

How to do

Youth access to rural finance

Inclusive rural financial services



How To Do Notes are prepared by the IFAD **Policy and Technical Advisory Division** and provide practical suggestions and guidelines to country programme managers, project design teams and implementing partners to help them design and implement programmes and projects.

They present technical and practical aspects of specific approaches, methodologies, models and project components that have been tested and can be recommended for implementation and scaling up. The notes include best practices and case studies that can be used as models in their particular thematic areas.

How To Do Notes provide tools for project design and implementation based on best practices collected at the field level. They guide teams on how to implement specific recommendations of IFAD's operational policies, standard project requirements and financing tools.

The **How To Do 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.

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List of acronyms

CGAP	Consultative Group to Assist the Poor
CYFI	Child and Youth Finance International
FSP	financial service provider
UNCDF	United Nations Capital Development Fund
YFS	youth financial services

Introduction

IFAD's mission is to invest in rural people, with the objective of overcoming poverty. Young people have increasingly become a priority target for IFAD as part of the agency's fight against rural poverty (IFAD, 2014a). One major reason is that youth poverty is linked to poverty at the household level because the status of the household very often defines opportunities or barriers to education, type of employment and income-generating opportunities and, consequently, to improved nutrition and health. A stronger understanding of the transitions in the lives of children and youth, and related household poverty dynamics, is central to investing in appropriate projects to address rural youth poverty and opportunities for impact (Misra, 2014). Rural youth, in particular, are often excluded from financial services and require innovative interventions to improve their access to appropriate financial tools. A key reason for this prioritization is that access to financial services is considered a vital strategy to help young people grow assets and contribute better, and for longer, to rural productivity, thereby improving their economic options for the future.

Donors and financial service providers (FSPs) have increasingly been investing in demonstration projects to facilitate access to financial services for youth, but mostly in urban and peri-urban areas. These projects have advanced the knowledge base on youth financial services (YFS). Using the lessons drawn from these projects, the purpose of this How To Do Note is to provide guidance to IFAD country programme managers, project design teams and implementing partners on how to target and reach rural youth with adequate financial services. The document provides specific recommendations for product design and project implementation.

Key issues

Contextual factors

The United Nations, for statistical consistency across regions, defines youth as people between the ages of 15 and 24 years. However, there are regional differences in defining youth. For example, in the African Youth Charter, youth includes persons between 15 and 35 years of age (UNDESA, n.d.). Beyond the differences in age range, young people do not comprise a homogeneous group. Factors such as gender, geographical location, marital status, educational level and developmental phase shape and influence their life conditions and needs.

Development projects are increasingly focusing on young people because of the "youth bulge" – a demographic condition where the proportion of youth in the population reaches a peak resulting in high levels of youth unemployment, which, in turn, exacerbates conditions of poverty. There are 1.2 billion young people between the ages of 15 and 24 in the world (United Nations, 2012), while the global youth unemployment rate is estimated at 12.6 per cent in 2013, approximately 73 million young people (ILO, 2013).

In addition to these factors, young people also have limited access to financial resources. In the developing world, 62 per cent of youth remain outside the formal financial system, which further inhibits their capacity to engage in productive activities, such as starting a business or continuing with their education (Demirguc-Kunt, Klapper, Kumar and Randall, 2013). When facing poor economic conditions, many youth turn to the informal market for employment and financial services. This can result in inefficient use of the limited resources that young people have and inadequate protection measures for vulnerable youth.

Opportunities and potential benefits

Financial inclusion strategies can help reduce poverty because they strengthen the ability of people to grow assets and smooth out their consumption, which, in turn, can help protect against unexpected financial shocks (Dunford, 2012). Youth financial inclusion is an important element of such strategies because access to financial services can help young people become economically active members of their communities.

Although youth cannot be considered a homogenous group, some universal transitions in life that add financial pressure affect most young individuals. These transitions relate to education, employment, major life events such as marriage and childbirth, and taking care of elderly family members (Kasprowicz and Rhyne, 2012). Young people need a variety of appropriate financial services to help them navigate these financially demanding transitions.



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Challenges

People living in rural areas in all regions of the world do not have as much access to financial services as urban residents do (Klapper, 2012). Some of the barriers to financial services are faced by both adults and young people in rural communities. The physical distance between FSP branches and rural communities is one of the most significant challenges. Travelling to the nearest town with an FSP is costly in terms of both time and transportation. Moreover, financial products are often not appropriate for the realities of rural areas and agriculture-based economies, which are characterized by weather and commodity risks and seasonal income fluctuations. Such environments call for flexible types of financial products that better reflect the financial capacity of rural communities.

In addition to these challenges, young people also face legal and regulatory restrictions (such as a minimum age requirement to open a bank account or obtain a loan), limited knowledge of and experience with financial services, perceptions that FSPs are not affordable or accessible for them, and a lack of adequate protection measures. These factors are compounded by biases and misperceptions that FSP staff have about youth not being bankable, resulting in very limited access to financial services for rural youth.

