FINANCIAL INCLUSION OF YOUTH

UNITED NATIONS YOUTH

HIGHLIGHTS

- 2.5 billion - more than half of the world's working adults- are excluded from financial services. This is most acute among low-income populations in emerging and developing economies, where approximately 80% of poor people are excluded[1].

- Youth are 33% less likely to have a savings account than adults and 44% less likely to save in a formal institution[2].

- Saving-account penetration rates for youth vary by geographical region, ranging from 12% in Africa to 50% in East Asia and the Pacific.

- Youth are often excluded from access to formal financial services. Reasons include legal restrictions, high transaction costs and negative stereotypes about youth. Regulatory frameworks and inclusive policies that are both youth friendly and protective of youth rights are needed to increase youth financial inclusion.

Young people, regardless of their socioeconomic, demographic or geographical situations, face some degree of difficulty or uncertainty as they transition to adulthood. However, the situation that youth experience in developing countries—some 87 percent of the global youth population—is one of the most difficult in many respects, and the picture is particularly grave for adolescent girls and young women. Youth are disproportionately affected by high unemployment rates. The AIDS epidemic in sub-Saharan Africa has already orphaned a generation of youth, and it is expected that 15 to 25 percent of children in a dozen sub-Saharan African countries will have been orphaned by AIDS by 2020.

This generation faces a very difficult transition from childhood to adulthood as they become, in the majority of cases, heads of household at a much younger age than other less vulnerable youth. The number of young people will peak in the next 20 years. This unprecedented demographic growth could be seen as an opportunity but, given the baseline in terms of poverty and lack of opportunities for youth, it could represent a major threat to the future of these youth if their needs are not addressed. The failure to acquire marketable skills or capabilities for lifelong learning may consign them to persistent, deepening poverty. New approaches that support vulnerable youth to proactively realize their full economic potential are gaining attention.

Access to financial and social assets is a key contributing factor to help youth make their own economic decisions and escape poverty. Providing young people with financial services—whether a safe place to save or an appropriately structured loan for investment in an enterprise or education—

[1] http://www.uncdf.org/sites/default/files/Download/87180_UNCDF_Eng_Final_web.pdf

[2] http://www.uncdf.org/sites/default/files/Download/MB_CIFY_09MAY13.pdf

can promote entrepreneurship and asset building, and emphasize sustainable livelihoods. The financial component is especially effective for youth when complemented with training in entrepreneurship and financial literacy, and mentorship opportunities.

Despite these benefits, it is estimated that less than 5 percent of youth have a savings account as they face many barriers to access financial services. Few financial service providers (FSPs) such as banks, credit unions or microfinance institutions, understand and adequately serve the youth market, and regulatory frameworks are not designed to be youth inclusive or protective of youth rights.

The United Nations and youth financial inclusion

The United Nations is addressing these challenges and supporting youth financial inclusion in a number of ways.

- As the lead agency on financial inclusion, the UN Capital Development Fund (UNCDF) -- UN's capital investment agency for the world's 49 least developed countries -- in 2010 launched, in partnerships with The MasterCard Foundation, YouthStart, a $12.2 million programme aimed at increasing access to financial and non-financial services for low-income youth. With a specific emphasis on savings, UNCDF-YouthStart is a performance-based programme that works with FSPs to pilot and roll out sustainable financial and non-financial services tailored to young people.

- The United Nations Children’s Fund (UNICEF) has partnered with Aflatoun, a non-government organization based in the Kingdom of the Netherlands, to promote curricula that facilitate youth learning in the areas of social responsibility and financial competency.

- Both agencies (UNCDF and UNICEF) have fully endorsed the Child and Youth Finance Movement. The Movement is a collaborative effort of over 500 organizations and individuals, including national authorities, financial institutions and networks, NGOs and educators, academics and many more, to ensure responsible and sustainable financial services for youth. UNCDF also supports The Smart Campaign, a global effort to unite microfinance leaders around common responsible finance principles and practices.

- The UN Secretary-General made public the United Nation’s commitment to the Child and Youth Finance Movement at the first Child and Youth Finance International Summit, which took place in Amsterdam in April 2012. The summit brought together 364 participants from 83 countries including 70 youth participants from 40 countries.

Progress

Traditionally, FSPs have neglected youth or offered them services that were not adapted to their characteristics and needs. However, over the last five to ten years, an increasing number of initiatives from different donors and non-governmental organizations are promoting youth access to finance. These initiatives work through partnerships with FSPs and youth serving organizations that share a long term vision for youth.

