Sahar Tieby[*]

Promoting Inclusive Financial Services with specific focus on youth

Background:

Founded in 1919, the International Labour Organization is a specialized agency of the United Nations that promotes social justice and internationally recognized human and labour rights. Its vision for the 21st century is decent work for all. Decent work embraces various aspects of daily life of the working poor – productive employment, safe working conditions, equitable access to employment opportunities, absence of child labour, abolition of bonded labour, formalization of informal enterprises, access to social protection and the right to organize (ILO, 2008).

Microfinance is an important strategy for the ILO because it contributes to the decent work agenda in a variety of ways. Microcredit and micro-leasing products provide opportunities for small investments in self-employment and job creation. Emergency loans, savings and microinsurance provide the means for poor people to better cope with risk. When microfinance is delivered through group-based models, it can provide opportunities for the poor to organize and have a voice. Some MFIs, particularly those that partner with other public or private actors in pursuit of a social mission, are actively discouraging child and bonded labour, and helping microentrepreneurs to grow and formalize.

As the focal point for microfinance within the ILO, the Social Finance Programme initiated the development of the *Making Microfinance Work* training series in 2003, building on another area of ILO expertise and concern—management. The ILO has a long history of involvement in strengthening management practices as a strategy for improving labour relations and working conditions. Its International Training Centre (ITCILO) in Turin, Italy has been developing and delivering management training curricula for more than four decades. The ITCILO brought this experience to bear when it joined forces with the Social Finance Programme to produce 48 chapters and their accompanying training curriculum.

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[*] The author is the Microfinance Specialist at the International Training Centre of the ILO. This Background Paper was adapted from ITC/ILO research on microfinance with excerpts from its programme Making Microfinance Work and its publication, Making Microfinance Work, Managing Product Diversification, 2011. It should not be reported as representing the views of the ILO. The views expressed in this Paper are those of the author and do not necessarily represent those of the ILO or ILO policy. Background papers prepared for this event are made available to participants to elicit comments and to further debate.

The end result is a quality product that draws from management experiences both within and outside of the microfinance industry. It incorporates the perspective of a wide range of actors, including regulated financial institutions, governments, trade unions and non-governmental organizations. The ILO's unique governance structure, in which workers, employers and governments participate equally in decision-making, puts it in a privileged position to explore how public and private sector actors can work together to expand the outreach and impact of microfinance. With this programme and its training courses, the ILO hopes to facilitate broader and more innovative use of financial services to help create decent work for all low income people.

Microfinance for Youth [1]

Scepticism exists regarding the viability of youth-related microfinance programs. However, evidence is now emerging to show that youth clients are bankable and that creativity of approach, differing only slightly from adult-focused microfinance, is required.

~ Nagarajan (2005)

Almost 90 per cent of the world's youth live in developing economies.[2] Compared to adults, they are almost three times as likely to be unemployed. In fact, youth between the ages of 15 and 24 make up 40.2 per cent of the world's unemployed, even though they constitute just 24.7 per cent of the total working-age population. Many of the youth that are employed are employed in the informal sector working long hours in substandard conditions and earning low wages. It is estimated that one in four youth are working but living in extreme poverty at the US$1.25/day level (International Labour Office, 2010b).

Access to financial services could help youth become economically active, start their own enterprises, finance education and manage risks. Nevertheless, few microfinance programmes actively target youth. More often, they actually avoid having youth in their loan portfolio. This paper briefly explores why MFIs (Microfinance Institutions) are not reaching out to youth and then shares the experiences of those institutions that have found ways to serve youth effectively. The outline of this document is as follows:

1. Should MFIs target youth?
2. Characteristics of youth

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[1] This document was adapted from Nagarajan, G., *Microfinance, youth and conflict: Emerging lessons and issues*, microNOTE # 4 (Washington, DC, USAID, 2005) and Making Cents International, *State of the field in youth enterprise, employment and livelihoods development: Market-driven approaches; monitoring, evaluation, and impact assessment; and youth-inclusive financial services* (Washington, DC, Making Cents International, 2009).

[2] Youth are defined by a range of age groups. While the United Nations (UN) and the World Bank consider the population between 15 to 24 years as youth, the Commonwealth Secretariat uses the range of 15 to 29. Some national governments consider those up to age 35 years as youth. For the purposes of this chapter, youth can be generally defined as potential microfinance clients who are underserved because of their young age.

3. How can microfinance meet the needs of youth?
4. Designing a portfolio of products for youth
5. Overcoming the challenges of serving youth
6. Conclusions

1.1 Should MFIs Target Youth?

Although MFIs may state that young people are eligible to access their services, their coverage of youth is generally quite low. There are several reasons for this:

- **Risk:** Youth are considered to be high risk takers. They usually cannot provide collateral, have limited business and life experience, might have unrealistic expectations about markets and profits, and lack a track record or credit history. Also, young people tend to be more mobile than adults, which make them harder for MFIs to monitor.

- **Costs:** As entry-level clients, youth are likely to make very small deposits and borrow small amounts for short terms. The full cost of providing these services is unlikely to be covered by the immediate revenue generated. Furthermore, youth are likely to need non-financial services to support their use of financial services and this could add cost and complexity to an MFI's operations.

- **Staff resistance**: According to Making Cents International's Global Youth-inclusive Financial Services Survey of September 2009, the most common challenge to providing youth-inclusive financial services is staff members' negative perception of youth. Forty-five per cent of financial service providers indicated that their staff consider youth to be irresponsible, unable to manage money, and risky due to a lack of collateral (Making Cents International, 2010a).

- **Public opposition:** The idea of microfinance for youth is sometimes opposed on the grounds that it may facilitate child labour; that working may divert young people's attention from schooling; that it may curtail their physical and psychological development; or that young, lower-paid workers may "steal" jobs from adults.

- **Legal issues:** In many countries, youth under the age of 18 cannot legally hold a bank account or enter into a legally binding contract.

Despite these challenges, there are two important reasons for which MFIs may want to serve youth. First, young people may become profitable clients over time and may be very loyal to the institution that supported them when they were first starting out. Youth with entrepreneurial spirit, who are willing to take risks and experiment with new ideas, have great potential for growth. They may also draw others from their social networks into a relationship with the MFI. This has been the experience of Proyecto FCF-WOCCU, a technical assistance project to support credit unions in Ecuador, which has noted that

young accountholders have brought family members as well as other youth into participating credit unions as new customers (Meyer et al., 2008).

Microfinance institutions might also want to target youth to fulfil their social mission. Most youth have limited educational opportunities and even those who do have access to education are often not taught skills that the labour market needs. Some find work in unskilled, low-end jobs and become trapped there because the job offers them no opportunity to gain new skills. Those who cannot find work may become a burden to families and fall at risk of being sold or traded to human traffickers. Unemployed youth are also more susceptible to recruitment by gangs, drug dealers, rebels, warlords and militia. By providing youth with access to financial services, MFIs can create additional opportunities for youth to gain skills, accumulate assets, become economically active and engage productively within their communities. This benefits youth as well as the society at large.

