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Growing Potential: Microfinance-Plus Approaches for Cultivating the New Generation of Young Clients

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Executive Summary

Nearly half of the world's six billion people are below the age of 25. Eighty-five percent of these young people live in the developing world and face limited opportunities for education, asset building, and employment (UNFPA, 2010). Making Cents International (MCI), along with a growing cadre of organizations, believes that providing young people with tailored financial services at the right times in their lives and with the right support services can help them improve their education and livelihoods in the short term, and position themselves for more sustainably productive lives in the long term.

Some financial institutions argue they already serve youth with existing products. Others believe that such products are not optimally positioned to help youth increase their assets and build productive lives. Products, therefore, must be adapted to their unique needs. Doing so, however, implies a significant investment in a market that may not promise immediate returns. Yet, a few pioneering institutions have made that initial investment, encouraged by the promise of longer-term returns from a new generation of loyal customers who increasingly take out more profitable products.

To better understand the business case for tailoring financial services for youth, MCI partnered with Equity Bank (Equity) in Kenya, Hatton National Bank (HNB) in Sri Lanka, and Fundación Paraguaya (FP) to study their business models. Over the past 20 years, HNB has generated over 600,000 clients and US$40 million in savings through its school-based youth (12-18 year olds) savings accounts. Equity, in less than three years, has attracted 74,000 youth entrepreneurs (18-30 year olds) who benefit both from a package of start-up loans, mobile savings accounts, financial education and mentoring. FP's youth loan clients (18-25 year olds) average 90% growth in average loan size over two years versus 24% for clients over the age of 25.

These early examples provide promising models for future growth in the youth-inclusive financial services (YFS) sector. However, there is still much to be done to reach the world's three billion young people. This includes continued product innovation and research around cost-effective microfinance-plus models; policy and regulatory reforms for increasing children and young people's independent access to savings accounts; and greater funding to support ongoing product experimentation and documentation.

Introduction

> **Youth Unemployment** For every unemployed adult, 2.8 youth are unemployed worldwide. In some regions, youth represent an even larger portion of the unemployed. The youth-to-adult unemployment ratio is 3.7 in North Africa and is as high as 5.0 in South East Asia and the Pacific (Johnson, 2010). Yet unemployment only tells a small part of the story. Like their adult counterparts, many youth are underemployed or employed in the informal labor market.

Nearly half of the world's population is under 25. Eighty-five percent of these youth live in the developing world. Some 620 million of young people in their early working years, ages 15-24, were unemployed at the end of 2009 (UNFPA, 2010). Many of these young people face pressures to leave school to contribute to household income, thus leaving them without the skills to create livelihoods as they mature. This lack of opportunity is perceived by many as a crisis in the making. Others believe that the sheer size of this youth population presents a window of opportunity to prepare the next generation with the education and skills to generate entrepreneurship, asset-building, economic growth, and stability (World Bank, 2007).

> **YFS Resources**
> For more information on the examples highlighted in this paper visit the YFS-Link web portal, www.yfslink.org to access a series of case studies, videos and other useful tools and resources related to the development of quality, demand-driven financial services for young people.

Making Cents International (MCI), along with a growing cadre of banks, microfinance institutions (MFIs), network organizations and technical assistance providers, believes that financial services—whether a safe place to save or an appropriately structured loan for investment in an enterprise or education—can play an integral role in improving the lives of these young people. While savings and, in some cases, credit[1] may already be available to select groups of young people, these products in their current form may not be appropriate. As a result, young people have few opportunities to benefit from financial services. A number of stakeholders are working to adapt these services to better prepare young people to manage the challenges of transition to adulthood and to enable them to seize opportunities that can result from asset accumulation

1 Credit is usually limited to those above the age of 18, based on the minimum legal age to enter into a legal agreement. Depending on the country, savings may also be limited to the age of majority.

and access to credit. For example, making relatively minor adjustments to product terms and conditions; developing new marketing and delivery mechanisms; or providing complementary non-financial services such as financial education, would provide better value to young people. As a result, financial services providers, both regulated and unregulated, would be able to expand access of youth to financial services while cultivating the next generation of clients.

To support the case for tailoring financial services for young clients, MCI has played a critical convening, knowledge sharing, and capacity building role since 2007.[2] Its work in this nascent sector led to the Youth-Inclusive Financial Services Linkage Program (YFS-Link), a three-year initiative in partnership with The MasterCard Foundation. YFS-Link aims to consolidate promising practices in the sector, translating them into practical tools and resources, and disseminating them through a variety of distribution channels including short training courses, tailored technical assistance, case studies, and conference workshops. In three years, the YFS-Link program has helped organizations worldwide to design quality, demand-driven financial and non-financial services for young people.

As MCI embarked on its research agenda for the youth market, it sought to answer the following questions: 1) How do we define the youth market? 2) What do youth-inclusive financial services look like in practice? 3) What is the socio-economic case for serving young people with tailored financial services? and 4) Is there a business case for doing so? This paper draws upon case studies from early entrants into the YFS market to provide an overview of MCI's answers to these questions. It also lays the groundwork for advancing the sector including the need for greater policy support, advocacy, and funding for more product experimentation and research.