Through programmes like UNCDF-YouthStart, more than 110,000 youth have opened a savings account in a formal FSP in sub-Saharan Africa. The Child and Youth Finance Movement has ensured outreach to over 18 million children and youth around the world. YouthSave—a consortium led by Save the Children in partnership with Washington University in St. Louis, the New America Foundation and the Consultative Group to Assist the Poor, and supported by The MasterCard Foundation— is developing and testing savings products accessible to low-income youth in Colombia, Ghana, Kenya and Nepal with the goal to reach 170,000 youth by 2015. UNCDF-YouthStart, the Child and Youth Finance Movement, and YouthSave are three of many programmes, including MEDA's YouthInvest programme, Plan Canada's Youth Microfinance in West Africa programme, Silatech youth programme in the Arab world, and Freedom from Hunger's Advancing Integrated Microfinance for Youth programme, that seek to improve access to appropriate financial services for young people.

Through NGOs like Aflatoun, 1 million children in more than 96 countries have received financial literacy training. In 2012, 65,000 youth in 8 countries in Sub-Saharan Africa received financial literacy training through UNCDF-YouthStart. However, for these kinds of initiatives to achieve greater outreach and impact, ideally they should be supported by youth focused financial literacy national strategies. It is estimated that 23 countries are implementing a national strategy on financial literacy and 47 are considering developing one. 70 percent of these national strategies have a special focus on youth. In the Federal Democratic Republic of Ethiopia, for example, there is a distinct unit on saving that is taught every year from grade 5 through 10 in civics class in all government and private schools. The unit covers the basics of overcoming cultural barriers to saving, as well as why saving, goal setting, planning, budgeting and bank accounts are useful. Most of these basic concepts are repeated every year in the curriculum. In the Pacific Islands, UNCDF and UNDP have supported the integration of financial literacy into core school curricula through the Pacific Financial Inclusion Programme. These examples, though still scarce, represent a relevant stride towards more sustainable models to deliver financial literacy, greater outreach to youth and greater impact to improve youth financial capabilities.

The way forward

Youth still face many barriers in accessing financial services, including restrictions in the legal and regulatory environment, inappropriate and inaccessible products and services, and low financial capabilities. Overcoming these barriers and achieving successful youth financial inclusion requires a multi-stakeholder approach that engages government (including policymakers, regulators and line ministries), FSPs, youth serving organizations and other youth stakeholders. Youth, of course, need to be at the centre of this dialogue. Below are some recommendations to overcome barriers for policymakers, regulators and other key stakeholders.

Legal and regulatory environment

Policymakers should develop legislation that is consistent with the principles of The Smart Campaign and the Child Friendly Banking Principles of Child and Youth Finance International (e.g., provide maximum control to youth within the legal and regulatory framework, minimize age and identity restrictions). These policies, which are both youth friendly and protective of youth rights, should be the outcome of a coordinated effort amongst different policy and line ministries, such as the Ministry of Finance, the Central Bank, the Ministry of Youth and the Ministry of Education. Multi-lateral and bi-lateral organizations should support such coordinated efforts.

Inappropriate and inaccessible products and services

Policymakers should develop legislation that facilitates the development of innovative, cost effective and convenient delivery channels to increase low-cost access of financial services for youth. The legislation should enable FSPs to bank through agents, mobile phones, schools, etc. Multi-lateral and bi-lateral organizations should invest in these innovations and support relevant policies or regulatory measures.

To help FSPs design and deliver appropriate financial services, policymakers should make it clear that building the capacity of FSPs that seek to enter the youth financial service market should be a priority area for donors. For example, one key area of capacity building is how to conduct market research to identify the socio-economic characteristics, needs and preferences of youth.

Financial capabilities

Financial capability is defined as 'the combination of knowledge, skills, attitudes, and especially behaviours that people need to make sound personal finance decisions, suited to their social and financial circumstances.' To address the challenge of low financial capabilities of youth and to equip youth with the confidence to make sound financial decisions, effectively manage financial services, and develop and work toward a tangible savings goal, policymakers should develop national financial-literacy strategies for youth, as well as entrepreneurship programmes that increase the financial capabilities of youth.

Governments and donors should support the development and implementation of such strategies, be they school based, community based, technology based or otherwise.

This multi-stakeholder approach to overcoming these three barriers can bring increased attention to the opportunities of youth financial inclusion and capability, attract the resources to invest in those opportunities and share learning to increase the impact of these investments.

Sources for further information

- UN website on youth: http://social.un.org/index/Youth.aspx
- UNCDF-YouthStart website: http://www.uncdf.org/en/youthstart
- UNICEF financial modules on child social and financial education: http://www.unicef.org/cfs/files/CSFE_module_low_res_FINAL.pdf
- The MasterCard Foundation learning products on youth financial services: http://www.mastercardfdn.org/what-we-are-learning/publications/youth-financial-inclusion
- YouthSave Consortium website: http://www.youthsave.org
- Child and Youth Finance International website: http://childfinanceinternational.org/

- The Smart Campaign website:
  http://www.smartcampaign.org

- ‘The Global Financial Inclusion (Global Findex) Database’ website developed in 2012 by the World Bank:
  http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTFINRES/EXTGLOBALFIN/0,,contentMDK:23147627~pagePK:64168176~piPK:64168140~theSitePK:8519639,00.html

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