1.2 Characteristics of Youth

As a target group, young people have a number of characteristics that set them apart from other customer groups an MFI might serve (see Box 1.1). Within this group, however, members are not homogeneous. Life cycle changes occur rapidly during youth, so the needs of 15-17 year olds can differ significantly from those of 22-24 year olds. Young women have different needs than young men due to the different roles and responsibilities that society tries to prepare them for and the differing constraints that society imposes upon them. Even youth of the same age and gender can have varying needs and priorities depending on where youth live, how much education and work experience they have had, and whether they have a family of their own.

Box 1.1 General Characteristics of the Youth Target Market

- Eager to learn
- Open-minded; willing to try new things
- Energetic
- Optimistic
- High potential for growth
- Limited work experience; limited or no track record of running a business
- Limited life experience, perhaps resulting in unrealistic expectations about the future
- Limited social and professional network
- Little or no opportunity to accumulate capital or assets to date
- Unstable or mobile living conditions
- Potentially unable to enter into a legal contract with an MFI because of their age

Source: Authors.

Although youth are often stereotyped as a risky market segment, this is not necessarily the case. Certainly, some of the characteristics listed in Box 16.1 present risks, but many of these risks were also attributed to poor people and women some thirty years ago and have since been overcome by MFIs using a variety of delivery methodologies. The experiences of MFIs such as Hatton National Bank in Sri Lanka, Fundación Paraguaya in Paraguay and Al Amal Microfinance Bank (AMB) in Yemen illustrate that young people will not necessarily engage in risky behaviour simply because they are youth. AMB obtained 100 per cent prepayment on its first round of loans to youth, including the loans it made to start ups (Hamed, 2010). In Indonesia, a study of 21 MFIs serving youth in five different regions of the country found that youth borrowers have higher repayment rates than average in 85 per cent of the institutions surveyed and generally receive loans that are equal to or larger than the average loan size for all borrowers (Shrader et al., 2006).

Nevertheless, the fact that youth have limited life, work and business experience does mean that they will have to make decisions without a deep foundation of lessons learned to guide them. They will also have to try new things, and any new initiative runs a higher risk of failure than investments made within a zone of competence. Thus, MFIs that want to work with youth need to find ways of helping youth manage these risks.

1.3 How Can Microfinance Meet the Needs of Youth?

Microfinance can support youth in four main ways: 1) by helping to finance education; 2) by facilitating self-employment; 3) by encouraging asset accumulation; and 4) by providing tools for managing risk.

Financing for Education and Training

In decisions related to the education and training of youth, costs usually play a major role, both direct costs in the form of fees, books and living expenses as well as opportunity costs in the form of foregone earnings. Youth from poorer and more disadvantaged segments of society often find it difficult to complete their basic education or pursue apprenticeship, technical training or university opportunities because they lack the necessary financial support from their families or guardians. Financial services, tailored to the needs of this target group, can enable young people to access education and training opportunities that improve their chances of finding decent wage employment or succeeding at self-employment. The products MFIs might offer to facilitate education and training include savings, loans for school or apprenticeship fees, and financial literacy training.

Facilitating Self-employment

Self-employment is an important employment alternative for youth with entrepreneurial spirit. In an ILO study on apprenticeship financing in Ghana, for example, 77 per cent of apprentices had ambitions to start their own enterprise, either immediately or shortly after the training (Breyer, 2006). One of their main concerns, however, was the lack of capital.

Access to enterprise start-up loans, leases for productive assets, and innovative savings products such as the one described in Box 1.2, can facilitate youth's transition into self-employment. Youth that already operate their own business may have a need for microfinance products as well, including savings, insurance, payment services and working capital loans.

Box 1.2 Targeted Youth Accounts: "Youth with Opportunities" in Mexico

In 2003, Jóvenes con Oportunidades (Youth with Opportunities), was added to Mexico's Oportunidades conditional cash transfer program as an additional benefit for participating families. The program consists of savings accounts for Oportunidades youth to incentivize continued education. An account is opened in a child's last year of Secondaria (which is typically completed at the age of 14), and "points" are deposited in the account for each year of Educación Media Superior (EMS) the student successfully completes. Upon graduation from EMS, typically at age 18, the points are converted into approximately US$336 cash, which youth can then withdraw or leave in their savings account at BANSEFI, the program's affiliated financial institution. Students are able to use their savings account as soon as it is opened to make or withdraw deposits, but the cash payout associated with accumulating points is not available until the account holder graduates. Since its inception, more than 330,000 youth have opened savings accounts with the Jóvenes program. Although the program was designed to incentivize continued education, the payout upon graduation could be used for any number of purposes, including start-up of a microenterprise.

Source: Zimmerman and Moury, 2009.

Encouraging Asset Accumulation

Youth learn by doing. If MFIs can provide saving, leasing or credit opportunities that enable young people to acquire assets, the experience can generate a number of benefits. The simple act of setting a financial goal and achieving it can build self-confidence among youth and increase the likelihood of future goal setting. Youth can use their asset base to generate income and their status in their household and/or society may improve as a result. With improved status and confidence, youth may engage more in their community. They may also become more self-reliant, future-oriented (since assets open up opportunities) and risk averse (since they now have something to lose) (Youth Save Consortium, 2010). Even if youth choose to consume the first lump sum they accumulate, early success with asset-building can convince them of the power of proactive financial management and develop habits and attitudes that they can apply more productively in the future.

Managing Risk

MFIs can offer youth products and services that help them manage risk regardless of whether they are employed. Savings and emergency loans can help young people cope with unexpected events that temporarily decrease income or increase expenses. Networks, mentors, training and technical assistance can support self-employed youth during the start-up phase of their business when the risk of failure is greatest. Insurance can protect the health of youth as well as the assets that can give them an early start at climbing out of poverty. Indirectly, clauses in adult clients' loan and commitment savings contracts that name youth as the beneficiaries of an insurance policy can provide youth with a safety net in the event of a guardian's death.

1.3 Designing a Portfolio of Products for Youth

Although youth may need a very similar set of financial products as adults, those products may need to be adapted to the special characteristics and needs of this target group. The nature of an appropriate product mix for youth is discussed below.

Saving Services

Experience to date has shown that savings products are important for youth, often more important than credit. They help young people accumulate assets for the future and create a cushion that they can fall back on in the event of an emergency or crisis. Savings are also the preferred mechanism for financing expected expenses like education and training.

MFIs can design savings products to support youth both directly and indirectly. Indirectly, they can provide their adult clients with products that enable them to save up resources to cover school fees, apprenticeship costs and living expenses for the education and training of their children. If parents have a specific target in mind (for example, the start of an apprenticeship in three years), a contractual savings product can help them accumulate a specific amount of money in a specific period of time. As mentioned above, contractual saving accounts can also include an insurance component to make sure that the child for whom the parent is saving gets the target amount even if the parent dies or is prevented from work through illness or disability.

Alternatively, MFIs can offer savings services to youth directly. Institutions like XacBank in Mongolia offer special demand and time deposit accounts to girls between the ages of 14 and 18 that allow them to manage their savings independently. The Children's Development Bank in India and *SafeSave* in Bangladesh provide daily deposit services to youth living on the street and in slums, which enables them to safely set aside very small amounts of money that can eventually become usefully large sums.

