YOUTH FINANCIAL INCLUSION POLICY FRAMEWORK

FRAMEWORK

CONTENTS

ACKNOWLEDGMENTS

The Youth Financial Inclusion Policy Framework was developed by AFI members through a member-driven process in accordance with AFI's mandate as an independent, member-owned institution. This product provides policy guidance based on implementation across the AFI network and financial inclusion impact. AFI members have full ownership of this report, which also serves as a public good for the global financial inclusion community.

EXECUTIVE SUMMARY

There is increasing awareness that youth have potential to drive economic growth. In many developing countries, youth are the largest and fastest growing segment of the population. Still, young people face numerous barriers to economic participation, from insufficient educational opportunities to an absence of jobs when they transition out of school. With limited options to generate income, young people, especially in developing countries, opt for self-employment. However, their earnings potential is stymied by a lack of financing tools to invest in their businesses and increase their incomes.

The persistent financial exclusion of youth has a negative impact on individuals, communities and the broader economy. A strategic effort to enhance financial inclusion for youth can make economies more dynamic and strengthen economic resilience over the long term.

Youth are not a homogeneous group. Young people experience distinct life stages, first as adolescents with financial pressures primarily related to their education and, later, as young adults when they are under greater financial pressure to help support their household and eventually their own family. These transitions are a defining feature of young people's lives and require nuanced approaches to regulations, financial products and other support to ensure effective financial inclusion.

Financial products and services that could address youth needs are often out of reach because regulatory frameworks and societal biases tend to favor older, more stable population segments. Some of the same, often inadvertent, regulatory and policy barriers that affect other vulnerable populations have a strong impact on youth, who often lack resources and financial experience. These hurdles are experienced more acutely by youth who are most vulnerable, such as persons with disabilities, rural residents, refugees and others. Even when financial services are theoretically available, account ownership, usage and financial literacy are generally low among youth. This creates a vicious cycle that inhibits the development of financial capabilities and thwarts economic potential from generation to generation.

Lack of usage is often the result of regulatory and product design that overlooks youth-specific demands and constraints. Young entrepreneurs struggle to access credit due to information asymmetries common in developing countries, inadequate credit bureaus and contract enforcement, and high collateral requirements that young people can rarely meet. Young women are especially disadvantaged due to additional cultural barriers that limit their mobility and access to resources.

Although financial technology appears to be a promising tool for expanding the outreach and increasing the uptake of formal financial services, digital financial services (DFS) present new risks for the financial sector and young consumers. An inclusive financial sector therefore requires supportive macro-level policies, as well as incentives and technical support to build capacity, manage risk and develop new product innovations that are truly accessible and ultimately used by youth.

This combination of high potential and persistent financial exclusion of youth requires urgent action to facilitate access to appropriate financial tools. The economic crisis caused by COVID-19 has further amplified young people's need for mechanisms to invest in income-generating activities and improve their resilience in the face of financial shocks. Regulators and policymakers have a major role to play.

Youth financial inclusion can be improved by examining regulatory frameworks and public policy initiatives along four dimensions (see graphic on page 4):

- Data Collection
- National Strategies
- Regulatory Reforms
- Public Policies and Non-Regulatory Interventions

By addressing these various dimensions, public policy stakeholders can lay a foundation to support youth financial inclusion and vital economic growth. This framework draws on the experiences of AFI members and best practices in inclusive finance to provide the rationale for, and sound approaches to, policy-level promotion of youth financial inclusion.

THE FOUR DIMENSIONS THAT CAN IMPROVE YOUTH FINANCIAL INCLUSION BY EXAMINING REGULATORY FRAMEWORKS AND PUBLIC POLICY INITIATIVES

DATA COLLECTION

Systematically from different perspectives:

- Regulatory-side
- Supply-side
- Demand-side

This data and information will inform regulators and policymakers of the disparities youth experience, and how regulatory frameworks impact financial access, usage and quality for youth, both now and over time.

NATIONAL STRATEGIES

Integrate youth financial inclusion in:

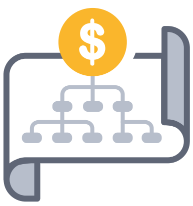
- National Financial Inclusion Strategies (NFIS);
- National Financial Education Strategies (NFES); and
- National Youth Development Policies.

Policymakers should integrate the needs and constraints of youth in national strategies as part of a cohesive, integrated and multisectoral approach.

REGULATORY REFORMS

- Lower minimum age (ensuring an effective consumer and data protection framework);
- Establish risk-based tiered KYC requirements;
- Promote credit constraint solutions;
- Promote digital financial inclusion; and
- Institute youth-focused consumer protection and responsible finance.

Implement reforms to address constraints to youth financial inclusion through innovation, while also ensuring consumer protection and responsible finance.



PUBLIC POLICIES AND NON-REGULATORY INTERVENTIONS

Implement public policies to promote:

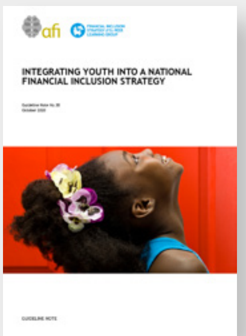
- Financial literacy;
- Investment in youth MSMEs;
- Institutional capacity building of FSPs; and
- Linkages between formal and semi-formal financial services.

Promote these policies through partnerships with the public and private sector to bolster the financial and business capabilities of youth and financial institutions.

INTRODUCTION

The Youth Financial Inclusion Policy Framework provides recommendations for regulators and policymakers to advance financial inclusion for youth. This report draws on an extensive literature review, as well as the results of a Youth Financial Inclusion Survey (AFI YFI Survey) conducted with more than 30 members of the AFI network shortly after the start of the economic crisis triggered by the COVID-19 pandemic. The report is enriched with the insights from 10 AFI member institutions and other 10 stakeholders from public and private sector, including young entrepreneurs, who participated through in-depth interviews.

The report begins with key global policy statements on youth financial inclusion, followed by an overview of the role and importance of youth in economic development and definitions of their diverse financial needs. Next, the report summarizes the state of youth financial inclusion in developing economies, followed by a discussion of the barriers young people face from a regulatory, supply and demand perspective. The report then recommends specific regulatory and public policy approaches to advance youth financial inclusion based on the experiences and examples of AFI members.
A companion piece to this report, Guideline Note on Integrating Youth into a National Financial Inclusion Strategy, is available to members and stakeholders seeking to integrate youth policy considerations in their NFIS (AFI, 2020).



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> View here

GLOBAL POLICY

Recognizing the economic significance of youth and the financial barriers they face, AFI members approved the Kigali Statement during the 2019 Global Policy Forum, a declaration that focuses on disadvantaged groups (AFI, 2020a).

The Kigali Statement acknowledges that youth are currently a disadvantaged group in the formal financial system that rely more heavily on unregulated informal financial services, have less access to economic opportunities and are at greater risk of being trapped in a cycle of intergenerational poverty.

The Kigali Statement is one of a growing number of international commitments to financial inclusion for youth over the last few years. In 2015, the United Nations, through the Addis Ababa Action Agenda recognized that investing in youth through financial and employment opportunities is critical to achieving inclusive, equitable and sustainable development for present and future generations (United Nations, 2015).

A year later, at the G20 Summit in China, leaders explicitly recognized the critical importance of financial inclusion to serve the needs of all people, especially youth, women and other disadvantaged groups (G20, 2016). The 2017 G20 Financial Inclusion Action Plan reaffirmed the G20 Leaders' commitment to advancing financial inclusion, putting an emphasis on underserved groups, such as the poor, women, youth, rural residents, as well as society's most vulnerable groups, including the elderly, migrants and forcibly displaced persons (GPFI, 2017). Most recently, the Saudi Arabia G20 2020 Presidency prioritizes a digital financial inclusion agenda for youth (GPFI, 2020).

DEFINING YOUTH

There is no universal definition of youth in terms of age. For statistical purposes, the UN defines youth as persons between the ages of 15 and 24 years.

Most youth data from international organizations are based on that same age range. However, official age definitions differ by country, a reflection of different sociocultural, institutional, economic and political factors. In some countries, the definition of youth includes adults up to 35 years. The AFI YFI Survey provides evidence of the different approaches to defining youth. Table 1 features some examples.

Based on the UN definition of youth, the world is now home to more young adults than ever before.

1.2bn

As of 2019, there were 1.2 billion young adults between the ages of 15 and 24, with a greater proportion of youth in less developed regions (UNDESA, 2019b)

In fact, in least developed countries (LDCs), the number of youth is expected to grow from more than 200 million to more than 330 million in the next 20 years (UNDESA, 2019). Africa has the youngest age distribution of all regions.

This exponential growth in the share of the youth population creates an opportunity for a "demographic dividend", which can have a positive impact on economic growth, political stability, innovation and social and sustainable development.[1] However, young people often face age-related challenges and barriers to participation in economic, political and social life that not only hinder their own development, but also sustainable development (World Youth Report, 2018).

1 For further information, see the section, "THE VALUE PROPOSITION FOR YOUTH FINANCIAL INCLUSION", on page 22.

TABLE 1: AGE DEFINITIONS FOR YOUTH

"IS THERE AN OFFICIAL DEFINITION OF 'YOUTH' IN YOUR COUNTRY?"

AFI COUNTRIES	AGE RANGE
MEXICO	12-29 years (Law of the Mexican Institute of Youth, 2006)
COSTA RICA	12-35 years (General Law of the Young Person, 2002)
MADAGASCAR	14-35 years (Act of the Youth policy, 2004)
MALAYSIA	15-30 years (Malaysian Youth Policy, 2019)
TANZANIA	15-35 years (National Policy of Youth Development, 2007)
TONGA	15-34 years (Tonga National Youth Strategy, 2007)
EGYPT	18-35 years (Ministry of Youth)

Source: AFI YFI Survey

THE FINANCIAL NEEDS OF YOUTH AT DIFFERENT LIFE STAGES

Regardless of their precise age, there is consensus that youth are in a transitional phase of life. The transition from socioeconomic dependence to increased financial pressure and financial independence can be very difficult for young people, especially when they are unable to meet their financial needs. This experience primarily affects lower income communities that are already adversely impacted by poverty.

Although it is recognized that life stages and their respective ages are not fixed and universal categories, and vary by cultural context, the following typology provides a general classification that can serve as a proxy for different life stages and the financial and non-financial needs experienced in these stages. It is recommended that AFI members use this model as a reference to develop their own analysis based on their context.

The stages of this transition begin at early adolescence (ages 12 to 14), followed by late adolescence (ages 15 to 17) and young adulthood (ages 18 to 24) (Anderson, Hopkins & Valenzuela, 2019; Dueck-Mbeba and DasGupta, 2015).

Youth in early stages may be focused entirely on education and are likely to need funds to pay for school and basic personal needs. Those in later stages face increasing financial pressures, such as contributing to their parents' household income and eventually providing for their own households and families, including their children's education. Youth in these later stages therefore focus on income-generating activities. Youth in between these stages may have a mix of needs, from education and training to income-generating activities (SEEP, 2013, Anderson et al., 2019). Youth are therefore a heterogeneous group, with different financial pressure points and varying levels of maturity that translate into distinct financial needs (see Table 2).

TABLE 2: YOUTH LIFE STAGES AND FINANCIAL NEEDS

	EARLY ADOLESCENCE	LATE ADOLESCENCE	YOUNG ADULTHOOD
LIFE STAGE CHARACTERISTICS	> Approx. 12-14 > Possibly in school > Likely to depend entirely on parents/guardians to meet needs	> Approx. 15-17 > End of schooling for some youth > Likely to start earning income	> Approx. 18-24 > Likely to be out of school > Employed or self-employed
FINANCIAL PRESSURE POINTS	> Education (school fees and supplies) > Basic personal needs (including personal hygiene products)	> Education > Basic personal needs > Contribute to household income > Health	> Food and shelter for own family > Children's education > Health

Source: Anderson, Hopkins and Valenzuela (2019); Dueck-Mbeba and DasGupta (2015).

Financial inclusion plays a key role in addressing many of these challenges. The integration of financial education in school and tertiary curriculum can enhance understanding of concepts such as money, personal finance and entrepreneurship. Financial services can also strengthen the financial capability of young people by providing mechanisms to manage their money, which is crucial as financial pressures intensify. Solid money management skills, combined with financial tools, are therefore crucial for youth to become more resilient to financial shocks. Given the economic crisis of COVID-19, which has led to many young people coping with significant losses in income, the ability to face financial difficulties is more important than ever.

Financial inclusion in the form of savings, educational insurance/life policies and access to educational loans can equip youth and their families with financial tools to invest in their education. School fees represent some of the largest household expenses (Anderson et al., 2019). In many countries, families with limited resources and multiple children often prioritize the education of their sons while girls have to drop out. As education is cut short, so is the ability to develop income-earning skills and opportunities later in life. However, access to savings or payments on installments via mobile money can give families the ability to pay for their children's education.