Section 1: Defining and Segmenting the Youth Market

A common first question posed by newcomers to the field of YFS is, "What do you mean by 'youth'?" Definitions of youth in terms of age range vary, but MCI uses the United

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2 Making Cents' Global Youth Economic Opportunities Conference, www.YouthEconomicOpportunities.org, provides a learning platform for the world's leading professionals working to increase and improve economic opportunities for young people.

Nations (UN) definition of 12-24. However, within that range, it is a misnomer to talk about a generic "youth market." The 12-24 age segment is characterized by significant gender, life transitions, and related diversity in living situations, earning and learning balances, and overall life circumstances. For example, CHF International's research with its partner MFI, Ryada, in the West Bank/Gaza, found some interesting distinctions by gender. Young men aged 18-29 preparing for marriage were interested in saving to be able to afford the dowry; whereas young women of this same age range showed less interest in saving, in part because they would receive gifts and jewelry upon marriage. As such, it is more useful to speak about "youth markets" or about youth sub-segments of existing markets (MCI, 2010).

The next section discusses several examples of products and delivery channels designed for specific sub-segments of the youth market in different country contexts.

Section 2: Youth-Specific Product and Delivery Channels

As institutions carry out YFS product development, many have found that youth-inclusive financial products need only differ slightly from those offered to older clients. These slight adaptations include smaller opening and/or minimum balances for savings accounts, smaller loan sizes, and lower fees. Often marketing and delivery mechanisms are tailored to youth preferences, such as providing deposit-taking services in schools. In addition, youth-oriented products are usually accompanied by non-financial services that support a young person's ability to effectively use the financial services, such as financial education. These differences make financial services more accessible, attractive, and easier to use by the different youth market segments.

Specific examples of youth products that have been modified from adult products include:

> **Child, Adolescent, and Youth Savings.** Microfinance banks including XacBank in Mongolia, Banco Adopem in the Dominican Republic, and K-Rep Bank in Kenya each made small changes to their adult savings products to make them more accessible to young people, ages 19 and under, including reductions in minimum balance and fees. All three banks have also partnered with separate institutions to provide financial education and/or other non-financial services

including life skills training and mentoring, to their young savers. Alternative delivery mechanisms have also been developed in some cases where the banks partner with schools or community-based organizations (CBOs) to provide safer more convenient locations for the young people to gather, participate in training and make deposits (MCI, 2010).

Group Lending to Young Entrepreneurs. Several microfinance institutions including Equity Bank in Kenya, Alexandria Business Association (ABA) in Egypt and Al Amal Microfinance Bank (Al Amal) in Yemen provide young entrepreneurs aged 18-30 with loans backed by a group guarantee. By starting off with small amounts under a group-based methodology, these banks are able to provide young people with start-up capital without requiring collateral. Similar to the aforementioned savings product, these institutions also link clients to some type of financial education or entrepreneurship training to complement the loan and help prepare young clients to manage money and grow their businesses. Alternative delivery mechanisms also facilitate greater access including partnerships with schools and universities and in-home delivery for less mobile clients such as young women (MCI, 2010).

Informal Mechanisms. Some non-governmental organizations (NGOs) are piloting informal savings and lending mechanisms to reach more vulnerable segments, such as rural youth and orphaned and vulnerable children (OVC) under the age of 18. CARE’s Village Savings and Loan Associations (VSLAs), Catholic Relief Services’ (CRS) Savings and Internal Lending Communities (SILCs) and Plan International’s Youth Savings and Loan Associations (YSLAs) all share several similarities with the well-known savings group model including regular meetings and self-managed and time-bound groups that both save and lend internally. The differences generally lie in the type and method of training used to form groups, the staff skill set necessary to work with younger clients, and the general emphasis on savings versus lending (MCI, 2010).

As Making Cents, along with several of the organizations mentioned in this paper, continue to advocate for specialization of financial and non-financial services for young clients, there remains a group of skeptics that argue that there is no need to tailor products for this segment, pointing out that the average MFI already serves young people (ages18-25) with its existing products. These skeptics ask: Why should I adapt products for youth when I already serve them with my existing products? How can tailoring financial services for youth improve their chances of building successful livelihoods? Are these youth-focused products sustainable or profitable? The following sections address these important questions and provide some preliminary evidence around building both the socio-economic case and the business case for serving younger clients with tailored, demand-driven financial services.

Section 3: The Socio-Economic Case for Serving Youth with Tailored Financial Services

Many financial services providers, both regulated and unregulated, are motivated by a social goal of helping the poor to improve their lives through microfinance. Some, however, do not believe that young people require financial services or maintain that the services need not be differentiated from those for the adult market. The evidence from existing products and services that are tailored to youth indicate that youth want and use such products. Adaptation as well as integration with non-financial services can contribute to uptake and outcomes. The case for tailoring financial services to the needs of young people can be supported by six specific indicators:

> **Young people are economically active**: Many believe that youth who are not formally employed are inactive or engaged in unproductive activities, and therefore do not require financial services. However, research indicates that most young people ages 14-25 in developing countries, no matter the location, are already economically active. Most youth contribute to household income "through work in the informal sector, in household-based enterprises, or in family-based farming, fishing and petty trading activities" (James-Wilson, 2008). Yet they do not have access to the resources they need – including access to appropriate financial services – to reach their full economic potential.
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> **Young people need savings:** Savings can help youth meet their needs for investment (education, business), consumption (food, clothing), emergencies

(illness, accident, theft), and life cycle events (marriages, funerals). Young people do save, and research suggests that saving can be even more important than credit as it promotes positive habits related to planning and goal-setting. A 2009 USAID *MicroReport* noted that youth share similar demand for savings services to that of low-income adults – convenient access, relative security, liquidity in case of emergencies, and a secure place to accumulate larger sums (Hirshland, 2009).