MFIs that cannot legally mobilize deposits can seek partnerships with a regulated institution to make savings services available to youth. Zakoura Foundation in Morocco entered into this type of partnership with La Poste Bank and found that more youth

opened savings accounts than applied for credit. In Bangladesh, Population Council is now linking with local commercial banks to experiment with mobile banking to collect daily deposits from young migrant girls employed in garment factories.

The success of such partnerships depends on many factors, but in particular, the terms of the saving product being offered to youth must match their needs and resources. Opening balance or minimum deposit requirements that are too high will prevent most youth from being able to use the product. Since commercial banks may be quite interested in partnering with MFIs to recruit youth, MFIs can leverage that interest to negotiate more favourable terms for youth. Partnering with multiple banks might yield more benefits than partnering with one, since competition between institutions can result in a more attractive product offering for youth over time.

In areas where regulated financial institutions do not operate, youth have been able to access deposit services through informal savings groups such as those being promoted by Save the Children U.S. and PLAN International in Sub-Saharan Africa (see Box 1.3).

Box 1.3 Village Savings and Loan Groups for Youth

Save the Children U.S., with support from the Nike Foundation, is creating Village Savings and Loan (VS&L) groups for young people in Malawi. In the VS&L model, groups begin with savings and members are responsible for bringing a small amount of savings each time they meet. Members purchase passbooks from Save the Children staff and learn how to record transactions in their passbooks. Between meetings, a treasurer keeps the savings in a locked box with three keys held by the three VS&L administrators. After a specified number of weeks, usually the fifth or sixth meeting, members begin lending to each other from their savings. Prior to lending, they establish loan criteria, including the term (usually one month), the interest rate, late payment penalties, and so on. The interest collected on loans is distributed periodically to members as dividends on their savings, proportional to the amount saved.

When a Save the Children U.S. baseline survey in Malawi identified high demand for VS&L groups among youth, particularly adolescent girls, Save decided to try this model with young people already engaged in livelihood activities. These girls were at risk for early marriage, pregnancy, and sexual and physical abuse, and Save felt that a VS&L program might help mitigate some of these risks. Although one option was to integrate youth into the adult program, market research with youth showed they preferred their own groups and Save agreed to help them start youth groups.

The program involving rural youth, both boys and girls ages 15 to 20, began in 2007. The methodology is the same as the adult model. Save the Children U.S. provides technical assistance in bookkeeping, business management, leadership and group dynamics with an initial intense period of training that gradually decreases. At the end of one year, groups

are supposed to be able to function independently. By September 2008, some 236 girls and boys were saving approximately US$0.20 per week in VS&L groups, making decisions about lending their money, following up on loans made, and distributing their earnings. A year later, a similar pilot by PLAN International had mobilized nearly 4,000 youth in Senegal, Sierra Leone and Niger.

In areas without access to financial institutions, VS&L groups make an interesting model for providing youth with financial skills, savings, and small loans. In areas with financial institutions, the VS&L model can help give youth financial skills and provide them with collateral in the form of savings as well as a credit history with which to approach financial institutions in the future.

Source: Making Cents International, 2009 and Schiller, 2009.

As with other market segments, MFIs that want to provide savings services to youth must build a relationship with young people that motivates them to save with their institution. They must build confidence in their ability to protect the savings they receive, but also, since most youth are first-time customers, MFIs have to make a special effort to communicate the benefits of saving and build youth's confidence in their own ability to save. Some MFIs, such as K-Rep Bank and Faulu Kenya, provide incentives to encourage regular savings habits, such as bi-annual awards for the most frequent depositor in each group of youth, and interest payments to motivate higher account balances (Austrian and Ngurukie, 2009). The recruitment of young savers is not necessarily easy and is discussed further in Section 1.4.

Loan and Leasing Products

Youth can benefit from loans for education, enterprise start-up and working capital. For MFIs, educational loans can be among the most difficult, since investments in education usually take a long time to produce real financial returns and, as a result, they typically require very long grace and repayment periods. Most commercial banks that offer education loans extend the repayment period beyond graduation. In Bolivia, educational loans from EDUCA-PRO, a programme financed by the second-tier lender FUNDA-PRO, have terms as long as ten years (EDUCA-PRO, 2010). Such extensive loan periods increase the risk as well as the cost of lending. Most MFIs find it difficult to make these loans since the bulk of their own financing is of a shorter-term nature.

Microfinance institutions have successfully offered school fee and apprenticeship loans, however, that provide parents or students with the liquidity necessary to make a lump sum payment at the beginning of a school year or apprenticeship period, which is then financed over some period of time. These loan products can be scheduled over shorter periods without a grace period because they are repaid from existing sources of household income. They are much less risky than a multi-year education loan, but they may not be

accessible to disadvantaged youth without the intervention of a programme like the one being offered by Sinapi Aba Trust in Ghana (see Box 1.4).

Box 1.4 Apprenticeship Financing in Ghana

A survey by the International Labour Organization (ILO) on the financing of informal apprenticeships in Accra, Ghana showed that the average amount of fees charged for a training of two to six years is US$160, a large part of which must be paid up front. During the training, apprentices receive allowances (in cash and in kind), which support them in financing meals and other daily needs. Nevertheless, the majority of apprentices depend on their family to pay the apprenticeship fees and to offset their living expenses. Vulnerable youth, such as street children or former child labourers, and those whose families do not generate enough income to pay these fees do not have access to apprenticeship opportunities and find it difficult to get started on the climb out of poverty.

Sinapi Aba Trust, a microfinance NGO operating in Ghana since 1994, recognized the financial challenge of access to apprenticeships. It therefore developed a Youth Apprenticeship Programme (YAP) which links vulnerable youth with master craftsmen, provides them with basic equipment and pays the apprenticeship fees, which may include an examination fee for nationally accredited qualification. Newly qualified apprentices become eligible for start-up loans from Sinapi Aba Trust to finance their own enterprise. The aim is to provide disadvantaged youth with relevant employment skills and eventually graduate them into Sinapi Aba's microfinance client base. More than 1,000 young people have taken part in the programme since it started in 2004. Going forward, the goal is to train 400-450 youth each year.

Source: Adapted from Breyer, 2006 and Opportunity International, 2010.

Business loans to youth are fairly straightforward and MFIs have been able to reach young entrepreneurs with this kind of product using a variety of methodologies and with very few modifications to their standard terms and conditions (see Table 1.1). What institutions have adapted, however, is the package of support services they offer young clients alongside credit (refer to the discussion on non-financial services below).

Experience suggests that both group and individual loan products can be appropriate for youth. For example, the Tap and Reposition Youth (TRY) project, supported by K-Rep in Kenya, successfully uses Grameen-type group lending to serve youth aged 16-24 years in Nairobi slums, while Umsobomvu Youth Fund in South Africa is partnering with the Savings and Credit Cooperative League to provide financial services to young entrepreneurs participating in youth cooperatives. *SafeSave* in Bangladesh and Children's Development Bank in India offer individual loans to youth over the age of 16 with good repayment records.

