Lessons learned

Youth access to rural finance

IFAD
Investing in rural people

Inclusive rural financial services

The **Lessons Learned series** is prepared by the IFAD **Policy and Technical Advisory Division** and provides a compilation of past experiences relating to a particular topic and a reflection on evidence-based best practices and failures. "Best practices" refers to processes or methodologies that have been proven to produce good results and are thus recommended examples to be replicated.

These notes are "living" documents and will be updated periodically based on new experiences and feedback. If you have any comments or suggestions, please contact the originators.

Originators

Michael Hamp
Lead Technical Specialist, Inclusive Rural Financial Services
Policy and Technical Advisory Division
E-mail: m.hamp@ifad.org

Francesco Rispoli
Senior Technical Specialist, Inclusive Rural Financial Services
Policy and Technical Advisory Division
E-mail: f.rispoli@ifad.org

Jonathan Agwe
Senior Technical Specialist, Inclusive Rural Financial Services
Policy and Technical Advisory Division
E-mail: j.agwe@ifad.org

Anne-Laure Roy
Former Senior Technical Specialist, Young people and training
Policy and Technical Advisory Division

Acknowledgements

The writing of this knowledge document has been a highly collaborative effort and we, the originators would like to thank Rossana Ramirez for finalizing the document, Miriam Cherogony for her valuable input, and Emily Coleman, Chris Jarzombek and Graham Perret for their support and contributions. For their insightful feedback, we thank our peer reviewers of the Policy and Technical Advisory Division of IFAD.

Contact

Maria-Elena Mangiafico
Knowledge Management and Grants Officer
Policy and Technical Advisory Division
E-mail: m.mangiafico@ifad.org

May 2015

Table of contents

List of acronyms

FAO	Food and Agriculture Organization of the United Nations
FSP	financial service provider
KYC	know-your-customer
MEDA	Mennonite Economic Development Associates
RFS	rural financial services
VSLA	village savings and loan associations
YFS	youth financial services

Introduction

Young people (see Box 1) are at the forefront of the development agenda because they comprise a significant proportion of the population in developing countries and are faced with high levels of unemployment and poverty (Lin, 2012). In rural areas, young people face additional and distinct challenges, such as limited options for economic activities and pressure to migrate. Access to rural financial services (RFS) is one tool that can reduce poverty by helping poor people acquire assets, manage risk and invest in businesses. For young people in rural areas, access to RFS can help them grow savings and become productive in farm and non-farm activities. Capacity-building services, such as financial education and entrepreneurial training, can reinforce the efficient and productive use of financial services. RFS for young people also have the potential to be financially beneficial for the financial service providers (FSPs) over time. Financial inclusion not only benefits young people, but can also enhance the general economic development of the rural area they live in through spillover effects.

Box 1. Definition of young people

The United Nations, for statistical consistency across regions, defines youth as people between the ages of 15 and 24 years. However, different definitions exist that can extend to even 40 years of age. Taking into account realities in the agriculture sector, IFAD often considers youth to be people aged between 15 and 35 years (IFAD, 2014a).

Due to data constraints, while most of the policies and recommendations for IFAD projects focus on the 15 to 35 age range, most of the examples and data that are available and referenced in this series refer to young people in the 15 to 24 age bracket.

However, youth in general have limited access to financial services, especially in developing countries. According to the World Bank's Global Financial Inclusion (Findex) Database (Demirguc-Kunt et al., 2013), 44 per cent of youth have a formal account compared with 55 per cent of older adults. But only 38 per cent of youth in the developing world have a formal account compared with 83 per cent of youth in high-income economies.

For rural youth, access to finance is even more challenging. In a global survey conducted with young farmers, over 70 per cent of respondents stated that access to finance is their most significant difficulty, whereas access to land was identified by 52 per cent as the most significant challenge (IFAD, 2014b). As a result, even when young people have access to land, they are unable to invest in it and increase its productive uses. Constraints in accessing finance also hamper the ability of young people to start their own businesses in the rural non-farm sector (IFAD, 2014c).

Adults and youth in rural areas face similar barriers, such as physical distance from financial services and financial products that are inadequate for seasonal-based economies and farm-related risks. Rural youth face additional challenges, such as minimum age requirements to open a bank account or obtain credit, and a perception by FSP staff that young people are unable to save and constitute a high credit risk.

In this document we elaborate on the opportunities and challenges that face FPSs when providing rural youth with finance. The purpose of this document is to share what has been learned in financial inclusion projects focused on youth, highlighting implications for rural areas. Using those lessons learned as a basis, the final section of the document outlines strategic recommendations that IFAD country programme managers, project design teams and implementing partners can carry out to promote access to RFS for young people. The recommendations are further elaborated in the How To Do Note on youth access to rural finance.

Context and challenges

Context

There is now a growing understanding of the financial needs of young people and the available supply of youth financial services (YFS). Young people need and want financial services that can help them face the financial pressures that evolve and increase as they grow up. With rural areas often lacking a variety of economic and employment opportunities that are attractive, there is a strong motivation for young people to start their own business or migrate to urban centres. Offering appropriate financial products to young people in rural areas to help them meet their growing needs is thus crucial for the development and economic growth of rural communities.

In recognition of the role that financial services can play in helping young people navigate a financially demanding transition to adulthood, there has been significant investment by the donor community and FSPs in demonstration projects, especially for youth savings and financial education.[1] The rationale behind youth savings is that savings can lead to asset-building for young people, thereby improving a country's overall gross savings rate (Kilara and Latortue, 2012). Complementary non-financial services, such as financial education, are expected to build the financial capability of young people to use financial services more effectively (Ramirez and Nelson, 2014).

In addition, evidence from developed countries suggests that youth savings accounts can lead to lifelong customer loyalty (see Box 2). The argument could be made that FSPs in developing countries can similarly benefit from acquiring customers at an early age to build a lifetime customer base. Including rural youth in the clientele can also help diversify the portfolio of an FSP. This strategy can improve the growth of the institution. However, the ability of an FSP to offer good youth customer service that makes young people feel welcome and provides products relevant to their evolving needs is crucial for building customer loyalty (Kilara and Latortue, 2012). Furthermore, the benefits of youth loyalty take a long time to materialize, so FSPs should not expect returns in the short term.

Box 2. Building youth client loyalty

Saiz and Pilorge (2010) conducted a study on the loyalty behaviour of 6,100 retail banking customers in Belgium, France, Germany, Italy, Spain and the United Kingdom. The study showed that more than half have stayed with the same bank for more than ten years, with only 24 per cent changing banks over their lifetime. This suggests that by acquiring customers at a young age, FSPs have an opportunity to keep them for the long term.

Offering YFS is also a good fit for an FSP's social impact mission and corporate social responsibility. Investing in youth is like investing in the future success of the community. Serving youth, especially in rural areas, can earn public relations points for providers in the eyes of the community.

Challenges

Although there have been improvements in YFS access, youth are still lagging significantly behind adults in being able to access financial tools. Across high- and low-income countries, young people are less likely than adults to have a formal account. There are even starker differences related to a country's income level, with 21 per cent of youth in low-income economies having a formal account compared with 61 per cent in upper-middle-income economies (Demirguc-Kunt et al., 2013). Even with this data, determining the exact extent of youth access to financial services can be complicated because there is a lack of consistent data and definitions on youth (see Box 3). The lack of data is more limited for rural areas. While there is some analysis of the urban-rural gap in access to financial services, with those living in cities significantly more likely to have an account than rural residents (Klapper, 2012), there are currently no comprehensive studies with disaggregated data for rural youth.

[1] Two of the largest funded projects are the United Nations Capital Development Fund's YouthStart Programme and the YouthSave Consortium, both funded by The MasterCard Foundation. For more information, visit: http://www.mastercardfdn.org/financialinclusion/programme-strategies/yfs.

Box 3. Counting the unbanked youth

According to a survey of FSPs and youth-serving organizations around the world, half of the FSPs reported "already providing financial services to young people" (Storm, Porter and Macaulay, 2010). However, data from the World Bank's Global Findex indicates that youth "make up a disproportionately large share of unbanked adults" (Demirguc-Kunt et al., 2013).

This apparent discrepancy might be explained by the different regional interpretations of "youth", which can range from 10 to 35 years of age (UNDESA, n.d.). Given the low levels of life expectancy in many developing countries, such a range could encompass a significant portion of the population. Moreover, the discrepancy probably also reflects the lack of adequate indicators in the management information systems of FSPs.