Young people borrow money: Youth of legal age may need access to credit as they transition into adulthood. Research in the West Bank/Gaza revealed that young people look to supplement their existing savings with credit in order to finance their education or start a new business (MCI, 2010). The credit products should be tailored to the critical life transitions of youth (i.e. entering the workforce, moving into higher education, getting married, etc.).

Existing youth clients demand more personalized services: Women's World Banking (WWB) affiliate, XacBank in Mongolia, studied adolescent girls and young women ages 10-24 to understand their needs for savings products. Results found that XacBank's existing youth savings product was not attractive for teenagers because their parents managed the account and they were not allowed to withdraw until they were 18 without closing the account. These girls wanted free access to their money and the ability to manage it on a daily basis (Shell, 2009). Mennonite Economic Development Associates' (MEDA's) research on existing youth loan clients in Morocco, ages 18-25, found that younger clients needed more guidance in terms of training and business advisory services and requested a grace-period to off-set their business start-up costs (Denomy, 2009).

Young people need to learn while they are young: Research on brain development shows that there is a critical stage between the ages of 11 and 24 years for developing abilities such as planning and goal setting. Trying to learn this after the age of 24 is more challenging, so "exercising" the brain during this time frame to develop these abilities is crucial. Learning to save during this time frame can help young people develop the skills to plan for the future and set goals for themselves (Scarborough, 2010).

Young people are an investment: Building on the argument above, the 2007 World Development Report frames the surging youth populations in the developing world as a ”youth dividend,” seeing this time as one of great opportunity – to invest in these youth, and therefore contribute to a country’s human, social, and economic capital (World Bank, 2007). Some institutions recognize that helping youth become economically active contributors to society, benefits not only the youth and the financial services provider, but also the larger community as a whole.

In addition to the social and economic arguments behind youth-inclusive financial services, there is a strong emerging business case for offering these services to young people. To examine the business case for targeting youth with tailored financial services, MCI carried out desk reviews, conducted interviews with early entrants into the YFS arena, and performed in-depth portfolio analysis with one of its partners, Fundación Paraguaya. The following section presents the initial findings.

Section 4: Is there a Business Case for Targeting “Youth” Clients?

An important precursor to product development is analyzing the business case behind serving a new market segment. There are a number of factors that can lead a financial services provider to consider offering tailored products to youth markets. These can include an in-house motivation, competition, or government incentives. However, financial services providers must also examine the potential profitability, particularly given that young people tend to manage smaller sums of money and the apparently higher relative risk given young people’s less established businesses to generate regular cash flow and repayment.

While there is still relatively little historical data regarding the financial benefits of serving youth markets, MCI identified three YFS pioneers, including Equity Bank (Equity) in Kenya, Hatton National Bank (HNB) in Sri Lanka and Fundación Paraguaya (FP) in Paraguay, that were able to provide data to support their decision to develop financial services for young people. These examples illustrate the different perspectives on the business case for such services. While some institutions are looking for profitability “now” or in the relative short term, others look to youth as a source of future profitability or in the medium to long term. Others may consider the youth market as an investment in greater client retention, corporate social responsibility and the potential to cross-sell more profitable products (such as credit) to friends and family members of younger clients.

A. Shorter-term Profitability

Institutions looking for short-term gains generally enter into the market because their investments are covered or offset by government or donor programs. MCI identified one partner as having self-reported information demonstrating a short-term case for profitability – with subsidy for the initial investment – in offering credit to younger clients.

Equity Bank entered into a partnership with the Kenya Youth Enterprise Development Fund in 2008 (a government program that provides subsidized loan capital for banks, MFIs and NGOs) to on lend to young entrepreneurs between the ages of 18-35 at below-market rates. Equity Bank leveraged the initial 100 million Kenya Shillings (US$1.2 million) received through the program to disburse a total of 2.83 billion Kenyan Shillings (US$33.4 million) to 74,000 youth by the end of 2010. Equity Bank provides a group lending product called *Young Entrepreneurs Clubs*, as well as savings and insurance products. These young clients also receive complementary non-financial services such as financial education, business training, advisory services and mentoring through partnerships with foundations and NGOs.

Equity's youth clients perform better than their adult counterparts: Portfolio At Risk (PAR) >30 days for youth was 3% while PAR >30 days for adult clients was 5% at the end of 2010. This figure represents an important departure from the common assumption that youth are riskier than adults. According to David Mukaru, Head of Microcredit at Equity Bank, one of the key reasons behind this lower risk is the integrated package of services that youth clients receive. Equity credits its group methodology and the training and mentoring services it offers to youth entrepreneurs as a means to guarantee greater success rates in youth enterprises and strong repayment (MCI, forthcoming).

These results mirror those of similar products in other institutions including Al Amal Microfinance Bank in Yemen, Alexandria Business Association (ABA) in Egypt and K-

Rep Bank in Kenya. Table 1 below compares PAR >30 days for youth products versus overall PAR >30 days in all four institutions at the end of 2010.