Table 1.1 How MFIs Have Adapted their Loan Products for Youth

Organization	Adaptation of Support Services	Adaptation of Financial Products
BRAC	Provides youth with a clubhouse, life-skills training, livelihoods training, financial education	No group collateral for the adolescent group; all other conditions are the same
Fundación Paraguaya	Adaptation of training package to youth	Parents are co-debtors; all other conditions are the same
Pro Mujer Bolivia	Had to adapt business development services to be youth-oriented and added health and self-esteem programs	Same terms and conditions as adult financial products except that the guarantee falls strictly within the youth solidarity group rather than the entire adult communal bank
Zakoura	Created a six-week training program for youth covering entrepreneurial skills, financial education and business development services	For youth, the group may be as small as three members (the usual group size is five). Parents may be the guarantors (these are the only loans where family members are allowed to guarantee another family member's loan)

Source: Making Cents International, 2009.

Group loans have the advantage of supplying an alternative to physical collateral. In addition, the group lending approach creates a forum for discussion, peer exchange and the delivery of non-financial services. Individual loans, on the other hand, provide greater flexibility and make it easier for an MFI to adjust to the frequent life cycle changes and specific demands of youth. Educational loans, for example, tend to be individual loan products.

In the absence of a group guarantee, MFIs have found personal guarantors and guarantee funds to provide effective alternatives to physical collateral. Some MFIs, like Partner Microcredit in Bosnia and Herzegovina, require a personal, non-family guarantor while other MFIs, such as Fundación Paraguaya and Zakoura, allow parents to be the guarantor. Youth Charitable Organisation (YCO) in India was able to secure financing from domestic commercial banks with the help of a credit guarantee provided by Homeless International Guarantee Fund in the UK. In Central America, the Katalysis Network is launching its own loan guarantee fund for members (see Box 1.5).

Box 1.5 Loan Guarantees Facilitate Lending to Youth

The Katalysis Network in Central America is launching a loan guarantee fund to stimulate its member institutions to lend to youth under 30 years of age. Instead of using a

bank partner, the Network, which provides technical assistance to its MFI members, will manage the fund itself. The Youth Guarantee Fund was established with US$75,000 of loan capital from three foundations (Peery Foundation, Cordes Foundation, and Fundacion Covelho of Honduras), with each foundation providing a third in long-term, zero interest loans. To participate in the Fund, a MFI network member must meet the Network's certified training standards. Once certified, the terms of the guarantee are that 50 per cent of defaulted loans will be reimbursed by the Network if the appropriate loan recovery steps were followed.

Source: Making Cents International, 2009.

MFIs have also found other ways to manage risk when lending to youth. XacBank, for example, reserves its education loans for students in their second year of higher education who already have some record of attendance. Vittana in India only lends to children of existing clients (Economist, 2010). Al Amal in Yemen will lend to start ups but requires a business plan and looks at entrepreneurship training as a collateral substitute (Hamed, 2010).

Asset-backed loans and leases could help youth acquire a productive asset without initial collateral. Barbados Youth Business Trust, for example, allows youth to use the equipment purchased with a loan as collateral. Although MFIs have experimented with leasing products, few if any have done so to meet the particular needs of youth.

With respect to loan size, term and price, loans to youth should be designed according to the same good practice principles that MFIs follow for adults. Though MFIs are often tempted to charge below-market rates on their loans to youth despite the higher expenses that these loans can generate, doing so can create two serious problems. First, the sustainability of the services offered to youth will be called into question if they cannot cover their costs. Second, young clients may come under pressure from adult family members who want youth to borrow on their behalf so that they can access lower-priced financing. If this happens, youth will be left responsible for servicing an adult's debt without having control over how the loan is spent. Pricing loans to youth at or above the level charged to adults will discourage this kind of behaviour.

MFIs often give very small initial loans to first-time clients, including youth, to minimize the risk inherent in lending to someone with no documented credit history. This approach can be effective with working capital loans, but not with enterprise start-up loans. Start-up loans to youth need to be large enough to cover the financial needs of the enterprise as outlined in the business plan or under-funding can lead to business failure. Since returns on investment in enterprise start-ups usually do not accrue immediately, start-up loans might also require an initial grace period and an extended repayment term.

Insurance and Money Transfers

Although savings and credit appear to be the financial products most demanded by youth, insurance and money transfer services could have their palace in a portfolio of products for youth as well. Young entrepreneurs are likely to be confronted with higher risks compared to more experienced entrepreneurs. For example, young construction workers may be more likely to injure themselves or damage the property they are working on due to lack of experience. Youth may want to purchase enterprise risk insurance to protect themselves against accidents, asset damage and liability. As mentioned previously, they may also wish to safeguard their health through the purchase of health insurance. Since many youth are part of the migrant work force, and since youth in general are a more mobile segment, money transfer services can be important.

Non-financial Services

What most distinguishes the product portfolio offered to youth is not the selection of financial services, but rather, the non-financial support services that accompany whatever financial services an MFI might choose to offer. There are four types of non-financial services that have been particularly important in meeting the needs of youth to date: financial education, business development services, mentoring, and the creation of safe spaces.

Financial education. Adolescence is a time when young people shift from economic dependence to economic independence and learning how to manage money is a critical part of that transition. In the words of the Global Financial Education Program (2009), "The more young people know about money—good ways to earn it, how to spend it wisely, and how to save it—the more power and control they will have over their lives."

Financial education helps youth develop the skills to manage day-to-day expenses, set financial goals and design strategies for achieving them. It can also help youth to become more aware of their personal financial choices, introduce them to the various financial services that are available to them and help them understand how they might be able to benefit from using them. As Women's World Banking (WWB) and XacBank learned during the piloting of XacBank's "Aspire" product, youth need to understand the "why" and "how" of saving before they will open accounts (Banthia and Shell, 2009). In this respect, financial education is a key factor in the success of any financial product for youth.

Business development services. Although the potential scope of business development services is wide, MFIs serving youth have primarily used training and technical assistance to help youth:

- Understand where gaps exist in the market (so they avoid simple replication of what they have seen others already doing);
- Transfer knowledge and skills associated with a particular trade;
- Test the viability of a business idea;

- Develop a business plan;
- Strengthen their ability to run a business (follow-up support after the start-up phase has proved crucial);
- Develop non-technical skills such as time management, professionalism, communication, and punctuality.

Box 1.6 provides a few examples of business development services that have supported access to finance for youth.

Box 1.6 Business Development Services Improve Access to Finance

In Mongolia, Mercy Corps provided training and technical assistance in business plan preparation to rural youth between the ages of 20 and 30 who had limited collateral for a loan. This assisted youth in understanding how large of a loan they could and should ask for. Fifty-four per cent of those who received training were able use their plans to obtain a bank loan (Making Cents International, 2009).

In Egypt and Morocco, MEDA's YouthInvest Programme brings financial and non-financial service providers together to supply youth between the ages of 15 and 24 with an integrated package of support that includes savings services, training in life skills, financial skills and entrepreneurship, access to start-up loans and internships. A survey of participants after the Programme's first year indicated that 96 per cent now have savings accounts (vs. 19 per cent before entering the programme) and 11 per cent have accessed loans (MEDA, 2010).