In contexts with low levels of formal employment, youth turn to self-employment as an income-generating option, often in the form of small-scale enterprises. For young entrepreneurs, having funds to invest in their business is key to their potential earnings (Cho and Honorati, 2013). Even youth engaged in the 'gig economy' need financial services to bridge income gaps when business stops (e.g. due to illness), to acquire the necessary equipment for the gig, or to land bigger opportunities (Deshpande, 2020b).

YOUTH AND THEIR ROLE IN ECONOMIC DEVELOPMENT

The economic, social, political and structural conditions of developing countries limit employment and educational opportunities, leading a higher propensity for youth to be unemployed or underemployed.

Due to a scarcity of jobs in the formal sector, young people are often drawn to the informal economy and, increasingly, the gig economy (Goldin, Hobson, Glick, Lundberg and Puerto, 2015; Deshpande, Kibe and Kaaria, 2020).[2] However, these types of income-generating sources often lack basic social protections and benefits, such as insurance and unemployment income.

According to the International Labour Organization (ILO) (2019b), more than one in five of the world's youth are 'not in employment, education, or training' (NEET). As this significant proportion of youth remains idle, neither actively participating in the labor market nor acquiring skills to enhance future employment prospects, countries forgo the potential economic benefits of this growing population segment. An estimated 156 million youth in low- and middle-income countries (LMICs) live in poverty (UN, 2018).

Gender-disaggregated data of youth in NEET reveal more worrisome patterns:

>30%

Over 30 percent of all young women in the world are not in employment or education, compared to 13 percent of all young men (2019b).[3]

Meanwhile, young women are also at a life phase when they might typically start their own families. Thus, as young women begin feeling increasing economic pressure, they also face a shortage of livelihood opportunities and become more economically vulnerable.

Despite having access to education, many young people struggle to find employment because educational systems and curriculum have not fully integrated the specific skills the modern job market requires.[4]

The economic crisis created by the COVID-19 pandemic has made youth more vulnerable and will likely have an increasingly negative impact on their livelihoods. Young people are facing multiple shocks as a result of the pandemic, including disruption to their education and training and employment and income losses, both of which could lead to the emergence of a "lockdown generation" (ILO, 2020).

With many developing countries lacking the necessary digital infrastructure to ensure that classes can continue online, this will have negative medium- and long-term effects on their economic potential and the labor market.

Youth are overrepresented in informal economic sectors ravaged by the COVID-19 pandemic, and are therefore largely excluded from the formal financial sector and social security schemes. More than one in six young people (18 to 29 years old) are out of work as a result of the pandemic, with young women feeling the effects most (ILO, 2020).

2 The gig economy matches people or businesses to consumers in short-term contracts or freelance work through digital platforms.

3 The situation is especially alarming in the Arab States, where 45 percent of young women are NEET compared to 15 percent of young men.

4 Globalization, technology, expanding webs of trade and commerce, automation and the rise of artificial intelligence are changing labour markets at a rapid, uneven pace around the world. In this context, youth need specific skills: foundational skills, transferable skills, job-specific skills, entrepreneurial skills and digital skills. For more information, see: https://www.unicef.org/bih/en/stories/millions-young-people-need-better-job-skills-heres-how-businesses-can-help

THE LANDSCAPE OF YOUTH FINANCIAL INCLUSION

Four major dimensions of financial inclusion are explored in this landscape analysis: account access, savings, credit and digital financial services (including digital payments). Other financial tools, such as insurance, are not explored in depth due to a lack of youth-specific data.[5]

ACCOUNT ACCESS

Significant progress has been made in financial inclusion, both globally and in developing countries. According to the 2017 Global Findex (Demirguc, Klapper and Singer, 2017):

63%	Of people over the age of 15 in LMICs now have an account, compared to 42 percent in 2011.[6]
53%	However, financial inclusion for youth in LMICs remains elusive, with only 53 percent (15 to 24 years old) having access to formal financial services, compared to 66 percent for adults (25+ years old).
51%	Young women are at an even greater disadvantage, with just 51 percent having access compared to 56 percent of young men.[7]

Account penetration varies across regions. East Asia and Pacific have the highest percentage of youth account ownership and the narrowest gap between youth and adults. Young women have comparatively lower levels of access to formal financial institutions in all regions except East Asia and Pacific. Sub-Saharan Africa has the lowest level of financial access for female youth (see Figure 1).

SAVINGS

For the 41 percent of young people in LMICs who saved money in the past year, only 15 percent did so at a formal financial institution. In comparison, in high-income economies, 43 percent of youth saved at a financial institution. Half of the regions show similar levels of formal savings for both young women and men, but in East Asia and Pacific, Latin America and the Caribbean and Sub-Saharan Africa, young men save in a financial institution at levels about five percentage points higher than young women (see Figure 2).

These figures indicate that a high proportion of savings by youth is kept outside formal financial institutions. Informal savings mechanisms, while still valuable, have limitations. First, informal savings that are easily accessible are at greater risk of being spent or lost. Also, informal savings do not permit young people to establish a transactional history that financial institutions can use to offer additional products, an increasingly common practice.[8]

In all regions, young people more often save to expand a farm or business than save for old age (see Figure 3). This difference is significantly more pronounced in Sub-Saharan Africa where youth tend to be self-employed (Filmer and Fox, 2014) and need to invest in their enterprises. Formal financial services could provide a more effective way for them to build up enough savings.

A young person's ability to cope in the face of financial adversity is a critical indicator.[9] According to the Global Findex, the likelihood of youth in LMICs to have funds to finance emergencies is 48 percent, compared to 64 percent of youth in high-income countries. The main source of emergency funds is from family or friends (46 percent), livelihood (28 percent), savings (19 percent) and bank, employer or private lender (two percent).

Given the financial crisis stemming from the COVID-19 pandemic, these findings have significant implications. Since the financial shock has been felt at a systemic level and affected large swaths of the population, especially low-income communities, the most common sources of emergency funds are being rapidly depleted.

5 All data in this section is from the 2017 Global Findex database.

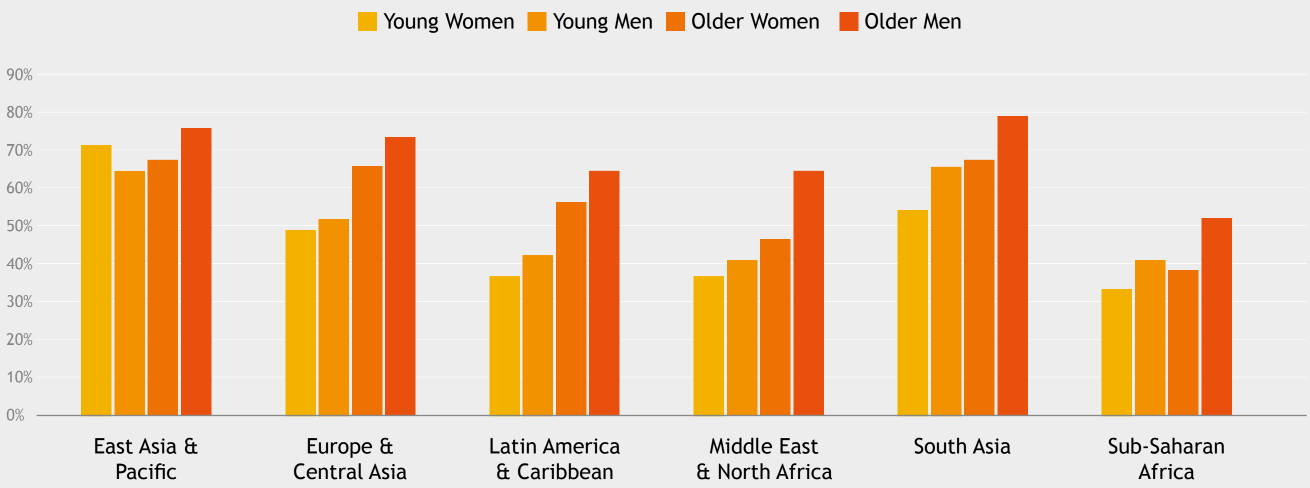
6 Denotes the percentage of respondents who report having an account (by themselves or with someone else) at a bank or other type of financial institution, or who report having personally used a mobile money service in the past 12 months.

7 Calculated from 2017 Global Findex microdata.

8 Savings in a savings group (also known as Village Savings and Loan Associations, or VSLAs) can be used to obtain loans from the group. However, in some contexts, the amounts are limited to the funds available in the group at any given time.

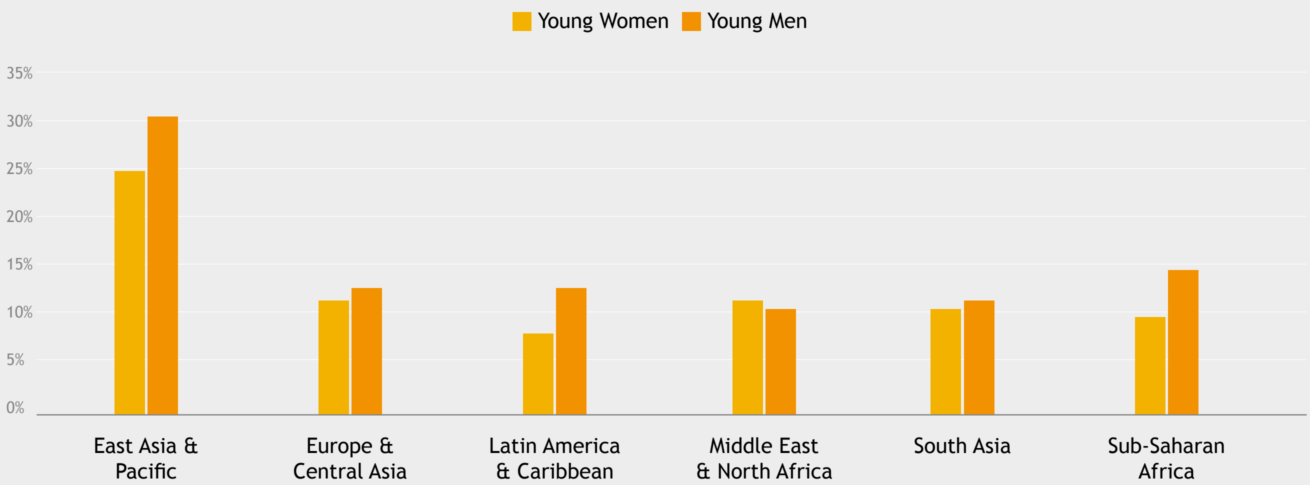
9 The 2017 Global Findex survey asked respondents whether they could come up with an amount equal to 1/20th of gross national income (GNI) per capita in local currency within the next month.

FIGURE 1: REGIONAL COMPARISON OF ACCOUNT OWNERSHIP, BY GENDER AND AGE (15-24 AND 25+ YEARS)



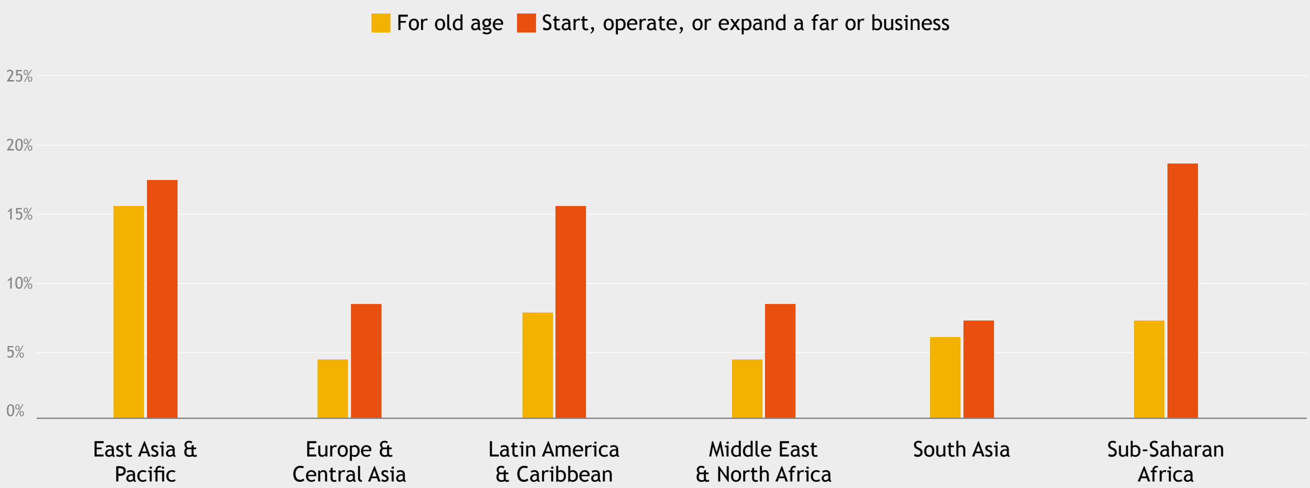
Source: Calculated from the 2017 Global Findex microdata (excludes high-income countries)

FIGURE 2: SAVINGS AT A FORMAL FINANCIAL INSTITUTION, BY REGION AND GENDER (15–24 YEARS)



Source: Calculated from 2017 Global Findex microdata (excludes high-income countries)

FIGURE 3: REASONS FOR SAVING, BY REGION (15–24 YEARS)



Source: Global Findex Database (2017) (excludes high-income countries)

CREDIT

Approximately a third of youth from LMICs borrowed money in the past year, primarily through informal mechanisms. Access to credit through financial institutions is limited for all population segments across the world, but even more so for youth. On average, only about five percent of young people have borrowed from a financial institution—half the proportion of adult borrowers. In all regions, youth indicate that they borrow primarily for health reasons, although youth in Sub-Saharan Africa tend to borrow in higher proportions for health and business reasons (see Figure 4).

