



PAPER

WORKING

# THE ROLE OF FINANCIAL SERVICES IN YOUTH EDUCATION AND EMPLOYMENT

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# EXECUTIVE SUMMARY

**O**NE BILLION YOUNG PEOPLE IN LOW-INCOME COUNTRIES ARE navigating their transition into adulthood and engaging in various forms of education and employment along the way.<sup>1</sup> Financial services can play an important role on this path, but they alone cannot deliver positive outcomes for youth. Comprehensive approaches that combine a range of financial and nonfinancial services with supportive family and social networks appear to be most effective. Therefore, stakeholders need to join forces and coordinate to meet the varied needs of young people.

Written for policy makers and funders, this Working Paper examines the role financial services can play in enabling youth education and employment. It outlines the existing evidence and highlights important questions about how to deliver comprehensive and broad-reaching interventions at scale.

Key messages include:

- Financial tools can play an important role in helping youth gain access to training and education to build their job skills and juggle income sources, but young people often enter adulthood without access to financial services.
- Key barriers to the financial inclusion of youth include limiting social norms, legal and regulatory restrictions, and perceptions of youth as low-value/high-risk customers.
- Youth are a vast and diverse group, varying in their stages of maturity, gender, regional context, social norms, and livelihood. Interventions need to be tailored to the specific needs, aspirations, and challenges of the young people whom providers intend to serve.
- Financial services can help families manage major expenses linked to educational and training opportunities essential to building young people's skills and increasing their employability, productivity, and income.
- Digital platforms are changing the delivery of information and opening unprecedented opportunities for youth to access education, training, goods, markets, and financial and nonfinancial services.
- Crucial questions remain, including on how to design and deliver comprehensive interventions at scale, the most effective role for each partner, and how outcomes will vary for youth by gender, rurality, and other factors.
- Policy makers and funders play a critical role in supporting the needed evidence building and experimentation to effectively answer these questions and act on the results.

<sup>1</sup> According to the United Nations (2017), there are approximately 1 billion youth 15 to 24 years old in "less developed regions"; as per its definition these are all regions of Africa, Asia (except Japan), Latin America and the Caribbean, as well as Melanesia, Micronesia, and Polynesia.

# INTRODUCTION

**O**NE BILLION YOUTH IN LOW-INCOME COUNTRIES ARE transitioning to adulthood and engaging in various forms of education and employment along the way (United Nations 2017).<sup>2</sup> Financial services can play a role in this process, but they cannot unlock positive outcomes for youth alone. Healthy, productive youth need a supportive social and enabling environment and a range of both financial and nonfinancial services and assets, as well as their own agency.<sup>3</sup>

Supportive parents, mentors, and peers play important roles as youth become adults. The social norms governing their behaviors and perceptions also exert a strong influence. Many social norms are positive, but they can also limit their choices and potential, particularly for young women. Quality educational and training opportunities are also essential for positive youth outcomes, particularly when aligned with surrounding economic opportunities and pathways to employment and entrepreneurship. Comprehensive approaches that blend these elements—support from parents and mentors, quality educational and training opportunities, pathways to employment, and financial services—to improve youth educational and employment outcomes seem most promising.

***Healthy, productive youth need a supportive social and enabling environment and a range of both financial and nonfinancial services and assets, as well as their own agency.***

This Working Paper provides a broad view on the role of financial services in this framework. It highlights key insights that will resonate with policy makers, funders, and financial and nonfinancial services providers who focus on youth education and employment and their enabling factors. It begins with an overview of youth financial inclusion and the surrounding context, focusing on the period of adolescence from 15 to 24 years old. This Working Paper then examines the role that financial services can play in enabling youth education and employment, outlines the existing evidence base, and highlights future directions for both research and interventions.

<sup>2</sup> According to the United Nations (2017), there are approximately 1 billion youth 15 to 24 years old in “less developed regions”; as per its definition these are all regions of Africa, Asia (except Japan), Latin America and the Caribbean, as well as Melanesia, Micronesia, and Polynesia.

<sup>3</sup> See USAID (2012) for details about its Positive Youth Development framework.

# YOUTH FINANCIAL INCLUSION

**Key Messages.** A range of financial tools can play a role in youth learning and earning, but youth often enter adulthood without access to financial services.

- Youth are a heterogeneous group and their financial inclusion varies across regions, by stage of maturity and gender, and within countries. Only one-quarter of youth in Sub-Saharan Africa (SSA) and the Middle East and North Africa (MENA) have an account at a financial institution (Demirgüç-Kunt et al. 2018, Table 1).
- FSPs may perceive youth as risky, low-value customers. Legal and regulatory restrictions further dampen youth financial inclusion. Self-perceptions and social norms can also limit young women's access to financial services and educational and employment opportunities.
- Ownership of mobile money accounts among youth has increased markedly. Informal savings groups also offer youth an important entry point to financial services. Youth rarely borrow from formal financial institutions.

The needs and aspirations of youth change over time and are influenced by their stage of maturity, gender, social context, educational experiences, and livelihoods. This section outlines the state of youth financial inclusion and the key barriers youth face.

## State of youth financial inclusion

**Youth pass through distinct stages of maturity**—generally framed as early adolescence (ages 12 to 18), late adolescence (ages 19 to 24), and young adulthood (ages 25 to 30)—each with its own distinct characteristics and needs for financial and nonfinancial services (Dueck-Mbeba and DasGupta 2015; Williams et al. 2015; USAID 2012). Youth in early stages may be entirely focused on education, while those in later phases may focus on various forms of employment, and those in the years in between may concentrate on a blend of education, training, and employment. In terms of their financial behaviors, early adolescents tend to focus on saving, and they typically save the most relative to other youth age cohorts. As they grow older, become independent, and develop more complex income streams, youth demand for financial services expands to include transfers (often through mobile money), credit, and insurance (Dueck-Mbeba and DasGupta 2015).

