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BRIEF

High-Saving Youth in Smallholder Households: An Untapped Market

Young people in smallholder families tend to save more than their elders and have mobile phones, but they use mobile money at lower rates. Instead of using mobile money, they rely on informal forms of savings, which can be risky and do not leave "financial footprints" that can unlock access to other financial tools. How might financial services providers (FSPs) develop solutions that leverage technology, demonstrate value, and better meet the needs and aspirations of high-saving young people in smallholder families? Could savings be the use case that drives adoption of mobile money among the next generation of smallholder customers?

This analysis uses data on young people 15 to 30 years old in smallholder households from CGAP's financial diaries and national surveys with smallholder households, specifically examining their saving habits, ownership of mobile phones, and use of mobile money. These two research methods are highly complementary. The smallholder diaries captured detailed cash flows from 270 families in three markets, while the national surveys of smallholder households examined the agricultural and financial lives of roughly 18,000 smallholder families in six countries.[1]

This Brief makes the case for providers to leverage the strong savings habits of youth in smallholder families and their access to mobile phones to develop digital products as an onramp into the formal financial system.

What do the data tell us?

Youth in the smallholder diaries sample saved average annual amounts two to five times as much as their elders. Results from CGAP's financial diaries with smallholder families in three communities in Mozambique, Tanzania, and Pakistan show that youth age 15 to 30 saved much more money than older age groups did (Figure 1).[2] In Tanzania, over the year of data collection, youth 15 to 30 in smallholder families saved an average total equivalent of US$174—over four times as much as adults 31 to 60.

In contrast, borrowing was relatively less common among youth in the smallholder diaries. Across the three sample communities, young people 30 and under in these smallholder households generally borrowed less than those 31 and over (Figure 1). And what debt these young people did take on is dwarfed by the amount they saved. In all three samples, on average, young people saved four to five times more than they borrowed; they were clearly more inclined to save than to borrow, and they looked to informal financial tools and their social network to meet these needs.

Younger and older age cohorts in smallholder households generally have the same views on savings.[3] When asked in the national surveys of smallholder households about their family's savings priorities and their preferred ways to put money aside, responses from younger and older age groups tracked closely.

Financial inclusion is relatively lower among younger members of smallholder households.[4] The national surveys show a similar pattern across age groups (Figure 2). Financial services from providers like banks, microfinance institutions, and mobile network operators are used by relatively fewer younger people, peaks between ages 31 and 60, and then declines with older people. Young people in smallholder families instead rely overwhelmingly on informal financial services and social networks, putting money aside in savings and credit groups and with trusted family members.

Young people in smallholder households tend to have mobile phones, but they have not widely adopted mobile money.[5] In Côte d'Ivoire and Bangladesh, for example, 83 percent and 89 percent, respectively, of youth 15 to 30 years old in smallholder families own a mobile phone,

1 All papers, datasets, and other outputs from the CGAP financial diaries and national surveys of smallholder households are found on the CGAP website and the CGAP Smallholder Families Data Hub.

2 CGAP's financial diaries with smallholder families collected detailed financial information from 270 small-scale farming households in three communities in Mozambique, Tanzania, and Pakistan over the course of a year. The diaries methodology combines in-depth quantitative and qualitative research. Research teams met participating families every two weeks to collect granular data on all household cash flows, financial tools, assets, shocks, life events, and attitudes toward agriculture and financial services. For more information, see Anderson and Ahmed (2016) and the research methodology that accompanies the datasets.

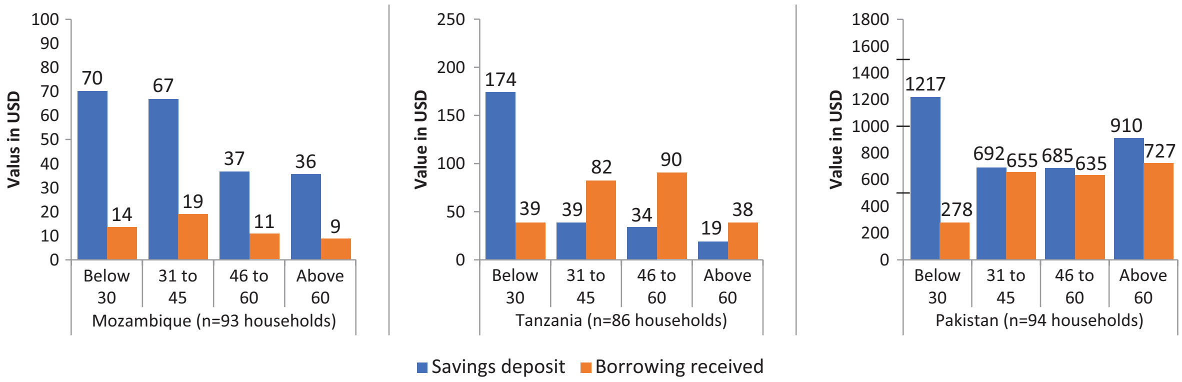
3 The sample for the national surveys includes household members who contribute to household income or participate in agricultural activities, so individuals in this younger age group could not be strictly considered dependents.