DIGITAL FINANCIAL SERVICES

Digital financial services (DFS) have the potential to enhance financial inclusion, support economic growth and reduce poverty by expanding financial access at scale and making financial services more affordable. This is all possible because DFS, primarily through mobile phone platforms, allow frequent transactions in small amounts—features that are a good fit for the irregular and uneven income of young people in LMICs (Lauer and Lyman, 2015).

Digital financial services encompass a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. The concept of digital financial services includes mobile financial services (AFI, 2016).

DFS are expected to have an even greater impact on young people because they are known to be early adopters of innovation and technology. In most regions of the world, young people tend to have higher rates of mobile money accounts than adults (Demirguc et al., 2017). They also have higher levels of digital literacy than previous generations, which is an opportunity that should be seized.

A recent demand-side study in Sub-Saharan Africa found that DFS adoption among youth is commonly driven by ease of access through agent networks, low transaction costs, stable and reliable networks, ease of use and service (Heitmann, Peterson and Kinzinger, 2018).

However, gender disparities persist in access to technology, including mobile phone ownership. For instance, young women in South Asia and Sub-Saharan Africa have the lowest levels of mobile phone ownership across all regions (see Figure 5). Some of the barriers include the cost of owning and using a mobile phone, insecurity and harassment, discriminatory social norms, lack of trust in agent operators and low technical literacy (GSMA, 2015).

Still, DFS offer the most promise to advance financial inclusion for youth, especially through mobile platforms. In Sub-Saharan Africa, young people might first sign up for a mobile money account to send or receive a remittance, although some youth also report using their accounts to save money for future purchases (Heitmann et al., 2018). Increasingly, youth use other forms of DFS, including through smartphone apps or via the internet. In 2017, 36 percent of youth reported they had made or received digital payments in the past year, an increase from 27 percent in 2014 (Demirguc et al., 2017). East Asia and Pacific record the highest usage of digital payments.

Digital payments through mobile money are another important financial entry point for youth, particularly those who do not have a savings account. In some countries, mobile money wallets can be linked directly to a bank account or enable access to nanoloans. Youth are likely to use such tools because of their familiarity with mobile technology and because nanoloans might meet some of their most immediate needs. Even when mobile wallets do not offer direct access to other financial products, they are an opportunity for young people to learn about financial services through a low-risk channel, and to establish a transactional history that can ultimately facilitate access to other financial products.

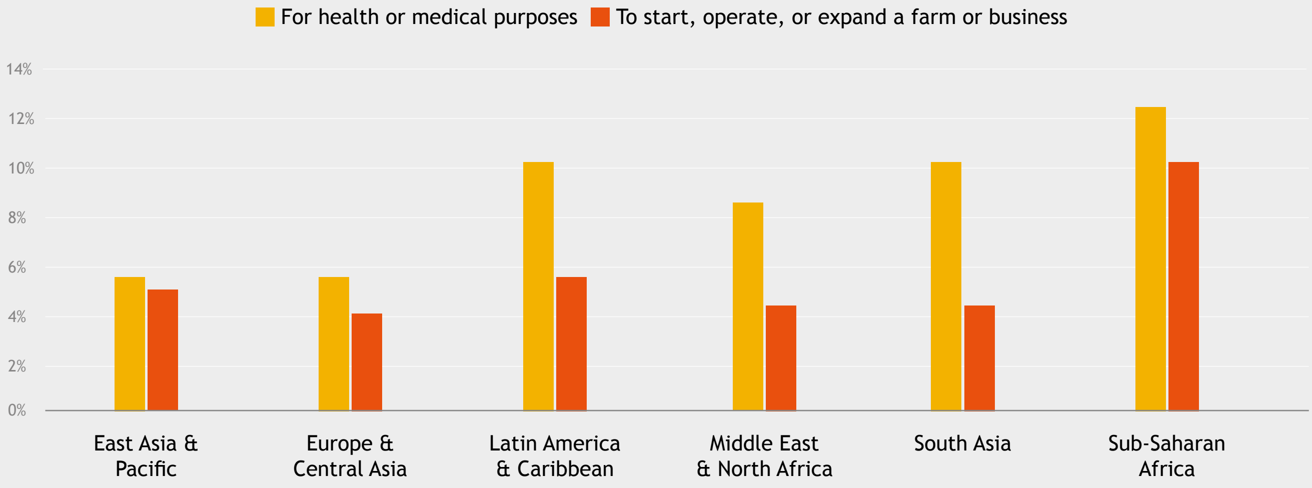
The rise of financial technology (FinTech) has led to innovations that can foster financial inclusion for young people (Newnham, 2020). Advanced analytic solutions, such as algorithms, can provide a credit risk assessment for youth without a traditional credit history or collateral, and digital technology can facilitate account access through electronic know-your-customer (KYC) identification for youth without an official ID card.[10]

Of course, innovations in DFS introduce new risks, especially for young people who have less experience managing money and using financial products. A primary example is the high default rate of digital loans in Kenya. As the number of digital loans has doubled in the past two years, so has the number of loan default rates, which is three times higher than for traditional products (MicroSave, 2019). Youth are also susceptible to identity theft or the misuse of their personal data generated and stored through online transactions.[11]

10 For more information on the role of FinTech in financial inclusion, see AFI, "Fintech for Financial Inclusion: A Framework for Digital Financial Transformation": https://www.afi-global.org/publications/2844/FinTech-for-Financial-Inclusion-A-Framework-for-Digital-Financial-Transformation

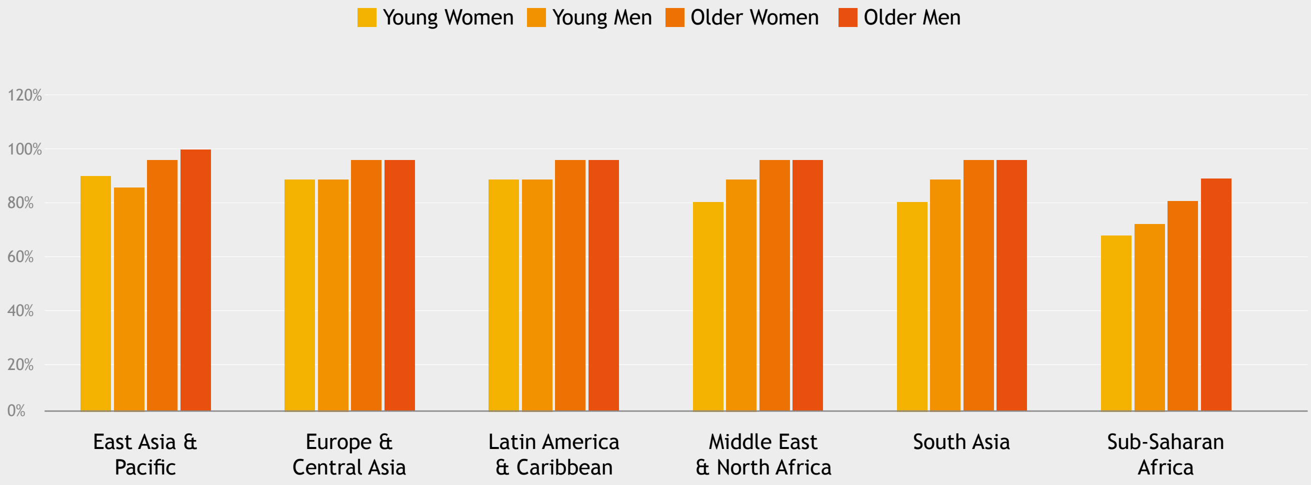
11 The options for fun and friendly competition are endless for young online gamers, but there is also an increased risk of cybercrime. See: https://cybercrimesupport.org/guide-to-protecting-youth-online-gamers/

FIGURE 4: REASONS FOR BORROWING (15–24 YEARS)



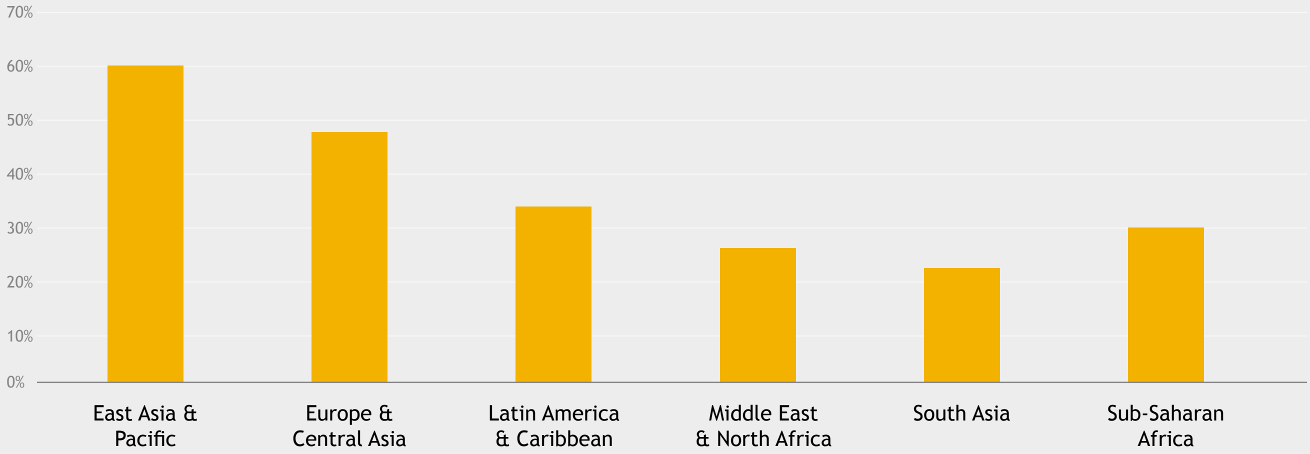
Source: Global Findex Database (2017) (excludes high-income countries)

FIGURE 5: MOBILE PHONE OWNERSHIP, BY GENDER, REGION AND AGE (15–24 AND 25+ YEARS)



Source: Calculated from 2017 Global Findex microdata (excludes high-income countries)

FIGURE 6: MADE OR RECEIVED DIGITAL PAYMENTS IN THE PAST YEAR (15–24 YEARS)



Source: 2017 Global Findex database (excludes high-income countries)

BARRIERS TO FINANCIAL INCLUSION FOR YOUTH

Lower levels of financial access for young people are a result of numerous barriers, some of which are age-specific while others affect a broader swath of the population, including youth.

These broader barriers tend to have a greater negative impact on youth financial inclusion because young people tend to have fewer resources and assets, and lower levels of knowledge and experience with formal financial services. Young entrepreneurs, who require a variety of financial services ranging from savings to credit, are especially affected.

According to the AFI YFI Survey, the most commonly cited barriers to youth financial inclusion are a lack of financial literacy,[12] followed by a lack of collateral and lack of appropriate financial products (see Figure 7).[13]

Barriers stem from the regulatory environment (policies and regulations), the supply side (financial sector) and even the demand side (youth). Although they vary greatly from country to country, several common limitations prevent youth from accessing and using formal financial services (see Table 3).

REGULATORY ENVIRONMENT

Restrictions created by legal and regulatory frameworks prevent youth from accessing and controlling formal financial services. The main limitations are presented below.

MINIMUM AGE

The primary restriction is the legal age at which a person is considered to be an adult and able to enter into a legal contractual relationship. In the case of financial institutions, this restriction means that youth are unable to open and transact on a bank account or access credit until they are of legal age, typically 18 years, and in some cases, 21 years (see Annex A).

However, countries can lower the minimum age to access certain financial products, including electronic wallets (e-wallets), while at the same time ensuring effective legal frameworks for consumer protection and responsible finance.

Minimum age requirements also have an impact on savings. In many developing countries, youth can open a bank account jointly with their parents, but only conduct parent- or guardian-approved transactions, such as withdrawals (Aldebot-Green and Sprague, 2014). In some cases, this effectively limits young people's ability to make decisions about their funds, and might make them less inclined to open an account. However, given the promise of financial well-being, safe custody of their money and the ability to accumulate savings for future needs, youth may still opt for savings accounts.

KYC REQUIREMENTS

Financial institutions enforce KYC requirements to comply with Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) regulations. KYC requirements have additional implications for young people trying to access credit, especially in countries without strong national identification systems. Lack of reliable information on individual identity can hinder the development of credit histories that financial institutions rely on to make credit assessments, therefore resulting in higher collateral requirements (UNESCAP, 2017). Young people, who are unlikely to have a credit history, own few resources and assets to meet collateral requirements. Hence, when national identification issues result in higher collateral requirements, youth are excluded from access to credit for this secondary reason.