With rural areas having low levels of economic activity and agricultural work that is not attractive to young people (IFAD, 2014b), young people are faced with “push and pull” pressure factors to migrate to urban centres or even to other countries. Offering appropriate financial products to young people in rural areas to help them meet their growing needs and give them more productive options to stay in rural areas is thus crucial for the development and economic growth of rural communities.

Lessons from experience

There has been extensive experimentation by development agencies and documentation of YFS over the past ten years. However, there is little guidance available now on how to apply those experiences to the rural sector. This How To Do Note aims to contribute to filling that gap.

It is important to note that most of the demonstration projects have focused on youth savings and financial education, with many taking place in urban areas. IFAD is currently engaged in a number of projects involving youth access to financial services in rural areas. However, the lack of documentation and disaggregation of data mean that there are few operational guidelines for IFAD to follow when establishing the strategic direction of cofinanced projects that support YFS. IFAD will also need clear guidance on how to operationalize concepts in projects, monitor implementation processes, and evaluate and disseminate the successes and challenges of those experiences. At the same time, there is a general need on the part of the private sector and development agencies to continue investing in more experimentation, evaluation and documentation of YFS in rural areas.

This section presents a synthesis of key lessons learned in youth access to financial services.¹

Strengths of financial services for young people

Growing knowledge of youth financial needs and behaviours

- There is now extensive documentation on the financial behaviours and needs of young people, in both rural and urban areas. Young people do save, but they want safe places to save and control over their money; they also need credit to help them start or grow a business. More information can be found in the *Lessons Learned* publication used for more efficient design of youth services as part of IFAD-supported programmes and projects.
- Financial services need to be appropriate to the life stage of young people as well as tailored to the business cycle of a young entrepreneur. Utilizing a life cycle approach to financial inclusion can help ensure services are adequate for key life transitions. For rural youth, these life stages, including different activities that contribute to the family income, may take place at an earlier point in life than for urban youth.

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). The key to ensuring sustainability of project-supported financial services is balancing the costs and revenues of young people over their life cycle and taking into account the financial products their social networks might demand.
- Youth financial products with higher profit margins, such as savings and loans for older youth who might have more income-generating capacity, can subsidize lower-profit products, such as savings accounts for minors.
- Project-participating FSPs need to optimize expenses to ensure the financial viability of the services. This can be accomplished by lowering marketing expenses and utilizing current staff to service both adult and youth products during their regular field visits.
- Including non-financial services in projects can become financially sustainable, especially if the same FSP staff can offer them cost-effectively. However, some cross-subsidies by higher profit margin products would still be required.

¹ A comprehensive review of lessons learned is included in the IFAD publication *Lessons Learned: Youth Access to Rural Finance*.

Reaching scale with youth financial services

- Scaling up YFS is achievable when the FSP is fully committed to serving young people. For this commitment to be institutionalized, project design needs to foresee that staff at all levels of the organization are trained to see youth as bankable and offer them quality customer service.
- Youth savings services have proved they can reach a very large scale. Youth savings groups are especially effective in rural areas and, therefore, should take centre stage in IFAD-supported projects.
- Scalable approaches to savings accounts have incorporated more flexibility in account opening requirements, reduced account opening amounts, provided greater account control for the youth, and simplified the product design.
- Experience has shown that savings accounts need to be an entry point to formal financial services. This builds the financial capability of young people before they access other products, such as loans.
- Schools are effective entry points for reaching large numbers of young people, especially minors, but youth savings groups represent an alternative strategy for reaching out-of-school youth in rural areas.
- Project designs should take into account that there is some emerging experimentation with context-appropriate youth loans that have relaxed requirements, such as solidarity guarantees, graduation from a training programme in lieu of individual collateral, development of a bankable activity, and repayments with a grace period.

Impact of financial services on the financial behaviours of young people

- Market studies and demonstration projects encourage the design of youth-inclusive projects as they have shown that youth are bankable and are able to save and repay loans. There is emerging evidence that youth loans are no riskier than adult loans.
- Loans are essential for improving the productive capacity of young people, especially for the landless to start businesses as part of a value chain.
- Solidarity credit groups represent one strategy for FSPs to make credit available to young people while reducing their risk exposure.
- Youth savings groups, through their group structure, can help rural youth build assets and financial capability, and have the potential to develop long-term savings habits.
- Young people, especially vulnerable groups such as adolescent girls, need safe spaces and consumer protection when using formal financial services.
- Linking government-to-person payments to youth savings accounts has potential for long-term impact on young people's lives.
- Non-financial services are considered essential ingredients for building the financial and business capability of young people.

Use of technology to promote youth access to financial services

- Technology is facilitating access and use of financial services, especially mobile banking and financial education text messaging. As a member of the Better Than Cash Alliance, IFAD is committed to promoting technology and digitalized financial services that can help bridge the physical distance to the nearest FSP, which is one of the most significant challenges people in rural areas face.