TABLE 1. **Financial inclusion for youth (15-24 years old) and adults (over 25 years old), by region**

		World	East Asia & the Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa
No deposit and no withdrawal from an account in the past year	Youth (%)	18	22	15	19	24	43	30
	Adults (%)	13	19	12	21	18	42	26
Mobile money account ownership	Youth (%)	15	8	9	7	5	6	25
	Adults (%)	13	6	5	7	4	5	24
Made or received digital payments in the past year	Youth (%)	33	37	30	21	15	10	33
	Adults (%)	36	29	25	16	13	10	33
Account at a financial institution	Youth (%)	40	45	38	34	25	42	24
	Adults (%)	63	58	66	51	46	56	33
Saved at a financial institution	Youth (%)	15	18	9	11	7	10	10
	Adults (%)	26	24	14	14	12	17	13
Borrowed from a financial institution	Youth (%)	6	8	8	7	3	4	5
	Adults (%)	14	18	14	13	9	9	8

Source: Demirgüç-Kunt et al. (2018) (excludes high-income countries in all regions except South Asia and the World).

### **Youth financial inclusion varies across regions, by gender, and within countries.**

According to the World Bank's Global Findex 2017 (Demirgüç-Kunt et al. 2018), among youth ages 15 to 24, one-quarter in SSA and MENA and nearly half in East Asia and the Pacific (EAP) have an account at a financial institution (Table 1). Across all regions, however, youth show markedly less ownership of financial accounts than adults. Except for EAP, young men generally show more financial account ownership and activity than young women. In some cases, the gender divide is quite sharp (Table 2). In South Asia, for example, one-half of young men but only one-third of young women have an account at a financial institution. There is also variation within countries. Youth living in rural areas face greater challenges in access to financial services.<sup>4</sup>

**Ownership of mobile money accounts among youth has increased markedly,** equaling or surpassing that of adults in most regions. In 2014 in SSA, for example, averages of national Findex data indicate that 10 percent of youth 15 to 24 years old had a mobile money account; in 2017, this more than doubled to 25 percent of youth (Demirgüç-Kunt et al. 2018). In Kenya and Uganda, which have well-developed digital finance ecosystems, 70 and 51 percent, respectively, of young people had mobile money accounts in 2017 (Demirgüç-Kunt et al. 2018).

4 See Making Cents International (2016) for details on five youth-inclusive rural finance projects.



**Youth rarely borrow from formal financial institutions.** Only 8 and 7 percent of youth in EAP and Latin America and the Caribbean (LAC), respectively, borrowed from a formal financial institution, approximately half the proportion for adults in those regions (Demirgüç-Kunt et al. 2018). Loans from formal financial institutions were even less common among youth in MENA, South Asia, and SSA, where youth tend to borrow money from their family and friends and through informal financial mechanisms like savings groups.

**More youth use formal financial institutions to save than to borrow.** Saving at formal financial institutions is most prevalent among youth in EAP (Demirgüç-Kunt et al. 2018). Even when youth have savings accounts in formal financial institutions, active saving remains low. In 2017, averaging rates across regions, only 15 percent of young people had saved into their account at least once in the prior 12 months. Among youth in South Asia, for example, the use gap is particularly large: 42 percent own an account, but only 10 percent had saved in it at least once in the prior 12 months (Demirgüç-Kunt et al. 2018).

**Youth engagement with informal savings groups is relatively higher** than with formal savings accounts. Youth savings groups demand engagement; they are located near areas where participants live and work, and they use a highly participatory, peer-driven approach to structured weekly saving. In addition to participating in standard group interactions, some youth are part of the group's leadership structure, advisory board, and

TABLE 2. **Financial inclusion for youth (15-24 years old), by gender and region**

		World	East Asia & the Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa
No deposit and no withdrawal from an account in the past year	Female (%)	19	21	17	20	26	48	33
	Male (%)	17	21	13	18	23	39	28
Mobile money account ownership	Female (%)	13	8	7	5	4	2	22
	Male (%)	17	9	15	8	5	10	28
Made or received digital payments in the past year	Female (%)	31	38	27	18	14	5	30
	Male (%)	35	34	36	24	16	14	36
Account at a financial institution	Female (%)	37	47	38	33	21	35	21
	Male (%)	42	42	45	37	32	48	26
Saved at a financial institution	Female (%)	13	17	8	9	6	9	8
	Male (%)	16	18	10	12	9	12	11
Borrowed from a financial institution	Female (%)	6	9	8	7	2	3	4
	Male (%)	7	7	9	7	3	4	5

Source: Demirgüç-Kunt et al. (2018) (excludes high-income countries in all regions except South Asia and the World).

outreach to new members. Unlike FSPs that struggle to promote the regular use of formal savings accounts, youth savings groups appear to offer an effective support and nudging mechanism for youth saving (Dueck-Mbeba and DasGupta 2015).

**Savings groups offer youth an important entry point to financial services.<sup>5</sup>**

Participation requires no specific age, documentation, or collateral and is easy to understand. Youth savings groups emphasize small, regular savings deposits; they offer social insurance; and they provide access to lump sums useful for household demands and emergencies. They also build participants' financial skills through the practice of saving, borrowing, and record keeping, and they create a forum for solidarity and financial advice from other group members. In time, youth savings groups can serve as a bridge to formal financial services.

**A specific approach to youth savings groups is emerging, building on the standard savings group methodology.<sup>6</sup>** A 2013 survey of 103 organizations promoting savings groups in 43 countries found that 22 percent organized youth-focused groups and 38 percent included youth in standard all-age savings groups (Markel and Panetta 2014). Based on this growing body of experience, effective youth savings groups tend to reach out to young people through their peers, foster youth leadership and advocacy, and embed needs-based training in the group specific to the life stage and responsibilities of its members. Since youth are not isolated economic actors, engaging youth in savings groups means engaging their families as well. Communicating with families helps to raise awareness of and gain support for youth participation. It also helps to mitigate the coercive appropriation of youth funds and ensure that participation in savings groups empowers youth (Plan 2016).