CREDIT REPORTING

Credit reports provide information to financial institutions on the past financial behaviour of individual consumers, mitigating risk for lenders by reducing adverse selection and information asymmetries. However, if young people have been excluded from credit facilities in the formal financial sector they are unlikely to have any information registered in credit reporting systems.

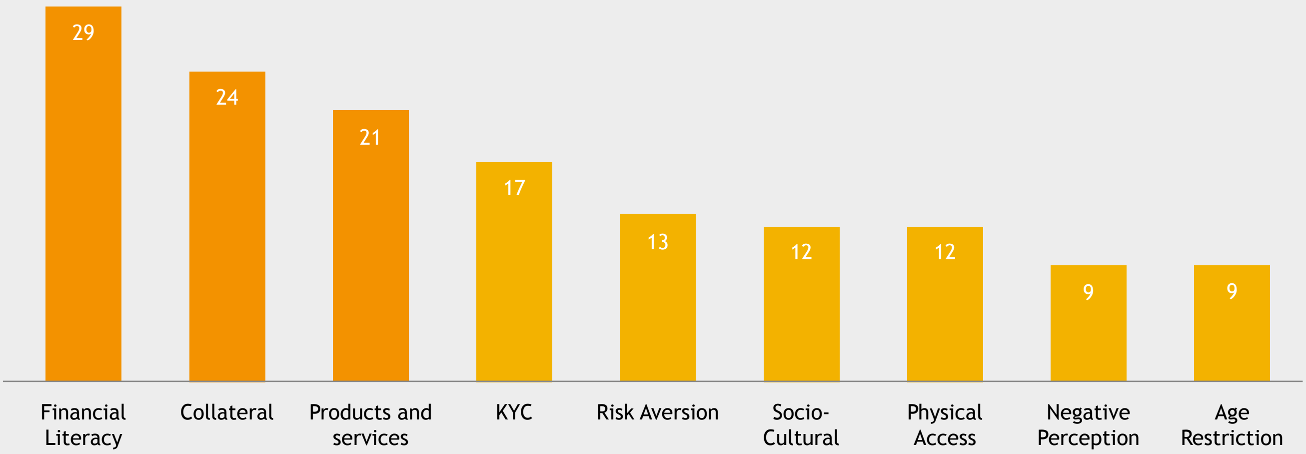
LIMITED PROPORTIONATE FINANCIAL REGULATION

Regulators and policymakers have established a number of regulations to maintain the stability and integrity of the financial sector. However, if they do not include financial inclusion considerations, these regulations inadvertently impede access to formal financial services for youth. This results in banks charging higher interest rates and demanding rigid collateral requirements.

12 Financial literacy is defined by the OECD and G20 as "a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing". This definition is often used interchangeably with "financial capability", which is preferred in some countries.

13 Note that the survey question on barriers to youth financial inclusion allowed multiple responses.

FIGURE 7: MAIN BARRIERS TO FINANCIAL INCLUSION FOR YOUTH



Source: AFI YFI Survey

TABLE 3: COMMON LIMITATIONS TO YOUTH FINANCIAL INCLUSION

REGULATORY ENVIRONMENT

- Minimum age
- KYC requirements
- Credit reporting
- Limited proportionate financial regulation

SUPPLY SIDE

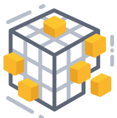
- Information asymmetries (limited credit information and risk aversion)
- Low-value and low-margin products
- Limited knowledge and capacity to serve youth
- Limited financial infrastructure
- Low levels of internet penetration

DEMAND SIDE

- Lack of experience and knowledge of the formal financial system
- Low levels of financial literacy
- Lack of proof of ID/ documentation for KYC
- Biases against financial institutions
- Lack of traditional collateral or guarantees
- Sociocultural norms

Source: SEEP Network (2013), CYFI (2014), ACET (2017), CGAP (2019) and AFI YFI Survey (2020)

Common credit products are often not well suited to the typical profiles of young people who lack traditional collateral and established credit histories. Instead, innovative financial products are needed to meet the financial needs of young people while also reducing risk for financial providers. In many countries, there is no regulation explicitly preventing the development of new financial instruments, but neither is there a regulatory framework incentivizing innovation or validating promising innovations. Clear regulatory frameworks that foster innovation are therefore needed.



SUPPLY SIDE

On the supply side, financial service providers (FSPs) face numerous challenges to making their products accessible and usable by young people. Key challenges include:

INFORMATION ASYMMETRIES (LIMITED CREDIT INFORMATION AND RISK AVERSION)

In the absence of adequate information on a young person's financial history (due to the issues described above), financial institutions view financing youth as risky. Weak contract enforceability in some countries causes further friction between borrowers and lenders (Dabla-Norris et al., 2015). As a result, financial institutions require high levels of collateral to compensate for higher risk exposure. For MSMEs, lack of collateral has typically been addressed through group guarantees, primarily via microfinance institutions (MFIs).

Group-based guarantees present some challenges for young people, however, such as the need to ensure that every group member meets the lender requirements, including identification. Moreover, group liability effectively shifts the responsibility for screening and enforcement from the lender to clients (Youth Business International, 2010). While this can work in stable communities, it might be difficult to enforce among young people in rural areas who tend to migrate, affecting the sustainability of the group (IFAD, 2015).

LOW-VALUE AND LOW-MARGIN PRODUCTS

Youth typically generate small income flows, and can therefore only save small amounts of money (SEEP, 2013). Although their income tends to increase as youth grow up and begin to diversify their income, financial institutions can expect to generate only very small margins in the short term, complicating the business case for serving this population (Kilara, et al, 2014). As with credit, youth might only be able to borrow small amounts, which increases proportional transaction costs and lowers profits for lenders. The asset accumulation patterns and income flows of youth reflect their life stage. Public and/or public-private partnerships then become necessary to expand financial access for youth.

LIMITED KNOWLEDGE AND CAPACITY TO SERVE YOUTH

Financial institutions often do not understand the youth market well enough to offer appropriate products and delivery channels. Not enough demand-side data is readily available for them to consult, especially data disaggregated by age and gender. As explained earlier, disaggregated data is critical because youth are not a homogeneous group and require a variety of financial products. Moreover, many financial institutions lack the institutional capacity and inclination to serve this market (CYFI, 2010; ILO, 2016). Staff can be prejudiced against young people, perceiving them as a high-risk market (Making Cents, 2009). This lack of market knowledge and biases about youth mean that financial institutions do not usually offer products tailored to young people's needs. For instance, bank accounts might have minimum balances and operating fees that are too high for the small amounts that youth can save.

LIMITED DIGITAL INFRASTRUCTURE

50% Nearly half of youth in developing countries live in rural areas (IFAD, 2019), but financial institutions typically do not have a strong physical presence in rural areas.

DFS[14] may gradually overcome this barrier, but for now it remains a major challenge as there is a considerable digital divide between regions.

LOW LEVELS OF INTERNET PENETRATION

94% In developed countries, 94 percent of young people aged 15 to 24 use the internet compared with 67 percent in developing countries.

90% Nearly nine out of 10 young people not using the internet live in Africa or Asia and the Pacific.[15]

14 In addition, in some contexts is important to complement with physical presence of representatives of financial institutions to build trust, confidence and support the digital onboarding process.

15 ICT facts and figures 2017. See: https://www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2017.pdf

DEMAND SIDE

Young people face a variety of hurdles that make it difficult to access formal financial services:

LACK OF EXPERIENCE AND KNOWLEDGE OF THE FORMAL FINANCIAL SYSTEM

Youth often do not have any direct experience with formal financial institutions. When they do, it might be limited to seeing their parents or legal guardians make deposits or loan repayments (SEEP, 2013). This lack of experience hinders their ability to learn more about financial products and services, including terms and conditions.

LOW LEVELS OF FINANCIAL LITERACY

The last OECD Programme for International Student Assessment (PISA) from 2018 exposes the general tendency of low levels of financial literacy, especially among young students from LMICs (OECD, 2020). However, this issue is not exclusive to LMICs; Italy is among the countries with the lowest performance scores in financial literacy (476, significantly lower than the OECD average).

LACK OF ID/DOCUMENTATION FOR KYC

For many people, especially in developing countries, proof of identity requirements (as part of KYC guidelines) is a major barrier to financial access. According to the World Bank, approximately one billion people do not have official proof of identity, close to half of whom live in Sub-Saharan Africa (ID4D, 2020). Although some progress has been made in establishing national identification systems, significant disparities remain. Among the various sub-segments of the population, young women are most likely to face barriers related to identification. In Sub-Saharan Africa, only 70 percent of young women have a national ID compared to 90 percent of adult males.

BIASES AGAINST FINANCIAL INSTITUTIONS

Whether youth have experience with formal financial institutions or not, they often have negative perceptions of them. This is directly related to their exclusion from the formal financial system and lack of financial education. Youth might think that financial products are too expensive and not suited for their small and irregular income (SEEP, 2013), and bureaucracy and complicated procedures can also keep them away from the formal financial system.

Also, youth may not appreciate the benefits of formal savings, often fearing that may lose access to their money in savings accounts or worrying that they cannot repay loans. The language and codes used by FSPs are another limitation since most do not use youth-friendly communication strategies (one of the CYFI's Child and Youth Friendly Banking Principles).

LACK OF TRADITIONAL COLLATERAL OR GUARANTEES

Young people are often unable to provide the collateral required by financial institutions for loans (ACET, 2019). For youth in rural areas, collateral such as land is especially difficult to attain since parents or legal guardians often maintain tenure over the family's land. Even when youth do inherit land, in many countries, land is commonly divided and inherited among male family members, leaving young women landless. In addition, proof of income as a form of guarantee is not possible for many youth in developing countries who are self-employed and lack the financial records to prove a steady income source. According to the AFI YFI Survey, access to collateral and guarantees is the most common challenge for youth-owned MSMEs, followed by a lack of appropriate products and services.[16]

SOCIOCULTURAL NORMS

Cultural traditions can limit the decision-making ability of young people, especially young women who face severe limitations to going out by themselves to earn money or engaging in any business or financial transaction (ACET, 2019).

16 Often, there are challenges associated with valuing such collateral as there might be significant differences between the value of assets compared to those available in urban areas. Therefore, although youth may have land, it might be insufficient for obtaining loans.

VALUE PROPOSITION FOR YOUTH FINANCIAL INCLUSION

Given the challenges and risks of enhancing financial inclusion for youth, why does this sector merit the attention and effort of policymakers, regulators and the financial sector in general? There is a solid rationale for promoting youth financial inclusion, and the value proposition falls into three main categories: macroeconomic impact, financial sector business case and microlevel benefits for youth.

MACROECONOMIC IMPACT

Young people represent a critical population segment for economic development. As a growing youth population engages economically, a country can usher in economic growth through increased investments and savings. This economic benefit, known as the demographic dividend, is particularly important for low-income countries. However, reaping these gains will largely depend on public efforts to help youth access to educational and labor opportunities.

At the macroeconomic level, evidence points to a positive correlation between general financial inclusion and economic growth (Cull et al., 2014). A CGAP analysis (2013) of youth financial inclusion revealed a high correlation between account penetration among youth and macroeconomic factors, such as gross domestic product (GDP) per capita and secondary school enrolment.

FINANCIAL SECTOR BUSINESS CASE

There is not yet consensus in the financial sector on the business case for serving the youth segment. Some remain unconvinced of the merits of catering to youth, and while they serve young people as part of their overall portfolio, they do not segment clients by age or offer youth-specific products (Sykes, Elder, Gurbuzer and Principi, 2016; Making Cents, 2009).

However, for some financial institutions, serving young people is viewed as a way to build their client base, foster long-term customer loyalty, diversify their portfolio and increase market share (Making Cents, 2009). Some also cite social responsibility as a reason to focus on the youth segment (with many receiving donor support to experiment with and invest in including youth).[17]

> "When we've engaged with financial institutions [about incentives for YFI], we've looked at youth deposits as a stable source of funds for them. So rather than waiting until a child turns 16 to open up an account and start depositing, they can capture that child from as early as 5 years old."
>
> (AFI member interview, Bank of Zambia, 2020)

A recent UNCDF study in Southeast Asia provides some evidence to support the business case for serving youth. The study found higher retention rates among youth clients, demonstrating customer loyalty, and lower likelihood of passive accounts among youth (UNCDF, 2018b). Additional research on the business case and demand for youth financial services has concentrated heavily on Sub-Saharan Africa, primarily led by The MasterCard Foundation (Dueck-Mbeba and DasGupta 2015). Research in this region has found that the aggregate value of informal and formal deposits made by young people is estimated at USD 2.2 billion. Although young people are generally small savers with low-balance accounts, the youth market is collectively estimated as having $1.1 billion in assets.

In Africa, where young people show a strong preference for mobile services, there is growing evidence of a business case for reaching youth through digital solutions. For instance, data from digital credit provider M-Shwari (in Kenya) has shown that working-age young people aged 18 to 30 comprise more than half of M-Shwari's clientele (Dueck-Mbeba and DasGupta, 2015). Another key finding from that research is that the sub-segment of urban young adults are more likely to have higher incomes and demand a wider variety of financial products.