Table 1. Youth PAR >30 days vs. Overall PAR >30 days

December 2010	**Equity**	**K-Rep**	**ABA**	**Al Amal**
Youth PAR >30 days	3.00%	21.60%	1.30%	0.06%
Total PAR >30 days	5.00%	22.40%	1.10%	0.10%

B. Longer-term Profitability

The possibilities for a long-term relationship with a huge new market of under-banked clients are perhaps one of the most compelling reasons for a financial service provider to enter the youth market. MCI found two examples of preliminary self-reported (Hatton National Bank) and analytical (Fundación Paraguaya) evidence demonstrating that young people present a strong future market opportunity for financial institutions.

Hatton National Bank is an example, albeit unique, of an institution that provides self-reported evidence behind achieving long-term returns from its young savers. Over the past twenty years, HNB has established 200 Student Banking Units in schools across the country. Through these student-managed banking units, HNB serves over 600,000 student savers under the age of 18. Its US$ 40 million in student accounts comprised nearly 15% of its gross loan portfolio in 2009 (The MixMarket, 2009). HNB has also trained over 30,000 students across the country who have leveraged their experience in managing the Student Banking Units to seek employment in other institutions after graduation.

Building upon the idea of creating more profitable savings accounts, HNB has recently introduced efforts to reduce transaction costs and increase overall savings balances by offering higher than market interest rates to youth savers, up to 3% higher than adult savings accounts, for children and young adults opening savings accounts with a minimum balance of US$4.50 or US$9.00 depending on the age of the child (see Appendix 1 for product descriptions). HNB has the advantage of being able to lock in young people’s savings through a contractual product, where money can only be removed from the account for special circumstances until they reach 18 years of age, as per Sri Lankan banking regulation.

However, some deposit-taking MFIs have found that increasing the liquidity of youth savings products can also increase their appeal. XacBank in Mongolia, for example, found that when it offered a savings product specifically targeted to girls, they wanted to access their savings before they reached 18. As a result, XacBank introduced a new product for 14-18 year olds,[3] which they could control themselves. Although these types of youth savings accounts are not usually profitable as a stand-alone product, they can be viewed as an investment in longer-term client profitability as children grow older and graduate into more profitable financial products, such as loans.

Fundación Paraguaya, a Paraguayan MFI, launched its youth loan in 2000. Fundación Paraguaya is known for its strong social mission and commitment to serving youth. As of December 2010, FP was serving 6,858 clients between the ages of 18-25 with a tailored loan product and accompanying non-financial services. These youth clients comprise 14.8% of its total loan clientele and 7.5% of its total loan portfolio. To better understand how FP's youth portfolio performs compared to its adult portfolio, MCI conducted in-depth portfolio analysis.

Cursory segmentation of FP's portfolio data suggests that those skeptical of youth clients' profitability are right to be doubtful. In fact, young borrowers (1) take smaller loans, on average half the size of the average adult loan; and (2) have worse repayment rates than their non-youth counterparts (PAR >30 days for youth is 4.01% versus 1.68% for adults). See Appendix 1, Table 2 for more portfolio details.

However, through deeper mining of data, a more nuanced picture emerges. MCI analyzed the average loan size of young people with a longitudinal perspective, looking at loan growth over two years, and segmented clients by smaller age ranges. Data indicates that while young people typically start with smaller average loan sizes than their adult counterparts, they tend to "catch up" to the loan size of older borrowers within two years (see Appendix 1, Table 3 for comparison). FP's management cites the types of businesses

[3] Fourteen is the legal age in Mongolia at which a young person can independently open and manage a savings account.

young people enter into as a potential factor for faster growth. Anecdotal evidence shows that many young people pursue entrepreneurship in innovative sectors such as technology or services that can offer greater investment and growth opportunities, as compared to those of older microentrepreneurs who more frequently invest in activities such as street or market vending.

Large loan growth can be a powerful incentive for financial institutions to lend to young entrepreneurs, but only if portfolio quality can be kept under control. Practices to control portfolio quality are thus essential to profitably lend to youth. MCI segmented all of FP's clients by age range and further analyzed the repayment performance of these clients. Young clients, 18-25, represent the highest PAR >30 days at 4.01%. However, at PAR >60 days and above, or clients who are behind by several installments, the youngest clients are no longer the worst performers. For example, PAR >60 days for non-youth clients between 35-39 years of age is 2.2% versus 1.85% for youth clients. The same is true if we look at PAR >90 days, where clients between 30-34 and 35-39 years of age have worse repayment rates than youth clients (see Appendix 1, Table 4 for further details). The data suggests that although youth clients fall behind in their repayment more often than non-youth clients, most of them repay before 60 days. This is important because many MFIs begin to provision for losses after 30 days of delayed payments. Thus, while the delays might be administratively costly, young borrowers, in particular vis-à-vis other age groups, have limited impact on the cost of provisioning, which can have a significant influence on the MFI's overall profitability.

One key risk-mitigating measure at FP is the use of parental guarantees. Recognizing that these young borrowers are inexperienced at managing debt, FP requires an adult, typically a parent, guarantee for the loan. FP also notes that training its youth clients in financial literacy has contributed to improved repayment.

Fundación Paraguaya, with its trajectory of committed efforts to adapt products and services for young people, can offer lessons to those institutions that are still cautious. Its experience demonstrates that the upfront costs of managing higher repayment risk and providing additional training and mentoring to young clients actually can pay off over the medium term. This case also highlights the importance of considering parents as key partners in lending and suggests requiring group or parental guarantors where other guarantees are not available.