## Barriers to youth financial inclusion

**FSPs may perceive youth as risky, low-value customers.** Most young people lack collateral and an established credit history and have only a limited work history, if any. As a result, many FSPs consider youth to be risky borrowers. The business case for youth financial services may vary greatly across FSPs, depending on market conditions, their enabling environment, institutional capacity, the characteristics of the target youth segment, and specific product-level cost and revenue drivers (Kilara et al. 2014).

**Legal and regulatory restrictions dampen youth financial inclusion.** An estimated 40 percent of the 1.1 billion people worldwide who lack proper identification documents are under the age of 18 (World Bank 2017). Minimum age requirements and the identification documents required to register an account can create barriers to financial services for many young people. More generally, it can be difficult to enter into contracts with youth under the age of legal majority, which can be 18–21, depending on the country.

**Self-perceptions and social norms limit some young women's access to financial services.** Social norms that restrict girls' access to education and women's access to employment, for example, severely constrain the financial, economic, and social inclusion of girls and women. Some young women also confront social norms that limit their ability to own a mobile phone, engage with male agents, or study or work in male-dominated fields.

<sup>5</sup> See Markel and Panetta (2014) and Plan (2016) for more on youth savings groups.

<sup>6</sup> See Plan (2016) for the 10 principles of the Plan Banking on Change youth savings group model.

These social influences play a crucial role in shaping young women's access to and use of financial services to better their lives. Adults and interventions can help young women circumvent these limiting social norms, but they can also perpetuate and enforce them.

**Marriage can influence young women's access to education, employment, and use of financial services.** An estimated 21 percent of young women were married as children (i.e., before the age of 18) (UNICEF 2018). Marrying as a child substantially reduces the likelihood that girls will enroll in and complete secondary school. Through its impact on education, child marriage also reduces earnings in adulthood for women marrying early by 9 percent. In addition, the negative impacts of child marriage tend to be larger for people living in poverty; their likelihood of marrying early is also higher. In terms of access to financial services, husbands may consider their young brides unable to make financial decisions for the household (Wodon et al. 2017) and, therefore, in no need of financial services. In countries where there is full or partial community of property regimes, however, marriage may offer women access to financial services through joint financial accounts with their husband.

# FINANCIAL SERVICES AS AN ENABLER FOR EDUCATION

**Key Messages.** Education is an essential part of building youth capability and increasing their employability, productivity, and income. Where strong educational and training opportunities exist, financial services can help families manage this major expense and promote youth educational attainment.

- Education is among the largest household expenses. Parents confront difficult cost-benefit assessments in decisions about their children's education.
- Their lack of education and training limit youth wage employment and entrepreneurship. This is particularly acute for young women who face additional barriers to their education.
- A range of financial services can help manage costs and smooth payments related to education. Digitally enabled financial services offer new ways to pay educational expenses, and standard student loan products can help youth finance their education.

Education is an essential part of building individual capability and increasing employability, productivity, and income. Each additional year of schooling increases an individual's earnings by an average of 8–10 percent, with larger gains for women (World Bank 2018). In low-income

countries characterized by underemployment and large informal sectors, education is associated with greater access to full-time jobs in the formal sector.

Despite its benefits, 263 million children, adolescents, and youth—approximately one-fifth the global population of this age group—were out of school in 2016 (UIS 2018). While the trend is toward gender parity in out-of-school rates, regional differences persist. The gender gap in the out-of-school rate for upper secondary school age youth in SSA, for example, is 7.0

percentage points.<sup>7</sup> Youth and their families face a range of challenges in accessing quality educational opportunities, starting with its cost. Below we review research on the cost barriers to education and the important relationship between education and employment.

***A range of financial services can help manage costs and smooth payments related to education.***

<sup>7</sup> Among upper secondary school age youth in SSA, 61.3 percent of girls and 54.3 percent of boys are out of school (UIS 2018).

**Education is one of the largest household expenses.** In many countries, tuition is charged for lower secondary school. Primary school may be free, but attendance still requires cash outlays for school supplies, classroom learning materials, and transportation (World Bank 2018). Financial diaries research in Kenya found that education is the second largest household expense, after food. Prioritizing educational expenses may also require household trade-offs. In Zimbabwe, for example, some families said they always find a way to pay school fees, even if it means selling livestock at a loss, buying less fertilizer, reducing household consumption, or working at the school in exchange for reduced fees and neglecting their own farms (Mattern and Tarazi 2015).

**In decisions about their children's education, parents confront difficult cost-benefit assessments.** They consider several factors, including the costs of schooling, distance to the nearest school, their perceptions of the quality of the education and whether their children are learning at school, the opportunity cost of their children's time, and their estimate of its overall returns (World Bank 2018). This difficult balance influences children's enrollment in school, their level of educational attainment, and their learning outcomes.

**Lack of education and training limit youth wage employment and entrepreneurship.** The more limited their education and work experience, the more difficult it is for youth to find economic opportunities. According to the International Labour Organisation (ILO 2017), primary school graduates took 1.6 times longer to transition from school to steady employment than secondary school graduates (22.2 and 14.3 months, respectively). Differences in educational attainment may also influence the growth trajectory of young entrepreneurs. In a study of 20,000 young entrepreneurs in nine countries in SSA, 65 percent of those who owned "low-growth businesses" had only a primary school education, while 80 percent of those who owned "high-growth businesses" had completed secondary, postsecondary, or tertiary levels of education (Kew 2015).<sup>8</sup>

**Young women face additional barriers to education.** In most low-income countries, when girls reach lower secondary school age (about 12–14 years old), their school enrollment rates fall. At upper secondary school age (about 15–17 years old), girls' enrollment rates decline even further. In low-income countries, 66 girls completed the upper secondary education level for every 100 boys between 2010 and 2015 (UNESCO 2018). In some countries, differences in girls' educational attainment is related to high rates of marriage for young girls. Some social norms prioritize the education of boys over girls and view the roles and responsibilities of adolescent girls to be within the home. Even parents who want to educate their daughters may be concerned about the safety and reputational risk of their daughters, both as they travel to and from school and while they are there.