4 Financial inclusion, in this case, is defined as an account in the national smallholder survey respondent's name with either a formal bank, microfinance institution, credit union, cooperative, more formal savings group (e.g., savings and credit cooperative organizations in Tanzania, Uganda, and Nigeria), or mobile money provider.

5 Most of these are basic or feature phones. Only small percentages of smallholders in each market own smart phones. While this analysis focuses on the gap between mobile phone ownership and mobile money use and how that differs among age cohorts in smallholder households, clearly these six countries present different environments for the overall use and expansion of mobile money, due in part to differences in their regulatory framework and infrastructure.

November 2018

Figure 1. Average annual informal savings and borrowing volumes, in USD, by age group



CGAP Financial Diaries with Smallholder Families.
Note: "Informal savings deposit" includes setting money aside through financial activities or instruments such as lending to friends and family, a savings and credit group (e.g., rotating savings and credit association [ROSCA], accumulating savings and credit association [ASCA]), and a money guard. "Informal borrowing received" could involve various financial activities or mechanisms, including credit from a store, acting as a money guard for others, informal savings and credit groups, a wage advance, pawning assets, and a moneylender.

but only 22 percent in both countries have a mobile money account. The gap between the percentage of young people who have a mobile phone and the percentage who have a mobile money account is also remarkable in Uganda and Tanzania (39 and 29 percentage points, respectively).

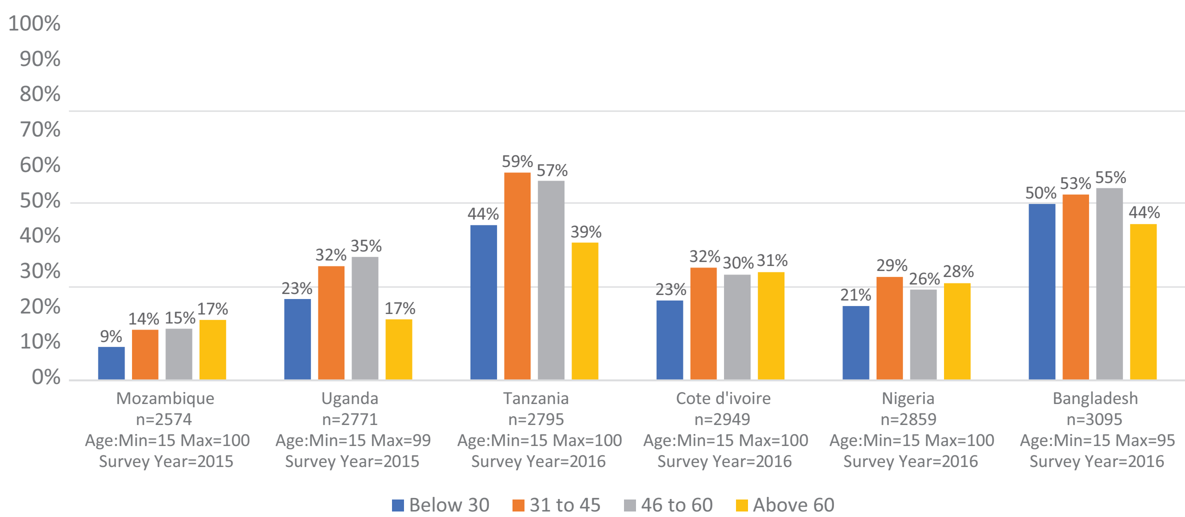
What drives the different financial behaviors of younger and older members of smallholder households requires further exploration in each market. Younger members may have fewer expenses than their elders, though they may also be earning less. Other hypotheses point to the preference to save and avoid credit risk among younger people, different customer experiences and levels of trust of FSPs, and the lack of financial products that meet their needs. From their side, providers may perceive young people to be riskier, with relatively less working experience, collateral, and financial history. But they should not overlook the longer-term business case for serving youth.

