Assessment of Implementation of the Youth Development Fund

Submitted to the

Committee on Youth, Sport and Child Matters
National Assembly

27th November 2019

Contents

Preamble

This report draws extensively on a comprehensive evaluation of the implementation of the YDF that ZIPAR conducted between 2016 and 2017 which highlights implementation successes and challenges. In summary the report outlines the following:

- The provision of youth empowerment funds such as the YDF is important in addressing youth unemployment and achieving the country's aspirations in the Seventh National Development and Vision 2030. As a matter of fact youth empowerment funds are used across Africa to address youth unemployment.

- However, the YDF was not well-managed, especially that a Government Ministry was assigned the responsibility of providing credit when this is not its core function. The lack of experience in credit service provision by the Ministry translated into serious operational problems which resulted in dismal Fund performance.

- Consequently, the YDF was unable to recover 84% of its loans, defeating the purpose of having a revolving fund that can continue to help as many youths are out of employment. Low loan recovery is because there is no mechanism for tracing borrowers and no punishment exist for defaulters. After an investment of over K40 million, a total of 742 jobs were created, translating to 2 jobs per youth enterprise over a period of four years. However, from the start, the Ministry of Youth did not specify how many jobs they targeted to create with each amount of investment. This makes difficult to conclude the impact of the YDF on job creation.

- In this light, it is our considered view that the YDF is important in addressing youth unemployment and providing youth with opportunities to participate in the economy. However, in order for the Fund to be effective, we recommend that its management be outsourced to an establishment specialised in running and managing credit services such as an experienced financial institution. The Ministry of Youth can then focus on providing support to the demand side such as provision of financial literacy and business development services to youths among other things. In future the YDF should also be clearer in terms of the number of jobs to be expected from each Kwacha of investment.

1. Introduction

This report is a response to the request made by the Committee on Youth, Sport and Child Matters of the National Assembly of Zambia to the Zambia Institute for Policy Analysis and Research (ZIPAR). The report is an assessment of the *Implementation of the Youth Development Fund (YDF).* The submission is based on our 2017 evaluation of the youth development fund that was commissioned by the Ministry of Youth and Sport and the Ministry of National Development Planning. The evaluation was undertaken between 2016 and 2017 and covered the whole country. According to the Ministry of Youth the Fund has since been suspended and no new disbursements have been made after 2015.

This report addressed the following issues :

i. Adequacy of the policy and legal framework governing the YDF
ii. Modalities being employed in the disbursement of the YDF
iii. Trends in the disbursement of the YDF in the past five years
iv. Collaborative mechanisms put in place, if, any, among various stakeholders; in the implementation of the fund
v. Successes scored in the implementation of the fund
vi. Challenges being faced in the implementation of the fund
vii. Recommendations on the way forward.

2. Adequacy of the policy and legal framework governing the YDF

The assessment of the adequacy of the policy and legal framework of the YDF can be judged in two ways:

a) by assessing the larger policy context in which the program was implemented and whether it's objectives where in line with overall Government objectives regarding the plight of the youth in Zambia. Additionally, whether the YDF was part of a deliberate and explicit plan for promoting youth employment.

b) by checking for the existence of a legal framework supporting the setting up and existence of the program.

Regarding the first concern, the overall objective of the YDF is to provide capital to viable youth-led projects as well as offer business training and mentorship. More broadly, the YDF was established to stimulate the creation of employment opportunities among young people which in turn would increase their participation in the socio-economic development of the country. These objectives reflect contents of the National Youth

Policy and National Development Plans such as the Sixth and Seventh National Development Plans. The Ministry of Youth also developed and implemented a Youth Action Plan which explicitly identified the YDF as a tool for promoting the plight of youth. In this regard, the policy framework of the YDF can be said to be adequate.

In terms of the second concern, the setting up of the YDF was, to the best of our knowledge, not governed by any specific legal statutes. It's set up, although in line with the larger policies of the government for the youth, has no legal backing unlike funds like the Citizen's Economic Empowerment Fund which is backed by an Act of Parliament. In this regard, the adequacy of the legal framework cannot be discussed because it does not exist. A legal framework is necessary if the Fund is to be sustainable and not used to achieve other undesired objectives.

3. Modalities being employed in the disbursement of the YDF

The disbursement of the YDF has evolved over time since its beginning in 2000 when funds were allocated through Constituencies. In 2007 the funds were disbursed through the Citizens Economic Empowerment Commission (CEEC) but this proved difficult for many youths as it demanded for collateral which youths did not have. However, since 2012 the Ministry provided guidelines for the disbursement. According to the [then] new guidelines, youths were expected to either provide collateral or a guarantor, as surety, for them to be able to access the funds. The understanding of guarantor in this regard, however, differs from traditional guaranteeing that happens in the financial sector where the guarantor can be held liable and be expected to repay the loan if the borrower defaulted. The guarantor under the YDF serves only as a referee of the applicant or potential beneficiary and as such is not held responsible in case of default on the part of the applicant.