While this preliminary data suggests a case for future profitability, many questions remain unanswered. These include analyzing the costs of delivering the full package of YFS – the non-financial services, mentoring and additional staff time that a young client may require to succeed in their business. Additionally, it is important to understand how much it will cost an institution to get young clients to the point at which they are top performers and to explore potential strategies to manage these additional costs, including partnerships or the use of technology.

C. Indirect Profitability

One final business case, and perhaps the most common one, made by early entrants into the youth-inclusive financial services marketplace is that such investments can generate profits in more indirect or strategic ways. This last approach may in fact apply to all organizations investing in youth, including those mentioned in the previous two approaches. Some examples include:

- Building brand identity in the broader marketplace;
- Increasing client satisfaction/retention;
- Cross-selling (including accessing older family members through youth, or converting savings clients into credit clients);
- Building a positive corporate social responsibility (CSR) identity with government stakeholders (including regulators);
- Not ceding market share / space to competitors; and

The case for indirect profitability is particularly compelling for institutions that develop savings products for young people. While the small balance savings products may rarely become profitable, they are used as a tool to generate customer loyalty and to cultivate future loan clients both with the young savers themselves as well as with their parents or other family members. A few anecdotal examples of institutions taking this approach include XacBank in Mongolia, Banco Adopem in the Dominican Republic, K-Rep Bank and Faulu in Kenya, and FINCA-Uganda and Finance Trust in Uganda.

XacBank and Banco ADOPEM, two affiliates of Women's World Banking, both developed savings products and accompanying financial education for adolescent girls and young women ages 10-24, in an effort to cultivate a future generation of clients. The Population Council, through its Safe and Smart Savings for Vulnerable Adolescent Girls Program, entered into a partnership with K-Rep Bank and Faulu Kenya and FINCA-Uganda and Finance Trust in Uganda to develop a similar product for vulnerable adolescent girls, ages 10-19. Similar to the WWB affiliates, both Kenyan and Ugandan institutions saw the potential for cultivating their next generation of clients by participating in these programs as the provider of savings products. Kimanthi Mutua, Managing Director of K-Rep Group suggests: "Invest today, even if it is a loss leader, look at it as corporate social responsibility, but also an investment that will pay off in the long term" (MCI, forthcoming).

The three approaches outlined in this section serve as examples for institutions to consider as they assess whether investing in younger clients fits within their institutional strategy, local context, and competitive considerations. The decision to invest in youth starts with an institution's assessment of the social and/or business case, but it also depends on availability of resources necessary for building institutional capacity in terms of staffing and systems for YFS product development, testing, and roll out. For more information on implementing YFS, please see Appendix 2.

Section 5: The Way Forward

Making Cents International's preliminary research in the nascent sector of youth-inclusive financial services presents an encouraging picture for continued growth. Lead collaborators in this area including The MasterCard Foundation and The Nike Foundation have made a significant contribution to the development and experimentation of YFS in a variety of contexts. Some governments, such as Colombia, Nigeria and Kenya, are also beginning to take more of an active role in facilitating greater access to economic opportunities for their growing youth majority. A few technical service providers including Making Cents International, MEDA, and Women's World Banking, are beginning to develop expertise in how to develop the right mix of products and services for younger clients. While these efforts set a good example for the microfinance community, they are still only reaching a fragment of the world's nearly three billion individuals below the age of 25. To reach greater numbers, the YFS sector requires increased advocacy and investment to support product experimentation and research on the business case for YFS and to document promising practices for the broader financial service industry. The role of government is also key in adapting banking policy that enables financial services providers the flexibility to offer independent savings accounts to those below 18.

A. Youth-Friendly Policy and Regulation

Depending on the country, financial institutions may face policy or regulatory roadblocks that prevent them from serving young people. One common barrier is that young people under the age of consent, generally 18, are refused independent access to a savings account. This means that a young person must open a joint account with a parent or guardian and requires parental consent for each transaction. In addition to the inconvenience, this also denies a young person the ability to develop the skills to independently manage their own money and, in some cases, may give rise to parental mismanagement of a young person's savings. The ChildFinance Movement is working to examine existing government policies that promote children's independent access to financial products and services. Policy issues include defining minimum age requirements to open accounts and protecting against unauthorized use of youth savings by parents or guardians.

Another area of policy support that has particular relevance to young people is consumer protection. Since children and youth are considered a special or protected class of citizens, regulators should address questions around how to ensure that banks do not market inappropriate or risky products to this vulnerable population. Additionally, regulators should find ways to ensure that the fine print on these products, including disclosure and transparency requirements, is clear enough for youth to understand it and make informed decisions (MCI, 2010).

There are a few savings policy pilots that provide strong examples of a government's ability to promote large-scale access to savings for young people. The Colombian Government's Oportunidades Rurales program combines access to savings accounts and financial education, often termed financial capability, to promote entrepreneurship among 4,000 youth, aged 15-25, in rural Colombia. The Bayelsa State Government in Nigeria is testing matched savings accounts for 1,000 low-income children, ages 11-15 in this conflict-ridden region. These two pilots may provide promising evidence for the valuable role youth savings accounts can play in enabling specific outcomes including setting up microenterprises or funding education (Deshpande and Zimmerman, 2010).