What can providers do?

Young people 30 and under in smallholder households regularly put money aside and have high rates of mobile phone ownership. Providers can build on this savings habit and offer more appealing ways for young people to continue saving. New mechanisms that allow them to put money aside may also seem more relevant than other formal financial services like commercial bank accounts. Digitally enabled means of storing value—be they mobile money accounts, digitally enabled layaways with retailers, or savings accounts with formal banks offered through digital channels—that are tailored to their needs and aspirations may drive youth to use formal financial services.

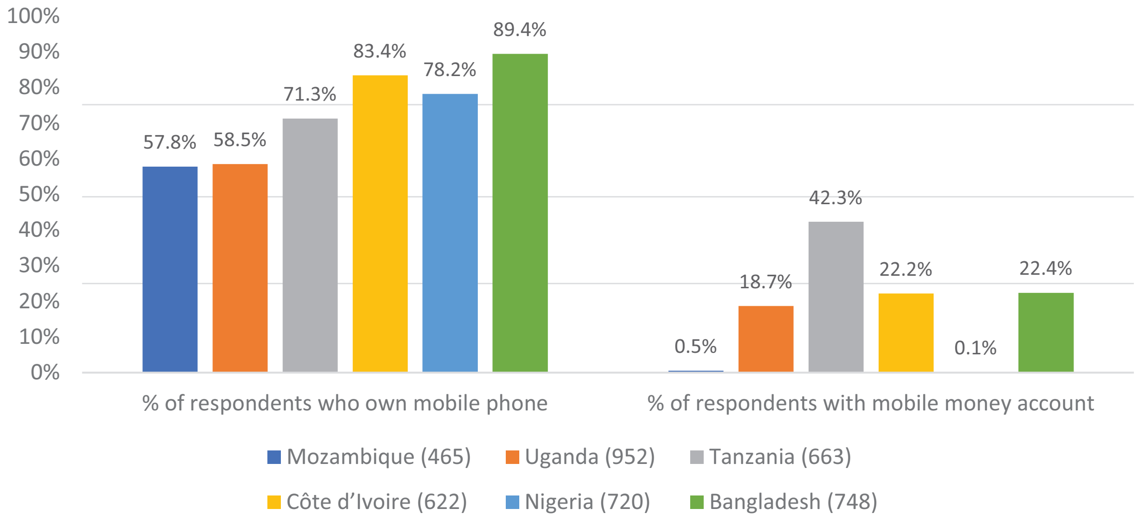
And the youth market in smallholder households is sizeable (see Figure 4). In Tanzania, for example, 7.6 million young people 15 to 30 years old live in smallholder households, and 1.8 million of them own a

Figure 2. Formal financial inclusion of smallholders, by age group (%)



CGAP National Surveys of Smallholder Households.

Figure 3. Percentage of people in smallholder households ages 15–30 with mobile phones and mobile money accounts



CGAP National Surveys of Smallholder Households.