Source: UNDESA. n.d. Definition of youth. New York: UNDESA.

Both youth and adults in rural areas face some of the same challenges in accessing RFS (physical distances, inappropriate products for rural areas), but the barriers can be significantly more challenging for young people. The specific challenges young people face in accessing financial services include:

Limited physical access to financial services

- One of the most critical challenges is the lack of physical presence of FSPs in rural areas, which is a result of limited economic activity, geographic dispersion, poor infrastructure (roads and telecommunications), and low levels of population density in rural communities (CGAP, 2003). As a result, people living in rural areas have to travel long distances, face risk of theft or loss of money, and incur significant transportation expenses to reach the nearest FSP. For young people in rural areas, the distance might be even more burdensome as they might not be able to travel on their own, especially in some countries where adolescent girls might face restricted social mobility. Rural youth often engage in their family's farming activities, which keeps them busy after school hours or throughout the day if they do not attend school. The operating hours can also represent a physical limitation if they conflict with school or work obligations.

Inappropriate financial products

- A lack of understanding of young people's financial capabilities and objectives for using financial services can result in a mismatch with financial products that are neither affordable (high fees or high opening amounts) nor appropriate (overly burdensome collateral or guarantees). Rural youth who might have seasonal income and lack collateral, such as land, would not have any demand for such existing products, but for different ones.

Legal and regulatory restrictions

- In most countries, minors are not able to open a bank account on their own or to obtain a loan (Aldebott-Green and Sprague, 2014; Hopkins et al., 2012; Kilara and Latortue, 2012). Minors are generally considered to be persons under 18 years of age. This minimum age requirement creates a major barrier to access. There are some examples of countries that have loosened legal barriers concerning age limits for bank accounts (see Box 4), though there has not been such a shift for loans.

- While lowering legal age limits can facilitate access to youth financial services, there are important institutional safeguards that need to be in place in order to protect less experienced minors against potential abuses of their accounts by adults (e.g. for money laundering) (Aldebott-Green and Sprague, 2014).

- Although a young person can often have a savings account by having an adult co-signer – often a parent – many young people report not wanting to have their parents involved in their personal finances (SEEP, 2013).

Box 4. Lowering the legal age minimum

A few countries around the world have lowered the age limit to open a bank account to promote youth financial inclusion.

"In 2010, Uruguay's parliament passed legislation to modify the articles of incorporation of *Banco de la Republica Oriental del Uruguay*, the country's state bank, to allow girls and boys aged 12 and 14, respectively, to open savings accounts directly. The account will be the sole property of the youth who will be the only person who is authorized to make transactions."

"In 2011, the Central Bank of the Philippines, *Bangko Sentral ng Pilipinas* (BSP), launched the 'Kidi Account Programme'– the first initiative in a developing country spearheaded by a central bank that permits young children to open and manage savings accounts on their own. It was developed in partnership with the Bank Marketing Association of the Philippines and allows children older than 7 years to open and manage savings accounts on their own in 12 of the top Filipino banks."

Source: Hopkins et al., 2012; Kilara and Latortue, 2012.

- Another major legal barrier is the requirement to present a form of identification (e.g. birth certificate, passport or national registration card) and address verification (e.g. utility bill) in order to fulfil Know Your Customer (KYC) requirements (Kilara and Latortue, 2012).[2] This affects young people and adults alike in rural areas, especially the poor, but young people might be more hard-pressed to obtain official identification on their own.

Young people's limited financial capabilities and negative perceptions of youth by FSP staff

- Youth tend to have limited financial capability, which is defined as "the combination of knowledge, skills, attitudes and ultimately behaviours that translate into sound financial decisions and appropriate use of financial services" (Center for Financial Inclusion at Accion, 2013). This is a result of limited awareness and experience with financial services. For youth living in poverty, limited financial capability might be transgenerational, as parents and other adult networks might also have little experience with formal financial services to pass on to their children (Ramirez and Torres, 2014). Young people might perceive financial services as being neither accessible nor affordable, further limiting their ability or desire to interact with FSPs (SEEP, 2013).

- Young people's lack of experience reinforces negative biases on the part of FSPs, which tend to perceive youth as unable to save or constituting high credit risks. Gender discrimination can also affect the ability of young women to develop their own financial capability, as some countries and regions restrict women's social mobility and ability to access finance, including opening up a bank account (Demirguc-Kunt, Klapper and Singer, 2013).

Lack of client protection principles adapted for youth clients

- Young people's inexperience with financial services can render them more susceptible to certain risks. Youth are at risk of unscrupulous financial practices that can lead to over-indebtedness or erosion of savings from excessive bank fees; engagement in risky behaviours for generating income; safety risks associated with holding or carrying cash; potential mistreatment by business partners, family members or peers; and appropriation and misuse of savings by family members (James, 2013; Perdomo, 2013). Certain subsegments of the youth population, such as adolescent girls, can be particularly vulnerable (Austrian and Wambugu, 2012).

[2] Know Your Customer is the process used by FSPs to verify the identity of the client. The policies are used globally to prevent identity theft, financial fraud, money laundering and terrorist financing.

Lessons learned

In spite of the challenges, experimentation with youth financial services (YFS) has resulted in significant lessons learned on what works and what does not work well in promoting youth financial inclusion. The lessons learned in this section are divided into two main categories: “Strengths in the field of youth financial services”, which synthesizes good practices in facilitating financial access to youth, with highlights on rural aspects, and “Challenges to youth financial services”, which synthesizes challenges FSPs are facing in the offer of financial services for youth, including gaps in knowledge.

©IFAD/Cristóbal Corral
Plurinational State of Bolivia – Enhancement of the Peasant Camelid Economy Support Project

Strengths in the field of youth financial services

With the implementation of multiple demonstration projects of youth financial services over the past decade, there is now a more extensive knowledge of what is effective in offering YFS and under which conditions. This section describes the main lessons learned from the documentation of those practices, with particular emphasis on their application to rural youth.

Knowledge of youth financial needs and behaviours

Extensive documentation of the financial behaviours and needs of young people, in both rural and urban areas

- Numerous market research studies have been conducted in Africa, Asia and Latin America on the financial needs, behaviours and preferences of young people, as well as their attitudes and knowledge of formal and non-formal financial services (SEEP, 2013). These studies have shown that young people do have access to money, though their sources of income might be small and irregular; they do save, often irregularly and in unsafe places; they do borrow, most often informally, to start a business or continue with their education; and they do want access to formal financial services that can better meet their growing needs (see Annex A for a synthesis).

- Although any new RFS project targeting youth still requires an assessment of market conditions, this knowledge can now be used to streamline market studies and ramp up services in a shorter time frame. Instead of trying to determine whether there is a demand for financial services by young people in rural areas – which there is – FSPs can focus on designing appropriate products that match the specific conditions and demands of rural youth.

Recognition of a life cycle approach to financial services

- Financial needs and uses of financial services evolve over a person's lifetime. A life cycle approach can help design projects that are relevant and appropriate at different stages and transitions of a young person's life (Kasprowicz and Rhyne, 2012). Young people want and need financial services to help them manage financial pressures related to key life transitions, such as going to school or attending vocational training, starting a business, getting married, taking care of their children, and sometimes for supporting elderly family members. In rural areas, youth might start facing increasing financial pressures at an earlier age than urban youth. For example, rural girls tend to get married and have children at a younger age (UNFPA, 2012).[3]
- In addition, a life cycle approach would be layered with additional social and economic dimensions specific to rural areas, such as migration. Facilitating access to credit might provide financial alternatives to youth who do not want to migrate. For youth who do migrate, having access to adequate financial instruments, such as affordable and cost-effective remittance products, can benefit the economic development of their communities of origin and lead to long-term productive capacities (UNICEF, 2014).[4]

Achieving sustainability of financial and non-financial services

There is growing evidence of the potential for FSPs to achieve financial sustainability for youth savings products over the medium to long term (three to five years)

- In relation to other customer segments, youth usually deal with smaller amounts of money, use fewer financial products and transact less frequently. Yet, for the FSP the fixed costs of providing an account remain the same as in any other segment. This can result in lower revenue for FSPs from youth. However, recent financial analyses of YFS, primarily consisting of savings accounts, have been conducted showing the potential for FSPs to reach a break-even point within five years (Loupeda, 2014; Muñoz, Perdomo and Hopkins, 2013).
- Financial sustainability depends on an institution's ability to balance the costs and revenues of serving youth. This balancing act is influenced by multiple internal and external factors. Internal factors include the opportunity cost of offering YFS instead of investing resources in other product lines; institutional capacity and infrastructure to offer and deliver the services; and the required time horizon to generate a profit. External factors include the level of competition, the regulatory and policy environment, and the characteristics of the target youth market (Kilara, Magnoni and Zimmerman, 2014).
- In rural areas, where operating FSPs might not face much competition, there is potential for higher returns (that would not be as easily available in more saturated markets). However, reaching the subsegment of rural youth might also imply higher costs in transportation and time to reach rural areas.