Governments can play an important role in promoting financial capabilities of low-income youth by supporting programs that expand access to formal financial services as well as training programs to support financial literacy and business development. For example, government programs in Syria and the West Bank/Gaza are working to mainstream financial and entrepreneurship education into the public school system as a means to generate greater financial literacy and promote entrepreneurship in countries where formal employment is scarce.

B. Increased Funding and Advocacy for Continued Innovation in YFS

While the evidence put forth in Section 4 around the business case for YFS may prove encouraging for some institutions, the up-front costs and subsequent delays in achieving profitability may discourage others from investing in youth. Continued product experimentation, particularly focused around using technology to lower delivery costs, could help to increase uptake by a larger number of actors. Donors play a key role in supporting this type of innovation.

Increased advocacy around YFS can also play a role in generating greater buy-in from donors and policy-makers in terms of the value of youth-inclusive financial services. Making Cents International's Global Youth Economic Opportunities Conference[4] and corresponding *State of the Field in Youth Economic Opportunities* publication aim to provide the broader financial service industry with promising and replicable approaches to serving young people with financial services. Microfinance and credit union networks

[4] For more information about the conference and to download the latest "State of the Field" publication, visit www.youtheconomicopportunities.org

such as Banking with the Poor in Asia, Sanabel Microfinance Network of the Arab Countries (Sanabel) in the Middle East and North Africa (MENA) region and the National Confederation of Cooperatives (NATCCO) in the Philippines are also taking a strategic approach by making institutional commitments to serving greater numbers of youth within their member institutions. These preliminary efforts will hopefully pave the way for a greater global awareness around the importance of including youth in financial service provision and will support increased funding and experimentation in the sector.

C. More Research on Effective Approaches

Many of the donor-supported youth-friendly financial product pilots mentioned in this paper carry with them a significant monitoring and evaluation component that aims to identify how the products themselves create a positive impact on the lives of young people. For example, The Population Council's Safe and Smart Savings for Vulnerable Adolescent Girls Program in Kenya and Uganda is showing evidence supporting its integrated approach to serving adolescent girls, ages 10-18, with a mix of savings, financial education and social support. Initial results from its impact study show that participants are three times more likely to make a savings deposit on a weekly basis and at least three times more likely to have saved any money in the previous six months than girls in a comparison group. Participants are two times more likely to have discussed financial issues with their parents as compared to the control group. They are also significantly more likely to have a long-term financial goal.

The Population Council study also reveals some interesting findings linked to self-esteem and gender norms. Participants are less likely to agree that "girls are not as good as boys in school" than girls in a comparison group. Similarly, participants are less likely to agree that some girls deserved to be raped because of how they behave. Finally, participants also are more likely to know at least one contraceptive method and to know that HIV can be transmitted through sexual intercourse (Austrian, forthcoming).

Several other YFS projects are currently tracking the effectiveness of their approaches on the well-being of youth participants and will hopefully contribute to the growing body of knowledge of what works in youth-inclusive financial services over the coming years. Some examples include YouthSave Consortium, a consortium research project led by

Save the Children in collaboration with The Center for Social Development (CSD) at Washington University in St. Louis, New America Foundation, and the Consultative Group to Assist the Poor (CGAP), designed to test youth savings with commercial banks in four different countries; YouthStart, a United Nations Capital Development Fund (UNCDF)-managed project to expand access to financial services for young people in Sub-Saharan Africa; YouthInvest, a MEDA-managed grant to support innovative financial and non-financial services for youth in Morocco and Egypt; and Freedom from Hunger's Advancing Integrated Microfinance for Youth (AIM) project in Ecuador and Mali.

While expensive, this type of research can help the YFS sector deepen its understanding of younger clients, their needs and wants, and what types of approaches promise the greatest potential for improving lives and livelihoods and well as those that present the greatest potential for replication and scale. Further research on the business case for YFS, including more in-depth cost analysis of products and services as well as an exploration of different partnership models for non-financial service delivery, will help deepen our understanding of how to most efficiently serve younger clients.

Conclusion

Five years ago, very little was known about how to serve young people with financial products. As the topic of the "youth dividend" generated momentum within the development community, a few pioneers took the plunge into unchartered waters to research their young clients' financial needs and determine how best to serve them. While promising, these preliminary pilots are only beginning to scratch the surface of a very large and important market. Now it is up to the broader financial services sector to further research sustainable and effective financial services for youth, focus on innovation in product and delivery mechanisms, and truly begin addressing the needs of the new generation of young clients.

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Making Cents International (forthcoming) Video Interview with Kimanthi Mutua, www.yfslink.org.