At Pro Mujer Bolivia, adult clients receive no more than 2 hours of pre-credit training in order to fill out their loan application, while youth receive a one-week pre-credit training that begins by helping young clients to develop a business concept, followed by an in-depth cost analysis with cash flow projections. Youth are also required to participate in a one-day business practicum where they work in teams to operate a business applying sales and marketing techniques (Storm-Swire, 2009).

In India, BASIX Academy for Building Lifelong Employability Ltd. (B-ABLE) is establishing vocational training centres that support youth with education, real time connections between job providers and job seekers and, in collaboration with its parent company BASICS Limited, student and enterprise loans. It collaborates with government and employers in targeted industries to identify relevant training courses that build technical, commercial and life skills (B-ABLE, 2010).

Mentoring. Mentors give youth access to experience and perspective that they have not yet had an opportunity to acquire. As role models, mentors can help youth learn business and financial skills, navigate legal and bureaucratic procedures such as licensing, taxes and permits, and gain greater self-confidence for taking on more responsibility. They can

also assist youth in troubleshooting as they encounter challenges along the way. In general, mentorship opportunities are highly appreciated by youth. In a 2003 survey conducted by the Barbados Youth Business Trust, for example, 100 per cent of the young entrepreneurs interviewed thought they would not have done so well in business without the input of their mentors (Barbados Youth Business Trust, 2007).

"Natural" mentors from the immediate community (for example, family members or teachers) may be most effective, but mentors can also be recruited from the "outside" as long as there are rigorous reference and community checks. At K-Rep Bank and Faulu Kenya, groups of 10-15 girls between the ages of 10 and 18 select their own mentor, who must be a young woman above the age of 18 from the community (Austrian and Ngurukie, 2009). Motivated and committed mentors will often volunteer their time, but institutions may want to provide them with stipends to cover their travel costs. Occasionally, MFIs find it a challenge to motivate appropriate persons to become mentors. Partner Microcredit in Bosnia and Herzegovina solved this problem by identifying employees who fit its desired profile and then training them to be mentors.

Safe spaces and supportive social networks. Safe spaces that are enclosed, private, and out of public sight can be critical for empowering youth, especially girls, since young people feel more comfortable expressing their thoughts, concerns and hopes within them. The spaces can facilitate the sharing of ideas, mutual support, and the development of social skills and confidence. They can provide leadership opportunities for older youth to mentor younger youth, and can be used by MFIs to deliver both financial and non-finance services. Ideally, adults are not found in the safe spaces most of the time, except for those who are associated with the organization that is offering the safe spaces. Safe spaces are an integral part of the youth financial services programs being promoted by the Population Council in Kenya and at BRAC in Bangladesh.

MFIs do not have to offer non-financial services themselves, as doing so requires additional expertise and generates additional costs. Instead, they can partner with other organizations to make these services available to young clients. If an MFI believes that the delivery of non-financial services is an integral part of its mission, or if it cannot find service providers within its area of operations with which to partner, it may prefer to offer both financial and non-financial services itself. This approach has the advantage of enabling the MFI to build a close relationship with its young clients, which can facilitate credit screening and monitoring later on. It does, however, require personnel with expertise in both microfinance and business development or education and such staff can be difficult to find and retain. One possible solution to this challenge is to have different units or departments of a single institution provide the financial and non-financial services using a parallel approach.

Grants

Grants have been used to facilitate youth's access to financial services in two main ways. First, organizations like CAMFED Zambia use grants as seed money to help young women gain experience and skills in running a business before being burdened by debt. Those who successfully manage their initial grant and can demonstrate the capacity of their business to grow can apply for loans to expand their businesses. As described in Box 1.4, Sinapi Aba Trust takes a similar approach, providing in-kind grants that enable youth to gain experience and skills as apprentices before accessing financial services.

Grants have also been used to assist disadvantaged youth in meeting basic needs that might otherwise consume funds provided through a working capital loan. The Youth Development Foundation (YDF) in Ghana actually experimented with two different types of youth enterprise loans, those with and without a grant component, and it found that loan repayment increased considerably once a grant component was added. According to Nelson Agyemang, founder of YDF, the grant enabled youth to fully invest their loan in productive activities, thus generating more income and making it more feasible to make loan payments (Making Cents International, 2009).

1.4 Overcoming the Challenges of Serving Youth

At the beginning of this document, it was mentioned that legal constraints, public opposition, higher costs and higher risk make the delivery of youth financial services difficult. The strategies MFIs are using to overcome these challenges are discussed in this section. There is a fifth challenge that MFIs have had to meet in order to serve youth which is also discussed below and that is marketing. Although this last challenge is not unique to the youth market segment, the strategies that MFIs have found effective thus far in reaching youth are somewhat unique and merit a brief exploration.

Legal Constraints

In Paraguay, where the law prohibits youth below the age of 18 from entering into legally binding contracts, Fundación Paraguaya has asked parents to co-sign their child's loan. This not only guarantees the loan but also indicates parental support for the young person's use of the loan. In Kenya, which does not allow youth under the age of 18 to make withdrawals, K-Rep Bank is piloting a product that allows girls to make deposits on their own and to make withdrawals when accompanied by the group's mentor, who serves as a proxy for the guardian figure. Even an NGO might serve as a joint signatory with youth (Hirschland, 2009).

Some MFIs have chosen to only offer youth savings accounts that restrict withdrawals until the age of 18. Such accounts can satisfy legal requirements while also preventing caretakers from misusing the savings of a young person for whom they co-sign. However, to ensure that these accounts generate real value for youth over the long-term, MFIs may need to partner with an insurance or asset management company in the design of their

product. Depending on the nature of legislation in a particular country, community-based microfinance organizations may be able to provide both savings and credit to youth since they do not extend services on the basis of a legal contract.

Public Opposition

MFIs that want to work with youth may face opposition not only from politicians and child advocates, but also from community leaders, parents and even their own staff. Before attempting to deliver financial services to youth, it is important to work with community members, parents, staff and youth themselves to develop an understanding of the benefits of financial service access for youth and to generate support for the MFI's outreach to young people. When BRAC first started working with adolescent girls in Bangladesh, it took several years to convince community members, parents and girls themselves of the power of financial independence and the positive effects it can have on a girl's life. In Malawi, Save the Children U.S. has faced less resistance, but it still begins its outreach to youth by speaking with local tribal leaders, district authorities and community members during a three-week preparatory phase that precedes the establishment of any youth village savings and loan groups.

Most MFIs serving youth have had to overcome some degree of internal and/or external opposition to the idea of reaching out to this market segment. Some of the strategies they have identified for minimizing or neutralizing this opposition are described below.

1. **Involve the community in the development and implementation of financial services for youth.** This informs the quality of product design while helping to ensure the community's support for the services that are ultimately delivered. It can also help engage members of the community as leaders or mentors to youth. Such is the case with Camfed Zambia which involves local and regional authorities, tribal leaders, head teachers and local businesswomen in the initial screening of applicants. These people then provide mentoring for the young women who enter the program.

