TEASER

Youth access to rural finance

IFAD
Investing in rural people

Inclusive rural financial services

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Swaziland – Rural Finance and Enterprise Development Programme

Introduction

As a specialized agency of the United Nations, IFAD has a mandate to improve rural food security and nutrition and equip rural people with the tools to overcome poverty. In line with the Fund's reorientation of its strategic priorities towards promoting rural entrepreneurship, IFAD has also increased its focus on young people's participation in the economic development of rural communities.[1] Rural finance plays a major role in equipping youth with the necessary tools to become economically productive and navigate the financially demanding transition to adulthood (see Box 1 for a definition of young people).

Box 1: Definition of young people

The United Nations, for statistical consistency across regions, defines youth as people between the ages of 15 and 24 years. However, there are regional differences in defining youth. For example, in the African Youth Charter, youth includes persons between 15 and 35 years of age.

Source: www.unesco.org/new/en/social-and-human-sciences/themes/youth/youth-definition.

[1] IFAD. 2014. Supporting Rural Young People in IFAD projects. *Lessons Learned*. Rome: IFAD.

Background and context

Youth access to rural finance has become a central concern of poverty reduction strategies. Financial services such as savings, loans and insurance are essential tools young people need to start an enterprise and increase farm productivity. Remittance products are also needed for youth who migrate, to help spur local economies in the communities of origin. Financial services can help rural youth build assets and become better prepared to face the increasing financial demands of growing up and the unexpected risks of agricultural-based economies.

As a target group, youth cannot be considered homogenous. Age, gender, school enrolment and family situation shape young people's needs and preferences for financial services. However, there are universal life transitions that place similar types of financial pressure on any young person, including going to school, working, getting married, having children and taking care of elderly family members.

Young people need and want financial services to meet their increasing financial needs,[2] but they are disproportionately left out of the financial system (see Box 2). The challenge in making financial services accessible for rural youth is similar to the challenge for adults: long distances to reach financial service providers (FSPs) and financial products that are inadequate for seasonal-based economies and farm-related risks. Rural youth face additional challenges, such as minimum age requirements to open a bank account or obtain credit, and limited experience with financial services. In addition, financial institutions have traditionally been reluctant to serve young people because this target segment has been considered unbankable (unable to save and a high credit risk due to their engagement in less profitable enterprises and their lack of experience and conventional collateral).

Box 2: The state of youth access to financial services

According to the World Bank's Global Financial Development Index, only 6 per cent of youth report borrowing from a formal financial service provider compared with 11 per cent of adults. Access to a savings account is slightly better, at 18 per cent of youth, but still significantly lower than the 25 per cent for adults.[a]

For rural youth, access to finance is even more challenging. In a global survey conducted in 2014 with young farmers, over 70 per cent of respondents stated that access to finance is their most significant difficulty, whereas access to land was identified by 52 per cent as the most significant challenge.[b]

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

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

In recognition of the need to address the financial requirements of young people, there has been a recent surge in demonstration projects of youth financial services. Analysis and evaluations of this experimentation has resulted in emerging evidence on the operational viability and financial sustainability of youth financial services.

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

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Rationale

With the mounting awareness of the unmet demand for youth financial services and the growing evidence that serving young people is viable, there is also a need to assess and document the implications for rural areas. This toolkit on Youth Access to Rural Finance aims to contribute to filling that gap.

The Lessons Learned and How To Do Note on this topic provide IFAD country programme managers, project design teams and implementing partners with insights and key guidance on designing and offering appropriate financial services for rural youth. The toolkit on Youth Access to Rural Finance synthesizes best practices and offers examples from around the world.

Summary of past experiences

The donor community has been investing over the years in the design, delivery and evaluation of different approaches used in youth financial services. Most of the projects have focused on savings coupled with financial education. This emphasis is a result of earlier evidence that savings needed to be the starting point for young people's financial inclusion. Savings products are more appropriate because youth tend to have access to small amounts of money and have limited financial experience. Financial education is often integrated because it can help increase the skills and knowledge of young people to make efficient use of financial products.

There has also been some experimentation with youth loan products, often accompanied by business development services. In rural areas, loans have been provided for agriculture activities and agribusinesses along value chains. However, loans have been limited in scale and results have not been as well documented.

Key lessons learned in promoting youth access to financial services include the following:

Sustainability of financial and non-financial services

There is growing evidence on the potential for FSPs to achieve financial sustainability for youth savings products over the medium to long term (three to five years) coupled with non-financial services. Sustainability of non-financial services can be more easily achieved when cross-subsidized by higher profit margin products.

Scalability of youth financial services

- Savings products have proved to be scalable. But reaching scale requires an institutionalized long-term commitment by the FSP. Youth savings groups have also proved to be scalable and can be especially effective in rural areas where there are no FSPs.
- Scalable approaches to savings accounts have incorporated flexible design features that meet the specific needs of young people.
- Schools are effective entry points for reaching large numbers of young people, especially minors.
- Youth loans that have relaxed requirements, such as solidarity guarantees or graduation from a training programme in lieu of individual collateral, seem promising in terms of potential take-up and sustainability.
- Technology, such as mobile banking, is facilitating access and usage of financial services. Technology can help bridge the physical distance that separates rural communities from formal financial services.

