial and business establishments, as well as through non-institutionalised modes such as master craftsmen. The duration of training is flexible and the trainees receive a stipend during training. Suitable toolkits are also provided to them free of cost. Payment is made for purchase of raw materials. Upon completion, the beneficiaries would be self-employed.

The Punjabi government has also developed an Integrated Rural Development Program which seeks to create self-employment opportunities by providing productive assets and inputs to identified rural poor families. These inputs are provided through government subsidies and term credit from financial institutions. The subsidy is limited to 25% of project costs for small farmers and 33.3% for marginal farmers, agricultural labourers and rural artisans.

Extending Financial Services to Rural Areas

Banking sectors should be stimulated to provide financial services to rural areas. This will make the administration of loans and financing easier, as well as encourage a culture of saving and investment. There are some countries with regulations requiring financial institutions to have branches in rural and remote areas as part of the conditions of their licenses.

Conclusion

Whilst there are no universal models, some ideas that seem to work are:
1. Instead of giving cash, lenders can provide the machinery and inputs required for the project, to prevent the project funds from being misused or undercapitalisation of the venture.
2. Before funding is extended, training is essential, both on the principles of entrepreneurship and in the areas of specialisation.
3. Mentorship and constant monitoring and evaluation will ensure that the entrepreneur remains committed to the venture.
4. Loan financing is the most sustainable form of financing, and it should be structured to be attractive to both borrower and lender.

Those with more examples, experiences and best practices to share can email them to info@way.org.my

REFERENCES

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The Greens, Australia:
http://www.nsw.greens.org.au/policies/RuralYoung.php