

Executive Summary

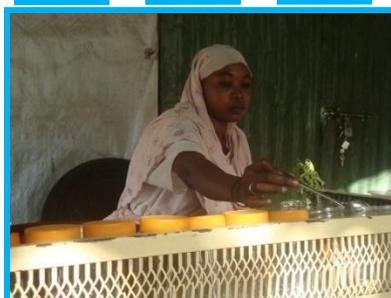
Youth's Financial Inclusion Policy Reform Study

Case Study of Youth in Post and Ongoing Conflict

Blue Nile, North Kordofan and South Kordofan Areas

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EXECUTIVE SUMMARY:

Introduction and Background:

This study is part of 'Creating Opportunities for Youth Employment' Joint Programme that aims to develop skills and provide livelihood opportunities to the youth (aged 15 to 30 years). The study covers three states of Sudan which are Blue Nile, North Kordofan and South Kordofan. UNDP, with an active participation of the Central Bank of the Sudan, has worked out advisory recommendations for microfinance policy, programmes and institutional capacity in effective means of self-employment. The main objective of this study is to review the opportunities and challenges that face the demand side of the targeted young people, especially women and vulnerable groups in microfinance. It also seeks to review policies, programmes and experiences of service providers to identify successes and failures and lessons learned. The aim is to come up with conclusions and recommendations for improving ways of supporting this segment by reactivating the policies of the Central Bank of Sudan and other partners. Using financial system development approach, descriptive statistic, and reviewing of the secondary data and literature related to the subject, the consultant used different data collection instruments such as the interviews at the supply level and the questionnaire and FGD at the demand levels in addition to feedback workshops.

The Conceptual Framework of the Study:

The conceptual framework of the study displays issues like inclusive financial services to youth, microfinance in ongoing and post conflict areas, microfinance and MDG, as well as the global experiences in regulating microfinance institutions. The framework basically focused on to what extent the financial inclusions can be as a factor of the quality supply of financial services and its users, in combination with a regulatory framework and client knowledge levels. Access to a comprehensive set of quality financial services - including savings, credit, insurance, and payments - enables clients to increase and manage income as well as be a hedge against financial risk. Within this part of the study, the consultant tried to show that youth's financial inclusion requires long term commitment and adequate microfinance capacity. It also requires the involvement of experiences and/or organization that are aware of both microfinance best practice and youth issues. As focus is on microfinance regulator in Sudan, the study tries to pane over the global experiences that succeeded because of the encouraged NGOs to expand in microfinance particularly in ongoing and post conflict areas. This refers to the usual experts opinion stated that microfinance is appropriate only in politically and economically stable environments. Therefore when period of stability become vague, as in the case of areas of this study, the ideal would be to work on securing a practice that maintains microfinance operations during and after the conflict in these areas.

PESTEL Analysis:

As the environmental analysis is important for any strategy, the study includes PESTEL analysis for Sudan and the three targeted areas. Economically, the study tries to focus on the expected changes

to the worst scenario that will occur within the macroeconomics after the secession of South Sudan, and the expected opportunities in the target states and how to contribute in redirecting the macroeconomics to grow again. Socially, the study details the social fabric of the diversified communities and tribes in the three states. Also the study looks into the current and future opportunities of the natural and legislative environments in the three states which can better serve the microfinance.

The Financial Inclusion in Sudan:

The financial inclusion part, give a brief review about the current status of the financial services in Sudan including banking and nonbanking institutions, specifies the size and underdeveloped situation compared to the regional standards. It also reviews the microfinance services in Sudan and when it was endorsed. It gives a brief about the MFU-CBOS roles and efforts in developing this sector, the major achievements realized up to now, and the main pillars of the organization and regulatory framework of microfinance.

Demand Analysis:

Youth are defined by the range of age groups. The United Nations and the World Bank (WB) consider the population aged between 15 to 24 year as youth. In Sudan 25% of the population is in age range of 15 to 30 years. This was stated by the fifth national census, which also reveals that the age group below 34 years constitutes 61% of the country's population. This means that the majority of the population is young. In Blue Nile and South Kordofan States, where the war lasted for 15 years, the education process for most children was disrupted, while in North Kordofan State, it was dislocated by different constraints including lack of drinking water, desertification, the frequent famines and lack of food during 1984, 1990, and 2008. This was coupled with lack of basic education infrastructures. Youth in Blue Nile and South Kordofan can be classified into three categories: young graduates returnees, deprived youth of the basic education, and /or vocational training and young ex combatants. Youth work at the beginning of their lives in the agricultural. However, as this economic activity is facing challenges, the youth started moving to urban centers. Women in their early ages are employed to work in the family run agriculture activities, thus increasing the fathers' incomes; and thus help meet the education and health needs of the family. During youngest ages of youth, 20 years and below, young people who constitute 71% of the sample are working with others and outside the family control. Women particularly in the ages between 21 to 30 years depend more on savings as a mechanism to cover the financial needs and shortages. But men in the same ages meet such obligations depending on others including peers, neighbors, relatives, etc. Young people interviewed perceive the complication of the service delivery as the most critical, 29% women and 34% men. The second difficulty that follows is unsuitability of collateral and the amount set determined in microfinance provided to asset owning.