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Impact of financial services in the financial behaviours of young people

- Market studies and demonstration projects have shown that youth are bankable and able to save. There is emerging evidence that youth loans are not riskier than adult loans.
- 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.
- Linking government-to-person payments to youth savings accounts could be an effective mechanism to channel social protection into asset-building for young people, in particular, if done through digitalized services.
- Non-financial services, such as financial education and business development services, are considered essential ingredients for building the financial and business capability of young people. Young entrepreneurs may even need business training and coaching as a requirement for obtaining a loan that will continue during the start-up phase.

Role of social networks in promoting youth access to financial services

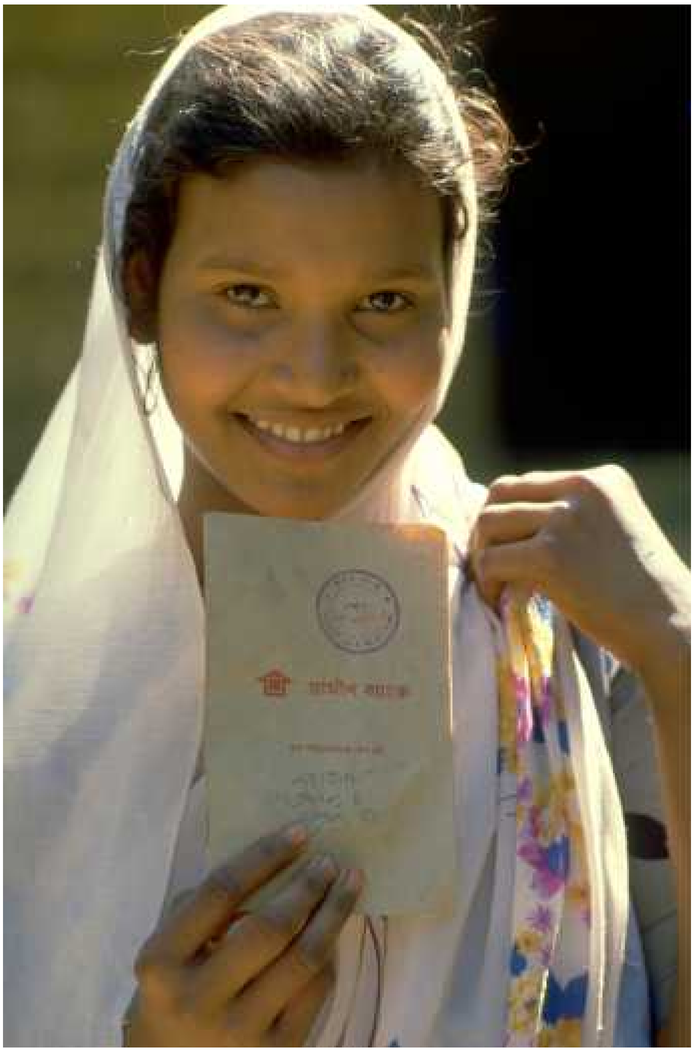
- Parents and caregivers can play a crucial role in the ability of young people to utilize formal financial services. Trusted adults, other than parents and relatives, can also facilitate access. Such alternatives are critical for young people who do not want parental involvement in their finances.
- There is a potential to generate cross-sales from offering financial products to the parents of youth clients. However, this premise is still being tested. An alternative strategy, such as reaching young people through existing adult clients, could also be effective.

Summary of key issues

There is now more extensive documentation on the financial behaviours and evidence of the needs of young people, in both rural and urban areas, and the effectiveness of different mechanisms for promoting youth financial inclusion. This information can be used to design and implement youth services more efficiently.

Challenges

Despite significant achievements in the field of youth financial inclusion, there are many outstanding challenges to providing rural youth with the necessary tools to meet their growing financial needs:



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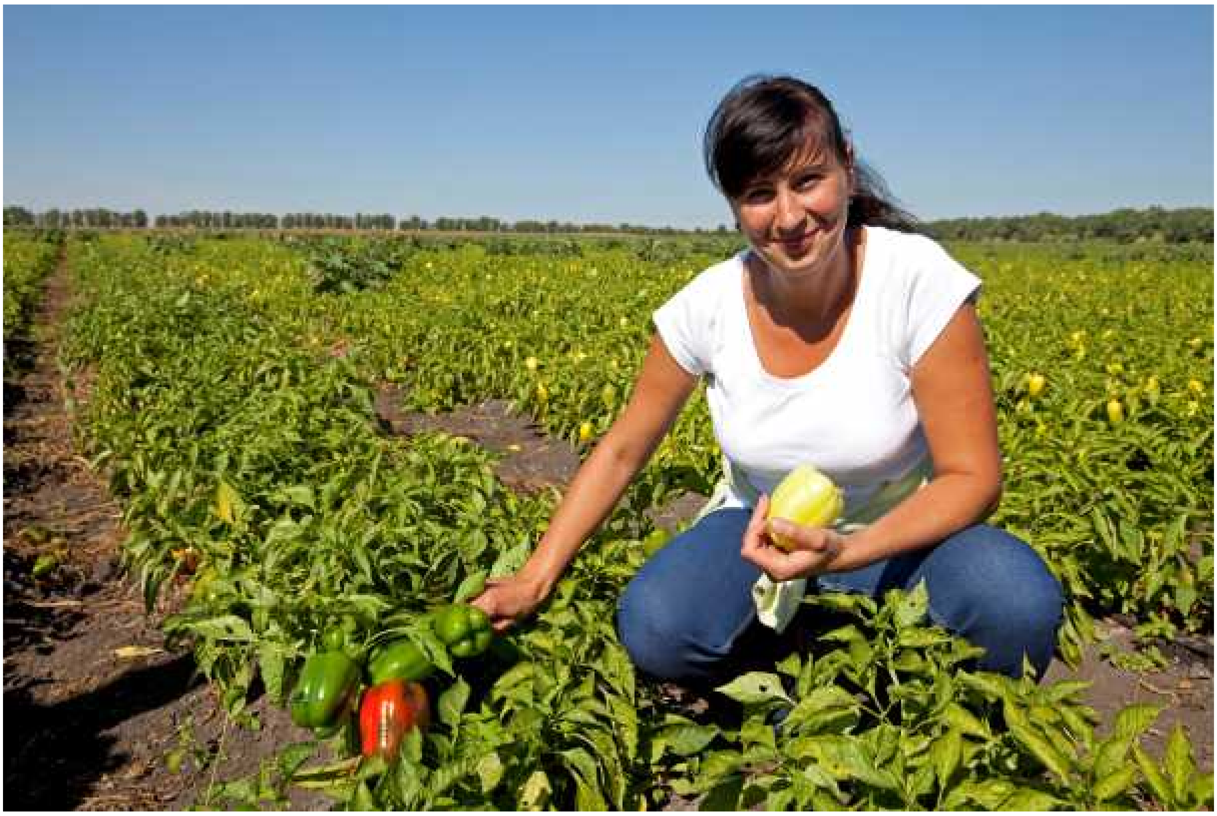
- Investments in youth financial services have focused largely on savings, and as a result most of the evidence on sustainability and scalability is limited to savings products. There is a need to finance a greater variety of youth financial products, especially loans, insurance and remittances.
- Encouraging the growth of savings balances after accounts are opened is critical for sustainability. Growing balances requires nudging mechanisms to help young people develop a savings habit.
- Achieving scale of formal financial services with out-of-school youth calls for alternative outreach strategies, including engagement of vocational centres, religious establishments, centres, sports clubs or youth-serving organizations.
- Results from youth savings projects indicate there is a gender imbalance, with more young men opening savings accounts and accessing larger loan amounts than young women. Achieving gender equality in access requires purposeful and appropriate interventions.
- There are still significant limitations (including ownership of mobile phones) to technology as a mechanism to promote youth financial access.
- There is a need for more evaluation on the long-term impact of financial and non-financial services for young people.



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Opportunities and benefits

Along with challenges there are opportunities for effective interventions that have the potential to improve youth access to rural finance. IFAD, in collaboration with implementing partners, should consider the following key strategies:

- Young people should start with savings, in the form of either savings accounts or youth savings groups (where FSPs are not available).
- FSPs should offer tailored financial products that better meet the financial needs and capacity of rural youth and can improve their productive capacity.
- For savings accounts, FSPs could accept alternative forms of identification; offer low opening amounts and zero fees (for minors) or low fees for older youth that do not wipe out their savings; and ensure youth have control over the accounts. For loan products, FSPs could offer credit for both startups and existing businesses, with flexible guarantee requirements and repayment periods that mirror the seasonality of rural economies.
- Young people need complementary education and training services, such as financial and business education, as well as entrepreneurship training and coaching (especially in agribusinesses).
- The use of technology to promote youth financial inclusion is still very new and not all young people are able to benefit from it. There is a need for additional investments and experimentation, especially with mobile banking.
- Consumer protection principles are needed to protect young people from unscrupulous practices and risky behaviours. Similarly, there is a need to integrate specific interventions to increase participation by girls in the financial market and monitoring systems to evaluate the effectiveness of gender programming.

With new evidence available on the bankability of young people, and the persistent gap between the supply of youth financial services and the demand, there is a clear role for IFAD interventions in the market. IFAD can build the capacity of FSPs to design appropriate youth financial products and non-financial services that take into account a life cycle approach to financial needs. IFAD can also engage NGOs to provide complementary financial education as well as the business training and coaching that FSPs are unable to provide. IFAD can invest in demonstration projects, especially loans, and disseminate best practices on youth financial services. In exceptional cases where supply is severely constrained, IFAD could offer matching or full grants to finance young people in rural activities that create jobs or have community-wide benefits.

Brief description of the toolkit

- Teaser: Sets out the scope (you are here).
- How To Do Note: Conceptualizes key issues and provides specific guidance for the design and implementation of youth financial services for rural areas. It highlights the importance of additional investments in demonstration projects.
- Lessons Learned: Analyses past experiences and makes recommendations for the future.

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Acknowledgements

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

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May 2015

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