<sup>8</sup> "Low-growth businesses" were expected to create five or fewer jobs in the next year, often in the retail sector, and "high-growth businesses" were expected to create over 20 jobs in the next five years.

## Role of financial services in enabling youth education

Financial tools can help to open access to learning opportunities for youth. Research indicates some financial services appear linked to the educational attainment of youth.

**Financial solutions can help promote youth educational attainment.** Easier ways to pay education expenses can help to keep youth in school for longer periods of time. In Nepal, for example, offering households access to a bank account resulted in an increase in girls' schooling by six months and an increase in parents' aspirations for their children's education by over a year (Chiapa et al. 2014). In Uganda, a group of orphaned youth in the Suubi project received (i) access to workshops on asset building and planning, (ii) a monthly mentorship program, and (iii) a child savings account for their post-primary education or a small family business, in addition to the project's standard recreational and counseling services, food aid, and educational materials. The group reported an increase in monthly savings, greater expectations for and confidence in their future education, higher scores on standardized tests, better grades, an increase in self-esteem, and improved goal-setting skills (Ssewamala and Ismayilova 2009).

**More highly educated young people are also more likely to use financial services.** ILO's School-to-Work Transition Surveys (STWS) show that the proportion of youth who accessed formal financial services is over four times higher among the most educated compared to the least educated. Among youth who had completed their tertiary education, 30 percent accessed formal financial services (Sykes et al. 2016). These findings are echoed in the 2017 Global Findex, which shows a relationship between both savings and borrowing at a financial institution with higher levels of educational attainment (Demirgüç-Kunt et al. 2018).

**A range of financial services can help manage costs and smooth payments related to education.** In the financial diaries in Kenya, for example, families used several financial instruments, including informal savings groups, loans from their friends and family, and loans from other informal and formal sources, to meet educational expenses (Collins et al. 2015). Youth also find their own ways to cover educational expenses. In 2014, on average across low-income countries, 18.3 percent of youth saved and 9.1 percent of youth borrowed for their education or school fees in the 12 months before the survey (Demirgüç-Kunt et al. 2018).

*Many youth join savings groups to mobilize savings and loans for their own, their siblings', or their children's education and training needs.*

**Youth savings groups have an uncertain role in education.** Evidence on whether youth participation in savings groups leads to increased expenditures on children's health and education or to improved health and education outcomes is inconclusive. Looking specifically at their intentions, however, many youth join savings groups to mobilize savings and loans for their own, their siblings', or their children's education and training needs. They may also want to expand their small businesses and use subsequent profits to pay school fees (Markel and Panetta 2014). With this motivation in mind, youth savings groups offer a platform for training in entrepreneurship, employability, life skills, and financial literacy (Markel and Panetta 2014).

**Digitally enabled financial services offer new ways to pay educational expenses.**

Fenix International, a pay-as-you-go solar energy provider in Uganda, found that some customers dedicate up to 60 percent of their household income to education expenses. Intensifying this challenge, their agricultural activities generate irregular incomes that are not aligned with school fee payments, and many do not have access to informal or formal credit. In response, the Fenix ReadyPay School Fees Loan pre-approves certain customers for term-length education loans using customer repayment data from their solar loans and disburses loans directly to the customer's mobile wallet. Customer surveys indicate that the ReadyPay School Fees Loan reduced the financial stress of education and that borrowers' children were less likely to be absent from school (Waldron and Emmott 2018). In Kenya, M-Changa is a crowdfunding platform that can be used to mobilize money for educational expenses. In El Salvador and the Philippines, remittance products designed for schooling also increased education expenditures (Ambler et al. 2015; De Arcangelis et al. 2015).

**Standard student loan products can also help youth finance their education.**

Many FSPs offer financial products linked to education for youth, typically for their tertiary education. HFC Bank in Ghana offers an account targeted to young people in tertiary education; it receives the account holder's student loan funds and provides an automatic loan facility of up to 80 percent of the loan value before loan disbursement. This account is also eligible, in time, for automatic conversion into HFC's savings product for young working adults, the next product in their customer life cycle of financial services (Deshpande and Zimmerman 2010). Grameen Bank also has a higher education loan program for members with children pursuing graduate and post-graduate degrees. It covers all education expenses, including admission fees, course fees, materials, food, and accommodations.

# FINANCIAL SERVICES AS AN ENABLER FOR YOUTH LIVELIHOODS

**Key Messages.** As youth struggle to find employment and juggle various income streams—leveraging technology to find work as well as access to services and information—financial services have an important role to play.

- Youth are three times as likely to be unemployed as adults, and rural youth face more limited employment prospects. Gender also plays an important role in youth livelihood choices, employment, and wages.
- Working youth often juggle various income streams from casual work and self-employment and the agricultural sector remains their leading employer. Young people are more likely to find employment in the informal sector and increasingly look for work in the gig economy.
- The digital platforms underpinning the gig economy could better link to social and financial services. Youth access to digital credit has increased, though this raises consumer protection and value questions, particularly for youth new to financial services.

Youth employment takes many forms. Relatively few youth move directly from their education into one job with a steady wage. Instead, youth livelihoods tend to combine several forms of employment and streams of income. Youth often work in the informal sector, picking up jobs as they become available in nearby businesses and farms. This casual labor is increasingly facilitated by the “gig economy,” where opportunities are shared and then managed and delivered via a digital platform. Some youth become self-employed. As important as the income they generate, these various forms of employment provide youth the opportunity to cultivate their independence, pursue their ambitions, and contribute to society.