2. **Invest in establishing and maintaining a positive image in the community.** Community perceptions, whether true or untrue, will directly impact the success or rejection of an MFI's outreach to youth. The community must trust that an MFI will positively influence its youth's development and not contribute to their exploitation or disempowerment. To build this trust, an MFI must proactively address the way it is perceived at the community level, which likely means that public relations and direct marketing will need to become more important components of its overall marketing communications mix.
3. **Start with a small pilot to test the effectiveness and feasibility of any product or program for youth**. As discussed in Chapters 2 and 3, this is an important strategy for managing the risks inherent in new product and market development. It is also a useful strategy for encouraging MFI staff and members of the public to change their attitude about the provision of financial services to youth (see Box 1.7)

Box 1.7 Using Market Research and Pilot Testing to Challenge Assumptions

Before designing their financial products for youth, Zakoura Foundation staff doubted that youth had any money of their own. During the project design phase, however, market research conducted with Save the Children dispelled this stereotype because it showed that youth did have money. The research simultaneously dispelled a second stereotype, or assumption, which was that youth wanted loans. An evaluation of the pilot held in mid-2008 found that youth could save and indeed wanted to save, but only three per cent of the 90 youth who completed the training phase of the program took loans.

Staff at Pro Mujer Bolivia were also sceptical about young people's ability to manage money. In initial meetings to discuss the development of a youth-specific loan product, staff felt that youth were irresponsible and showed little interest in developing such a product. To move forward, the product development team had to identify new and existing staff with the proper profile to work with youth. It also had to provide training and incentives to all staff before rolling out the product. According to Pro Mujer, it was important to generate buy-in at all levels of the institution, not only by explaining the processes and procedures but also by taking the time to show staff concrete results from the pilot that proved the youth loan to be a viable product. The results of the pilot showed that youth clients were actually very punctual and organized, and loan officers who integrated youth clients into existing adult communal associations began to see their incentives increase as the youth clients promised higher client/loan officer ratios as well as a larger portfolio.

Source: Making Cents International, 2009.

4. **Find staff who have interest and experience with youth to pilot products for this market segment**. Then provide training and sensitization for other staff based on results of the pilot before roll-out. As illustrated by the case of Pro Mujer in Box 1.7, staff that feel youth are irresponsible will show little interest in developing services for youth. One or more champions are needed who believe in youth and can lead the institution through the process of product development to demonstrate results that can be used to change staff stereotypes.

5. **Take preventative measures to avoid doing harm.** Often market research is conducted on the basis of the question, "What will help?" but ignores the opposite question, "What might hurt?" Both questions are important in the context of youth financial services because of the physical, psychological and financial vulnerability of youth, particularly those who are very poor, marginalized or orphaned. MFIs must take care that their products and services do not increase that vulnerability.

If young people lack business skills or have no long-term prospects to pay back a loan, if they do not clearly understand loan obligations or do not have the coping mechanisms to handle the pressure to repay, then giving them a loan can do more harm than good. Organizations should be especially careful when considering whether to offer credit products to younger girls because it may increase the girls' vulnerability to pressure, theft and/or false accusations about where or how they got the money. With savings products, MFIs can protect youth's deposits by restricting access to the funds, either for a specific purpose such as education or health care, or until youth accountholders are old enough to legally withdraw the funds without a co-signer's signature. One Ugandan program experimented with a triple security number or pin, one each being held by the guardian, youth and youth service organization (Hirschland, 2009).

6. **Develop a clear code of conduct** that guides staff in their delivery of services to youth and in the resolution of problems or conflicts (see Box 1.8). If youth or other community members believe processes are unfair, confusing or mismanaged, an MFI's credibility and ability to continue to work with youth and in the community could be severely damaged. A code of conduct can help avoid this if it is widely disseminated, clearly explained and carefully enforced. Clear procedures should outline how concerns regarding improper behaviour should be raised and what staff should do if they are concerned that their actions or words may have been misunderstood.

7. **Work with youth to fill market gaps** rather than displace or replicate existing enterprises with youth-run enterprises. This is an area where business development services can play a critical role. At Zakoura, young entrepreneurs attended financial and market literacy training during which they mapped their market, identified gaps in product and service availability, and talked to business owners and clients to determine if their business idea was viable before being eligible for a loan (Conklin et al., 2008).

Box 1.8 Developing a Code of Conduct

Codes of conduct help prevent abuse of trust, where one party is in a position of power or influence over the other by virtue of their work or the nature of their activity. By setting a clear benchmark of acceptable standards of conduct and care, a code of conduct can promote safe, positive and encouraging environments. It can minimise opportunities for abuse and help to prevent unfounded allegations. In this way, codes of conduct help protect young people as well as employees and volunteers.

Listed below are a few examples of guidelines that could be included in a code of conduct:

- Treat everyone with respect, honesty and fairness (this includes staff, volunteers, young people and parents).
- Remember to be a positive role model to youth in all your conduct with them.
- Set clear boundaries about appropriate behaviour between yourself and the youth in your organisation – boundaries help everyone to carry out their roles well.
- Always have another adult present or in sight when conducting one-to-one coaching
- Raise any concerns about behaviour which may be harmful to youth as soon as possible.
- Record and act on serious complaints of abuse.
- Do not develop any 'special' relationships with youth that could be seen as favouritism such as the offering of gifts or special treatment.

Source: Adapted from Department for Families and Communities, 2007 and Child Wise, 2004.

Managing Risk

Although many of the risks inherent in serving youth are risks that MFIs are already experienced at managing (for example, the lack of collateral, business experience and credit history), the limited life experience possessed by youth and the tender state of their personal development does add additional layers of risk that must be managed if MFIs are to serve youth effectively. The strategies that have proven most effective in managing this risk are those that involve non-financial services, market research and youth-sensitive personnel. These and other strategies are briefly discussed below.

1. **Non-financial services**. MFIs serving youth typically integrate non-financial services into the delivery of their financial services, and sometimes incorporate a grant element as well, to help ensure that youth have sufficient knowledge, experience and support to make effective use of financial services the first time they access them. Often the integrated services are sequenced so that riskier financial services are not delivered until youth have demonstrated a certain degree of money and business management skill. At Camfed Zambia, for instance, young women receive a modest grant and access to mentors to help them start their business and will only progress to a loan if their business idea succeeds and they demonstrate the ability to generate revenue to service a loan. This approach protects both the MFI and youth.

2. **Market research with segmentation.** MFIs should not assume that youth are the same as adults or that all young people will have the same needs or priorities. Youth of varying ages and backgrounds will have varying levels of education and societal support, access to information, degrees of independence and aspirations for the future. As illustrated by the case presented in Box 1.9, market research can help an MFI better understand which youth need what kind of services, which group(s) of youth it is in the best position to serve, and how it might need to adapt its marketing and

delivery strategy to the specific characteristics of the youth it decides to serve. MFIs that already serve some youth as part of their mainstream operations can begin by profiling the segment(s) they already serve.

Box 1.9 Market Segmentation and Risk at Pro Mujer in Bolivia

While Pro Mujer's market research analyzed the potential for offering financial services to a new youth market, one key mistake was to disregard the young clients who were already being served by Pro Mujer through its traditional product offering. When initially considering the youth segment, staff distinguished these clients as young people who were living the lives of adults, namely women who had already married and started a family and therefore carried greater responsibilities in providing for their growing families. These young clients function seemingly well within Pro Mujer's regular product offering, but studying the differences between them and the new youth segment may have helped Pro Mujer to differentiate its product offering and improve its retention of new youth clients.