Generating revenue efficiencies, such as cross-selling, can leverage the financial sustainability of YFS

- FSPs can generate income from lending youth savings to adult or young borrowers. This income might be sufficient to cover the operating costs of offering services to youth. Moreover, an FSP can also generate revenue from cross-selling other products to young people as they grow older. A cross-subsidy refers to the strategy of an FSP to consider the profits generated by more profitable financial products as a mechanism to compensate for lower-profit products. This would be the case for savings accounts for minors, which are likely to need to be cross-subsidized with higher-margin products such as savings accounts and loans for older youth or adults. Cross-selling financial products to adult family and friends of youth is also viewed as having the potential for generating significant cross-subsidies, though this strategy is still being tested (Kilara, Magnoni and Zimmerman, 2014; Loupeda, 2014; Muñoz, Perdomo and Hopkins, 2013).

---

[3] According to the United Nations Population Fund, girls in rural areas are twice as likely to be married before the age of 18 as urban girls.

[4] The Global Migration Group points out that "while migration and remittances are not a substitute for domestic-driven development, if thoughtfully utilized they can play an important supportive role, particularly for impoverished families and communities" (UNICEF, 2014).

FSPs need to optimize expenses to ensure the financial viability of the services

- Given the low profit margins of some youth products, FSPs need to keep operational costs to a minimum (Loupeda, 2014; Muñoz, Perdomo and Hopkins, 2013). This can be achieved by utilizing low-cost marketing strategies, such as promoting youth products to adult clients during regular field visits of staff. In addition, staffing costs for serving youth can be lowered if youth products represent one more product line that staff manage and promote. While dedicated staff for youth products can achieve greater scale, this would be feasible only for large FSPs with sufficient institutional muscle.

Solidarity credit groups represent one strategy for FSPs to make credit available to young people while reducing their risk exposure

- Groups are being used in lieu of collateral for youth loans. However, youth groups are not appropriate in every context, as there can be problems with intragroup dynamics and difficulties with youth members dropping out due to migration pressures (Ramirez and Nelson, 2014). Some youth report a preference for borrowing individually (MEDA, 2014b).

Non-financial services can be financially sustainable

- Although non-financial services are cost-drivers, there are strategies for offering these services cost-effectively. They can be subsidized through some of the more profitable youth products (Loupeda, 2014). This is a viable strategy because non-financial services and financial services can be mutually reinforcing. For example, financial education in a rural area might guide young participants in developing a savings plan to meet a long-term objective, such as saving for livestock, which can then be used to start a business in animal husbandry. A savings account and a loan can then help that young person turn that objective into reality.

- Another key strategy for making the non-financial services financially viable is training FSP field staff to deliver simple and relevant education, such as financial or business education, along with the financial service (Dunford, 2001). This strategy is most effective when the education is simple enough and FSP staff have been trained adequately.
- In rural areas, relevant financial education might include developing a savings plan for lean times, which are typical in agriculture-based economies, and entrepreneurial training would include farm-based examples of income-generating activities.

Reaching scale with youth financial services

Scaling up youth financial services is achievable when the FSP is fully committed to serving young people

- Staff at all levels of an FSP need to have a long-term vision and commitment to offering YFS in order to reach a significant scale. At the top level, the leadership's commitment needs to be reflected in the strategic and business plans, investment of resources, and the alignment of incentives for staff working with youth clients. Without a visible commitment to serve youth from the top levels of the FSP, there might be insufficient buy-in from field staff, who might not prioritize youth in their daily work. In order for this commitment to become institutionalized, the FSP also needs to demystify any concerns staff might have about youth clients by training staff in providing youth-friendly customer service so that young people feel welcomed by the FSP. (Linder et al., 2012; Mizrokhi, 2014; Ngurukie and Deshpande, 2013).

Savings services are scalable

- *Youth savings services have proved they can reach a very large scale.* Significant scale has been reached by both formal savings products (i.e. savings accounts, primarily in urban areas) and non-formal ones (i.e. savings groups, primarily in rural areas) (see Box 5). Scale is partly a result of institutional muscle – the larger the FSP, the more human and financial resources it will have to reach out to more youth. But even small FSPs have shown they can reach youth on a scale relative to their size (Loupeda, 2014).

Box 5. Scale of youth savings

Some of the largest youth financial projects taking place are reporting large outreach in the number of young people opening savings accounts with FSPs and participating in savings groups. This table lists the total number of savings accounts opened and the number of young people in savings groups.

Savings accounts *(Data on the total amount in savings is provided where available.)*

YouthSave Consortium – Save the Children, Consultative Group to Assist the Poor, New America Foundation, Center for Social Development (implementing in Colombia, Ghana, Kenya and Nepal) reports as of August 2014:

- 103,000 savings accounts
- US$873,000 in total savings

United Nations Capital Development Fund YouthStart (implementing in Burkina Faso, Democratic Republic of the Congo, Ethiopia, Malawi, Rwanda, Senegal and Uganda) reports as of September 2014:

- 411,018 savings accounts
- US$12,600,000 in total savings

Mennonite Economic Development Associates YouthInvest (implementing in Morocco) reports as of 2014:

- 23,362 savings accounts

Women's World Banking (implementing in the Dominican Republic, Ethiopia, India, Mongolia and Nigeria) reports as of 2014:

- 62,000 savings accounts

Youth savings groups

Plan Canada (implementing in Niger, Senegal and Sierra Leone) reports as end of 2013:

- 88,000 youth in savings groups

Freedom from Hunger (implementing in Mali) reports as of 2013:

- 24,070 young people in savings groups

Sources: Markel and Panetta, 2014; MEDA, 2014a; Newton, 2014; Ramirez and Nelson, 2014; Save the Children, n.d.; UNCDF, 2014a.

Scalable approaches to savings accounts have incorporated more flexibility in the account opening requirements, reduced account-opening amounts, provided greater account control for the youth and simplified the product design

- FSPs that have achieved significant scale have also addressed key barriers young people face in accessing financial services, especially KYC requirements (Linder et al., 2012; Ngurukie and Deshpande, 2013). Depending on the extent of the local regulatory framework, FSPs have been able to accept alternative forms of identification that are more accessible, such as baptism certificates, school registrations, village IDs, voter's card, driving licences, certificates from vocational training centres or even recommendation letters from the village chief or from local authorities. This flexibility in account opening requirements is especially critical in rural areas where youth might face more difficulties in obtaining a formal identification.

- Opening of accounts is also facilitated by low initial deposits as well as low or zero account fees. Although young people do have access to money, this tends to be in small amounts, especially in rural areas. Often, young people rely on pocket money from their parents or day wages for doing casual agricultural work such as harvesting or weeding (SEEP, 2013). Young people are going to be attracted to savings accounts that are not going to erode their small savings.

- Accounts that provide control mechanisms are very attractive for minors. Youth want to have as much control as possible over their account, and want their financial transactions to be private so that they can operate their accounts themselves separately from their families or the household where they live.

- Flexible deposit and withdrawal features are also needed to meet young people's needs. Being able to make a deposit or withdrawal at any point is especially critical for rural youth, who tend to have irregular income as a result of the lack of regular job opportunities or the seasonal nature of agricultural activities. Even for younger youth who might rely on their parents for money, the parents themselves might have irregular income. This creates the need for flexible terms with limited restrictions on the time of deposits and withdrawals.

- Young people want simplified financial products and limited paperwork. Simple and transparent terms might be easier for young people to understand and take up (see Box 6). Moreover, youth want to be clear about the amounts they have saved and any fees the FSP might be charging.

Box 6. Keeping it simple

In Nepal, the Bank of Kathmandu and Save the Children offered bundled products, a fixed savings account along with a regular savings account, but learned from a pilot test of a youth savings product that a simplified product design was needed.