The YDF has been disbursed in form of loans and grants. The loans portion is like any normal credit facility and borrowers are expected to repay with interest while grants are monetary gifts to support youth projects and repayment is expected. Loans account for 75% of the fund, and grants account for the remainder. Once a loan or grant is approved, money is disbursed by way of issuing a check directly to the youth who then cash them in the commercial bank of their choice. The disbursement of funds has always raised concerns among stakeholders. Whereas financial institutions disburse loans by directly depositing them into the borrowers bank account, YDF loans were handed to lenders as checks through public gatherings. Some of the public gatherings were officiated by politicians of the ruling party which tended to make the Fund look like a channel for the ruling party to reward its supporters. In view of the above, it suffices to conclude that the modalities being employed in the disbursement of the YDF are not clear and deviate from normal practices in lending institutions. They need to be reviewed.

4. Trends in the disbursement of the YDF in the past five years

Data on YDF disbursements in recent years is not available as no funds have been disbursed since 2017. However, since 2012 when the guidelines were developed, the YDF grew exponentially between 2012 and 2015, growing from K6.7 million to K20.5 million by 2015/2016. Over the same period as shown in Table 1.

Table 1: Loan fund budget allocations-adjusted for inflation

Year	**Budget(K)**
2012	6,700,000.00
2013	12,000,000.00
2014	13,000,000.00
2015/16	20,477,897.00

Source: Ministry of Finance Yellow Books

By 2014, a total of 1278 youths distributed across the whole country received loans and grants from the YDF (Table 2). Lusaka, which has the largest youth population accounted for the largest number of beneficiaries (23%) followed by Copperbelt province at 16%. The least number of beneficiaries were in Muchinga province which accounted for 5%. Using population size as the guide in disbursing funds, the YDF was actually equitable. However, in future it would also be important to focus on the level of impoverishment and deprivation of youths in different provinces as a basis for allocating the Fund.

Table 2: YDF Actual disbursements by Province (2011-2014)

NO.	**Province**	**Total Beneficiaries**	**Total disbursement (K)**	**% share of the funds**
1	Lusaka	301	9,737,422.00	23%
2	Copperbelt	147	5,242,237.96	12%
3	Central	115	5,095,970.27	12%
4	Eastern	98	4,176,664.60	10%
5	Southern	105	3,604,035.00	8%
6	North-Western	105	3,382,891.00	8%
7	Western	133	3,364,322.00	8%
8	Luapula	106	3,347,044.00	8%
9	Northern	99	2,937,000.00	7%
10	Muchinga	69	2,142,174.00	5%
	Grand Total	**1278**	**43,029,760.83**	**100%**

Source: Ministry of Youth, Sport and Child Development

5. Collaborative mechanisms put in place among various stakeholders

The YDF was entirely managed by the Ministry of Youth and Sport. In order to oversee certain processes such as appraisal of youth projects, technical committees were formed at both national and provincial level. At the national level the technical committee mainly comprised of Ministries and statutory bodies. Beyond these, some youth organizations and a micro finance institution called Micro Bankers Trust were members of the technical committee. All these sat on the technical committee and supported the selection of projects.

Based on this, it suffices to conclude that the YDF did not have sufficiently robust collaborative mechanisms in place beyond the technical committees that would help to improve the viability of the Fund. For instance, there was no collaboration with private sector to ensure youths who got the money received proper mentorship from existing establishments to increase their chances of success. There was also no collaboration with financial institutions who would help guide the Ministry on the best way to set interest rates and debt collection to ensure the YDF was sustainable. These are just some of the potential collaborations that the YDF could have tapped in but it did not. In future there is need for partnerships with key institution if the Fund is to work.

6. Successes scored in the implementation of the fund

The YDF scored a number of successes based on initial objectives. These can be analyzed as follows:

Job creation: Creating jobs for youth was the main objective of the YDF. However, it is difficult to judge if this objective was fully achieved or not as initially the Ministry did not specify how many jobs it hoped to create from each Kwacha of investments in the Fund. Our report shows that for the period 2012 to 2015 youth enterprises created a total of 742 new and full time jobs following investments of over K40 million. The 742 jobs translate to two jobs per youth enterprise on average over a period of four years. Nonetheless, over the same period, youth unemployment grew from 10% in 2014 to 17% by 2017.

Business Exposure: Although the YDF did not lead to the reduction in youth unemployment, it gave young people an opportunity to participate in the economy through businesses. Assuming that they picked the key lessons, they will be able to perform better in future and contribute and participate in the economy.

Credit Exposure: youths who obtained money, especially those who paid back had a rare opportunity to have credit experience. This is an important skill and exposure necessary for them if they are to grow their businesses in future.

Livelihood Impacts: The YDF positively impacted a number of youths who put the loans to good use. Some of these youths were able to expand their businesses and employed more people as a result of the YDF. In Isoka and Kasama for example, some youths grew from sole traders and into stable SMEs which turned their lives around and improved not only their standards of living but also the future of their businesses.