Since most young people are first-timers to the world of microenterprise, Pro Mujer decided to invest time and resources into providing its new youth clients with specialized training, including a business practicum, prior to disbursing loans. In addition, specially trained loan officers dedicated extra time to meet with young people, listen to them, and provide advice on any problems they may confront during the loan cycle.

While these efforts did pay off in some cases, arrears still rose higher than expected. Research showed the majority of youth clients to be transitory in nature, prone to experiment with different options, testing out Pro Mujer and then deciding to pursue further education or join the military. This was a more volatile group than what Pro Mujer was accustomed to working with since the new youth clients were often looking for a loan to fill a gap rather than to invest in an ongoing, more long-term business. This made it very difficult for Pro Mujer to retain youth clients, and as a result, staff spent most of their time in search of new clients to replace the increasing number of deserting youth.

Research conducted after the pilot showed that the most successful youth entrepreneurs were those who did not have the opportunity to further their studies, but rather their situation required them to work full-time. This segment was identified within Pro Mujer's initial market study, but was overshadowed by young people coming from higher socio-economic backgrounds whose greater opportunities made them less likely to stay with Pro Mujer longer than one or two loan cycles.

Source: Storm-Swire, 2009.

3. **Clear communication with parents.** MFIs need to inform family members and guardians about the terms, processes and procedures associated with the financial

service a young person is obtaining. In the case of loans, it is particularly important that parents understand that the loans are not for the parents' business, but rather for the young person's business, unless these are one and the same. When youth take out loans that go directly to their parents rather than to an independent activity, both arrears and desertion tend to increase.

4. **Youth-sensitive personnel.** MFIs entering the youth market have had to re-train their staff, acquire new staff with special expertise in working with youth, or both. An emerging consensus among those who have started youth-inclusive financial services programs is that it is better to develop a new core of staff with different profiles for working with youth clients than to utilize existing staff who only have experience working with adults. This may have the effect of raising costs, but it can also lower risk, since specialized staff are able to screen youth applicants more effectively and establish stronger relationships with youth once they become clients (see Box 1.10). Specialized staff can also increase demand for the institution's services, both by helping to ensure that product design meets the needs of youth and by communicating more effectively what the MFI has to offer youth.

Box 1.10 Hiring Staff that Understand Youth

An important reason for the success of the Seed Money Program at CAMFED Zambia is that it is implemented by young rural women who share a common background with the beneficiaries of the program; they are all acutely aware of the problems facing the young rural women who apply for grants and loans, and have the empathy, experience and commitment needed to support them. Young women entering the Program identify with them and look up to them as mentors and positive role models.

Source: Camfed International, 2008.

5. **Leasing**. By introducing a micro-leasing or asset-backed loan product, MFIs address the problem of youth's lack of collateral while simultaneously supporting youth in acquiring productive assets.

6. **Guarantee funds.** As mentioned previously, MFIs can access guarantee funds to secure loans that are made to young entrepreneurs, thereby reducing the degree of risk associated with the youth portfolio. The examples provided in Section 1.3 referred to non-governmental examples, but governments occasionally provide access to guarantee funds as well. The Government of Algeria has set up the Fond de Garantie Credits-Jeunes Promoteurs (FNSEJ), for example, which guarantees loans to young entrepreneurs at a 0.35 per cent fee on the outstanding loan amount.

7. **Partnerships.** Although partnerships can increase risk by decreasing an MFI's control over the quality of service delivered by a third party, they can also be designed

to help reduce risk. In Uganda, for example, Equity Bank, with the assistance of Banyan Global, has negotiated with Mayanja Memorial Training Institute to offer education loans to its nursing students aged 17-24. In exchange, the institute has agreed to hold the certificate of any student being financed by the bank until his or her loan is repaid. This reduces the potential for students to migrate without completing their payments. The institute is also talking with district health authorities to arrange job placements for graduating students at rural health centres. This is a valuable service for students to begin their professional career, and a security measure for the bank since students will be able to complete their loan payments upon earning a salary (Chandani and Twamuhabwa, 2009).

Covering Costs

Since youth tend to make small deposits and borrow small amounts for short terms, it will be difficult for MFIs to cover the full cost of serving youth in the short-term. This does not mean, however, that financial services cannot be provided to youth in a sustainable manner. At Hatton National Bank in Sri Lanka, nearly 65 per cent of the total microfinance portfolio consists of youth between the ages of 18 and 26, and the portfolio maintains a 97 per cent recovery rate. The bank has also mobilised US$20 million in savings deposits from rural youth (Abeywickrema, 2009). The integrated financial and non-financial service programs implemented by Commonwealth Secretariat in India and by Streetkids International in Zambia became operationally sustainable in 3 years (Nagarajan, 2004).

MFIs that are serving youth are attempting to cover their costs in five main ways.

1. **Partnering with non-financial service providers.** MFIs often avoid the cost of providing necessary non-financial services by collaborating with social service NGOs, business development service providers, youth organizations or government-sponsored youth employment programmes to provide these services instead. An MFI may contract these services for all its clients or simply refer clients who are in need of a service to an organization that provides it. In either case, partnership enables the MFI to concentrate on its core business of financial service provision, while facilitating access to complementary services for youth, likely at a higher quality and lower cost than the MFI could have delivered if it had developed the capability in house. Partnerships can also reduce an MFI's operating expenses, since the partner organization can recommend youth and even monitor and support their performance.

2. **Cross-subsidizing services to youth.** If an MFI's fixed costs can be covered by a sustainable base of adult customers, then the marginal cost of serving a new young customer might be small enough to be affordable. Some MFIs use profits gained in other markets to subsidize the services provided to youth in the hope that young clients will become profitable over time. For this strategy to be successful, however, MFIs need to identify sub-segments of the youth population that are likely to remain with them over the years, as suggested in Box 1.9.

3. **Cross-selling.** A recent CGAP study by Westley and Palomas (2010) found that small savers can produce several times their savings balance in profits due to the revenue generated by the other financial services they use. Although similar research focused on youth is not yet available, experiences such as those of Proyecto FCF-WOCCU suggest that by recruiting and servicing youth clients MFIs may create opportunities to cross-sell products to their parents, relatives and teachers. These additional sales could generate enough revenue to cover the costs of serving the youth who introduced these customers to the MFI.

4. **Integrating youth into the MFI's mainstream delivery channels.** As noted in Section 1.3 above, most institutions working with youth are offering financial products through delivery channels that are very similar if not identical to those being offered to adults. This avoids the cost of setting up special infrastructure for youth, but it brings its own challenges, as illustrated by the experience of Pro Mujer Bolivia, which tried to incorporate youth solidarity groups into existing communal banks to minimize costs, but achieved disappointing results (see Box 1.11).