***Youth livelihoods tend to combine several forms of employment and streams of income.***

### **Youth are three times as likely as adults to be**

**unemployed.** ILO (2017) projected that an estimated 71 million young people worldwide would be unemployed in 2018. Rates of youth unemployment and labor force participation vary substantially by gender and region (Table 3). Northern Africa, the Arab States, and South Asia, for example, report a 30 percentage-point gender gap in labor force participation (ILO 2017). Even the employed may generate very little income, largely



TABLE 3. **Youth (15–24) unemployment rate and labor force participation rate, by gender and region, 2018 projected**

		Youth unemployment rate			Youth labor force participation rate		
		Overall (%)	Female (%)	Male (%)	Overall (%)	Female (%)	Male (%)
<b>WORLD</b>		13.1	13.7	12.7	45.6	37.0	53.6
<b>Africa</b>	Northern Africa	28.6	40.7	24.5	31.8	16.6	46.4
	Sub-Saharan Africa	11.2	12.7	9.8	54.3	51.7	56.9
<b>Americas</b>	Latin America and the Caribbean	19.5	23.8	16.7	49.9	40.1	59.3
	Northern America	11.1	9.9	12.2	52.2	51.1	53.3
<b>Arab States</b>		29.7	47.1	25.1	30.8	13.5	46.4
<b>Asia and the Pacific</b>	Eastern Asia	10.5	8.6	12.1	51.0	49.7	52.3
	South-East Asia and the Pacific	12.2	12.3	12.2	51.2	43.7	58.3
	Southern Asia	10.9	11.8	10.5	37.3	20.2	52.8
<b>Europe and Central Asia</b>	Northern, Southern, and Western Europe	17.8	17.1	18.5	44.4	41.9	46.7
	Eastern Europe	14.2	14.5	13.9	34.9	30.4	39.2
	Central and Western Asia	17.4	18.7	16.7	43.3	32.4	53.7

Source: ILO, 2017.

because they work in the informal sector. Seventeen percent of employed youth in low-income countries make less than \$1.90 per day—putting them at the extreme poverty level (ILO 2017). Un- and underemployment limits youth's potential and strains society when youth feel unable to start their own families, have confidence in the surrounding social system, and see a positive future ahead.

#### **Gender plays an important role in employment, livelihood choices, and wages.**

Globally, young women make up three out of four youth who are neither employed nor enrolled in education or training (ILO 2017). Young women's participation in the labor market may be limited by their mobility constraints, safety concerns, and early engagement in unpaid household work, marriage, or motherhood, all of which are often linked to social norms. In addition, young women and men confront social norms about the types of work considered appropriate for them. Young women are often guided to caring, cleaning, hairdressing, tailoring, or home gardening roles, while young men are steered toward what is considered more physical work in construction and mechanics (Mastercard Foundation 2018). These societal expectations influence their personal ambitions and their choice of subjects to study and leads to gendered job segregation. Gender wage gaps are significant. Among wage and salaried workers in SSA, for example, young men earn on average 11.8 percent more than young women (Mastercard Foundation 2018).

**Employment prospects are more limited for youth in rural areas than those in urban areas.** In low-income countries, young people in rural areas are only one-third as likely to have a contracted form of employment as their urban counterparts, and they

are 40 percent more likely to be in casual wage work without a contract. On average, it takes youth in rural areas more than two months longer to make the full transition to a stable job than it does urban youth (ILO 2017). As a result, rural youth increasingly migrate to seek work either seasonally or with the intention to move permanently (ILO 2017). In 2017, youth 15–29 years old represented 20 percent of the nearly 258 million international migrants in 2017 (UN 2017).

**Agriculture remains the leading employer of youth**, especially in SSA. More than two-thirds of young people who work in rural areas work in agriculture. This is expected to continue. In the next five years, most youth in SSA are likely to work on family farms and in household businesses, as their parents do. Only one in four youth in SSA will find waged employment, and a fraction of these jobs will be in the formal economy (Filmer and Fox 2014).

### *More than two-thirds of young people who work in rural areas work in agriculture.*

**Youth are less likely to have exclusive ownership of land** because of the lack of capital and unfavorable inheritance practices. Young women often face additional cultural barriers to land ownership and have especially limited access to land. When youth do obtain land, the land is often of below-average quality and productivity (AgriFin Accelerate 2019). Agriculture may also carry a social stigma that dampens youth aspirations

in the sector, and youth may consider working in agriculture to be their last resort (Williams et al. 2015). With limited access to land, youth cannot cultivate their own entrepreneurial ideas in agriculture or use land as a form of collateral. Their engagement in the sector is largely constrained to casual labor on other people's farms.

**Young people are more likely to find employment in the informal sector**, which offers few, if any, social or labor protections. Worldwide, three of four employed youth work in the informal economy, compared to three in five employed adults (ILO 2017). Where they are employed, most young women work in the informal sector. In SSA and EAP, over 90 percent of young women engage in informal employment (Elder and Kring 2016). Many youth pursue a “mixed livelihoods” approach to earning income; they work in a variety of formal and informal jobs and combine seasonal and temporary work. Over time, as young people gain experience, build skills, and find more consistent work, the blend of income-generating activities in their livelihood strategy changes (Williams et al. 2015).

**Youth increasingly look for work in the gig economy.** In crowdwork, the purchaser advertises specific tasks via the platform, and workers in any location can accept and complete them. In on-demand work, the purchaser and the worker are in close proximity, and the tasks are carried out locally (Hunt and Samman 2019). In both cases, workers are considered independent contractors, not employees, and they have no guarantee of further employment. They must also assume costs normally covered by an employer, such as health care and pension contributions. A 2015 ILO survey indicated that young people are more likely than older adults to work in the gig economy (Berg 2016). More than half of surveyed youth age 15 to 29 work in the gig economy as their principal source of income, compared with 28 percent of adults over 30, and they earn higher hourly wages than adults (ILO 2017).

**Self-employment is an important form of work for youth**, particularly in SSA and South Asia (45 and 25 percent of employed youth, respectively) (Sykes et al. 2016). Youth may pursue self-employment after identifying a market opportunity relevant to their skills,

experience, and ideas or because of limited alternatives for wage employment (AfDB 2011). Self-employment also offers high potential for economic growth, especially in rural settings, and can be flexible enough to allow young women to also complete their household responsibilities (Save the Children 2018a).