7. Challenges being faced in the implementation of the fund

The implementation of the YDF faced a number of challenges. These can be classified under management, operations and sustainability.

a) Management of the Fund

The management of the YDF had important challenges. The idea of a Government ministry directly providing loans is contrary to the core mandate of Government which is policy making and business facilitation. As a result, there was no staff capacity in the Ministry to manage the fund professionally as the Ministry does not have the right people to professionally assess projects, interpret business and financial projections and later on recover debt. This was true for national and provincial offices. The meaning of this is that the Ministry did not provide good management of the fund this not being their core business.

b) Operations of the Fund

The YDF had certain characteristics that made its operations ineffective, including the following:

i. <u>Information dissemination limitations</u>: unlike other credit facilities which are common knowledge to the general public, information about the YDF loans was very limited. Most youths talked to throughout the country expressed ignorance about its existence no matter how badly they needed capital to do their business. The main problem was that the information was disseminated mainly through political lines and gatherings which created a bias to those who do not attend such gatherings. This meant that funds were likely to be given to a set of people with homogenous characteristics which implicitly reduced the chances of success.

ii. <u>Application processes-related access barriers</u>: the YDF application process, although free in terms of application fees created some barriers that disadvantaged a lot of youths. All applicants were required to have registered businesses for pre-qualification. However, some youths, even with good projects lacked this as they lived in remote areas far from centres where they would obtain business registration certificates. Therefore, either they spent too much money trying to register or failed to apply for the lack of a certificate. The applications were also demanded in English. Due to low literacy levels, some youths could not write an application even though they had good projects. Some had to pay other people to write on their behalf which compromised the whole process.

iii. Project appraisal inadequacies: the YDF applications went through a desk and a field appraisal. The desk appraisal focused on the business proposal and the financial projections while the field appraisal was concerned with the project site. In each of these the first challenge was that the appraisers were not professionals as they were drawn from Government departments were they performed roles not related with business appraisal. Secondly, some youths hired other people to write business proposals for them. This meant some projects were too good and overstated the capacity of the business owner.

iv. Monitoring and Loan recovery limitations: in traditional financial institutions there is an inbuilt mechanism to monitor and track lenders which increases the chances of loan recovery. Unfortunately, no such systems are developed for the YDF. There is no monitoring of projects and this has negatively affected the rate of loan recovery. Many young people who obtained money have been lost to follow up and have since not repaid their loans.

c) Efficiency of the Fund

The YDF had a lot of inefficiencies. The main concerns are the delays in the disbursement of funds to successful applicants. Most of the time, it took as long as six months before money could be available to successful applicants. This is due to delays by the Ministry of Finance in releasing of fund. This affected the ability of business to implement their business plans as some of them were time bound. The fund also lacked dedicated loan officers as mentioned. Additionally, as earlier stated, each enterprise that received the money created 2 jobs in a space of 4 years.

d) Effectiveness of the Fund

The assessment of the effectiveness of the YDF centres in ensuring that the fund achieved its objectives. Our study show that 18% of the enterprises did not even start the business despite obtaining money. Additionally, 39% of the beneficiaries' enterprises started the business but died along the way. Furthermore, only 16% of the money that was learnt out was repaid at the time of the survey. This means 84% of the money was lost without any means of recovery. This situation is worsened by the fact that the YDF does not prescribe punishment for offenders as is the case for normal financial institutions.

e) Sustainability of the Fund

The YDF was not sustainable although it was initially intended to be a revolving fund. Firstly, only a small share of the money lent out was repaid and although this was good, it was not revolved as planned. This means the YDF continued to rely on the treasury for subsequent funds. The second reason for not being sustainable is that the interest rates charged were always below the rate of inflation. This means that even if everyone repaid, the value of money would still be eroded and lose value. Additionally, the Fund did not have other activities to grow the money given to it by treasury. There was also no resource mobilization plans. This means in the absence of treasury money, the YDF would not survive.

8. Conclusion and Recommendations

Based on the findings, our conclusion is that most of the challenges the YDF is facing are supply-side and related to its design and management style which compromised the operations. Addressing the management style would to a large extent resolve some of the outlined operational problems. One way of doing this is to outsource the fund management function to an establishment such as a financial institution with experience in credit services provision. Such an institution should work independently but in consultation with the Government in setting up credit requirements that are commercially attractive but also friendly to youths. Importantly, interest rates should be kept above inflation to ensure stainability of the fund.

The role of the Ministry in this case should remain that of publicizing the Fund at national, provincial and lower levels. The Ministry should also undertake to build capacity for youths in terms of business development services before they are provided with money. This will include training youths on how to build a good credit culture for them to be able to access credit from the YDF and in future. This is another way of promoting the demand side for the YDF loans.

Lastly the YDF needs to be established by a clear legal framework in order to strengthen its governance and protect it from political interference or other influences. In its current form, the Fund's survival is based on the good will of the authorities which can change with time. The Ministry also needs to be more clearer in terms of the number of jobs it seeks to create from each amount of investments in the YDF. This is helpful in judging whether or not the objective of creating jobs has been achieved. Without a clear target, any amount of jobs created can be counted as success regardless of the huge sums of money invested and the long period it takes to create them.