"During market research, youth had indicated that they wanted help accumulating larger sums over longer terms, and were even willing to have a portion of their savings blocked to accomplish this. Having both a fixed account component, for longer-term accumulation, and a regular savings account component, for liquidity, was meant to respond to their needs. But interviews and focus groups with youth account holders during the pilot did not reflect a real understanding or appreciation of the bundled account design – even though youth expressed the same desire for longer-term savings as they had in market research. This, combined with the operational risks and burdens associated with needing to split each deposit between two accounts, prompted the pilot test team to eliminate the fixed deposit feature."

Source: Ngurukie and Deshpande, 2013.

Savings accounts need to be an entry point to formal financial services

- Experience has shown that young people need to tap into formal savings accounts prior to using other types of financial services, especially loans. This savings-first approach builds young people's capacity and confidence in using formal financial services and serves as a basis for building assets for the future (Erulkar et al., 2006; Kilara and Latortue, 2012). Having access to a formal bank account from an earlier age also helps youth establish a financial track record, which could eventually help them access other financial products such as loans (Linder et al., 2012).

Schools are effective entry points for reaching large numbers of young people, especially minors

- Reaching out to schools as an outreach strategy is cost-effective for FSPs since they provide a central point where youth already congregate, thus creating economies of scale. Financial services are being offered on school campuses with the help of teachers or other trusted adults. Schools also provide an ideal platform to deliver non-financial services, such as financial education (Ngurukie and Deshpande, 2013; Ramirez and Nelson, 2014). Schools in rural areas might capture younger youth on average, since youth in rural areas tend to drop out of school at an earlier age.

Youth savings groups represent an alternative strategy for offering financial services to out-of-school youth in rural areas

- Out-of-school youth is a subsegment of the youth population that is particularly vulnerable and difficult to reach. These youth can be organized into non-formal youth savings groups in remote villages; for instance, through community development organizations. Youth might also participate in adult savings groups that have already been formed (see Box 7). Youth savings groups provide a mechanism to gather rural youth on a regular basis, where they can engage with savings and loans within their group, and receive complementary financial or business education (Ramirez and Fleischer-Proaño, 2013).

Box 7. Youth in adult savings groups in Ecuador

In Ecuador, adult savings groups have been organized since 1999 through the Ecuador Peace Corps programme. The Peace Corps estimates that the programme, *Programa de Ahorro y Crédito* (PAC), has grown to approximately 50,000 members in 1,500 community banks. Although PAC does not have a specific strategy for engaging youth in community banks, surveys in some of the regions have found there are, on average, approximately seven young people per community bank.

"When asked why they have youth in their community banks, the members responded that it is important for them to learn how to save from a young age. One member in Loja said: 'The children are the future.' In some cases, the youth have requested to be in the community bank so they can save and participate in the activities such as bingo and raffles."

Source: Proaño, Gash and Kuklewicz, 2010.

Loans have some potential for scale

- *There is some emerging experimentation with context-appropriate youth loans*. FSPs are experimenting with more flexible and appropriate loans for young people that meet their financial capacity and needs. Although loans were the main financial product available to youth at one point,[5] young people have always struggled to meet credit requirements. Most loans for youth have been provided for established businesses rather than startups. Youth loans are now becoming more available for startups and have some relaxed requirements, such as solidarity guarantees or graduating from a training programme in lieu of individual collateral, and a repayment grace period. Loans tend to be small, especially for startups. In most cases, loans are accompanied by training and technical assistance to improve financial and entrepreneurial capacity, including developing a business plan (e-MFP, 2012; FAO, 2014; IFAD, 2014d; MEDA, 2014b).
- In rural areas, youth loans are being provided for agriculture (to buy equipment), microenterprises along agricultural value chains (such as agroprocessing) and non-farm enterprises (food preparation) (FAO, 2014; IFAD, 2014d). Financing for acquiring land is not common, but there is some experimentation with this approach (see Box 8).

Box 8. Rural loans for young people

Mexico – The Government of Mexico partnered with the World Bank and the Food and Agriculture Organization of the United Nations (FAO) to implement the Young Rural Entrepreneur and Land Fund Programme. With this programme, "selected youth are trained in business and, together with a programme advisor, they develop business plans. The business plans are presented to a Rural Finance Agency and if approval is granted, the Government provides loans to cover 100 per cent of the price paid for the land. Loans are given at the interest rates applied by other commercial banks in the country and are designed to support only the most viable projects."

Source: FAO, 2014.

Impact of financial services on the financial behaviours of young people

Youth have the capacity to save money and build assets

- Market research studies and demonstration projects conducted over the past several years across different continents have demonstrated that youth do have the capacity to save (SEEP, 2013). Even in rural areas where young people have limited and irregular access to money, young people can save enough money over time to buy small assets, such as livestock (Gash, 2014).

[5] According to a United States Agency for International Development survey (USAID, 2005), loans were the products most commonly offered by FSPs to young people.

Youth savings groups can develop financial capability

- Youth savings groups are not only a viable strategy for rural areas where formal financial services are limited, but they also have the potential to develop lifelong financial skills and savings habits (see Box 9).

Box 9. Building a savings habit

In Mali, Freedom from Hunger partnered with two local NGOs, CAEB (*Conseils et Appui pour l'Education à la Base*) and Le Tonus, to form and manage youth savings groups in rural areas. Monitoring and evaluation revealed that the groups, when compared with individual savings approaches, had the potential to develop positive savings behaviours and long-term savings habits.

"Because youth are at a stage in their lives when they are particularly susceptible to peer influence, groups can positively impact their financial behaviors through a group structure, integrated financial education and the dynamics of social pressure and social capital. When young people start saving early, they increase their potential to develop a savings habit that can carry into their adult lives, strengthening their financial capabilities as they begin to face increased financial and social responsibilities."

Source: Ramirez and Fleischer-Proaño, 2013.

Loans are essential for improving the productive capacity of young people, especially for the landless

- For rural youth who do have land, financing is essential to pay for the inputs and equipment needed for planting, harvesting and reaching markets. Even if land is available, the plots might be very small, so investments in increasing the yield of the land and generating value-added agricultural products can help increase income. For landless rural youth, access to loans is essential for starting their own businesses. In addition to livestock and crop production, businesses might range from agribusinesses along value chains (food processing, storage) to non-farm businesses (construction, manufacturing, commerce and services) (FAO, 2014).

There is emerging evidence that youth have the capacity to repay loans and that youth loans are not riskier than adult loans

- Although data on the performance of youth loans is limited, some FSPs report that their youth portfolio at risk is at the same level, or even better, as those of adult loan portfolios (Al-Waell and Storm, 2011; Making Cents International, 2011; Mizrokhi and Baker, 2014). But the success hinges partly on the additional support of business education and/or technical support from the FSP.

Young people need safe spaces and consumer protection

- Access to financial services can have positive impacts on the lives of young people, but adequate protection measures are needed to prevent any harmful practices. For vulnerable youth, especially adolescent girls, such protection might take the form of "safe spaces", in which girls can gather without feeling any pressure to engage in any unwanted activities (see Box 15). There is also a movement to adapt and incorporate consumer protection principles for youth financial services and risk monitoring tools to ensure youth can make the best use of the financial services (CYFI, 2012; James, 2013; Perdomo, 2013).

Linking government-to-person payments to youth savings accounts has the potential for long-term impact on young people's lives

- Conditional-cash transfer programmes have been shown to have positive impacts on children's health and education (Adato and Hoddinott, 2007). Although payments are generally made to the mothers, channeling some of the payments directly to a youth savings account could help the young person accumulate assets from an early age that can be used for productive purposes later in life (see Box 10).

Box 10. Youth with opportunities in Mexico

In Mexico, the conditional cash transfer programme *Oportunidades* has included an additional benefit for participants, consisting of savings accounts for youth to incentivize continued education.

"An account is opened in a child's last year of middle school and 'points' are deposited in the account for each year of high school the student successfully completes. Upon graduation, typically at age 18, the points are converted into approximately $336 cash, which the youth can then withdraw or leave in his/her savings account at BANSEFI, the programme's affiliated financial institution. The student is also able to use this specialized account as a personal savings account, making and withdrawing deposits. However, the cash payout associated with accumulating points is not available until the account holder graduates. Since its inception, more than 330,000 youth have opened savings accounts with the youth programme."

Source: Zimmerman and Moury, 2009.