## Role of financial services in enabling youth livelihoods

As youth explore various livelihoods and income-generating opportunities, financial services have a role to play. New practices are leveraging technology and relationships with nonfinancial services providers to allow youth to access these services.

**Financial services can help stimulate youth entrepreneurship, and entrepreneurship can lead to increased access to financial services.** An important component of successful entrepreneurship is access to financial tools. Through Zimbabwe: Works, a workforce readiness program with a finance component, 34 percent of participating youth started their own businesses. These micro and small enterprises have a 90 percent survival rate and create an average of three jobs (IFC 2019). According to the ILO's STWS, young employers are most likely to access formal financial services (Sykes et al. 2016).<sup>9</sup>

**There are several pathways to youth employment in agriculture**, including casual labor, entrepreneurship, and wage employment. Each requires a distinct blend of land, skills, and financial services. More fluid markets and tailored financial services such as layaways, commitment savings accounts, leasing, insurance, and transfers could improve access to inputs, land, and labor, particularly when enabled by mobile phones and digital platforms. These tools and services could also spark youth aspirations and change perceptions about agriculture, showing them a more appealing vision of the sector that goes beyond subsistence agriculture.<sup>10</sup>

**Digital platforms that underpin the gig economy could embed social and financial services** such as unemployment insurance, health insurance, and pensions. This could compensate for the lack of social protections inherent in on-demand gig work. In addition, moving beyond the cash exchange typically associated with other forms of casual labor, youth who receive payments through financial transfers on digital platforms via mobile money wallets and/or bank accounts will find themselves included in the financial system. Digital financial transfers can lead to increased use of mobile money and bank accounts and present opportunities for FSPs.

**Tranched financing from FSPs could reduce the risk of serving youth.**<sup>11</sup>

Disbursement of loan tranches can be linked to milestones such as accumulated savings, the production and vetting of business plans, business performance metrics, and repayments. Training and skills acquisition in a particular sector or financial management and entrepreneurship more generally could be linked to disbursement. Although tranched lending may lower the initial perceived risk to FSPs and improve their understanding of young customers, it may increase short-term transaction costs, because it entails repeated

<sup>9</sup> Young employers are those who employ one or more people in their business; own-account workers are those who have not employed others on a continuous basis.

<sup>10</sup> See AgriFin Accelerate (2019) and Williams et al. (2015) for more on youth opportunities in agriculture.

<sup>11</sup> See IFC (2019) for more on tranched or milestone-based financing for youth and a range of provider examples.

interactions with borrowers to assess progress against their unique milestones and then processing of relatively small disbursements. Digital platforms that engage and share information among several providers could smooth the process and reduce these costs. A training provider on the shared platform, for example, could record when a borrower has successfully completed his or her course; the FSP with whom the borrower has a loan could be automatically notified, and the subsequent loan tranche could be automatically disbursed to the borrower's mobile wallet.

**New sources of information can help youth who do not have a financial track record access credit.** Youth typically do not have a credit history or detailed records of any business activities, and this limits their ability to borrow. In response, some FSPs have begun to consider other information about potential borrowers when they make credit decisions. This can include in-person interviews of potential borrowers and letters of reference from well-respected teachers, mentors, and church or community authorities. FSPs may conduct qualitative evaluations of young potential borrower's business ambition and entrepreneurial promise or psychometric surveys to gauge behavioral and financial decision-making tendencies. In addition, data from digitally enabled transactions, including mobile call records, airtime purchases, and social media posts, can supplement the profile of potential borrowers.<sup>12</sup> Combinations of these inputs can be leveraged for potential youth borrowers, as well as for excluded clients more generally.

**Digital credit raises consumer protection and value questions, particularly for youth new to financial services.** Customers who are unaccustomed to using financial services may find the costs of borrowing and the potential consequences of default hard to understand. Digitally enabled credit services can exacerbate this. Often delivered through the small screens and short menus on feature phones, its convenience makes it easier for customers to renew expensive loans. They may take high-cost loans without reflecting on their needs and repayment strategy, encounter difficulties with timely repayment, and suffer the consequences of blacklisting with credit bureaus (Mazer and McKee 2017; Kaffenberger and Totolo 2018).

<sup>12</sup> These more flexible criteria to assess youth clients are explored in greater detail in IFC (2019).

# THE IMPORTANCE OF THE ENABLING ENVIRONMENT IN YOUTH FINANCIAL SERVICES

**Key Messages.** Positive outcomes for youth education and employment require a supportive web of services, social networks, and partners. Financial services play a role but alone, without this wider enabling environment in place, they cannot unlock positive outcomes for youth.

- Parents influence their children’s use of financial services and approach to financial management. Mentors can also offer important support, guidance, and networks to young entrepreneurs.
- Comprehensive approaches that combine financial and nonfinancial services are key to more secure, resilient youth. Combining financial and nonfinancial services may also lead to increases in youth savings and improve youth repayment.
- Technology will have an enormous impact on youth education and employment. Digital platforms can consolidate an array of financial and nonfinancial services for youth.

A strong web of support, networks, and financial and nonfinancial services can help youth seize educational and employment opportunities. Financial services play a role in youth’s transition to adulthood, but they must be part of a wider, more comprehensive approach. Alone, access to financial services is not sufficient to promote positive outcomes in youth education and employment.

***Mothers appear to play an especially important role in shaping their children’s financial behaviors.***

**Parents shape their children’s financial behaviors.** In addition to the emotional, social, and financial support they may provide, parents influence their children’s use of financial services and approach to financial management. They can encourage their children to save, contribute to their children’s savings, and model sound financial habits. Mothers appear to

play an especially important role in shaping their children’s financial behaviors. In Kenya and Uganda, for example, without support from family members—and particularly their mothers

and friends—girls were less likely to practice good savings habits, even after participating in financial education classes (Austrian and Muthengi 2013). In Ecuador, youth who opened savings accounts had been influenced by their parents, especially their mothers (Ramirez and Torres 2014).