Because the financial needs of young people grow and change as they age, financial institutions need to take a long-term view of youth as customers (Dueck-Mbeba and DasGupta, 2015; Kilara et al., 2014; Loupeda, 2014).

17 The MasterCard Foundation has invested significantly in this sector—$54 million over five years (Dueck-Mbeba and DasGupta, 2016).

Financial institutions can take a gradual, measured approach to serving the youth segment, which helps build experience and inclusion while also managing risk. Table 4 provides an overview of the types of financial products suited to the different life stages of youth.

> "I first opened a bank account, so I could start saving. After about five months, I was offered the option of a loan, and that helped me a lot with my business."
>
> (Young woman, 29 years old, Colombia, owner of a beauty salon)

This approach is in line with an ILO recommendation to apply an integrated and demand-driven approach to financial inclusion that supports youth employment, rather than treating youth financial inclusion as an end in itself. The ILO emphasizes the importance of assessing the needs of a target group before developing specific interventions. This measured approach helps to prevent detrimental effects, especially overindebtedness (Sykes et al., 2016).

MICROLEVEL BENEFITS FOR YOUTH

At the micro level, there are many benefits to young people using financial services, including:

IMPROVED FINANCIAL BEHAVIORS

This primarily includes higher savings and stronger money management skills (YouthSave, 2015; Dueck-Mbeba and DasGupta, 2015).[18] These outcomes are especially pronounced when financial services are integrated with money management training, as young people are able to apply new skills to specific financial instruments. By looking at credit bureau records, Frisancho (2020) found that financial education can help young adults start their financial lives in better shape.

POSITIVE EDUCATIONAL OUTCOMES

These include continued schooling and stronger academic performance (Chiapa, Prina and Parker, 2014; Curley, Ssewamala and Han, 2010). Financial services can improve the ability of individuals to pay for their school expenses, either through accumulated savings or through digital payment mechanisms. For example, in Uganda, the mobile payment solution Kupaa allows parents to pay remotely in instalments on a phone while simultaneously enabling schools to keep track of those payments.[19]

18 However, evidence of the long-term impact of savings at a young age is limited to a few studies in high-income countries.

19 For more information on Kuupa, visit: https://www.mastercardcenter.org/insights/how-mobile-payments-can-help-keep-children-in-school

TABLE 4: EVOLUTION OF FINANCIAL PRODUCTS BY LIFE STAGE

	EARLY ADOLESCENCE (12-14 YEARS)	OLDER ADOLESCENTS (15-17 YEARS)	YOUNG ADULTS (18-24 YEARS)
EVOLUTION OF FINANCIAL TOOLS	> Savings	> Savings > E-wallets > Nano/microcredit	> Savings > Transactional accounts > E-wallets > Credit > Insurance
EVOLUTION OF FINANCIAL EDUCATION AND ENTREPRENEURSHIP TOPICS	> Importance of savings > Distinguishing between needs and wants	> Money management > Record keeping > Basic entrepreneurship	> Budgeting > Financing > Starting and running a business

Source: Based on CYFI (2016a) and Aflatoun International (2019)

SECONDARY PSYCHOLOGICAL AND HEALTH EFFECTS

These including improved decision making and self-esteem. These effects are especially notable among young women and include increased knowledge of sexual and reproductive health (YouthSave Initiative, 2015; UNCDF, 2015; Dueck-Mbeba and Das Gupta, 2015).[20] For young women, digital payments or a bank account offer the unique opportunity to maintain confidentiality and control over their scarce resources. Frisancho (2020) also found effects on self-control.

GREATER ENTREPRENEURSHIP AND EARNING OPPORTUNITIES

Access to finance is critical for young entrepreneurs starting their own business (Skyes et al., 2016). Moreover, when young entrepreneurs have access to finance, they are able to invest the funds in their business and enhance their business performance. Credit can be particularly meaningful for young women, suggesting that credit is the most significant constraint on their earning capacity (Choi and Honorati, 2013).

One approach to capturing all the benefits of youth financial inclusion is the economic citizenship theoretical framework developed by Child and Youth Finance International (CYFI)[21](see Figure 8). This model consists of three components: financial inclusion (in the form of financial services); financial education; and social and livelihoods education. These are considered the building blocks of empowerment and financial capability and underpin economic citizenship for children and youth. The combination of all these effects can lead to improved financial security and asset accumulation over time; a more positive outlook on the future; improved portfolios for financial institutions; and economic growth.

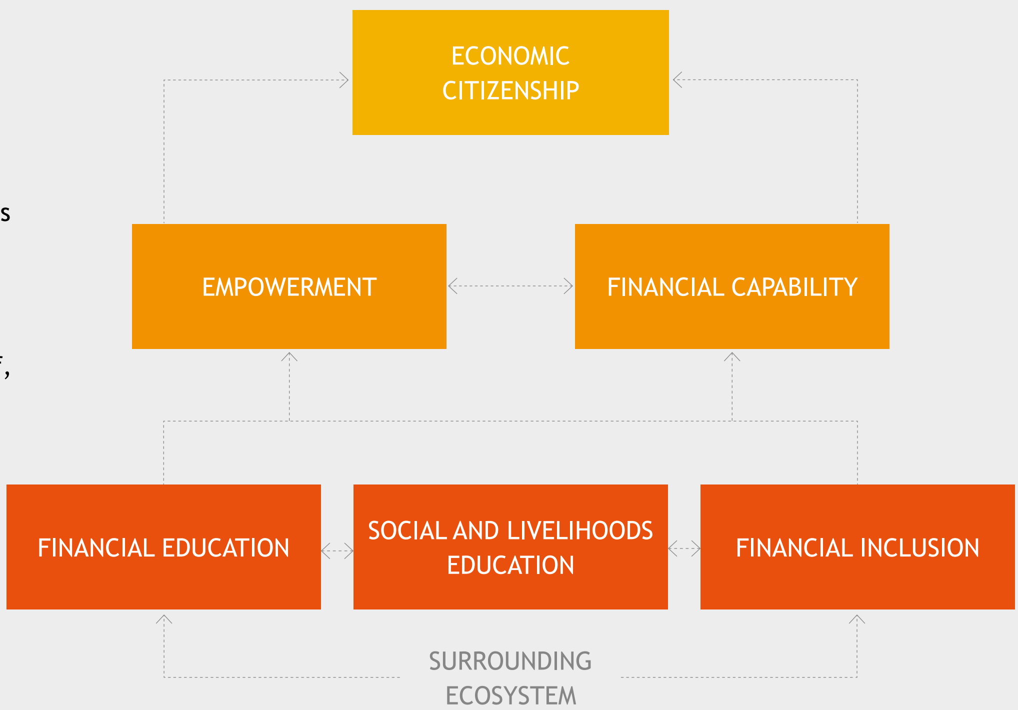
20 These outcomes result in part from complementary sexual and reproductive health activities.

21 CYFI officially closed in December 2019 and its programs and initiatives will be run by different organizations. For more information, see: https://childfinanceinternational.org/

FIGURE 8: ECONOMIC CITIZENSHIP – KEY FACTORS INFLUENCING YOUTH FINANCIAL INCLUSION

ECONOMIC CITIZENSHIP

- Reduced income and asset poverty
- Economic and social engagement
- Sustainable livelihoods
- Economic and social well-being
- Rights for and responsibilities to self, family and others



Source: Model of Economic Citizenship, Child & Youth Finance International

POLICY FRAMEWORK FOR YOUTH FINANCIAL INCLUSION

Based on the information and data presented thus far, regulators and policymakers can advance youth financial inclusion by enacting reforms and instituting new public policies in the following four areas:

DATA COLLECTION

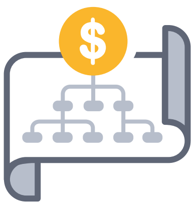
Critical for understanding the depth and breadth of financial access and use by young people at the country level, as well as the types of barriers young people face.

NATIONAL STRATEGIES

Integrating the needs and constraints of youth within national financial inclusion and financial education strategies, while also addressing youth financial inclusion within broader youth development policies

REGULATORY REFORMS

Regulatory reforms and/or new regulations that promote financial inclusion among young people while also protecting the financial sector against financial risk.



PUBLIC POLICIES AND NON-REGULATORY INTERVENTIONS

Non-regulatory interventions, including public-private partnerships to build financial capability, support youth in general and young entrepreneurs in particular, and facilitate capacity building for financial institutions in the design of products and services for youth.

For each dimension, there are examples from countries in the AFI network in the form of mini-case studies, as well as recommended regulations and policies. Each section also addresses gender-specific concerns as a cross-cutting theme.

I. DATA COLLECTION

To develop a more precise understanding of the different characteristics, financial needs and types of barriers youth face, policymakers and regulators need to systematically collect national data from different perspectives, including:

a) Demand side: on young people's financial access, usage and quality of financial services.

b) Regulatory side: mapping financial inclusion policies and regulations tailored or applied to youth.

c) Supply side: to identify youth-friendly financial products and services.

A) DEMAND SIDE: AGE AND GENDER-DISAGGREGATED DATA

Data should be disaggregated by age and gender, as well as other context-appropriate variables, including:

> **Education:** in school and out of school

> **Employment:** employed, self-employed or not employed

> **Location:** urban and rural

> **Religion**

The indicators should be consistent with the AFI Core Set of Financial Inclusion Indicators (AFI, 2013) and the G20 Financial Inclusion Indicators (2016) on access, usage and quality of financial services.

Data could be compiled in the form of a youth dashboard, similar to that provided by FinScope surveys (developed by FinMark Trust), which include indicators disaggregated by different age groups (15-17, 18-24 and 25-35 years) and offer valuable insights about the youth segment across various dimensions.[22] There are also financial inclusion data sources available from international organizations, such as the World Bank and the International Monetary Fund (IMF), that could supplement country-level data (see Annex B).[23] Consolidated data can then be analyzed by public and private actors to better identify the financial needs of youth at different life junctures and to track their inclusion over time.

"From the 2017 FinScope Survey we learned that youth have less access to FS, and that youth face many challenges, especially with identification."

(AFI member interview, Bank of Tanzania, 2020)

In addition, including the voices of youth in data collection, through qualitative data such as focus group discussions, creates a more detailed understanding of the financial needs and preferences of young people, and complements quantitative indicators.

22 FinScope Surveys are limited mainly to Africa, plus a few other countries, such as Haiti, India and Nepal. For more information on youth dashboards, visit: http://finmark.org.za/_research-themes/youth-and-women/?fwp_research_themes=youth-and-women

23 The Global Findex Database provides the most comprehensive set of financial inclusion indicators. Sex- and age-disaggregated data are available in the microdata set, which requires additional analysis by users.

CASE STUDY: BANGKO SENTRAL NG PILIPINAS

In the Philippines, the youth segment is embedded in the nationally representative Financial Inclusion Survey (FIS) conducted every two years by Bangko Sentral ng Pilipinas. FIS respondents are adults aged 15 years and older. Data is disaggregated by age as follows: 15–19, 20-29, 30–39, 40-49, 50–59 and 60 and above.

In 2016, Superintendencia de Banca, Seguros y AFP (SBS) Perú, conducted the National Survey of Financial Services Demand, which led to several studies and the publication of working documents. One of these documents was the SBS policy note, “For a Generation of Financially Inclusive and Responsible Youth” (SBS, 2019). The policy note reached several important conclusions: there were low levels of financial inclusion among young people; there was a positive relationship between sufficient financial behaviours and the use of savings accounts; and technology had a role to play in promoting frequent use of financial services. The results of another study that addressed the experiences of young people were published in the working paper, “Determinants of Voluntary Savings in Peru: Evidence from a Demand Survey” (SBS, 2020).

The National Survey of Potential Demand of Financial Services and Level of Financial Culture in Peru (2016) showed that 69 percent of young adults (aged 18 to 24) are financially excluded. Furthermore, there is a statistically significant gap of 10 percentage points in the level of financial inclusion between young adults and adults (25 years or older). While 28 percent of adults have an account and use it regularly, this is the case for only 18 percent of young adults.

69%

The National Survey of Potential Demand of Financial Services and Level of Financial Culture in Peru (2016) showed that 69 percent of young adults (aged 18 to 24) are financially excluded.

10% GAP

Furthermore, there is a statistically significant gap of 10 percentage points in the level of financial inclusion between young adults and adults (25 years or older).

28%

While 28 percent of adults have an account and use it regularly, this is the case for only 18 percent of young adults.

35%

In terms of barriers to youth financial inclusion, the National Survey found that 35 percent of young adults who are excluded identified the main limitations as lack of interest in the financial system and the absence of attractive advantages to accessing and using accounts.

In terms of barriers to youth financial inclusion, the National Survey found that 35 percent of young adults who are excluded identified the main limitations as lack of interest in the financial system and the absence of attractive advantages to accessing and using accounts.