Role of social networks in promoting youth access to financial services

- IFAD needs to provide for the active participation of parents and caregivers in project design, as they can play a crucial role in the ability of young people to access and use financial services, either by being co-signers to a savings account for a minor, providing a guarantee or collateral for a loan, or contributing towards a savings account or a loan repayment.
- There is potential for generating cross-sales through offering financial products to the parents or other adult networks of youth clients. However, this premise still needs further testing.
- Design needs to take into consideration that trusted adults other than parents and relatives can also facilitate access to financial services. This is especially critical for young people who do not want parental involvement in their finances.
- Mentoring programmes with experienced business owners can help build the business and financial skills of young entrepreneurs and farmers.

Challenges to youth financial services

- Evidence of sustainability of financial services has focused mostly on savings services that have been subsidized. More financial analysis of other financial products is needed.
- Encouraging the growth of savings balances after accounts are opened is critical for sustainability.
- Achieving scale of non-savings financial products has been limited and requires more experimentation, especially for vulnerable populations such as migrating youth.
- Reaching out-of-school youth with formal financial services calls for alternative approaches.
- Results from youth savings projects indicate there is a gender imbalance, with more young men, in general, opening savings accounts and accessing larger loan amounts than young women.
- There is a need for more evaluation of the long-term impact of financial and non-financial services for young people.
- Challenges remain for mobile technology to promote youth financial inclusion. There is a need to address ways to make the technology more broadly accessible.

The rest of this note will discuss the implications of these lessons learned for the design of financial products and delivery channels for rural youth and project implementation.

Guidance for design

Preconditions for IFAD to support youth access to rural finance projects

Prior to engaging in any project to promote financial access for rural youth, the IFAD project design team should determine whether there is any justification for IFAD intervention in the form of capacity-building, investments, knowledge-sharing, analysis, documentation or advocacy. There are a number of steps IFAD country programme managers can take to make this determination:

1. Assess the regulatory environment and market conditions for YFS in rural areas and determine where there is a role for IFAD. Key questions to determine where IFAD can play a role include:
 - (a) *Is the regulatory environment conducive to youth access to financial services? Key aspects to investigate include: What is the legal minimum age for opening a bank account and accessing loans? Which consumer protection measures are in place? What strategies are already being used to promote youth financial inclusion and financial capability?*

- (b) *Is there a limited supply of financial services for rural youth?* This assessment would require determining what FSPs are active in rural areas and to what extent they are readily accessible. For example, are there branches or bank agents in the rural communities? If not, do FSP staff travel to the rural communities to offer the services? Are there other mechanisms for rural young people to access the services in their communities, such as point of sale, automated teller machines (ATMs) or mobile banking?
 - (c) *Are the financial services available in rural areas a good match for the financial needs of young people?* Appropriate financial products take into account the low-income levels of youth, the income fluctuations of rural areas, the role that parents or other adult caregivers might play in the finances of young people, and the types of income sources youth have in rural areas.
 - (d) *What are the main constraints that FSPs face in providing adequate financial products for young people?* An assessment of the specific constraints that FSPs face can help determine the most appropriate intervention. If the lack of infrastructure is an issue, the implementation of technology-based innovations or partnerships with rural community-based organizations (CBOs) to link youth to an FSP (for example, by enabling a CBO to become a bank agent) might help overcome such a barrier.
 - (e) *What type of product designs and delivery mechanisms best meet the financial needs of young people?* A key assumption to be considered initially is that young people *do* need financial services – numerous market assessment studies conducted with young people around the world have already confirmed this premise (SEEP, 2013). As a result, a more in-depth market study is needed to evaluate the attractiveness and usefulness of *specific* design features. For example, questions to explore include: What type of loans are needed? Agricultural loans or start-up loans? What are the terms and conditions that would allow rural youth to repay loans?
 - (f) *What is the demand for YFS?* Along with determining the product design features that are needed by rural youth, there is a need to quantify the exact demand, so as to inform the investment and financial support that would be needed to meet the demand. The analysis would assess the potential volume in savings that could be mobilized and the loans that would be requested.
- 2.** Identify FSPs that want to offer YFS in rural areas and understand their motivation to do so.
- (a) FSPs that want to offer financial services to rural youth might be savings or credit cooperatives, credit unions or microfinance institutions that are already established in rural areas or are making inroads in those communities.²
 - (b) Identifying the reasons for an FSP wanting to reach out to rural youth is essential in determining what type of support is needed and what can be provided by IFAD. An FSP's main motivation might be to increase its client base by expanding to rural areas. It might also be driven by a very strong social impact mission to invest in the development of poor communities. Understanding the main motivation can help shape the type of services that can be offered.
- 3.** Determine whether there is a solid long-term commitment (minimum of five years) by the leadership of the FSP. Offering YFS should be in line with an organization's mission and long-term strategy.
- (a) The financial analyses that have been conducted on YFS suggest that offering services to young people is financially viable, but this strategy requires a long-term commitment because there are no short-term returns. IFAD should ensure that the leadership of an FSP implementing partner has a long-term vision in working with youth clients. Analysing the

² For more information on different types of community-based financial organizations (CBFO) operating in rural communities, see IFAD's toolkit on CBFOs (IFAD, 2014c).

potential business case for the FSP is a necessary exercise. The business case framework recently developed by the Consultative Group to Assist the Poor (CGAP) for Youth Savings can be used as a template for other youth financial products (see Box 1).