**Mentors offer important support, guidance, and networks to young**

**entrepreneurs.** Adult coaches or mentors who are caring, competent, and reliable can help build the business and financial skills of young entrepreneurs. They can share their own business experiences and facilitate access to credit and nonfinancial services, such as financial literacy or life skills training (Resnick 2000; Making Cents International 2016). In

**Financial services alone cannot unlock positive outcomes for youth.**

some cases, this support is considered more important than financial services. Girls in Kenya and Uganda who participated in the Population Council's Tap and Reposition Youth program, which worked to adapt adult microcredit models to serve adolescent girls, valued its social support from friends and mentors as much as, if not more than, its embedded financial services (Austrian and Muthengi 2013).

**Comprehensive approaches that combine financial and nonfinancial services are key to more secure, resilient youth.**

Financial services alone cannot unlock positive outcomes for youth. A range of complementary nonfinancial services—including entrepreneurship training, vocational skills, negotiation and communication skills, financial education, and business advisory services—are also critical to successful wage employment and youth entrepreneurship. Apprenticeships and internships can help youth gain the skills required by employers and build a network in their field that could include potential employers. A review of interventions that offer youth entrepreneurial skills and facilitate their access to physical, financial, and social capital showed, on average, positive effects on employment, earnings, and business performance outcomes (Kluve et al. 2017).

**By leveraging technology, digital platforms can consolidate and offer youth an array of financial and nonfinancial services.**

They can provide access to finance, markets, inputs, and equipment; help to develop capacity; and facilitate empowerment. For services providers, digital platforms can offer a stronger shared operating system, improve outreach to youth, spread transaction costs, and share real-time information across participating providers about youth activities, decisions, and finances. The experience and data of one provider can be leveraged to open access to other providers, thus lowering the cost and perceived risk of serving youth. In a review of platform-based solutions in agriculture, AgriFin Accelerate (2019) found efficiencies and cost reduction through aggregation and cross-subsidization, potential to scale, and relatively higher interest from youth than adults. Youth, for example, are the primary users of DigiFarm, a USSD-enabled platform that provides access to skills development activities, lower-cost inputs, and credit. Five of six DigiFarm users are under 40 years old.

**Combining financial and nonfinancial services may lead to increases in youth**

**savings.** As part of the YouthSave project in Colombia, Kenya, and Nepal, for example, Save the Children conducted financial education activities focused on managing personal finances and using savings accounts, as well as facilitating youth's access to savings accounts. An evaluation of this work found statistically significant improvements among participating youth in their values related to saving, attitudes toward banks, and understanding of savings and budgeting. After the training, more youth indicated that they were saving and that they were saving more (YouthSave 2015). In another example, the

Economic Empowerment of Adolescent Girls and Young Women project in Liberia bundled savings accounts with business and job skills training. Results from its midline survey found that the treatment group was nearly 50 percentage points more likely to have savings and was saving on average nearly US\$35 more than the control group (Adoho et al. 2014).

**Pairing financial and nonfinancial services may also improve youth repayment.**

A survey of MFIs in MENA, for example, examined rates of nonperforming loans (NPL) for youth borrowers and compared results from (i) microfinance institutions (MFIs) that offered only financial services and (ii) MFIs that offered both financial and nonfinancial services such as business management training, financial literacy, skills training, and mentoring or coaching. The nonfinancial services appear to improve youth repayment. The average rate of NPLs among youth in MFIs that offered only financial services was 3.33 percent, much higher than the 0.14 percent for MFIs that offered both financial and nonfinancial services (Coury and Rashid 2015).

**Revised legal and regulatory frameworks could facilitate youth financial inclusion**

by allowing FSPs to accept a wider range of collateral (e.g., jewelry, government support payments, receivables, inventory) and identification (e.g., school or village identification, driving permits, marriage licenses, voter cards). These alternatives could play an important role in both opening accounts and indicating credit worthiness (IFC 2019). A tiered system could also accept alternatives to government-issued identification for younger youth and those with low account balances and require more formal proof for older youth or those with higher account balances (YouthSave Initiative 2015).

**Technology will have a seismic impact on youth education and employment** and is an important driver of scale. New platforms are changing the delivery of information and connections and opening unprecedented connections to education and training, as well as to goods, markets, and services. As more youth find informal work through online service marketplace platforms (e.g., GO-JEK, DiDi, Uber) and buy and sell via online product marketplaces and social network platforms (e.g., Jumia, Alibaba, Tencent, Facebook), it will be important to explore how these platforms can be leveraged to help youth access information and training, gain work experience, contribute to diverse livelihoods, and improve related financial services. Beyond the basic payment services at their heart, these platforms could embed pensions and social protections and seize opportunities to improve informal employment as well as financial and economic inclusion for youth.

# LOOKING AHEAD

**Y**OUTH IN LOW-INCOME COUNTRIES TRANSITIONING FROM adolescence to adulthood need a wide variety of services—both financial and nonfinancial—and support from several trusted resources, including parents, mentors, and a social network. No single organization can effectively deliver this wide range of services. Financial and nonfinancial services providers and the web of stakeholders supporting youth need to join forces to meet their varied needs.