Box 1.11 Mainstreaming Youth Brings Challenges at Pro Mujer

Initially, the idea of combining youth with experienced clients in an existing communal bank seemed to make sense from a cost standpoint and also from a social standpoint in that older clients were expected to serve as mentors for younger clients. While this did happen occasionally, the majority of experiences were less than positive, both from the perspective of adults as well as youth. Young people with higher levels of education were more adept at finishing paperwork and often became impatient waiting for the older clients to finish repayment documentation. In addition, many of the adult clients felt the young people were disrespectful of group rules such as arriving on time and staying for the entire meeting. The adult-themed trainings, such as menopause, that occur during the repayment meetings also did not resonate with young people. Finally, young people found group meeting times conflicted with their class schedules. Pro Mujer examined the possibility of adding after-hours and weekend staff to better accommodate class schedules, but cost restrictions prohibited such additions.

Source: Storm-Swire, 2009.

5. **Linking youth to volunteer mentors**, such as established businesspersons, teachers or community leaders. Mentors not only help an MFI to manage risk, but can also help reduce its monitoring costs by providing youth with a regular point of contact, encouragement for on-time repayment and troubleshooting assistance in the event that something goes wrong. By fulfilling these functions, mentors decrease the workload of an MFI's field staff.

6. **Accessing subsidized funds from donors or governments**. This is a popular strategy at present, as institutions are still testing what products and delivery models will be most effective at reaching youth and donors are willing to finance this experimentation, but it is not a sustainable strategy. Dependence on subsidies limits the number of youth that an MFI is able to reach and donor or government involvement poses reputation as well as credit risks that could affect an institution's overall performance.

7. **Working through community-based models of microfinance.** The VS&L groups described in Box 1.3, self-help groups, or even informal rotating savings and credit associations (ROSCAs) can give youth initial access to and experience with financial services. Since youth are often familiar with these models, it can be relatively easy for them to develop money management skills working through that methodology and then graduate to an MFI once they have accumulated some savings and/or a credit history.

8. **Leveraging technology.** The cost of servicing small youth accounts could be dramatically reduced through electronic deposit services. In the Philippines, some rural banks are already testing a delivery model through which youth over the age of 12 frequently transact by ATM and mobile phone (Hirschland, 2009).

Marketing to Youth

MFIs that set out to overcome the four challenges discussed above have found themselves almost invariably confronted by a fifth challenge—how to market their products and services effectively to youth. Initially, Panabo Multi-Purpose Cooperative (PMPC) offered its youth products only in credit union offices. It delivered marketing messages through parents as they came into the office and then waited for youth to sign up, but the results were minimal. In Bosnia and Herzegovina, Partner Microcredit found it extremely difficult to motivate youth to attend its business training, even after they had signed up. In Mongolia, girls between the ages of 14 and 18 expressed interest in XacBank's product prototype, but when the product was piloted, only 31 per cent of the girls who participated in the financial education program actually opened a savings account.

Experiences like these have taught MFIs that they need to be more proactive and more creative about developing marketing strategies that will encourage youth to enter into a relationship with a financial institution. Some of the strategies used by MFIs mentioned in this chapter include:

- Partnering with experienced professionals and institutions already interacting with youth (see, for example, Box 1.12).

Box 1.12 Partnerships Bring Savings and Financial Education to Youth in Mongolia

Women's World Banking (WWB), a global network of MFIs that offer financial products and services to adult women, has partnered with the Nike Foundation to find ways of reaching girls and young women as a new market segment. The project's first site was Mongolia, where it worked on a combined financial education and savings program with XacBank.

To deliver financial education and provide face-to-face direct marketing in a cost-effective manner, more partnerships were formed. Microfinance Opportunities, an international NGO with experience in financial education, and the Mongolian Education Alliance (MEA), a leading local NGO, were brought in to help design the content. When it came to delivery, the project drew upon MEA's extensive experience with the public school sector while also partnering with another local NGO, Equal Step Center, to reach working girls. These relationships represented some of the first local public-private partnerships in the history of Mongolia's education sector.

Through eight learner-centred sessions, the financial education curriculum teaches new skills and behaviours around saving, using banks, and personal budgeting. To reach schoolchildren, XacBank and MEA are partnering with schools to organize groups of girls to meet weekly as an extracurricular activity, with facilitation from trained female university students. For working girls, professional trainers from Equal Step gather girls in training centres near large markets.

Source: Adapted from Banthia and Shell, 2009.

- Visiting classrooms, setting up kiosks or establishing student banking units in schools to collect savings deposits.
- Sponsoring a classroom in partner schools that is partially dedicated to financial education.
- Involving teachers in promoting the value of savings and financial preparedness on an ongoing basis.
- Customizing a youth-friendly brand, complete with a name, tagline, logo, promotional materials and information boards that are attractive to youth.
- Involving all MFI staff in creating a more youth-friendly environment. Making service points convenient, safe, welcoming and comfortable for youth.
- Providing toolkits and training for front-line staff in direct marketing.
- Marketing youth products together with other products.
- Adding financial education messages to all marketing, not just the marketing designed for youth.

- Hiring young people to serve young people. Recruiting university students as trainers to deliver financial education sessions for youth.
- Making presentations on specific financial products being offered by an MFI during the financial education program.
- Giving youth who attend financial education classes a tour of the nearest MFI branch.
- Supplying working youth with handouts that explain how to obtain official IDs.
- Providing youth-oriented gifts and/or recognition as incentives for opening accounts, saving regularly and saving larger amounts.
- Sponsoring fun fairs, inter-school competitions, and artistic contests.
- Introducing an academic scholarship program for youth members.

1.6 Conclusion

One of the main conclusions of Making Cents International's Global Youth Enterprise Conference in 2009 was that "youth can benefit from appropriate financial services. Not all youth. Not all products. What is important is to ensure that youth have access, and can make informed choices" (Making Cents International, 2010). By providing access to financial services, MFIs can create opportunities for youth to acquire new skills, accumulate assets, start and expand their own businesses and manage risk. Yet to do so effectively, they must understand this segment's unique needs and find ways to overcome the challenges that are created by youth's limited life, work and business experience. A small and growing number of institutions are demonstrating that this can be done, but services are required at a much larger scale to reach the millions of youth that would like to make use of them.

Main Messages

1. The youth market segment is not homogeneous.
2. For youth, savings services are often more important than credit.
3. What distinguishes the product portfolio offered to youth are the non-financial services which accompany the financial ones.
4. Mentors can give youth access to experience and perspective that they have not yet had an opportunity to acquire.
5. Proactive and creative marketing strategies are needed to encourage youth to enter into a relationship with a financial institution.

Recommended Reading

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Making Cents International. 2010b. *State of the field in youth enterprise, employment and livelihoods development: Programming and policymaking in youth enterprise, employment, and livelihoods development; and youth-inclusive financial services* (Washington, DC, Making Cents International), at: http://www.makingcents.com/products_services/resources.php.

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Youth Save Consortium. 2010. *Youth savings in developing countries: Trends in practice, gaps in knowledge* (Westport, CT, Youth Save Initiative) at: http://www.microfinancegateway.org/gm/document-1.9.45704/youth%20savings.pdf.

Youth-Inclusive Financial Services Case Studies Series 2009, available at: http://www.makingcents.com/products_services/resources.php.

YFS Link: Youth-Inclusive Financial Services Portal, at: http://www.yfslink.org/.