Box 1. Key questions for determining the business case of youth savings

The Consultative Group to Assist the Poor has outlined a framework for determining the conditions under which there might be a business case for FSPs offering savings products for young people. The framework considers market levers (level of competition and regulatory environment), institutional levers (opportunity cost, capacity and infrastructure, and time horizon), segment specific levers (youth segments) and profitability drivers (costs and revenues).

Key questions based on this framework can shape the FSP analysis of the business case:

- How competitive is the environment?
- What are the regulatory parameters?
- What are the opportunity costs of offering youth savings as opposed to investing resources into other ventures?
- What is the institution's capacity and infrastructure for allocating resources to youth savings?
- Over what time horizon does an institution expect (or require) profitability from youth savings?
- Which client subsegment(s) should the institution target?

Guidance for FSPs on the design of financial services and non-financial services

The design of financial products for young people in rural areas should reflect the distinct aspects that characterize that segment of the population. This section provides guidance on specific product design, building on industry knowledge of the financial behaviours of young people, in addition to the comprehensive lessons learned from experimentation with YFS. This section also provides general guidance on design features of non-financial services.

Savings product design

Savings products have been shown to be elemental first steps for access to financial services. But savings services need to be designed so that they foster growth in balances and have adequate control and protection measures. With numerous youth savings project demonstrations taking place, a general consensus is emerging on specific product design features that are appropriate for young people.

- *Account opening requirements.* Rural youth need alternative approaches for meeting know-your-customer requirements. These alternatives should be based on different forms of identification that are more easily accessible in rural areas (see Box 2).

Box 2. Alternative identification requirements for bank accounts

Some FSPs are accepting alternatives to government-issued identification (ID) cards (e.g. birth certificates) for access to their financial services:

- Central Bank (Philippines) – School identification
- Postbank (Kenya) – Baptism card, school leaving certificate or letter from a provincial administration or church authority
- Bank of Kathmandu (Nepal) – School registration certification
- Amhara Credit and Savings Institution (ACSI) and Peace (Ethiopia) – Local administration, such as village or ward councils, can issue IDs earlier for “young workers” with proof of employment
- Al-Amal – Confirmation letter from the local municipality or a marriage agreement in the case of women

Sources: Aldebott-Green and Sprague, 2014; European Microfinance Platform (e-MFP), 2012; Hopkins, Porter, Perdomo and Muñoz, 2012

- *Reduced opening amounts for savings accounts.* An initial deposit amount is necessary for youth to formalize the opening of a bank account. The minimum amount should reflect the capacity of young people in the FSP target areas. A small opening amount might not be cost-effective to the FSP in the short term, but the savings that can be accumulated over time can generate sufficient revenues to cover the costs. A low amount also sends a signal to the young person that a bank account is accessible and affordable.
- *No product fees for savings accounts for minors, with gradual increases until youth are of legal age or the savings balance has reached a certain threshold amount.* This gradual approach ensures that youth have appropriate access to financial products as their financial capacity grows. It also protects small savings balances from being eroded by maintenance or transaction fees.
- *Incentives and reminders to save.* Once a savings account is opened, there should be mechanisms in place reminding young people to continue saving and growing their balances. This can be achieved by sending reminders via text messages or establishing rewards for reaching certain savings targets. When staff conduct routine field visits to collect payments for loans or promote products, they can also remind youth or their parents to make a deposit in the youth account.
- *Control by minors of savings products.* Young people want control over their savings accounts. Even if an adult is needed as a co-signer to meet local regulations, young people should have control over deposits and withdrawals. In practice, this means that no adult co-signer can make a deposit or withdrawal without the consent of the youth account holder.
- *Simple features and transparent terms.* Young people, especially minors, with limited or no experience of financial services need simple and transparent terms they can easily understand. Financial providers should respond to young people's needs by offering simplified information and processes on how to open and manage an account. A simplified savings account for minors would have no restrictions or requirements on deposits or withdrawals.

Note: These product design features are in line with the Child and Youth Friendly Banking Product Certification (see Box 3). The United Nations Capital Development Fund (UNCDF) and United Nations Children's Fund have both fully endorsed the Child and Youth Finance Movement that developed the certification process (UNCDF, n. d.). An FSP could decide to obtain the product certification if a savings product were to meet the criteria. However, this certification process is very recent and there is currently no evaluation of the benefits of the certification.