Non-financial services are considered essential ingredients for building the financial and business capability of young people

- It has become the norm to offer non-financial services along with financial services for young people. Savings are usually paired with financial education and/or life skills training. Financial education commonly develops the skills and knowledge to make appropriate money management decisions. Recent studies on the impact of financial education suggest that the education may result in improved savings (IPA, 2014; Jamison, Karlan and Zinman, 2014).
- Loan products can have greater impact on the financial lives of young people if accompanied by business development services, including training on business planning, financial management and entrepreneurship, or technical vocational training (e-MFP, 2012). With these programmes, young people often need to develop a business plan in order to be eligible for a loan. Financial education focused on obtaining and managing credit is also a common supplement to loan programmes (MEDA, 2014b).
- In rural areas, specialized business development services linked with a financial product have focused on fostering agribusinesses. The training has been especially adapted to the specific needs of entrepreneurial youth in rural areas (see Box 11).

Box 11. Rural high school entrepreneurship training and access to credit

Fundación Paraguaya has set up a rural school in Paraguay that integrates traditional high school subjects with business and entrepreneurial training. Students not only learn about running a business, they also implement them. Students run small-scale, on-campus agricultural enterprises. These competitive school enterprises (dairy/milk processing, organic gardens, roadside stores, rural hotels, etc.) serve as platforms for students to develop technical and entrepreneurial skills. To graduate, each student must have developed a viable business plan for which he or she obtains a line of credit. Upon graduation, students either start their own small enterprises, find a job in the agricultural sector, work as rural extension agents or teachers at other schools, or continue on with university.

Source: Fundación Paraguaya, n.d.

- There is consensus, however, that not all youth have the inclination or aptitude to become self-employed, so any type of training needs to be sensitive to youth preferences and capacities (e-MFP, 2012).
- Qualitative research has shown that young people do want education and training, but the education must be relevant to their current lives and their aspirations for their future. The education should also be relevant to the type of financial product that is made available so they can put into practice what they learn. Education should ideally be delivered at a time when they are making financial decisions or transactions and should not cover too long a period of time. (Perdomo, 2013; Ramirez and Nelson, 2014). Shortened versions might be needed in rural areas given the time staff already have to spend travelling (e-MFP, 2012).

Use of technology to promote youth access to financial services

Technology is facilitating access and usage of financial services

- There are several different types of technology innovations that are making financial services more accessible for rural communities. These innovations are especially promising as a means of furthering youth financial inclusion because young people are known to be early adopters of new technology (see Box 12). Preliminary data on mobile ownership by young people across the developing world indicates that youth own or have access to mobiles at rates that are nearly equal to or greater than the rates for adults (Zimmerman et al., 2013). The use of technology and mobile phones for product delivery also has the potential to reduce costs. A Consultative Group to Assist the Poor study on branchless banking showed that using mobile technologies can be, on average, 19 per cent cheaper than branch-based banking (Mckay and Pickens, 2010).

Box 12. Tech-led youth financial access

A variety of organizations are utilizing technology innovations to facilitate youth access to financial services:

Ecuador: Freedom from Hunger's partner cooperatives use smartphones, which field staff take with them during field visits to schools to collect savings directly from the youth.

Kenya: YouthSave partner Postbank developed its SMATA (*smata* means "the smart one" in Swahili) savings account geared towards 12- to 18-year-olds. Like other Postbank customers, SMATA customers can use Postbank's mobile banking system, PataCash, to deposit and withdraw money from their account through M-PESA.

Democratic Republic of the Congo: United Nations Capital Development Fund YouthStart's partner, FINCA DRC, uses school-based agents who use point-of-sale devices for account opening and transactions so that students do not have to leave school premises.

Source: Linder et al., 2012; Ramirez and Nelson, 2014; Zimmerman et al., 2013.

- Mobile banking is especially relevant in facilitating access to RFS for youth because it can reduce the time and expense of travelling to the nearest FSP branch. Mobile phones or point-of-sale devices can be used by FSP staff to capture savings in rural areas. Youth account holders can also make deposits and withdraw money through mobile banking. Mobile banking can be linked to savings groups to facilitate access to a variety of financial products and even serves as a mechanism to help manage group financial transactions (see Box 13). In remote rural areas that lack FSP presence, such tools can be instrumental in linking young people to formal financial services.

Box 13. Technology innovations for savings groups

"Grameen Foundation is working with Barclays and CARE to introduce technology to village savings and loan associations (VSLAs)[6] to improve their access to financial services. This work has resulted in the development of a smartphone application called Ledger Link that allows a VSLA to record its meetings in the app and submit the data to the bank for secure storage. This valuable financial data is no longer at risk of being lost in case of theft or destruction of the metal box where the group stores its paper ledger. By sending data to the bank, the VSLA will also build a credit history that can inform future loan applications."

"Grameen Foundation is also working with Airtel to develop a new type of mobile wallet. This will allow groups to store money securely in a group wallet protected by 3 PINs (much like the three padlocks). VSLAs with bank accounts will be able to push and pull money to and from the account, reducing the costs, time and risk associated with carrying it to the bank physically. This product will also be offered to the groups banking with Barclays."

Source: Robinson, 2014.

[6] VSLAs are also known as savings groups.

- Mobiles can enhance youth financial capability by encouraging particular behaviours and the formation of good habits. Text message reminders can be used to nudge youth towards particular actions related to managing their money, including saving (Karlan et al., 2010). For example, text messages with financial education messages, such as reminders to save, can be sent to youth account holders along with their savings balances.Role of social networks in promoting youth access to financial services

Parents and caregivers can play a crucial role in the ability of young people to access and use financial services

- Parents can affect the ability of youth to use financial services in multiple ways. Parents can co-sign on a savings account for a minor; provide money for their children to deposit into a savings account; help an older youth repay a loan; or provide a loan guarantee. Although the financial outlay from the parents might be difficult during financially lean times, parents are often more than willing to help out their younger children. But there might also be an expectation by parents that youth will reciprocate and contribute to household needs. As a result, adopting a household-level strategy to offer financial services in rural areas might be efficient and sustainable in the long run (e-MFP, 2012; Ramirez and Torres, 2014; Storm, Porter and Macaulay, 2010).
- However, as evidenced by market research studies, not all youth want their parents or other caregivers involved in their finances. To address this, there are mechanisms that can meet regulatory requirements for minors while providing control over young people's own finances (see Box 14).

Box 14. Youth control on bank accounts

The savings accounts designed through the YouthSave Consortium in Ghana, Kenya and Nepal had a special provision "stipulating that trusted adults on the savings account cannot access funds without the consent of the young account holder."

"Older youth (those above 15 years of age) expressed the desire for even more control over their account, e.g. sole ownership, without a trusted adult. (This was less of an issue in Nepal where regulations permit anyone over the age of 16 to open a bank account in his or her own name.) Furthermore, some of the youth clients specifically did not want to hold an account jointly with their parents. In response, the bank partners designed their accounts so that the trusted adult could be any legal major of the youth's choice."

Source: Ngurukie and Deshpande, 2013.

Potential for cross-sales to parents

- One of the business case justifications for offering YFS is the potential to attract young clients' parents or other adult relatives to the FSP, creating cross-sales of more profitable financial products. The premise is that once youth create a formal relationship with an FSP, adult members of the household might be open to following their example and utilizing financial products offered by the FSP. This can also be true for the wider social network of young people, including family, friends and other members of their community (Kilara and Latortue, 2012).
- The evidence of such cross-sale potential is anecdotal at this point. The level of competition and the position of the FSP in the market is a significant determinant when trying to attract anyone in the youth's network as a client. If the parents already have an account with another FSP, convincing them to switch their finances to a different provider is likely to be more difficult. As a result, the opposite case could be true – existing adult clients can help attract their children to the FSP. Either way, FSPs need to determine mechanisms that foster appropriate levels of adult-child participation in financial services.

Trusted adults, other than parents and relatives, can also facilitate access

- FSPs can create strategies to circumvent unwanted parental involvement, such as the use of voluntary mentors or advisers to help youth open and manage their accounts independently (see box 15). However, for these models to be successful, mentors should have enough technical knowledge and competency to provide financial guidance and they should be highly trusted by the young people. Such a model would also require adequate client protection mechanisms and risk monitoring tools to prevent any abuses by the mentors.

Box 15. Increasing youth financial access through a mentor model

"The Population Council, MicroSave, Faulu and K-REP Bank developed a savings programme for girls aged 10-19 years old, in the large slum of Kibera, in Nairobi, Kenya. The accounts are delivered using the *Safe Spaces Model*: Girls are organized into groups that meet each week, and during the weekly meetings the girls are trained on basic health and financial-education topics. Each group has a mentor – a young woman from the community who receives a small stipend, runs group meetings, and helps mobilize girls. The mentors go through an intensive training of trainers at the start of the programme cycle. Findings from an internal evaluation show that the programme was successful in building girls' social assets, providing critical reproductive health information, and empowering girls with financial skills and economic assets."