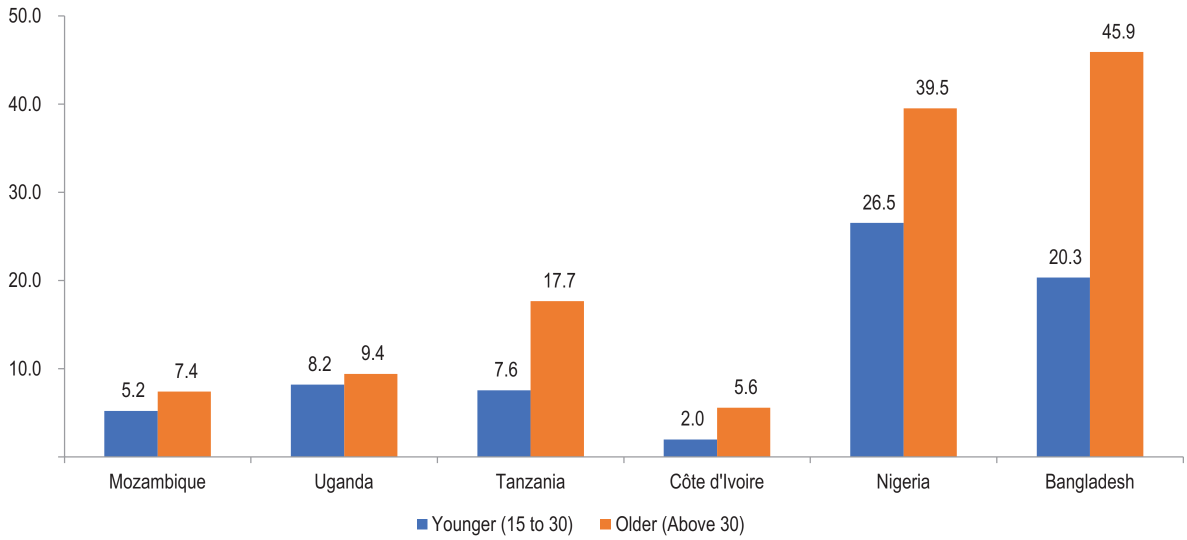
mobile phone but not a mobile money account. This in and of itself is a big market of potential mobile money clients who could be transferring money and buying airtime, ringtones, and other fee-based services. Data indicate that they would also be putting aside meaningful amounts of money. For example, if young people in smallholder households were to each save US$174 per year (i.e., the average annual savings of youth 15 to 30 in the smallholder diaries sample in Tanzania [Figure 1]), then over US$318 million could be mobilized through financial channels every year.

This untapped youth market is notable for both its number of clients and the potential cumulative value of their transactions. Access to a robust portfolio of financial products is important for customer value and choice. The goal is not to eradicate informal financial services or obviate the importance of social networks in money management and asset accumulation. Each financial tool—formal, informal, or social—has its own profile of benefits and constraints, and individuals should have a range of financial tools available to meet their objectives, in line with their personal preferences for privacy, immediacy, cost, transaction size, risk exposure, and future access to other services.

How can FSPs engage high-saving youth in smallholder households? Here are two key considerations.

Discover what motivates youth to save and design a responsive solution. Most young people 15 to 30 years old in smallholder households consider it very important

Figure 4. Population estimates of smallholder household members by ages 15–30 and over 30 years old (millions)



CGAP National Surveys of Smallholder Households.

to set money aside for future purchases.[6] Their specific household savings priorities varied, from health care in Tanzania (32 percent), to school fees in Uganda (39 percent), to general future purchases in Côte d'Ivoire and Nigeria (43 percent and 42 percent, respectively). FSPs can dig further into why young people in their market put money aside and then design products that respond specifically to these aspirations and concerns. Indeed, research suggests that generic products will not lead to significant uptake and use. Providers need to offer a broad range of customized and targeted services.[7] Customers adopt and use financial solutions to solve problems, seize opportunities, and pursue dreams, not as ends unto themselves. Games, competitions, and incentives can also keep customers engaged and encourage repeated saving.

Today's young saver may be tomorrow's entrepreneur and head of household, so FSPs would be wise to invest in a long-term customer relationship. There are links between the level of savings and youth entrepreneurship, because savings allow youth to purchase productive assets.[8] Encouraging and reinforcing savings among youth can also help to increase broader financial awareness, build trust, and lay the foundation for a long-term relationship. FSPs that provide youth an entry point to financial services can offer stepping stones to other relevant financial products over time, particularly as young people transition from adolescence into adulthood. After all, today's young people are tomorrow's entrepreneurs and workers, community leaders, and household elders: The next generation of clients for FSPs.

Acknowledgments

Clara Colina, Rural and Agricultural Finance Learning Lab; Ashley Onyango, Mastercard Foundation; Rachel Sberro-Kessler, World Bank Group; Danielle Sobol; Nathan Were, IFC; Iris van der Velden, IDH; and Dan Zook, Initiative for Smallholder Finance provided valuable input for this paper.

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6 In five of the six national surveys, over 80 percent of young people 15 to 30 years old in smallholder households considered it very important to save for specific future purchases; Mozambique was the outlier at 68 percent, though this still shows the importance of savings.

7 See Dupas, Karlan, Robinson, and Ubfal (2018), for example: ". . . However, one pattern does emerge: few products appeal to more than a small minority. Rather than simply expanding access to basic services, expanding access to a wide variety of products catering to many different needs may thus be needed to generate noticeable welfare impacts."

8 See Markel and Panetta (2014) and Youth Save Initiative (2015).

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CCGAP

November 2018

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