Box 3. Child and Youth Friendly Banking Product Certificate

Child and Youth Finance International (CYFI) is an Amsterdam-based NGO that has developed Child and Youth Friendly Banking guidelines through research and consultation with the financial sector, NGOs and government agencies. The Child and Youth Friendly Banking Product Certificate has been under development since 2010, and is intended to be the first-ever global standard for safe and reliable banking products (both savings and current accounts) for children and youth (0–18 years of age). The certificate is awarded to banking products that meet specific standards, including:

- Availability and accessibility for children and youth
- Maximum control by children and youth
- Positive financial incentive for children and youth
- Reaching unbanked children and youth
- Employing child- and youth-friendly communication strategies
- A financial education component
- Monitoring of child and youth satisfaction
- Internal control

Source: CYFI, 2012.

Non-financial services design

Offering complementary non-financial services, such as financial and business education, is becoming a standard for FSPs that reach out to financially excluded communities. While non-financial services represent an expense to the FSP, they have been shown to be cost-effective and sustainable when cross-subsidized with profitable financial products.

- *Offer financial education to build youth financial capability.* Developing the skills and knowledge of young people to make sound financial decisions is essential when people access financial services for the first time. Financial education can be a good complement to any financial product.
- *Offer business and/or technical training for budding entrepreneurs.* For youth who want to start their own business, participating in business training can help them build a realistic and bankable business plan, and improve their business skills and their likelihood of obtaining and repaying a loan. In rural areas, specialized training or technical assistance could focus on a variety of agribusiness topics (such as crop production, distribution, processing and sales), as well as non-farm entrepreneurial opportunities (trading, transportation, construction, manufacturing, commerce and service activities).
- *Offer mentoring or coaching for startup businesses.* Young people want coaching from experienced professionals. In rural areas, experienced farmers or entrepreneurs in agribusinesses could provide mentoring. Engaging youth mentors with relevant experience could be especially effective. A coaching or mentoring approach should be offered along with start-up loans.
- *Build internal FSP capacity to offer non-financial services or link youth clients to an experienced NGO.* FSPs can either provide non-financial services with their own staff or link youth clients to an NGO that can provide the services. Either strategy will require some subsidies from financial products in order to be sustainable over time.
- *Non-financial services should be simple, concise and relevant to young people's lives.* Education is found to be most effective when it is applicable to a young person's life. For example, business education would be relevant to a young 18-year-old who is starting a business, but not to a 13-year-old who is in school and wants to continue his or her education (see Box 4).

Box 4. "Rule-of-thumb" financial education for young people

According to Drexler, Fischer and Schoar (2014), a rule-of-thumb training approach with simple messages might be more effective than more complex training, especially for clients who have limited experience with financial services. The authors offer the following example of a rule-of-thumb training utilized by ADOPEM, a microfinance institution in the Dominican Republic:

"The rule-of-thumb training gave them a physical rule to keep their money in two separate drawers (or purses) and to only transfer money from one drawer to the other with an explicit 'IOU' note between the business and the household. At the end of the month, they could then count the money in the business drawer and know what their profits were."

Source: Drexler, Fischer and Schoar, 2014.

Loan product design

FSPs have been reluctant to offer loans to young people because of the potential risk of default. But loans also represent a risk to the young person because young borrowers could lose their entire investment and any collateral that was provided if the business fails. IFAD advocates for loans to rural youth under conditions that promote full-cost recovery plus additional income to meet young people's growing financial needs. This can be accomplished with loans that are structured appropriately for the economic conditions of rural areas.

While there is limited experience and documentation of good practices in offering youth loans, especially in rural areas, there are key design principles that need to be considered (see Box 5 for an example of a youth-friendly loan product):

- *Require a savings account prior to obtaining a loan.* This approach requires youth to establish savings for a fixed period of time (for example, three to six months) to be eligible for a loan. Although this approach might delay access to obtaining a loan, if the savings account is accessible and affordable and business training can be offered during this time, the young borrower would then be better equipped to take out a loan. If the young person is required to use some of the savings as a form of collateral, FSPs should be careful not to charge a loan interest rate that is higher than the interest rate being paid to the young person on the savings account.
- *Provide adequate loan sizes for startup enterprises.* Limiting the loan size for first-time borrowers is common practice because it minimizes the financial risk to the financial institution in case of default. Small loans might also be easier for young first-time borrowers to repay, helping them establish a good track record on loan repayment. However, a loan size that is not sufficient to meet the business needs, especially of a startup, could increase the likelihood of a business failure. In fact, a common complaint from young borrowers in accessing loans is that loan amounts are not adequate to meet their business needs (MEDA, 2014). FSPs should ensure that the loan size and repayment policy are adequate for the business needs and financial capacity of the young borrower.
- *Adjust repayment terms.* In rural areas, repayment terms should mirror the seasonal income fluctuations. Start-up loans could allow for initial grace periods, accompanied by mechanisms to ensure prompt repayment after that period.
- *Offer introductory loans to groups, but with a plan to graduate to individual loans.* Group guarantees are commonly used to reduce the risk to the FSP. Grouping youth with similar sectors might create positive reinforcement and support among members. However, borrowing as part of a group does present some challenges, such as ensuring all group members can meet the FSP requirements, from meeting attendance to loan repayment. Rural youth can be very mobile, which can affect the dynamics of a group. FSPs that require a group-based loan should aim to graduate youth to individual loans after successful repayment of the initial group loan.
- *Establish entrepreneurship training/mentoring and financing as a comprehensive programme.* Providing young people with the business and financial skills to manage a business is critical to ensure young people can repay a loan. Offering such training becomes a necessity for the financial viability of the products. The training programme could be a requirement to access financing. For example, participants would need to develop a business plan to graduate from the programme and be eligible for a loan. Credit could be based on the strength of the business plan.
- *Offer low-interest, market-based rates for start-up loans.* FSPs could offer introductory low-interest rates that are within a competitive market range for youth who are first-time borrowers. This sends a signal to youth that formal credit is accessible while ensuring the financial sustainability of the product.