**Important questions remain about how to deliver these broad-reaching interventions at scale.**

- What are the most effective ways to design and deliver these comprehensive interventions for youth, considering the various combinations of program components and their intensity, duration, sequencing, delivery mechanisms, and partners? And how will this vary by the specific profile of youth (i.e., their gender, rurality, aspirations)?
- What are the most effective roles for government partners? What reforms in educational or employment policies may most positively affect youth, and how might this differ by gender or location? And what laws need to change to enable the right policies and practices (e.g., borrowing, asset ownership, legal contracts)?
- What might allow FSPs to more clearly see the customer lifetime value of a young person and the longer-term business case for serving youth, while answering their shorter-term, less profitable needs? What social norms impede effective implementation of these approaches and policies by institutions and individuals?
- What are the most effective public-private models and roles for technology? How might grants and smart subsidies mitigate the costs of cross-sector, multipartner approaches, particularly in their critical start-up phase, without stifling the role of the private sector?
- Will youth start their financial journey with mobile money accounts and leapfrog past traditional financial accounts? Or will their path to financial and economic inclusion still involve traditional banking institutions?
- How might financial services designed for youth, coupled with other nonfinancial interventions, drive positive social change? How might financial services, for example, shift harmful or limiting practices impacting young women (e.g., early marriage, sector segregation) or integrate former combatants, often young men, in post-conflict areas?

Answering these questions can provide insights into how to deliver interventions and the enabling environment required.

**Because responses to these questions will depend on the different youth profiles, we will need to be explicit about what works for which youth, and toward which educational and employment outcomes.** We cannot generalize the research findings



to every profile of youth. More research needs to be done on which combinations of components and delivery mechanisms work for which groups of youth.

Some models, for example, may target youth with higher levels of educational attainment who are developing high-growth start-ups. These models may be able to integrate a comprehensive approach to training, mentoring, and entrepreneurship into the sustainable delivery of financial services. In other cases, models may target youth in rural areas who are not interested in self-employment. They may find that subsidies from government partners and funders will play an important, continuing role. All models must be clear about their target profile of youth and their expected outcomes.

**Policy makers and funders play a critical role in supporting the evidence building and experimentation to effectively answer these questions and act on the results.**

Based on this emerging evidence, policy makers, funders, financial and nonfinancial services providers, and related stakeholders can take specific steps to improve youth outcomes related to education and livelihoods. The following are examples of some approaches to consider:

- Identify the youth segment to target and tailor financial and nonfinancial interventions specifically to their needs, aspirations, and context.
- Address the specific challenges facing young women with gender-specific services and design features.
- Focus subsidies on serving the most excluded and challenging youth populations.
- Include youth voices and leadership in the design, delivery, and learning of comprehensive approaches.
- Support data collection and capture youth experiences.
- Revise legal frameworks to enhance youth inclusion.
- Update curricula in schools and training institutes.
- Support infrastructure for digitally enabled educational and employment opportunities.

***Recognize the diversity of youth according to a range of factors, including stage of maturity, gender, regional context, and related social norms.***

**Identify the intended youth segment to target and tailor financial and nonfinancial interventions specifically to their needs, aspirations, and context.** Recognize the diversity of youth according to a range of factors, including stage of maturity, gender, regional context, and related social norms. Youth are also an important part of other key client groups, including women, migrants, those in rural areas, and those with agricultural livelihoods. The specific needs and challenges of youth, as well as their identities across various characteristics and livelihoods, should be reflected in any blend of interventions designed to serve them.

**Address the specific challenges facing young women with gender-specific services and design features** such as health insurance covering pre- and post-natal care, training in nonstereotypical work to counter gendered job segregation, and gender-based recruitment targets for both participants and staff. Interventions can also recognize young women's ongoing domestic responsibilities by promoting livelihoods that can accommodate them, offering child care during training,

allowing children to attend where possible, and organizing flexible hours of participation. Funders and providers should make clear organizational commitments to gender equality and invest in gender-aware monitoring, evaluation, and learning.<sup>13</sup>

**Focus subsidies on serving the most excluded and challenging youth**

**populations**, including those in rural areas, the most poor and vulnerable, and those who face considerable barriers related to social norms. This includes supporting innovations in technology and business models that deliver a range of financial and nonfinancial services to youth, including aspects related to service delivery, data collection, two-way communications and nudges, the use of agent networks and partnerships, and the use of technology to monitor, learn, and make improvements.

**Include youth voices and leadership in the design, delivery, and learning of comprehensive approaches.**

Youth need a platform to articulate their needs and ideas. Government partners and funders, for example, should include youth voices in any discussions about their future. Services providers could be encouraged and guided to detail the various profiles of their youth clients and work with youth to co-design and test solutions. Youth can increase outreach to their peers and, as they gain experience, by serving as mentors in program delivery and participating in governance bodies and advisory boards.

**Support data collection and capture youth experiences**, including the impact of these comprehensive services on their lives. Data must be disaggregated by gender and collected over a meaningful period with a useful sample size. They need to include a range of variables to allow for detailed analysis and segmentation. Analysis of these critical inputs can highlight innovations, good practices, and, as importantly, unsuccessful interventions. This is foundational information for research, policy and grant making, strategic decision making, and the design of financial and nonfinancial services and combined interventions.

**Revise legal frameworks to enhance youth financial inclusion**, such as accepting a wider range of collateral and identification, both to open accounts and as indicators of credit worthiness. A tiered system could also, for example, accept alternatives to government-issued identification for younger youth and those with low account balances and require more formal proof for older youth or those with higher account balances.

**Update curricula in schools and training institutes** to link more closely with the employment needs of surrounding employers and relevant sectors, which are likely to include agriculture. Aligning youth expectations and preparation with near-term employment opportunities could help to promote an entrepreneurial culture, especially when linked to mentors who are self-employed. Financial information and good practices—including how to open and manage a bank or mobile money account, how to understand various forms of credit and their terms, and the implications of default—should also be included in the curriculum.

**Support infrastructure for digitally enabled educational and employment opportunities**, including internet connectivity, road and transportation networks that facilitate exchange and trade, and interoperability among digital platforms and services providers. This is particularly important to reach marginalized rural youth who could look to digitally enabled approaches to access educational and employment opportunities.

Where funders, policy makers, and services providers are ready to experiment, learn, and exchange, the 1 billion youth who comprise our next generation of students, workers, and entrepreneurs may look forward to more positive outcomes in their education and employment.

<sup>13</sup> See MCF (2018) for more on gender-responsive design features in youth livelihoods programs.

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