Appendix 1: Comparative Tables from Section 3

Table 1: Fundación Paraguaya, Average Loan Size for Youth and Non-Youth Clients (US$)

Average Loan	Amount
Youth Clients (< 25 years)	447
Non Youth Clients (≥ 25 years)	942

Table 2: Fundación Paraguaya, Portfolio at Risk for Youth and Non-Youth Clients (Days Past Due % of Portfolio)

Total Portfolio	PAR>1	PAR>30	PAR>60	PAR>90	PAR>120	PAR>150	PAR>180
Youth Clients (< 25 yrs)	9.62%	4.01%	1.86%	0.81%	0.25%	0.20%	0.02%
Non-Youth Clients (≥ 25 yrs)	4.81%	1.68%	1.14%	0.66%	0.30%	0.13%	0.02%

Table 3: Fundación Paraguaya, Loan Size for Youth and Non-Youth Clients by Age Group (PYG)

Age Group	Average Disbursed Amount 2008	Average Disbursed Amount 2010	% of Growth
Youth Clients (< 25)	2,959,556	5,620,778	89.9%
Non-Youth Clients (25-29)	4,044,072	5,441,303	34.6%
Non-Youth Clients (30-34)	4,868,439	6,311,144	29.6%
Non-Youth Clients (35-39)	5,900,950	6,545,509	10.9%
Non-Youth Clients (40-44)	5,793,447	5,541,890	-4.3%
Non-Youth Clients (45-49)	6,229,613	6,140,047	-1.4%
Non-Youth Clients (50-54)	6,125,985	7,050,556	15.1%
Non-Youth Clients (55-59)	5,347,202	7,950,591	48.7%
Non-Youth Clients (60-64)	4,662,295	7,499,493	60.9%
Non-Youth Clients (>=65)	5,769,346	7,214,162	25.0%

Table 4: Fundación Paraguaya, Portfolio at Risk for Youth and Non-Youth Clients by Age Group

Age Group	PAR>1	PAR>30	PAR>60	PAR>90	PAR>120	PAR>150	PAR>180
Youth Clients (< 25)	9.62%	4.01%	1.86%	0.81%	0.25%	0.20%	0.02%
Non-Youth Clients (25-29)	5.96%	2.06%	1.42%	0.78%	0.54%	0.20%	0.00%
Non-Youth Clients (30-34)	5.85%	2.23%	1.43%	0.88%	0.40%	0.11%	0.00%
Non-Youth Clients (35-39)	6.40%	2.64%	2.20%	1.24%	0.38%	0.23%	0.03%
Non-Youth Clients (40-44)	4.42%	1.33%	1.07%	0.66%	0.27%	0.11%	0.00%
Non-Youth Clients (45-49)	3.55%	1.35%	0.53%	0.34%	0.08%	0.03%	0.00%
Non-Youth Clients (50-54)	3.54%	0.80%	0.68%	0.41%	0.21%	0.18%	0.11%
Non-Youth Clients (55-59)	4.36%	1.47%	0.95%	0.40%	0.31%	0.21%	0.00%
Non-Youth Clients (60-64)	2.77%	0.75%	0.16%	0.14%	0.09%	0.03%	0.00%
Non-Youth Clients (>=65)	4.79%	1.46%	0.57%	0.38%	0.35%	0.00%	0.00%

Table 5: Hatton National Bank's Three Youth Savings Products

Hatton National Bank's 3 Youth Savings Products

All youth savings accounts must be started by parent or family member, are eligible to receive gifts for achieving certain deposit levels and upgraded automatically to the next level of account. Most importantly, HNB, notes, is that the money in the account can only be withdrawn by the minor and even then, only under exceptional circumstances before age 18.

Singithi Lama

- age 5-12 years
- offer interest rate of 1% higher than regular savings account
- minimum to open $USD 4.50
- no minimum deposit requirement

Singithi Kirikatiyo

- age 3mo-5 years
- offer interest rate of 3% higher than regular savings account
- minimum to open $USD 9
- suggested deposit $USD 9 per month

HNB Teen

- age 12-18+
- interest rate 3% higher than regular savings with balances greater than $USD 90
- minimum to open $USD 9
- maintain minimum balance of $USD 90
- "hot shots" credit card
- option to close at 18 years

Appendix 2: Considerations for Implementing YFS

For those institutions considering an investment in their younger generation of clients, several youth-focused considerations should be included in the strategic planning process including:

Regulation: Many un-regulated financial institutions may face constraints particularly with regard to offering savings products to younger clients. Deposit-taking institutions, on the other hand, often face different constraints including age limits and the need for parental co-signers. These issues may force an institution to think creatively in terms of choosing market segments that fit within their existing capacity (i.e. developing a loan product for those above the age of majority, such as 18-25) or developing partnerships with other institutions that can provide younger clients with the appropriate savings services. Catholic Relief Services (CRS) and Enlace, a local MFI in El Salvador, partnered to implement CRS' Youth Savings and Internal Lending Communities (SILCs) to prepare young savers to gradually access microloans from Enlace as they accumulated savings and received training in their SILCs.

Funding: Determining how to fund new product development is a common challenge for any financial institution or youth serving organization. However, investing in product development for youth may require additional consideration. Because of the long-term nature of the investment in youth, donor funding and subsidies can be effective at supporting quality product research and design as well as supporting the development and delivery of non-financial services. If and when subsidies and grants come to an end, YFS providers may determine to continue investing in youth as a strategic decision or may seek to reduce costs by creating or deepening existing partnerships with NGOs, CBOs or other organizations to ensure continued provision of non-financial services to young clients.

Institutional Capacity: Institutional capacity is critical to effective development and delivery of youth-inclusive financial services—as with services for any other market segment. When taking a youth-friendly approach to the product planning stage, these concepts become increasingly important. Staffing, for example, is an important consideration since front-line staff must possess the appropriate customer service skills to make young people feel welcome and valued as a client and to serve as a mentor. To address this, Al Amal Microfinance Bank in Yemen provides specialized training to its loan officers in how to effectively serve youth.