The National Survey also revealed young peoples’ perceptions of the financial system and how these influence their likelihood of accessing and using financial accounts. Among the youngest respondents, security is not a significant variable. However, availability of money is a determining factor in the decision to participate actively in the financial system.

B) MAPPING OF FINANCIAL INCLUSION POLICIES AND REGULATIONS

With this data in hand, a next step is to map the country-level barriers and opportunities for youth financial inclusion and to revisit and periodically update the mapping. This analysis should examine age restrictions, collateral, guarantees and KYC requirements, as well as youth-friendly policies and initiatives implemented to date and the implications for youth across different life stages (see Table 5).

C) IDENTIFY YOUTH-FRIENDLY FINANCIAL PRODUCTS AND SERVICES

Identifying the types of financial products available provides insights into the depth and breadth of the supply side. One tool for this assessment is the Child and Youth Friendly Banking Guidelines (CYFI, 2014) for financial institutions seeking to develop products and services for youth at different life stages (see Annex C). While the guidelines can be used as a framework for other financial products, they are intended primarily for bank accounts.

TABLE 5: FRAMEWORK FOR A POLICY AND REGULATORY LANDSCAPE ANALYSIS OF YOUTH FINANCIAL INCLUSION

	EARLY ADOLESCENCE (12-14 YEARS)	OLDER ADOLESCENTS (15-17 YEARS)	YOUNG ADULTS (18-24 YEARS)
LEGAL AGE FOR FINANCIAL PRODUCTS (SAVINGS/CREDIT)	Implications for youth under legal age: Is parental/guardian approval required for transactions?		In many countries, youth reach legal age at 18. In a few countries, 21 is the legal age.
LEGAL AGE FOR ELECTRONIC WALLETS	Implications for youth under legal age: Is parental/guardian approval required for transactions?		As with banking products, many countries have a minimum legal age of 18 years for e-wallets, with a few exceptions at 21 years.
KYC REQUIREMENTS	Are KYC tiered? What are the different tiers? To what extent are the KYC requirements appropriate for young people and do they permit access for youth?		
FINANCIAL EDUCATION STRATEGIES	To what extent is financial education content integrated in the national educational curriculum? Is digital financial literacy addressed in financial education programs and strategies?		
MSME STRATEGIES	What MSME initiatives are in place to target young people? To what extent are these initiatives linked to financial services?		
INNOVATIONS	What regulatory innovations, including regulatory sandboxes and crowdfunding, are available to promote financial inclusion? To what extent are these regulatory innovations resulting in financial products for young people and young entrepreneurs?		
CONSUMER PROTECTION	What consumer protection measures are in place to address youth-specific needs, constraints and risks?		

TABLE 6: INTEGRATION OF YOUTH IN NATIONAL FINANCIAL INCLUSION STRATEGIES IN THE AFI NETWORK

	HOW ARE YOUTH ADDRESSED IN YOUR NFIS?
AS A PRIORITY GROUP	Palestine, Jordan, Bangladesh, Peru, Burundi, Ghana, Fiji, Tanzania, Philippines, Tunisia, Eswatini, Zambia, Mexico
AS A CROSS-CUTTING THEME	Malaysia, Samoa
NOT EXPLICITLY	Cambodia, Afghanistan, El Salvador, Madagascar, Timor Leste, Papua New Guinea, Paraguay, Pakistan

Note: Five countries participating in the survey indicated they did not have an NFIS (Costa Rica, Ecuador, Maldives, Mauritania and Suriname)

Source: AFI YFI Survey

II. NATIONAL STRATEGIES

There are numerous policies and initiatives that promote and support young people, especially youth entrepreneurs. In addressing the financial needs of youth, countries have taken a variety of approaches that can be broadly categorized as follows:

> Youth in National Financial Inclusion Strategies (NFIS);
> Youth in National Financial Education Strategies (NFES); and
> Youth financial inclusion in national youth development policies.

YOUTH POLICY CONSIDERATIONS IN NATIONAL FINANCIAL INCLUSION STRATEGIES (NFIS)

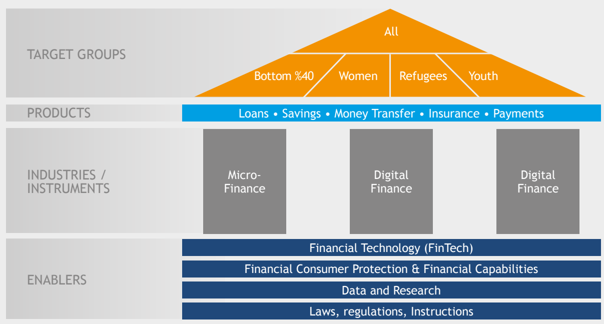
Countries that have addressed youth as part of an NFIS do so in recognition that youth represent a substantial proportion of the total population and have been disproportionately excluded from the formal financial system. According to the AFI YFI Survey, 13 countries have included youth as a priority group or as part of a cross-cutting theme (see Table 6).

Approaches vary by country, with some stipulating youth-specific strategies and targets. One example of youth-specific targets can be found in the Sierra Leone NFIS, which lists a target of five percent annual growth in the number of new accounts for youth aged 15 to 35. However, there are no specific mechanisms for achieving that target (Bank of Sierra Leone, 2017). The NFIS in Zambia is more specific, indicating that account design for young people should follow the Child and Youth-Friendly Banking Guidelines, and that the regulatory framework for account opening should be lowered to 16 years (Republic of Zambia, 2017). The Central Bank of Egypt (CBE) is in the process of developing its NFIS and has preliminarily included youth in its main targeted segments by enabling a regulatory framework and offering a wide range of financial products and services. Jordan’s NFIS is another example of a youth-specific strategy (see case study below).

CASE STUDY: YOUTH POLICY CONSIDERATIONS IN THE JORDAN'S NFIS

The NFIS of Jordan gives special attention to young people as one of the country's most vulnerable segments. The NFIS emphasizes account opening for youth 15- to 18-year-olds and establishes financial inclusion targets for youth 15 to 22 years old (Central Bank of Jordan, 2018).

FRAMEWORK FOR FINANCIAL INCLUSION IN JORDAN



YOUTH POLICY CONSIDERATIONS IN NATIONAL FINANCIAL EDUCATION STRATEGIES (NFES)

Increasingly, countries are developing NFES in recognition of the role financial capability plays in financial inclusion, especially for children and youth. The more young people understand basic money management principles, the better off they will be as they grow older and start earning their own money. One common component of an NFES is the integration of financial education in school curricula to promote financial management skills from an early age.

> "In schools, they don't teach you how to use financial services. They should implement a curriculum to prepare us for real life."
>
> (Young woman, 19 years old, Paraguay)

In Mexico, the Committee on Financial Education and the National Council on Financial Inclusion published a new National Policy on Financial Inclusion in March of 2020 that incorporates the country's NFES. One of the objectives is to strengthen the economic/financial competencies of the population, which is backed by a strategy to promote economic/financial competency education starting at school age. This strategy has two policy actions: to identify and develop a minimum set of learnings on economic/financial education, and to integrate economic/financial education content in mandatory education plans and programs.

Another common element in national financial education strategies is entrepreneurship components. In 2019, the Malaysian Government launched the National Strategy for Financial Literacy that included initiatives specifically targeting youth, one of which is Social Enterprise Literacy for Youth (SELFY). This annual program is focused on students in higher learning institutions and offers participants financial education and seed money to start an enterprise (Financial Education Network, 2019). A financial literacy program for youth has also been recently launched in Pakistan (see case study opposite).

National financial education strategies can be more effective if efforts are coordinated between relevant stakeholders. The Bank of Sierra Leone is developing a national financial literacy framework with a major focus on youth in partnership with multiple entities, including the Ministry of Education, Ministry of Youth, the Youth Commission and NGOs that work with youth (AFI member interview, 2020).

CASE STUDY: PAKISTAN'S NATIONAL FINANCIAL LITERACY PROGRAM FOR YOUTH

The National Institute of Banking and Finance in Pakistan has launched the National Financial Literacy Program for Youth (NFLP-Y) for youth and in-school children. The objective of NFLP-Y is to strengthen young people's money management knowledge and skills, while also connecting them to financial institutions. The program will target three age groups:

- in-school children aged 9-12;
- adolescents aged 13-17; and
- young adults aged 18-29.

The program aims to reach 1.6 million participants through classroom training and digital learning platforms (National Institute of Banking and Finance, 2020).

> "Even though we don't have specific [youth financial inclusion] policies, we're working to develop a coordinated action among various ministries and agencies."
>
> (AFI member interview, Bank of Sierra Leone, 2020)

DIGITAL FINANCIAL LITERACY

With the growth of fintech services, there is surging demand to build digital financial skills across all youth segments. Although young people tend to be early adopters of technology, not all know or understand how to use digital financial tools appropriately. Disparities are most notable between urban youth and young women in rural areas who tend to have less access to mobile phones. Given that youth are likely to adopt technology more quickly than their parents or adult relatives, and to have less experience with formal financial services, the need to understand the risks and opportunities of digital financial services is especially critical.

> "The government should provide more [digital financial literacy] training for rural people, so that people can learn how easy it is to manage an account from a mobile phone"
>
> (Young woman, 29 years old, Colombia)

A recent G20 policy brief indicates that national strategies focus mainly on traditional financial education concepts. The brief urges policymakers to define the concept of digital financial literacy and to develop and implement tools to measure it (Morgan, Huang and Trinh, 2020).

YOUTH FINANCIAL INCLUSION IN NATIONAL YOUTH DEVELOPMENT POLICIES

Embedding financial inclusion in broader youth development policies is rare. Only six respondents to the AFI YFI Survey indicated that they have incorporated financial inclusion in their national youth development policies.

One unique example is Vanuatu's National Youth Development Policy (2012-2022). The policy identifies young females as a priority group given the discrimination they often face. One of the objectives of the policy is the "provision of packages of financial and/or material assistance to female youths who have undergone training and have acquired skills for self- and sustainable employment".

By integrating financial inclusion in a variety of national youth strategies, countries can develop an integrated and comprehensive approach to other national policies. For instance, the

> Youth Entrepreneurship Act of 2014 from the Philippines promotes entrepreneurship and financial education among Filipino youth.

This law is one of four policy instruments promoting youth entrepreneurship. The other three are the:

> Youth Development Plan 2017-2022

> Go Negosyo Act (UNDESA, n.d.)

> Philippine Innovation Act of 2019, which emphasizes stimulating innovation literacy and skills development for the country's workforce and entrepreneurs, including youth and women.

Similarly, Pakistan launched a National Youth Development Framework (NYDF) in 2019 for youth-focused initiatives in education, employment and engagement.

III. REGULATORY REFORMS

Advancing youth financial inclusion will require introducing a number of regulatory reforms. Most reforms will need to be youth friendly, that is, benefit youth and other excluded populations alike, since they cannot be exclusive. Only a few will be youth-specific and primarily impact young people because of specific age restrictions. The categories of reforms are outlined below, with an emphasis on how they can best contribute to financial inclusion for youth. They include:

- Minimum age regulations;
- KYC requirements;
- Credit constraints;
- Digital financial inclusion; and
- Consumer protection and responsible finance.

A) MINIMUM AGE REGULATIONS

Maximum control by a minor is one of the guidelines for certifying financial products under the Child and Youth Friendly Banking Guidelines (CYFI, 2014). Countries should review their regulations to identify viable ways to offer youth autonomy while still ensuring appropriate, safe and secure financial protections.

In countries with large youth populations, lowering age requirements to access an account should be a top priority for regulators.

2ND
YOUNGEST MEDIAN AGE GLOBALLY

In Uganda, which has the second youngest median age of any country in the world, the NFIS identifies the need for a legal amendment allowing youth (ages 15-17) to open savings accounts (NFIS Uganda).

A few countries have allowed some flexibility in financial access for young people under the statutory legal age. This is the case in Palestine, Burundi and Tanzania, which have set the minimum age for e-wallets at 16 years.[24]

In March 2020, the Mexican Government published legal modifications allowing those 15 to 17 years old to open bank deposit accounts. These accounts can only receive digital transfers from government scholarships or salaries from companies, they have a limit on yearly deposits and are exempt from commissions. The accounts can be opened in person or remotely. One representative of the young person must be notified of the opening of the account.

Some stakeholders have interpreted the opening of an account as a non-contractual process, thereby allowing access to accounts for minors. This is the case in Colombia, where minors as young as seven can open an account without the need for a co-signer (SIB Colombia, 2014). In the Philippines, the BSP, in partnership with the Bank Marketing Association of the Philippines (BMAP) and 17 partner banks, offers a kiddie/teen savings account for youth 19 years and under with a low opening amount and no balance requirements (BSP Financial Inclusion Initiatives, 2017).

In other contexts, the minimum age for account opening is aligned with the age deemed suitable for other adult activities. For instance, in Ethiopia, the

24 Based on the results of the AFI Youth Financial Inclusion Survey.

minimum working age is 14 years, thereby allowing financial institutions to permit working 14 year olds to open their own account (UNCDF, 2012).