Box 5. Youth-friendly loan product

In Morocco, Mennonite Economic Development Associates collaborated with microfinance institutions to adjust loan features that would be youth-friendly:

- Minimum age of youth clients was reduced from 21 to 18 to reflect national regulations
- Loans were available to bankable youth business startups
- Interest rates were lowered for youth loans
- Maximum loan amounts were increased
- Guarantee/collateral requirements were relaxed
- Mandatory financial education training was added

Source: Mizrokhi, 2014.

Guidance for project implementation

Institutional strategy and capacity-building

One of the main roles IFAD can play in supporting youth access to rural finance is that of building the capacity of FSPs to work effectively with young clients. This is a critical role, especially given the lack of experience of FSPs working with young clients and the pervasive misperceptions of FSP staff that youth are unbankable (i.e. unable to save and a high-credit risk because startup enterprises tend to be less profitable).

IFAD co-funded projects should provide guidance and support to FSPs for:

- *Developing a long-term business plan and financial projections for offering YFS in rural areas.* Cost-revenue analyses require a detailed understanding of the distinct aspects of YFS (cross-sales, growth of savings balances as youth age, portfolio-at-risk analysis, appropriate costs and revenues structures).
- *Offering a well-balanced youth portfolio.* A diversified portfolio would include a variety of financial products, such as savings, loans, insurance, and remittances services. Such a portfolio balances risks and allows for cross-subsidization.
- *Developing a stepped approach for youth to access financial services.* A stepped approach starts with savings when youth are minors. It involves loan amounts that are adequate for the business needs and repayment capacity of a young person, and that can grow in size over time with experience (see Box 6).
- *Developing a strategy to ensure that both girls and boys have equal access to and use of financial services.* This might mean establishing safe spaces where girls can engage with the FSP and/or mentors of older young women who can help build the financial capability of adolescent girls. Opening hours should also be compatible with the agendas of young men and women.
- *Building the capacity of staff at all levels of the FSP to work with youth clients.* This element consists of formally incorporating youth clients into the workload of staff, with appropriate incentives. For example, staff might receive monetary incentives for the number of savings accounts opened or volume of deposits obtained for adult accounts. Youth accounts should be equally incentivized.
- *Adapting youth-centred client protection principles.* This approach also requires identifying a “youth champion” within the organization who can ensure the principles are adopted and implemented throughout the organization (Linder, Perdomo, Muñoz and Cea, 2012). The guidelines should be based on the Smart Campaign Client Protection Principles (see Box 7), but could be adapted for youth (see Annex A).

Box 6. Stepped loan approach

In Bangladesh, Grameen Bank's Youth Entrepreneur Loan Project is providing loans to youth clients who demonstrate an entrepreneurial mindset. Borrowers are advised to start with small loans, which can increase over time with experience in repaying loans. Youth clients are engaged in different activities, including trading, nurseries, coaching centres, pay phone and fax centres, computer training, mobile phone servicing centres, tailoring shops, fashion houses, clinics and health care, livestock, poultry, and fisheries.

Source: FAO, 2014.

Box 7. Smart Campaign Client Protection Principles

- Appropriate product design and delivery
- Prevention of over-indebtedness
- Transparency
- Responsible pricing
- Fair and respectful treatment of clients
- Privacy of client data
- Mechanisms for complaint resolution

Source: The Smart Campaign, 2011

- *Developing strategies for optimizing expenses.* Strategies for reducing costs could include low-cost marketing channels (promoting youth products through existing adult clients or conducting fairs at schools) or the use of existing staff to offer both adult and youth financial products.
- *Strengthening management information systems and monitoring and evaluation (M&E) systems.* An FSP's management information system should include indicators segmented by age, gender and geographic location. An effective M&E system would monitor the impact on young people's financial behaviours over time.
- *Developing strategies for reaching the children of existing adult clients as well as adult relatives or friends of youth clients.* This approach could further generate cross-subsidies for the non-financial services.
- *Designing a strategy for involving trusted mentors in opening accounts for young people who do not want parental or spousal involvement.* Such an approach would require implementation of adequate risk-monitoring tools to ensure protection of youth, especially among vulnerable segments such as adolescent girls.



