Apprenticeships in the Informal Economy – Potential Role for Microfinance

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OUTLINE

- Rational for SFP engagement in Apprenticeships – the microfinance link
- Research Study on Apprenticeship Financing
- Potential Entry Points for Microfinance
- Points for Discussion
MICROFINANCE LINK

Microfinance for Youth Employment

3 potential entry points for microfinance

- Wage Employment – financial incentives to employ young jobseekers
- Youth Entrepreneurship
- Education / Training

RESEARCH

Background Apprenticeship Financing:

- Self Financing: Cost sharing between master and apprentices
- Fees, allowances, in kind (training, labour, others)
- Mechanism efficient? Exploitative? Inclusive?
  Relationship to financing of enterprise?

SFP Research: Financial Arrangements in Traditional Apprenticeships: Determinants and effects
RESEARCH AIM

Research aim:

- Financial Arrangements in traditional apprenticeships?
- Relationship to enterprise financing?
- Financing of apprenticeship by apprentices?
- Evidence of inefficiencies?
- Potential influence of microfinance?

RESEARCH – Main Results

- Payment of fees for apprenticeship training common practice
  - 97.5% charge fees; amount: 22 - 600 $US, Mean: 153 $US
  - No obvious relation between financing of enterprise and apprenticeship confirmed
    - Micro enterprises predominantly use internal sources to finance enterprise activities (3.5% had taken a bank loan)
- 83% of apprentices receive financial and in kind support from masters
  - Allowance > Fees in 66.5% of cases
  - No exploitation via fees
RESEARCH – Main Results

Evidence of Inefficiencies

- Accessibility for vulnerable youth:
  - Apprentices largely rely on parents/guardians to pay for fees and living expenses >70%
  - Educational level of apprentices above average

- Transition from apprenticeship to (self) employment
  - Lacking access to start up funds

Potential Role for Microfinance

- Demand for training: Facilitate access to apprenticeship
  ➔ educational loans, saving products, grants for apprentices

- Supply of training:
  - Quantity
  - Quality
  ➔ improved access to credit for entrepreneurs

- Transition from apprenticeship to self employment
  ➔ access to enterprise start up loans
Points for discussion / questions for further research

- Positive vs. negative effects of microfinance? Danger of distorting self-regulating system?
- Feasibility of conditional loans? Under which condition?
- Design of educational loans for apprentices?

THANK YOU

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