Even when minors are not allowed to open an account on their own, financial institutions can establish autonomous transaction control and privacy over their deposits and withdrawals while still maintaining minimum required balances to protect minors from overdraft penalties (Aldebot-Green and Sprague, 2014). For example, in Fiji, 16 year olds are provided a debit card and allowed to make withdrawals without parental consent, although the initial account opening require a parent's signature (AFI member interview, 2020). Similarly, in Pakistan, youth under the age of 18 can open an account after initial account opening with a parent's signature, and use a debit card without parental control within certain limits.

Some AFI members have also implemented a school banking component integrated with school-based financial education strategies. School banking serves the dual objective of building financial skills and (in some cases) providing a practical tool to apply that learning in the form of a savings account. School banking incentivizes youth to save from an early age while simultaneously teaching them how to manage their money.

CASE STUDY: BANK OF PAPUA NEW GUINEA: EFFORTS TO OPEN STUDENT ACCOUNTS

The Bank of Papua New Guinea, in collaboration with the Centre For Excellence in Financial Inclusion (CEFI), launched a national campaign, "Savings Campaign for Young Minds" aimed at youth up to 25 years old. Financial institutions were encouraged to partner with educational institutions (primary, secondary and tertiary) to reach young people and help them open student accounts. Meanwhile, educational institutions were encouraged to provide necessary support to financial institutions to conduct school banking operations. As a result, there are over 172,000 accounts open under this campaign (December 2019).

In conjunction with Youth International Day, the Central Bank of Egypt held a special two-week event during which banks were encouraged to reach out to youth by getting outside their branches, promoting their products and services and raising awareness of financial education.

B) KYC REQUIREMENTS TO ADDRESS BARRIERS FOR YOUTH

Risk-based, tiered KYC requirements are increasingly common, with simplified requirements for low-balance accounts, including e-wallets (AFI, 2019). While these new regulations are not youth-specific, young people stand to benefit substantially because they are at a life stage where they are more likely to need low-balance accounts and likely to own a mobile phone.

CASE STUDY: TANZANIA'S TIERED KYC

Through the 2015 National Payment Systems Act, the Bank of Tanzania oversees tiered KYC requirements for electronic money. These requirements are less onerous than those for traditional bank accounts, raising concerns among banks of an "uneven playing field". To address this, the NFIS outlines a National Risk Assessment that will rationalize approaches across all providers (AFI, 2016a; National Financial Inclusion Council, 2018).

In Mexico, there are four levels of KYC requirements, with the lowest level not requiring any type of identification (AFI member interview, 2020; Consejo Nacional de Inclusión Financiera, 2016). Some countries, such as Jordan, are also permitting virtual onboarding, enabling access to financial services through self-registration online and encouraging the use of quick response codes for both individuals and enterprises.[25]

However, regulatory changes alone may not be sufficient. It is up to financial institutions to understand these changes and develop financial products that take youth-friendly requirements into account. In response to a lack of financial sector understanding and uptake of revised regulations, the Central Bank of Egypt has held meetings with Egyptian banks to clarify that youth under the age of 16 may now open an account without parental consent (AFI member interview, 2020). Regulators need to ensure they clearly communicate the existence of, and rationale for, the new rules and may need to provide encouragement to apply them.

25 Jordan quick to shield MSMEs amid COVID-19 downturn: https://www.afi-global.org/blog/2020/07/jordan-quick-shield-msmes-amid-covid-19-downturn

An emerging innovation in KYC is digitally enabled customer identification and verification. Some countries have enabled electronic signatures and documents (eKYC) for financial transactions. In Egypt, eKYC is currently under development, driven by an "increasingly youthful tech-savvy population" (AFI, 2019).

eKYC

By not requiring customers to appear in person, eKYC could have a very positive impact on the inclusion of young girls and women, particularly in cultures where women face cultural restrictions on their mobility.

India was one of the first countries to establish this groundbreaking process with its Aadhaar system, which issues a unique identification number for any resident of India, backed by a biometric process (AFI, 2018).

CASE STUDY: AL-AMAL MICROFINANCE BANK

A pioneer in Islamic microfinance, Al-Amal Microfinance Bank (Al-Amal) was established in October 2008 as the first microfinance bank in Yemen. Dedicated to providing poor microentrepreneurs with access to financial services, Al-Amal targets youth and women with microcredit, savings and insurance, among other services. To attract youth clients, the bank has lowered guarantee requirements and made its ID requirements more flexible since many youth do not have official ID.

C) CREDIT CONSTRAINTS

Credit constraints are some of the greatest barriers to youth financial inclusion. Overcoming these barriers will require financial mechanisms beyond traditional loans, and risk must be managed appropriately to avoid the deterioration of credit portfolios or the unfettered growth of informal lenders (Mehrotra and Yetman, 2015).

Some recent regulatory innovations can address the lack of traditional collateral among youth and facilitate access to credit. One solution is the use of non-conventional collateral (NCC), such as movable collateral (see case study box). In rural areas, even people in poverty, including young girls and women, often own some farm equipment, livestock or household assets. The use of this NCC does not require a regulatory framework per se, and most countries do not have regulation prohibiting the use of movable collateral (MEDA, 2020).

CASE STUDY: GHANA'S MOVABLE COLLATERAL REGISTRY

The Bank of Ghana, with the support of IFC, established an online collateral registry that has equipped financial and non-bank financial institutions, especially MFIs, to expand their lending operations to the MSME segment, with significant success. More than 10,000 women entrepreneurs have been granted loans secured with movable property, mostly business equipment, household assets and vehicles. (Alvarez de la Campa, n.d.)

In the Philippines, the Personal Property Security Act was enacted to expand the range of properties that the agriculture and MSME sectors can use as loan collateral, including movable assets.

In Mexico, Nacional Financiera, a state development bank, offers credit to youth (18 to 35 years) to grow a business or entrepreneurial project. These credits need a guarantor or joint obligor, but not property collateral.

To facilitate the use of NCC, some countries have created regulatory frameworks and NCC registry systems to make it a more viable option. Among AFI members, Ghana, Peru, Rwanda and Sierra Leone have established, or are in the process of establishing, an NCC registry. According to its NFIS, Burundi is also preparing legislation on personal property securities to be used as collateral. A World Bank study found that the introduction of a collateral registry effectively increases access to finance (Love, Peria and Singh, 2016). Leasing or asset financing, whereby the client can use the proceeds from the leased asset to service the lease payment (MEDA, 2020), is another solution facilitated by a NCC registry. Setting up a NCC registry may not be sufficient, however, and training may be needed for public and private stakeholders to use the registry in effectively (FSD Africa, 2017).

D) DIGITAL FINANCIAL INCLUSION[26]

With the explosion of innovation in DFS, there is a growing expectation that digital solutions can bridge the financial inclusion gap, especially for youth who tend to embrace new technology. Technology and innovation can tackle some financial inclusion barriers for youth through a variety of mechanisms.

26 AFI defines digital financial inclusion as "the use and promotion of digital financial services (DFS) to advance financial inclusion," and digital financial services is defined as "the broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. The digital financial services (DFS) concept includes mobile financial services (MFS)." (AFI, 2016).

These include mobile money to access a variety of financial services, credit algorithms to overcome information asymmetries and crowdfunding as an alternative to bank loans. However, these innovations need to be enabled, and consumers protected, by appropriate regulatory frameworks. The role of regulators and policymakers is challenging, as they must strike a healthy balance between stimulating innovation while also protecting the financial system and consumers. There are various mechanisms for regulating and fostering innovation that leverage technology, including FinTech laws, regulatory sandboxes and innovation offices.

In addition, DFS are ideal for complying with health and safety protocols in the context of COVID-19.

The next section begins by exploring the ways in which digital solutions can address the specific barriers that youth face, followed by an overview of the regulations that can support these innovations.

MOBILE MONEY

Mobile money facilitates access to payments and money transfers for young people. The need to send and receive money is often the main reason to open a mobile money account. This is backed by research in Africa that showed youth in Uganda and Zambia register for a mobile money account primarily to transfer money (Heitmann, Peterson and Kizinger, 2018). However, not all youth, especially young girls and women in rural areas, have access to mobile money.

> "I really like the bank app. After I downloaded it, I found it very easy to use. I no longer have to go out to make payments or money transfers for my business, which is better right now because of the pandemic."
>
> (Young entrepreneur, 19 years old, Paraguay)

Mobile money accounts, in the form of electronic wallets (e-wallets), also allow account users to save small amounts of money as deposits. For instance, the same study found that youth in Ghana, Senegal, Uganda and Zambia deposit money in their mobile money accounts to save. For young people who are earning small amounts of money, the low balances that can be kept in a mobile money account are often sufficient to meet basic needs.

Mobile wallets can also facilitate access to formal financial services. However, they are only effective when the account is designed to meet the needs of young people, namely, low balances and low or no fees (Heitmann et al., 2018). M-Shwari is a case in point: M-Shwari links a mobile wallet to a savings account with low balances and flexibility. As a result, it is a very popular product among young people.

CREDIT ALGORITHMS

Financial innovations, such as credit algorithms, can equip lenders with alternative mechanisms to replace traditional credit records and make appropriate risk assessments for issuing credit.[27] These innovations rely on alternative sources of data, which can bridge the information asymmetries that contribute to lenders requiring high levels of collateral. Credit algorithms facilitate access to financing for excluded populations in general, but they could have greater benefits for youth financial inclusion in particular. This is because youth are new to financial services and while they have little or no credit history, they tend to have a greater digital footprint.

> "When we talk about MSMEs, start-ups, they are mainly youth-led. Even contactless payments will also benefit mostly youth."
>
> (AFI member interview, Central Bank of Jordan, 2020)

However, these innovations will not benefit youth universally. Urban youth are more likely to have access to mobile or internet access and thus have a digital data history, whereas youth in rural areas, especially young women, are less likely to own a phone, let alone one with data access.

27 LenddoEFL is a good example of a credit algorithm solution. LenddoEFL's digital process leverages the digital footprint that consumers leave through their mobile- or internet-based transactions. The algorithms use non-traditional data, such as smartphone data, digital profiles and psychometric assessments, to predict financial behaviors and creditworthiness.

CROWDFUNDING

Crowdfunding is another promising mechanism to finance young entrepreneurs since funds can be raised from large numbers of people with few regulatory requirements and with alternative credit scoring mechanisms (GPFI, 2016; Jenik, Lyman and Nava, 2017). Over time, crowdfunding loans may become a gateway to traditional financial services by building the credit history of young people. In the AFI network, an emerging example of this innovative approach can be found in the Middle East where the Central Bank of Jordan is working on drafting crowdfunding instructions (AFI member interview, 2020).

Despite the benefits, crowdfunding exposes users to some risks, including over-indebtedness. Limited knowledge of this mechanism and limited access to internet-enabled technology may also prevent youth who are most excluded from accessing this type of platform (Jenik et al., 2017).

DFS REGULATIONS

There are different approaches to regulating innovations in DFS. In some cases, a single overarching law encompasses a variety of approaches, for example, the 2018 FinTech Law in Mexico. In most instances, however, regulators have addressed innovations on a piecemeal basis, typically starting with electronic money (e-money). This section will discuss DFS regulations broadly, and then focus on those that have direct implications for youth.

Regulators and policymakers must address multiple regulatory and prudential aspects of e-money. These include: establishing a definition of e-money, regulating the types of entities that can issue e-money, determining the proof of identification needed and setting up safeguard mechanisms for client funds, among others (AFI, 2019a). While all these regulations have an impact on the population at large, the regulation governing identification has the most significant implication for youth. When tiered KYC requirements are applied to mobile money, young people are better able to open an e-wallet. For instance, State Bank of Pakistan (SBP) allows tiered KYC requirements for certain branchless banking accounts with low transaction limits to support the adoption of branchless banking. Digital onboarding can also facilitate access for young women whose mobility outside the home can be limited.

Alternative credit scoring, crowdfunding and similar innovations can be covered under an overarching FinTech regulation. The Policy Framework for FinTech developed by the AFI network identifies four main pillars of financial inclusion: building digital identification and e-KYC systems; developing a digital payment infrastructure; digitizing government payments and services; and designing digital financial markets and systems (AFI, 2018). In addition to identification and e-KYC systems, youth are likely to be the group most affected by an extensive digital payments infrastructure. This is because young people are frequently involved in small commerce and the gig economy, which benefit most from a robust digital payment infrastructure.

For example, the Government of Fiji has partnered with Vodafone to enable a QR-based payment system through the mobile money app M-PAiSA, which youth can use to make and receive payments and money transfers. Although the technology is not restricted by age, the government expects tech-savvy youth to take up this type of technology (AFI member interview, 2020).

REGULATORY SANDBOXES

Another regulatory mechanism to promote innovation in digital financial services and FinTech is a regulatory sandbox. A sandbox offers a regulation-free space for companies to experiment with new business models for a limited period where there is currently no legal framework. Examples include Egypt, Jordan and Mexico.

This framework provides security to FinTech investors and can expedite the development of projects while testing their business feasibility. While there is no guarantee that the innovations that emerge from a regulatory sandbox will directly benefit young people, the innovations themselves are often driven by young entrepreneurs and incorporate the perspective, proclivities and objectives of the youth segment. According to CGAP, there are currently 28 regulatory sandboxes that have either been proposed or formally established (Jenik and Lauer, 2017).