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Support demonstrations of loans, insurance and remittance products

Given the continued reluctance of FSPs to lend to youth, despite emerging evidence that youth loans are not riskier than adult loans, there is a role for IFAD in supporting demonstration projects of youth loans in rural areas. This support could take the form of matching grants to finance businesses in farm and non-farm activities and would be accompanied by training and/or mentoring (IFAD, 2014a).³ Insurance and remittances are products that also require additional investment to determine effective approaches that can be scaled and sustained over time.

³ IFAD advises using matching grants only as an "exception to the rule, to be used parsimoniously and with all due safeguards" (IFAD, 2014a).

Support innovations in technology

Mobile technology offers much promise in promoting the financial inclusion of young people in rural areas. However, there are still some challenges in using technology effectively. IFAD's project management unit can play a role in promoting technology innovations by (see Box 8):

Support non-financial services and engage NGOs

While offering non-financial services along with financial products is becoming the norm, providing services that are high in quality and adequate for the learning needs of young people is critical. IFAD can play a significant role in ensuring quality control:

Box 8. Innovations in technology

- Facilitate collaboration between mobile network operators and FSPs to facilitate mobile banking.
- Fund the initial investment for FSPs to implement smartphones or point of sale to collect savings or loan repayments in rural areas.
- Fund the initial investment for FSPs to implement text messages with financial education messages, reminders to save or agriculture-related information (e.g. weather conditions).
- Fund linkages of youth savings groups in remote rural areas with a bank account via mobile banking.
- assessing the availability and use of mobile banking in rural areas; and
- financing innovations in technology to reduce operational costs and increase financial access and use for youth in rural areas.

- Support and finance the capacity-building of FSPs and non-financial NGOs to offer a wide variety of non-financial services for rural youth. Non-financial services can range from financial education to technical and business training for farm and non-farm activities.
- Encourage cross-subsidies of financial services for non-financial services.
- Engage ministries of education in facilitating school-based models to deliver both financial and non-financial services.

Support youth savings groups

Stable youth savings groups have proved to be very effective mechanisms for building the financial capability of young people in remote rural areas. A savings group can serve as an ideal platform for young people before their financial needs increase, but there should be mechanisms in place to graduate young people to formal financial services as they grow up or migrate.

- Support NGOs to support the creation and development of youth savings groups.
- Facilitate collaboration between FSPs and NGOs to link youth savings groups with formal financial services before or after migration. Engage FSPs and NGOs to determine whether such collaboration could result in cross-subsidies from FSP to NGO.

Scaling up

Scaling up at the micro level – supply side

IFAD can promote scaling up by encouraging FSPs to engage in a variety of strategies:

- Tapping into existing adult clientele to promote youth products as a cost-effective strategy. FSP staff can offer products to young people during their regular field visits to adult clients.
- Promoting products in schools, vocational centres, youth-serving organizations, sports organizations and religious centres can help ensure that different youth segments are being reached.

IFAD could engage a variety of FSPs (microfinance institutions, cooperatives, credit unions, savings and credit cooperatives – SACCOs, commercial banks) to offer financial services for rural youth.



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Scaling up at the meso level

Scale is largely driven by the commitment of the FSP to deliver services to young people. IFAD can promote the know-how and capacity-building of FSPs to reach youth by engaging the existing network of FSPs:

- IFAD could engage network associations to conduct promotional events to share lessons learned, success stories and design guidance to member institutions, especially the ones that are reluctant to serve the youth market.
- IFAD could support and finance training-of-trainers workshops to be delivered by industry associations to their individual members on how to reach the youth market in rural areas.
- IFAD could facilitate a dialogue between network associations in the financial services industry and youth-serving organizations to promote linkages with each other.

Scaling up at the macro level

- IFAD could engage in a policy dialogue with government agencies to develop and implement youth financial inclusion policies at the country level, with special emphasis on rural segments, and to address barriers to access in the regulatory environment.

Additional resources and tools

There are numerous training guides, publications and online tools that can provide additional guidance on the design and implementation of YFS and non-financial services.

