

Title: A New Microlending Paradigm: Incorporating Vocational Training and Microcredit

Authors: Thomas K. Herskowitz and Nancy S. Rizkalla (Morningstar Institute)

Abstract:

Introduction

The proposed presentation is about Morningstar Institute, an international economic development research and training program housed in Southern Nazarene University's School of Business. Morningstar has recently been started and will be advising existing international aid organizations, researching international economic development as well as sending students abroad to experience economic development and microfinance first hand. Through all of its endeavors, Morningstar focuses on the need to get financial services to those young men and women who are getting started on their own or with young families. While Morningstar Institute will not directly fund or operate any microfinance projects, it will actively research the possibility of providing microloans and vocational training to the world's poorest young adults. Morningstar's vision is to be the depository and ultimately the transferor of that knowledge concerning the integration of vocational training, mentorship and then microfinance loans.

Background

Microfinance has become the subject of many headlines since Mohammed Yunus and the Grameen Bank which he founded, where awarded the 2006 Nobel Peace Prize. However, the practice of microfinance, giving small loans to the poor, has been aiding the poor out of the poverty for centuries. Jonathan Swift, the Irish author known for works such as Gulliver's Travels and a Modest Proposal, began the Irish Loan Fund in the 1700s. Today's Microfinance Institutions provide services to almost 50 million people, primarily middle-aged women. Although millions of families are affected by these loans, they are generally not available to younger potential borrowers.

The Proposed Program

In line with Morningstar's desire to aid the world's poor who are young and do not have access to vocational schooling or financial services because of their low socioeconomic status and lack of work experience. Morningstar has developed a plan to deliver those services. Morningstar has developed a model for young men and women that would guide them out of poverty before they are middle aged and traditionally able to access microloans.

The Morningstar plan is a three tier system that consists of a vocational training component followed by a mentoring component leading ultimately to a microfinance loan. Each participant would begin by being involved in a vocational training program. The trainees would learn a craft in which they are interested and that will eventually earn them a sufficient living to feed their family, marry if they choose and educate their children. The next phase of the training would give the trainee the opportunity to hone their craft. Each trainee will be placed in an apprenticeship or incubator shop. During this time, trainees will learn business practices, be educated in running a small business while perhaps earning a

wage. This phase of the training process will give the now trained craftsperson the skills needed to run their own business and to take part in the third and final part of the training process, a microloan.

After completing the step of vocational training and apprenticeship, the young craftsperson would then be able to take out a microloan. The details of the loan, interest rate, and repayment schedule will be determined at time of disbursement depending on the geographic location and its market. The amount of the loan will also be determined depending on the vocation and the local market.

Along with working with international NGOs to provide vocational training and microloans to their community members, Morningstar will send Southern Nazarene University students globally to work with selected organizations. While on their international internships, students will put into action what they have learned in their classes. Students will work on projects regarding microfinance and vocational training.

Students who are interning globally will also work on gathering information through these organizations and others like them in order to have the best tools in the innovative field of microfinance with vocational training. Morningstar will also aid organizations it works with in developing monitoring and evaluation programs in order to track the success of the proposed program. Aid in research and development will be provided by Morningstar to any partner international NGO.

Conclusion

Through these various endeavors Morningstar hopes to bring microfinance loans to the poor who are young and end their poverty earlier than they would be able to with traditional microcredit programs. In order to do so, Morningstar needs to find a way to bridge vocational training and microfinance while maintaining high repayment rates that exist in microfinance programs that lend solely to the middle-aged.