The commercial and traditional lending system provide a number of financial services, particularly given the lack of the proper services, and consider to be one of the crucial competitors of the formal microfinance providers. The two main dominants traditional systems in the three states are the Estigrar and Shail. The former is an urban-based system while the latter is a rural-based system. These services also are not accessible to youth, particularly the women. Usury, high profits and losing opportunities, are the main challenges that face youth when they deal with the commercial and traditional lenders. Meanwhile when the service meets the requirements, only the fortunate persons would get it. Time and place are the in the advantage of the commercial and traditional lending system over the formal banking services.

Saving is considered the one face of the coin, while borrowing is the other face. Savings are similar to loans. They cover the youth financial needs such as the need for accumulating working capital and for covering the shortage of income and finance (children and health and the family and social welfare). Savings tools differ and include Khatta, in house, with others, in kind using traditional storage system or stores, etc. However, Khatta (rotating merry-go-round) is most used saving tools by women and men group. Obviously different challenges are facing the youth who adopt the traditional savings' tools however savings are subjected to loss in conflict areas. Other services like transfers and insurance are out of reach of the youth.

Supply Analysis:

The supply side in the three states is diversified and has multiple types of microfinance providers including banks; Government funds; intermediary institutions; NGOs; and commercial and traditional lenders. The availability and density of these actors varies from one State to the other. The Presence of formal institutions like banks is increasing in the stabled areas whereas the NGOs presence is increasing in the conflict areas. Banks initiated and stepped forward to provide microfinance, in spite of their commercial nature, mandates, and weak capacities. In this context, the Central Bank of Sudan through its microfinance strategy, policies and directives and its generous support to the sector assisted banks to lead this step. The weakness, from which the banks suffered in their institutional and human capacities to reach the target customers, is considered the major critical challenge. Banks deal with easy conventional practices using Murabahah, in short term loans, by conventional collaterals; in spite of the demand potentiality and competitive features of each area. The existence of effective and efficient intermediary organizations and NGOs in the future will provide a revolutionary change in the lifecycle of the microfinance industry in Sudan. However, the registration of the CBOS is the most critical challenge to NGOs, due to the minimum capital requirements determined by CBOS, the complaints from the lack of transparency in dissemination of information and the long time and efforts consumed to secure the final approval and the license from the Central Bank of Sudan. Moreover, NGOs suffer from lack of coordination, due to lack of microfinance network in Sudan.

Recommendations for Better Legislations, Strategies, Programmes, Policies and Supervisory Regulation:

These recommendations address the following:

1. Legislations and Policies Recommendations:

- Regulations for NGOs easy integration
- Product delivery policies
- Better segmentation policy

2. Recommendations for Strategies Reform:

- Commercial and traditional lending system lessons learnt
- Making Saving the Best Tools for youth
- Inclusion of Micro-Transfer and Micro-Insurance Services
- Introducing NGOs as a good in Financial Intermediation
- Change SMDF Strategies

3. Recommendations for Programmes Development:

- Capacity Building Programmes
- Product Development by Sub-Segmenting Programmes
- Opportunities for Younger Ages and Women in Agriculture Sector Programmes
- Better Perceptions about Bank Services and Easy Deal Programmes
- Upgrading Programmes for Non Financial Services Inclusion
- Training and Capacity Building Programmes

4. Special recommendations to Blue Nile State:

- NGOs Capacity buildings, and support the formation of microfinance network at the state level,
- Provide the required technical assistance to upgrade the NGOs institutional capacities by mapping the potential and current qualified one, providing grants, training courses according to their special needs, and data needed to outreach, and facilitating the licensing and registration procedure as a service providers.

5. Special recommendation to North Kordofan State:

Support the NGOs and financial intermediations bodies through:

- Developing capacities to bridge the gap between the banks and the youth base organizations.
- Enhancing their ability to reduce the overhead cost
- Developing information technology systems that include youth data, investment map, marketing data, etc.

6. Special recommendation to South Kordofan State:

7. Other Supportive Recommendations:

- National MSMEs Development Agency
- Recommendations for States' government to support MSMEs marketing

Recommendations for Policy Integration into the National Youth Development Plan:

These recommendations include the following:

1. Recommendations for Development of Integrative Strategies:

- Redirecting the role of Ministries of Youth and Sports
- Establishing Youth Employment Commission
- Incorporation of Microfinance in education curricula
- Creating conducive environment to voluntary NGOs:
- Building smart partnership

2. Recommended Programmes:

- Youth segmentation and mapping programme
- Activation of specialized youth financial inclusion programmes