Source: Austrian and Muthengi, 2013.

Mentoring programmes with experienced business owners can build the business and financial skills of young entrepreneurs and farmers

- Young people want mentoring and guidance from other more experienced youth (The MasterCard Foundation, 2014). Some mentoring programmes engage older youth who have significant experience to mentor those who are younger and less experienced (see Box 16). The mentoring from experienced business owners or farmers can further develop the financial and management skills of young people to access the financing needed to start or grow a business.

Box 16. N-agripreneurs in Nigeria

The Nigerian Government launched the national Youth Employment in Agriculture Programme in which young university graduates who are running medium-sized enterprises are recruited to provide mentoring to young people interested in agro-based activities (e.g. farming as a business, small-scale processing, input supply and marketing).

Source: IFAD, 2014d.

Challenges to youth financial services

Sustainability

Evidence of sustainability of financial services has focused mostly on savings services that have been subsidized

- With the majority of the most recent YFS projects offering primarily youth savings, coupled with financial education, the in-depth financial projects that are now available have focused on the costs and revenues of offering savings products. There is a need to conduct more extensive analysis of other youth financial products, especially loans, with special emphasis on RFS for youth. This information is necessary so that FSPs can determine how best to offer financial products for youth sustainably over time.

- Many projects have received significant donor subsidies during the pilot stages, but subsidies are being phased out in the scaling up of services. The subsidies have covered the provision of non-financial services, training, marketing and technology innovations. In recognition of the temporary nature of the subsidies, financial analyses have identified cost-effective mechanisms and revenue-maximizing strategies to ensure financial viability over time without subsidies (see Box 17).

Box 17. Strategies for optimizing expenditure and maximizing revenue

Optimizing expenditure

- Increase staff productivity (augment number of youth reached per staff member) via technology.
- Incorporate youth services into regular staff responsibilities instead of assigning staff dedicated only to youth products (unless there is enough institutional muscle to justify the expense).
- Lower marketing expenses by promoting youth products via existing clients or local youth-serving organizations rather than traditional mass media (TV, radio), and reducing or eliminating small prize incentives (which have not been proven to be cost-effective).
- Offer non-financial services through the FSP's own staff instead of outsourcing the services.
- Maintain competitive and sustainable interest rates on youth savings accounts (promotional rates over the market rate will not be sustainable over time).

Maximizing revenue

- Promote a variety of services that allow youth to meet several of their financial needs with the same FSP.
- Train staff in cross-selling techniques to networks of both adult and youth clients.
- Implement mechanisms to encourage growth in savings balances (which can be on-lent) through text messages or in-person reminders to both youth and their caregivers (where appropriate).

Source: Loupeda, 2014; Muñoz, Perdomo and Hopkins, 2013.

Encouraging the growth of savings balances after accounts are opened is critical for sustainability

- While account opening by youth is a significant hurdle in itself, encouraging young people to continue depositing into their account and grow their savings balance is just as challenging and important. Previous experience with savings accounts for the poor showed the danger of a supply-driven push for account opening, only for the accounts to become dormant after several months (Grameen Foundation, 2013). Savings balances are needed to provide the capital that can be on-lent for loans.
- Nudges that can encourage young people into saving include reminders via text messages, peer pressure through savings groups, incentives and rewards for reaching savings targets, and automatic defaults (such as automatic deposits in savings accounts from wages) (Pathak, Homles and Zimmerman, 2011).

Scale

Achieving scale of non-savings financial products has been limited

- Youth loans continue to be very limited. Despite some of the innovations and emerging evidence on the viability of youth loans, FSPs remain reluctant to offer youth loans at scale because youth are still perceived as being too risky. This creates a vicious cycle, where a lack of large demonstration projects prevents more extensive evaluations of effective mechanisms for offering credit to young people.
- Loans for startups also present a challenge for young entrepreneurs because the amounts tend to be smaller than the amount requested or required by young borrowers. Small loans are troublesome because without an adequate initial investment it might be difficult to make the business sufficiently profitable to both repay the loan and develop the activities.

©IFAD/Ricardo Gaitan
Venezuela – Economic Development of Poor Rural Communities Project

- Other financial products, such as agricultural insurance, have been even less available to young people. In fact, lack of adequate insurance mechanisms for rural areas affects adults just as much. Insurance is crucial for providing farmers with protection against adverse weather conditions or pests. But formal agricultural insurance markets have not fully developed in developing countries as a result of inadequate market infrastructure. There are some recent insurance innovations, however, for smallholder farmers that have potential as an efficient risk-management tool (see Box 18). Given that young people are often smallholder farmers, they would greatly benefit from additional experimentation with such innovations in insurance tools.
- There is a clear need to invest in innovations and share the successes of youth access to a variety of financial services while also building the capacity of FSPs to design and deliver viable financial products for rural youth.

Box 18. Insurance opportunities for poor rural people

Weather index insurance is a recent alternative insurance product for smallholder farmers. Under this mechanism "farmers get a pre-specified compensation according to the value of a particular weather variable (the index)."

But to reduce the complexity and limitations of this product, the International Food Policy Research Institute (IFPRI) has proposed a number of novel approaches, including offering "an array of products (weather securities), each with a simple payout structure: fixed compensation linked to a single trigger for the index. Under this approach, a farmer could create a portfolio of products to suit his or her individual drop risk failure". IFPRI has also proposed shifting from insuring individual farmers to insuring aggregators such as farmer associations or microfinance institutions, which would protect against severe weather affecting everyone in an area and has potential for massive loan write-offs.

Source: Ceballos and Robles, 2014.

Achieving scale of formal financial services with out-of-school youth needs alternative approaches

- Schools should not be used as the only entry point to reaching out to rural young people because a significant out-of-school segment would be left out. Also, not all school systems are open to having financial services promoted on their campuses. There is a need to find alternative outreach channels. Vocational centres, community-based development organizations, youth-serving organizations, sports centres or organizations, and even religious institutions can provide a central gathering place for young people and offer financial services and complementary training.

Impact on gender

Results from youth savings projects indicate that there is a gender imbalance

- There are more young men opening formal savings accounts than young women (Johnson et al., 2013; UNCDF, 2014b). Some loan projects also report that women borrowers borrow less than their male counterparts (MEDA, 2014b). In contrast, youth savings groups in rural areas attracted more women participants (Ramirez and Nelson, 2014), which is not surprising given that savings groups have traditionally been comprised of women.

Financial products are not meeting the needs of migrating youth

- Rural youth face many economic and social pressures to migrate to urban centres or internationally. While migration represents an opportunity to earn income and send remittances back home, migrating youth are very vulnerable to engaging in costly activities that might be more readily available in an urban setting. Building the social and financial capacity of rural youth before they migrate might help mitigate these dangers. This might be accomplished by linking young people with savings accounts before they migrate, so they can continue tapping into the accounts if they do migrate. Also, offering combined affordable remittance products to both migrants and their relatives (lower costs of transfers, financial education, incentives to open formal accounts) would also benefit the communities of origin economically.

There is a need for more evaluation of the long-term impact of financial and non-financial services for young people

- For the moment, there is not enough evidence available on the long-term impact of young people having access to financial services early on in their lives. There is also no evidence yet for developing countries as to whether opening an account now will lead to customer loyalty as youth grow up. Evaluating these dimensions is critical to ensure that project designs have a positive impact on the lives of rural youth as well as on the FSP's bottom line.

There is limited data disaggregated by age, geographical location and business activity

- The monitoring and evaluation systems of financial services for young people need reliable data disaggregated by age and geographical location. More data on the extent of RFS for youth can also help inform how projects are designed and implemented.

Technology

There are challenges to using mobile technology to promote youth financial inclusion

- Mobile phone access is more prevalent among youth over 18 years of age because in many countries ownership of a SIM card is limited to people over 18 (Zimmerman et al., 2013). It is also common for one family to share one phone. Mobile phone coverage in developing countries varies widely.
- While mobile banking is still in its infancy and the infrastructure and regulatory frameworks are not always adequate for the demand, there is great potential for mobile banking to bridge the physical gap that rural youth face in accessing financial services. There is a need for more innovation and evaluation of new technologies, policies and regulations to maximize the potential of technology to promote youth financial inclusion.

Follow-up and strategic recommendations

Recommendations for future practice

IFAD can promote sustainable and scalable access to financial services for young people in rural areas through a number of mutually reinforcing strategies.