- CYFI – Youth-friendly product certification and social and financial education curriculum guidelines (<http://childfinanceinternational.org/movement/publications>)
- CGAP – Business case framework for youth savings (<https://www.cgap.org/sites/default/files/Focus-Note-Business-Case-for-Youth-Savings-A-Framework-Jul-2014.pdf>)
- European Microfinance Platform – European dialogue (a publication showcasing case studies of YFS around the world) (<http://www.e-mfp.eu/resources/european-dialogue-no5>)
- Freedom from Hunger – Advancing financial inclusion for youth (an interactive online guide for FSPs) (<http://youthfinancialinclusion.org/login/aimyouth.php>)
- Making Cents – Youth economic opportunities (a community of practice and knowledge exchange portal) (<http://www.youtheconomicopportunities.org>)
- Mennonite Economic Development Associates – YouthInvest praxis series (a series of reflective publications on loans and savings) (<http://www.meda.org/publications/youthinvest-praxis-series>)
- Misra, R.S. *Alleviating Chronic Poverty in Africa: Emerging Evidence in Financial Inclusion and Social Protection*. MasterCard Foundation Working Paper. September 2014.
- SEEP – Innovations in youth financial services practitioner learning products (technical series on viable models for achieving scale) (<http://www.seepnetwork.org/innovations-in-youth-financial-services-practitioner-learning-program-pages-60.php>)
- UNCDF YouthStart – Training guides (<http://www.uncdf.org/en/youthstart-resources>)
- Women's World Banking – Banking on Youth (a guide for deposit-taking institutions in any stage of youth savings programme development) (<http://www.womensworldbanking.org/wp-content/uploads/2014/10/Womens-World-Banking-Banking-On-Youth-2014.pdf>)
- YouthSave – Publications and blog (a consortium project led by Save the Children in partnership with the Center for Social Development at Washington University in St. Louis, the New America Foundation and CGAP) (<http://youthsave.org>)

Annex A – United Nations Capital Development Fund’s Adaptations to the Smart Campaign’s Client Protection Principles

United Nations Capital Development Fund’s Adaptations to the Smart Campaign’s Client Protection Principles
PRINCIPLE 1: APPROPRIATE PRODUCT DESIGN AND DELIVERY
Adapted indicator: Product design
<ul style="list-style-type: none"> • The financial institution offers youth-sensitive and appropriate products integrated with non-financial services, in particular financial education, that promote the use of those services based on informed decisions. • Financial education sessions are offered to youth, without the sessions being a “marketing opportunity” for the institution. It does not offer products that produce negative value for the clients.
PRINCIPLE 2: PREVENTION OF OVER-INDEBTEDNESS
Adapted indicator: Policy on repayment capacity analysis
<ul style="list-style-type: none"> • The financial institution policies support good repayment capacity analysis. The loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis. • (Individual lending) Repayment capacity analysis is done for every loan. • (Group lending) The group formation and loan approval process ensure the prudent self-selection of members, with emphasis on the concept of solidarity payment. • (For youth clients) Youth are offered financial education sessions that ensure they fully understand their repayment capacity.
PRINCIPLE 3: TRANSPARENCY
Adapted indicator: Full pricing disclosure
<ul style="list-style-type: none"> • The financial institution fully discloses to the clients all prices, instalments, terms and conditions of all financial products, including all charges and fees, associated prices, penalties, linked products, third- party fees, and whether those can change over time. • When the client is a minor, the financial institution makes sure the youth and the co-signer are equally informed. Financial education sessions can be designed and delivered to address this need.
Adapted indicator: Variety of disclosure mechanisms
The financial institution uses at least two different communication channels for disclosing clear and accurate information about the product: written and verbal (to address literacy limitations).
Adapted indicator: Communicates proactively with clients
<ul style="list-style-type: none"> • Staff are trained on how to communicate with youth, in particular, on how to tailor interactions with new users of financial services, on understanding likely youth sensitivities, and on the rights and responsibilities of youth clients. • Youth-friendly communication techniques address literacy limitations (e.g. reading contracts aloud, materials available in local languages) are used at every point of contact with the youth, and are geared to increase the financial capabilities of the youth clients.
Adapted indicator: Adequate time for client review
<ul style="list-style-type: none"> • The financial institution gives clients adequate time to review the terms and conditions of the product, ask questions and receive additional information prior to signing contracts. • When the client is a minor, the financial institution makes sure the youth and the co-signer have adequate time for client review.

PRINCIPLE 4: RESPONSIBLE PRICING

Adapted indicator: Market-based, non-discriminatory

- Youth are considered a long-term investment for the financial institution.
- The financial institution offers them affordable products and has a short-term and long-term sustainability plan that may include cross-selling, cross-subsidizing and long-term client retention.

Adapted indicator: No excessive fees

- Youth accounts cannot be overdrawn. The financial institution does not charge a penalty on the interest if money in excess of the account balance is withdrawn.
- There should be no or low minimum initial balance and deposit requirements.

PRINCIPLE 7: MECHANISMS FOR COMPLAINT RESOLUTION

Adapted indicator: Clients know how to submit complaints

- The youth and the co-signer (in the event the client is a minor) are informed of their right to complain and know how to submit a complaint to the appropriate person.
- Education sessions about clients' rights and responsibilities should be delivered to youth and any co-signers, as well as staff.

Source: Perdomo, 2013.

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