Technical Considerations: Finally, there are some technical considerations that can help guide an institution as it plans for investing in youth. These generally involve applying a youth lens to the product development process. In 2008, Making Cents International partnered with 37 leading practitioners in 14 countries to embark on its learning agenda around developing appropriate financial services for youth. Through a series of in-depth consultations, the YFS-Link program devised six “Emerging Guidelines” for effectively serving young people with appropriate financial services. We expect that over time, these guidelines will continue to validate themselves to become best practices in the field of youth-inclusive financial services.

> **Emerging Guideline #1: Involve youth in market research and product development.** Attention to the particularities of the youth market and involvement of youth in the product development processes may result in simple, yet important changes to existing – and in critical elements for new – products and delivery channels. Market research techniques and methodologies may also differ significantly for younger markets as children and youth tend to communicate differently than adults. As a result, careful consideration must be given to designing appropriate research tools and approaches. Women’s World Banking and XacBank, for example, found that activities such as games and drawing were more effective at identifying the needs and wants of girls ages 10-12 than traditional focus groups or interviews (Shell, 2009). For more information, tools and resources on how to conduct market research with youth and design or adapt products for young clients, visit www.yfslink.org.
>
> **Emerging Guideline #2: Develop products and services that reflect the diversity of youth.** Section 1 highlights that the youth market contains sub-segments related to age (legal age), life cycle stage (marital and parental status), gender, education, employment status, and vulnerability. These differences should

be taken into consideration in product design and delivery. Panabo Multipurpose Cooperative (PMPC) in the Philippines identified two different sub-segments of youth savers. Their “kiddie savers,” 12 and under, enjoy bright colors, caricatures and prizes such as school supplies for achieving savings targets. Their “power teens,” 13-18, on the other hand, prefer a more muted color scheme and value marketing campaigns with real-life images. As a result, PMPC developed two different marketing and branding schemes to attract these two different sub-segments of the youth market (Gepaya, 2009).

Emerging Guideline #3: Ensure that youth have safe and supportive spaces. Due to their lack of life experiences and their cognitive, emotional, and social developmental stage, children and youth are more vulnerable and need more support than adults. In order to be able to fully benefit from financial or other services, it is important that young people have safe and supportive spaces where they can gather, share experiences and concerns without feeling outside pressures from their community. Depending on the local context, this may mean taking advantage of schools, churches or youth centers to set up meeting areas for young people. This may involve infrastructure considerations, delivery mechanisms and social networks. It also includes appropriate protections through codes of conduct that are age appropriate.

Padakhep, a NGO in Bangladesh, provides street children ages 8-18 with drop-in centers, satellite centers, and a day and night time shelter to provide them the physical safe space to get off the streets. Within these spaces, it provides them with counseling, life skills education, STI/HIV/AIDS awareness training and other supports to help equip them to make choices and take actions to improve their lives. Financial services are provided via groups and working with guardians, when possible, to provide additional social support, security and transparency as the children complete their financial transactions (Ahammed, 2009).

Emerging Guideline #4: Provide or link youth to complementary non-financial services. Providing complementary non-financial services can help offset a young person’s lack of life and work experience. These may include mentoring, financial literacy, cultivation of a savings culture, and life-skills training. Adolescence is a critical time of transition from childhood to adulthood, and a significant part of this transition is the shift from economic dependence to economic independence. Some youth, particularly young women in certain cultural contexts, street children, or orphans and vulnerable children, are even more vulnerable than the average young person, and require training and support in areas beyond business or finance including life skills, and health education in order to take full advantage of financial services. These may include such non-financial services as mentoring, financial literacy, and cultivation of savings culture, life-skills training, livelihoods, and workforce development.

Banco Adopem, in an effort to increase awareness around financial themes and encourage school-aged children ages 10-18 to save with its specially design “Mia” product, partners with local schools to provide financial education as an after school program (Shell, 2010).

Emerging Guideline #5: Focus on core competencies by utilizing partnerships. While most financial services providers acknowledge that non-financial services are key to a young person’s ability to develop good financial habits, most are inexperienced at providing such services. Rather than developing in-house capacity to provide such services, we encourage financial institutions to collaborate with youth serving organizations, schools, training institutes, and other entities, particularly for non-financial service design and delivery. Partners may also be able to provide safe meeting spaces for younger clients, as well. For example, the aforementioned partnership between Banco Adopem and the schools is managed by Adopem’s NGO, a legally separate entity from the bank.

Emerging Guideline #6: Involve Community. Given young people’s relative lack of life and business experience, as well as financial management experience, it is critical to involve community when extending financial services to young people. A young client’s community support structure will differ depending on the country and culture and for different types of children and youth. Without these webs of support networks, it will be difficult for youth to adopt and sustain improved financial management. This is particularly true in societies in which the ability of certain groups to achieve their full potential is limited by the existence of harmful views or practices.

BRAC involves family and communities to support its Social and Financial Empowerment of Adolescents (SoFEA) program, a holistic approach to supporting adolescent girls through life skills, livelihood and financial literacy training as well as access to savings and credit. BRAC provides these girls with clubs or physical structures that must be co-financed by the community. It conducts community fora in each community to address prejudice around girls' perceived lack of "value" to generate support for these clubs (Kashfi, 2009).