1. Identify FSPs that are committed to serving young people over the long term and invest in building their capacity to reach out to youth in rural areas. Capacity-building of FSP staff with IFAD support should include:
    - Developing a long-term strategy for offering youth financial services in rural areas.
    - Designing financial products for different life stages (starting with savings for minors) and for different rural financial needs (farm and non-farm).
    - Identifying alternative approaches for meeting KYC and other institutional requirements to access financial services.
    - Building institutional capacity of FSP staff at all levels to serve young clients.
    - Incorporating monitoring systems that can disaggregate data by age, gender and geographic location.
    - Designing strategies that involve both adults (including parents and young adult mentors) and youth.
2. Support (and fund as needed – see Box 19) demonstration projects of youth loans for farm and non-farm activities, and ensure that results are shared widely.

Box 19. Matching grants in El Salvador and Nigeria

Matching or full grants have been used by IFAD as an exceptional mechanism to finance young people in rural activities that create jobs or have community-wide benefits. The grants are provided only in cases where young people have received the necessary training to engage in agricultural activities but are unable to access financing from reluctant FSPs. Without the necessary financing these young people might not be able to use their skills.

In El Salvador, a seed capital fund created by PRODEMORO provides matching grants to rural youth on a competitive basis. Youth participate in microenterprise development training in which they prepare a business plan, often focused on food preparation and agroprocessing. The participants' match is often provided by their parents.

In Nigeria, the Community-Based Natural Resource Management Programme is providing seed capital loans-cum-partial grants to young people from very poor families. After completing training in business management skills and credit handling, participants prepare a business plan that responds to local demand and submit it to the local community development committee for financing. The start-up loan may be in cash or in kind (e.g. a start-up package of equipment/tools). Recipients must cover 10 to 20 per cent of the investment. If they repay 50 per cent of the loan within 12 months, the remaining 50 per cent becomes a grant from the community as an investment towards collective well-being.

Source: IFAD, 2014d.

3. Support demonstration of other financial products, such as insurance and remittances, and disseminate the results.
4. Support and finance capacity-building of FSPs and NGOs to offer non-financial services linked with financial services, from financial education to agribusiness training.
5. Promote innovation of mobile banking to facilitate access and usage in rural areas that have limited availability of financial services. Innovation can be achieved in collaboration with the private sector, including FSPs and mobile network operators.
6. Support NGOs in contributing to the creation and development of youth savings groups. Facilitate collaboration between FSPs and NGOs to link youth savings groups and the recipients of remittances with formal financial services before or after migration.

Annex A Financial behaviours of young people

Type of financial behaviour	Rural youth financial behaviours	Product design implications of RFS for youth
Income flows	▪ Youth diversify their income with money from agriculture-related activities (sale of produce at local markets, farm work, animal husbandry) and self-employment (petty commerce, construction). ▪ Income is seasonal and can be irregular.	▪ Loan repayment terms should be adjusted for seasonality of income and agriculture-related risks. ▪ Financial education should help youth plan for unexpected events.
Spending	▪ Youth spend money on income-generating activities or their education. ▪ Youth also spend money on animal husbandry and agricultural materials. ▪ Youth are expected to contribute to the household expenses, including paying for the costs of their wedding and marriage trousseau. ▪ Youth spend money on special holidays. ▪ Youths spend money on their daily needs	▪ Loans and business education are needed to maximize the productive capacity of youth in agricultural activities. ▪ Financial education should engage youth and parents in a conversation on how best to meet all their financial needs.
Saving	▪ Youth save in informal and unsafe places. ▪ Youth do not save regularly. ▪ Youth may also save by buying crops (e.g. beans) during the harvest or another time when such goods are cheaper, storing them, and then selling them at a later date when they need money or prices are higher. ▪ Most youth prefer saving to borrowing because they would rather save towards a goal than borrow to finance it.	▪ Savings services should provide mechanisms to encourage regular savings. ▪ Financial education should help young people understand how savings accounts can offer safety. ▪ Savings accounts need to have low-opening balance requirements, and preferably no account fees that can easily erode small savings.
Perception and experience of formal financial services	▪ Use of formal financial services may be lower due to time and costs associated with travel and the risks involved in going to/from a bank branch with money. ▪ Youth want to have control over and easy access to their money. ▪ Youth perceive financial services as neither affordable nor easily accessible, but they would like to have access to financial products, especially loans, to meet their needs.	▪ Mobile banking could help minimize the costs that rural people incur to access an FSP. ▪ Savings accounts should let youth control deposits and withdrawals. ▪ Financial education could help youth learn how to use any new technology innovations. ▪ Accounts need to have simple and transparent terms.

Adapted from SEEP, 2013.

Bibliography

Adato, M., and J. Hoddinott. 2007. *Conditional Cash Transfer Programs: A Magic Bullet for Reducing Poverty?* Focus Brief. Washington, D.C.: IFPRI.

Al-Waell, A., and L. Storm. 2011. *Case Study No. 16: First Middle Eastern Microfinance Bank Puts Youth First.* Washington, D.C.: Making Cents International.

Aldebott-Green, S., and A. Sprague. 2014. *Regulatory Environments for Youth Savings in the Developing World.* Washington, D.C.: New America.

Austrian, K., and E. Muthengi. 2013. *Safe and Smart Savings Products for Vulnerable Adolescent Girls in Kenya and Uganda: Evaluation Report.* Nairobi: Population Council.

Austrian, K., and A. Wambugu. 2012. *Safe and Smart Savings Products for Vulnerable Adolescent Girls in Kenya and Uganda.* Case Study No. 3, Youth-Inclusive Financial Services Linkage Portal. Washington, D.C.: Making Cents International.

Ceballos, F., and M. Robles. 2014. *Weather Risks and Insurance Opportunities for the Rural Poor. Conference Brief.* Washington, D.C.: IFPRI.

Center for Financial Inclusion at Accion. 2013. *Enabling Financial Capability Along the Road to Financial Inclusion*. Washington, D.C.: Center for Financial Inclusion at Accion.

CGAP. 2003. *Financial Services for the Rural Poor.* Donor Brief. Washington, D.C.: Consultative Group to Assist the Poor (CGAP).

CYFI. 2012. *Child and Youth Friendly Banking Product Certification.* Amsterdam, Netherlands: Child and Youth Finance International (CYFI).

Demirguc-Kunt, A., L. Klapper, A. Kumar, and D. Randall. 2013. *The Global FinDex Database: Financial Inclusion of Youth*. FinDex Notes. Washington, D.C.: World Bank.

Demirguc-Kunt, A., L. Klapper, and D. Singer. 2013. *Financial Inclusion and Legal Discrimination Against Women.* Washington, D.C.: World Bank.

Dunford, C. 2001. *Building Better Lives.* Davis, California, USA: Freedom from Hunger.

Erulkar, A., J. Bruce, A. Dondo, J. Sebstad, J. Matheka, A. Khan, and A. Gathuku. 2006. *Tap and Reposition (TRY): Providing Social Support, Savings, and Microcredit Opportunities for Young Women in Areas with High HIV Prevalence*. Seeds Series. Nairobi: Population Council.

e-MFP. 2012. *Youth Financial Inclusion: Promising Examples for Achieving Youth Economic Empowerment.* European Dialogue, Number 5. Luxembourg: European Microfinance Platform (e-MFP).

FAO. 2014. *Youth and Agriculture: Key Challenges and Concrete Solutions.* Rome: FAO.

Fundación Paraguaya. n.d. *Self-sustainable Schools.* Asunción, Paraguay: Fundación Paraguaya. Accessed 11 December 2014 (www.fundacionparaguaya.org.py/?page_id=741).

Gash, M. 2014. *The Impact of Integrated Financial Services for Young People in Mali.* Davis, California, USA: Freedom from Hunger.

Grameen Foundation. 2013. *Addressing Dormancy in Savings Accounts: Insights from the Cashpor BC Project*. Washington, D.C.: Grameen Foundation.

Hopkins, D., Porter, B, Perdomo, M., and Muñoz, L. 2012. *Policy Opportunities and Constraints to Access Youth Financial Services.* New York: United Nations Capital Development Fund.

IFAD. 2014a. *Youth and Land Tenure*. Land Tenure Toolkit. Rome: IFAD.

IFAD. 2014b. *Summary of the Findings of the Project Implemented by MIJARC in Collaboration with FAO and IFAD: Facilitating Access of Rural Youth to Agricultural Activities.* Rome: IFAD.

IFAD. 2014c. *Investing in Young Rural People for Sustainable and Equitable Development*. Rome: IFAD.

IFAD. 2014d. *Supporting Rural Young People in IFAD Projects. Lessons Learned.* Rome: IFAD.

IPA. 2014. *Evidence on Child and Youth Savings.* New Haven, Connecticut: Innovations for Poverty Action (IPA).

James, C. 2013. *Keeping Youth Financial Services from Becoming Risky Business: Highlights from YouthSave's Risk Monitoring Strategy.* YouthSave Blog. 1 February 2013. Washington, D.C.: Save the Children. Accessed 11 December 2014 (youthsave.org/content/keeping-youth-financial-services-becoming-risky-business-highlights-youthsaves-risk-monitoring).

Jamison, J.C., D. Karlan, and J. Zinman. 2014. *Financial Education and Access to Savings Accounts: Complements or Substitutes? Evidence from Ugandan Youth Clubs.* NBER Working Paper Series, Working Paper 20135. Cambridge, Massachusetts: National Bureau of Economic Research.

Johnson, L., Y. Lee, M. Sherraden, G.A.N. Chowa, D. Ansong, F. Ssewamala, M. Sherraden, L. Zhou, M. Njenga, I. Osei-Akoto, S. Sharma, J. Manandhar, C. Rodriguez, F. Merchán, and J. Saavedra. 2013. *Savings Patterns and Performance in Colombia, Ghana, Kenya and Nepal:* YouthSave Research Report 2013. St. Louis, Missouri: Center for Social Development, Washington University.

Karlan, D., M. McConnell, S. Mullainathan, and J. Zinman. 2010. *Getting to the top of the mind: How reminders increase savings.* NBER Working Paper No. 16205. Cambridge, Massachusetts, USA: National Bureau of Economic Research.

Kasprowicz, P., and E. Rhyne. 2012. *Looking through the Demographic Window: Implications for Financial Inclusion.* Washington, D.C.: Center for Financial Inclusion at Accion.

Kilara, T., and A. Latortue. 2012. *Emerging Perspectives on Youth Savings.* Focus Note 82. Washington, D.C.: CGAP.

Kilara, T., B. Magnoni, and E. Zimmerman. 2014. *The Business Case for Youth Savings: A Framework.* Focus Note 96. Washington, D.C.: CGAP.

Klapper, L. 2012. *Two Persistent Divides in Financial Inclusion: Gender and Rural.* Blog. 25 April 2012. Washington, D.C.: Consultative Group to Assist the Poor. Accessed 11 December 2014. www.cgap.org/blog/two-persistent-divides-financial-inclusion-gender-and-rural.

Lin, J.Y. 2012. *Youth Bulge: A Demographic Dividend or a Demographic Bomb in Developing Countries?* Blog. Washington, D.C.: World Bank. Accessed 10 December 2014 (blogs.worldbank.org/developmenttalk/youth-bulge-a-demographic-dividend-or-a-demographic-bomb-in-developing-countries).

Linder, C., M. Perdomo, L. Muñoz, and C. Cea. 2012. *Assessing New Youth-Focused Products: Pilot Testing Financial and Non-Financial Services for Youth in Sub-Saharan Africa.* New York: UNCDF.

Loupeda, C. 2014. *Show Me the Money: The Costs and Revenues of Savings and Financial Education for Young People.* Davis, California, USA: Freedom from Hunger.

Making Cents International. 2011. *Building a Future Together: Targeting Young Clients at Fundación Paraguaya.* Case Study. Washington, D.C.: Making Cents International.

Markel, E., and D. Panetta. 2014. *Youth Savings Groups, Entrepreneurship and Employment.* London: Plan U.K.

McKay, C., and M. Pickens. 2010. *Branchless Banking 2010: Who's Served? At What Price? What's Next?* Focus Note 66. Washington, D.C.: CGAP.

MEDA. 2014a. *Access and Usage: Case Study.* Waterloo, Canada: MEDA.

MEDA. 2014b. *Youth Loan Products: Assessing the Impact of Product Features and Financial Education in Morocco.* Waterloo, Canada: MEDA.

Mizrokhi, E. 2014. *Designing Sustainable Youth Products: Case Study.* Waterloo, Canada: MEDA.

Mizrokhi, E., and J. Baker. 2014. *Business Case for Serving Youth.* Waterloo, Canada: MEDA.

Muñoz, L., M. Perdomo, and D. Hopkins. 2013. *Building the Business Case for Youth Services.* New York: United Nations Capital Development Fund.

Newton, R. 2014. *Women's World Banking Presentation at the 2014 Global Youth Economic Opportunities Conference.* Washington, D.C.

Ngurukie, C., and R. Deshpande. 2013. *Testing the Waters: YouthSave Pilot Results from Three Markets.* Washington, D.C.: Save the Children.

Pathak, P., J. Homles, and J. Zimmerman. 2011. *Accelerating Financial Capability Among Youth.* Washington, D.C.: New America Foundation.

Perdomo, M. 2013. *Client Protection for Youth Clients.* New York: United Nations Capital Development Fund.

Proaño, L., M. Gash, and A. Kuklewicz. 2010. *Strengths, Weaknesses and Evolution of the Peace Corps' 11-year-old Savings Group Program in Ecuador.* Davis, California: Freedom from Hunger.

Ramirez, R., and L. Fleischer-Proaño. 2013. *Saving Together: Group-Based Approaches to Promote Youth Savings.* Davis, California: Freedom from Hunger.

Ramirez, R., and C. Nelson. 2014. *Models for Integrating Financial Services with Financial Education for Young People.* Davis, California: Freedom from Hunger.

Ramirez, R., and V. Torres. 2014. *From One Generation to the Next: The Role of Parents in the Financial Inclusion of Young People.* Davis, California: Freedom from Hunger.

Robinson, F. 2014. *Financial Services for Family Farmers.* ICT Update, Issue 78. Accessed 11 December 2014 (http://ictupdate.cta.int/Feature-Articles/Financial-services-for-family- farmers/(78)/1409244255).

Saiz, B.S., and P. Pilorge. 2010. *Understanding Customer Loyalty in Retail Banking: The Impact of the Credit Crisis Across Europe.* United Kingdom: Ernst & Young Global Limited.

Save the Children. n.d. *YouthSave: Helping Youth Build a Tangible Stake in Their Future.* Document Brief. Washington, D.C.: Save the Children.

SEEP. 2013. *Understanding Youth and Their Financial Needs.* Washington, D.C.: SEEP.

Storm, L., B. Porter, and F. Macaulay. 2010. Emerging Guidelines for Linking Youth to Financial Services. *Enterprise Development and Microfinance*, 21:4. Rugby, United Kingdom: Practical Action Publishing.

The MasterCard Foundation. 2014. *2013-2014 Youth Think Tank Report: Engaging Young People*. Toronto, Canada: The MasterCard Foundation.

UNCDF. 2014a.*YouthStart Results in a Nutshell*. YouthConnect. 5 September 2014. UNCDF Accessed 11 December 2014 (uncdf.org/en/blogs).

UNCDF. 2014b. *YouthStart Update.* Newsletter 4(1). New York: UNCDF. Accessed 11 December 2014 (uncdf.org/en/content/newsletter-youthstart-v4-1).

UNDESA. n.d. Definition of youth. New York: UNDESA.

UNFPA. 2012. *Marrying Too Young: End Child Marriage*. New York: UNFPA.

UNICEF. 2014. *Migration and Youth: Challenges and Opportunities*. Global Migration Group. New York: UNICEF.

USAID. 2005. *Serving Youth with Microfinance: Perspectives of Microfinance Institutions and Youth Serving Organizations*. Washington, D.C.: USAID.

Zimmerman, J., and Y. Moury. 2009. *Savings-Linked Conditional Cash Transfers: A New Policy Approach to Global Poverty Reduction*. A Global Assets Project Policy Brief. Washington, D.C.: New America Foundation.

Zimmerman, J., J. Nowak, E. Carls, J. Arnold, and V. Rao. 2013. *Beyond the Buzz: The Allure and Challenge of Using Mobile Phones to Increase Youth Financial Inclusion.* Washington, D.C.: New America Foundation.

IFAD

International Fund for Agricultural Development
Via Paolo di Dono, 44 - 00142 Rome, Italy
Tel: +39 06 54591 - Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org
www.ruralpovertyportal.org
ifad-un.blogspot.com
www.facebook.com/ifad
instagram.com/ifadnews
www.twitter.com/ifadnews
www.youtube.com/user/ifadTV