E) CONSUMER PROTECTION AND RESPONSIBLE FINANCE

When facilitating access to and usage of financial services, regulators and policymakers must incorporate consumer protection policies for young people, as well as mechanisms to protect the financial viability of financial providers—a concept known as responsible finance (McKee, Lahaye and Koning, 2011). With many youth using financial services for the first time through a mobile app, they are at risk of excessive costs, over-indebtedness, unauthorized use of their personal data and identity theft.

The adoption of technological innovations can exacerbate existing risks associated with digital data and even create new ones. An effective consumer and data protection framework should reinforce trust in digital financial tools and encourage responsible use. Regulations should also ensure there are adequate complaint and redress systems so that youth can exercise their consumer rights effectively.

Of the countries represented in the AFI YFI Survey, the majority do not have youth-specific responsible finance, consumer protection or data protection mechanisms. Those that do focus almost entirely on financial education strategies. However, appropriate regulations are still needed to ensure the onus of consumer protection is not on youth. Regulators and policymakers should ensure, at minimum, that consumer protection regulations apply to young consumers, such as children and youth with savings accounts.

> "The government should consider youth in their plans and [regulation] of mobile apps. In Kenya we have apps to get loans, but when we access them and cannot repay, we cannot get a loan from elsewhere, because we are reported to the Credit Reference Bureau."
>
> (Young woman, 21 years old, Kenya)

Although many countries already have consumer protection guidelines, they do not always consider young people's limited experience with formal financial services. One source of youth-focused consumer protection guidelines is UNCDF, which has adapted the Smart Campaign's Client Protection principles for young people (Perdomo, 2013).[28] Some youth-specific adaptations include techniques for ensuring that minors opening a bank account have the same access to account information as their parents or guardian; staff training for working with young clients to ensure they understand their rights and responsibilities; and restrictions on account overdrafts.

> "The government should make sure that for loans they give us enough time to repay and they should lower the interest."
>
> (Young woman, 24 years old, Kenya, owner of a copy center)

Meanwhile, on the supply side, financial providers should offer services that are appropriate and viable for young people. In practice, this means that even with regulatory reforms, some youth will not be able to access credit for all their financial needs, especially to fund an enterprise. Depending on their life stage, youth may need to first tap into savings and possibly nanoloans. This would enable youth to build financial capability and confidence and learn money management skills, while also avoiding overindebtedness at a young age. Over time, young people can gain access to a wider array of financial products.

28 UNCDF-YouthStart Technical Note. Client Protection for Youth Clients. See: https://www.smartcampaign.org/tools-a-resources/821-client-protection-for-youth-clients-uncdf-youthstart-technical-note

29 Initiated by the CYFI in 2012, it is now organised by the OECD International Network on Financial Education (OECD/INFE).

IV. PUBLIC POLICIES AND NON-REGULATORY INTERVENTIONS

Youth financial inclusion can also be advanced through public policies and non-regulatory mechanisms. According to the AFI YFI Survey, public policies aimed at promoting the financial capability of youth vary widely, from savings campaigns to financial education strategies (see Figure 9).

A) FINANCIAL LITERACY

The AFI YFI Survey found that the most commonly cited barrier for youth financial inclusion is a lack of financial literacy. Policymakers need to address this issue by reaching youth early with financial education.

CASE STUDY: YOUTH BANKING WEEK IN PALESTINE

The Palestine Monetary Authority organized a Child and Youth Banking Week in cooperation with the Ministry of Education and Higher Education, the Association of Banks in Palestine and the Education Program of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). More than 98,000 students from schools across the West Bank and Gaza Strip joined in the activities in 2019 (Palestine Monetary Authority, 2019).

Low financial literacy leaves people ill-equipped to make appropriate financial decisions that could have tremendous adverse effects, not only in their personal financial lives, but ultimately for global financial resilience (OECD, 2009). Increasingly, central banks, often in partnership with the private sector, are instituting financial literacy campaigns targeting young people. One example is Global Money Week (GMW), an annual financial awareness campaign designed to inspire children and young people to learn about money matters, livelihoods and entrepreneurship.

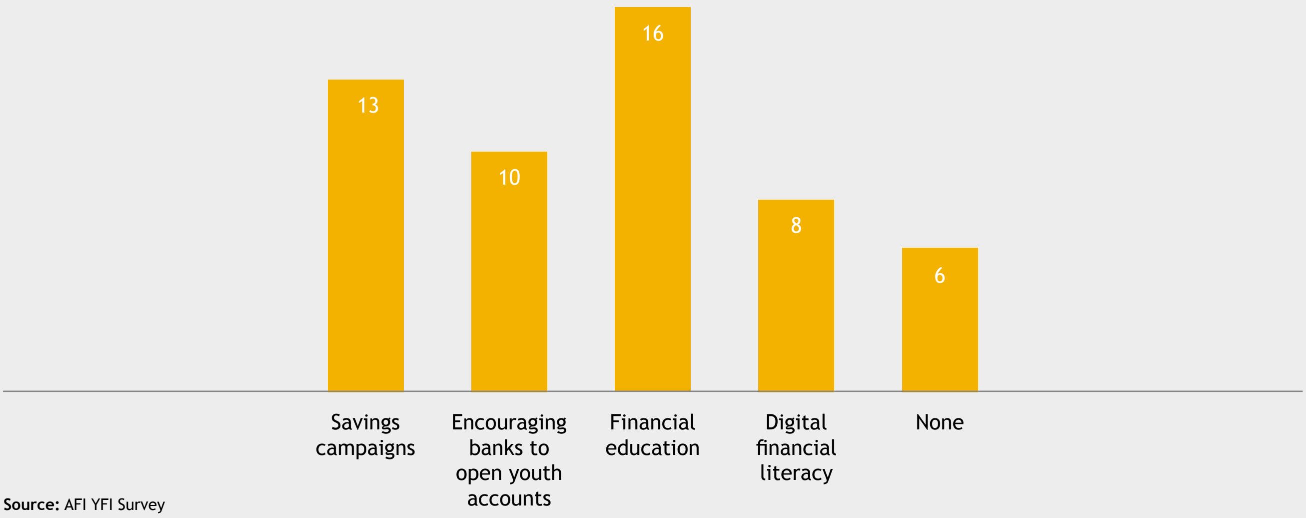
Among AFI members, Jordan has been a pioneer in financial education curriculum for school-age children. The curriculum covers basic information related to entrepreneurship and startups, and aims to enhance the financial capabilities of youth and teenagers.

In Mexico, the National Commission for the Protection and Defense of the Users of Financial Services (CONDUSEF) has organized the National Week on Financial Education every year since 2008. Although this event is for the general public, it includes exhibits and material designed specifically for the school-age population and youth.

28 UNCDF-YouthStart Technical Note. Client Protection for Youth Clients. See: https://www.smartcampaign.org/tools-a-resources/821-client-protection-for-youth-clients-uncdf-youthstart-technical-note

29 Initiated by the CYFI in 2012, it is now organised by the OECD International Network on Financial Education (OECD/INFE).

FIGURE 9: NON-REGULATORY INTERVENTIONS BY AFI MEMBERS



Source: AFI YFI Survey

TABLE 7: AFI MEMBER INITIATIVES FOR YOUTH MSMEs

FINANCIAL INCLUSION INITIATIVES TARGETING YOUTH MSMEs	
SPECIAL SCHEMES	7
GRANTS	7
TAX CONCESSIONS	7
CREDIT GUARANTEES	7
ALTERNATIVE LENDING REGULATION	7
PUBLIC SUPPORT FOR YOUTH ENTREPRENEURS' BUSINESS PLANNING	7
PUBLIC SUPPORT FOR FINANCIAL CAPABILITY	16
NO SPECIFIC ACTIONS	14

Source: AFI YFI Survey

B) INVESTMENTS IN YOUTH MSMEs

Many countries have prioritized providing support to MSMEs, although this support is not necessarily age-specific. For instance, in Egypt, banks are required to dedicate 20 percent of their portfolio to SMEs, but there are no age limits for the MSMEs (AFI member interview, 2020). Similarly, banks in the Philippines are mandated to allocate at least 10 percent of their total loan portfolio to MSME lending. While the law governing this mandatory credit allocation lapsed in 2018, there are pending legislative proposals to renew it.

In cases where there are youth-specific MSME initiatives, they tend to focus primarily on training in entrepreneurship, with some limited funds in the form of grants or loans for youth MSMEs. Table 7 shows the different types of initiatives for youth MSMEs reported in the AFI YFI Survey.

A credit guarantee scheme, often in the form of a publicly funded partial guarantee, is one mechanism that facilitates access to credit, including (but usually not limited to) for young entrepreneurs. Credit guarantees remain rare. Globally, credit guarantee programs reach only 1.6 percent of SMEs and only 0.3 percent in Africa (Abraham and Schmukler, 2017).[30]

30 Data is not available for microenterprises.

The African Guarantee Fund (AGF), for example, is an African Development Bank (AfDB) initiative that is funded by several countries to support SMEs throughout Africa. While the AGF does not currently have specific targets for youth, as of 2018, youth owned 60 percent of the SMEs supported by the fund (African Guarantee Fund, 2018).

These financing schemes are difficult to implement, however, and there are often strict conditions and requirements even with the guarantee in place (Dang and Chuc, 2019). There is therefore an unmet need for credit guarantees that focus specifically on youth-owned MSMEs.

> “Youth in Burundi cannot rely on getting a job, so they become self-employed. But youth face difficulties to get capital to invest in their [businesses].”
>
> (AFI member interview, Bank of the Republic of Burundi, 2020)

Another financing option for young entrepreneurs is a dedicated financial entity, such as Burundi’s Youth Investment Bank (BIJE), which launched in 2020. This bank will provide guarantees to youth groups through financial institutions, but will still require collateral (AFI member interview, 2020). This initiative complements financial capability programs, such as the Burundi Business Incubator, which focuses on financial education and coaching for small entrepreneurs (Republic of Burundi, 2014).

Funding for youth is also provided through public-private partnerships with international organizations. For instance, Youth Business International has partnered with the Inter-American Development Bank (IADB) to offer young entrepreneurs technical support, mentorship, technical assistance and small loans through private member institutions in Argentina, Colombia and Mexico Pakistan’s YES! Program (Kamyab Jawan) is another example (see the case study box).

Yet another example is the Central Bank of Egypt, which has funded the “NilePreneurs” initiative, which provides financial and technical support for youth-led startups. Implemented by Nile University, the initiative aims to enhance the ecosystem for entrepreneurs in Egypt through different programs with the support of banks, government entities and international organizations.[31]

CASE STUDY: PAKISTAN YES! (KAMYAB JAWAN PROGRAM)

In Pakistan, the Prime Minister has launched the Youth Entrepreneurship Scheme (YES!), designed to provide loans to young entrepreneurs to set up a new business or expand an existing one under the guidance and supervision of the State Bank of Pakistan.

The loans are provided in three tiers depending on the size of the loan and the amount of the support provided by the government. In the lowest tier, the government bears credit losses (principal portion only) of up to 50 percent on the disbursed portfolio of the banks.

The program is a public-private partnership with the Pakistan Poverty Alleviation Fund, the State Bank of Pakistan and three other banks, including one private bank (NYDP, n.d.).

A few countries have also set up competition programs that provide funding to the winners. For instance, Fiji has established a Young Entrepreneurship scheme for young people between 18 and 40 with unique business ideas.[32]

POLICIES TO MITIGATE CLIMATE CHANGE THROUGH YOUTH MSMES

Environmental degradation and climate change have an impact on young people’s livelihoods, economic opportunities and other aspects of their development, in some cases exacerbating existing inequalities.

CASE STUDY: THE YOUTH SOCIAL ENTERPRISE INCUBATOR PROGRAM IN SRI LANKA

This program is designed for young social entrepreneurs between the ages of 18 and 34 interested in starting businesses that address social or environmental issues. Through Lanka Social Ventures (LSV), both programs provide individual business coaching, mentoring and specialized training combined with exposure visits and on-site training. In addition, LSV assists entrepreneurs in accessing start-up grants and connecting with FSPs (ILO, 2020).

31 Nilepreneurs provides beneficiaries multiple offerings to help them achieve their targets and enhance the ecosystem for entrepreneurs, including innovation accelerators, training and digital awareness, business development services and entrepreneurial support.

32 For more information, visit: https://yes.gov.fj/

Most of the world's youth live and work in rural areas (FAO, 2015) where crop and climate risk insurance are strategically important to eradicating extreme poverty and increasing shared prosperity. Financial inclusion can support long-term resilience, mitigation and adaptation to the negative impacts of climate change while at the same time addressing youth unemployment.

C) INSTITUTIONAL CAPACITY BUILDING OF FSPs

Even when appropriate regulations and mechanisms are in place, financial institutions might not be motivated enough to reach out to youth as a target market, due to lack of capacity or negative biases about youth. Financial institutions would benefit from technical support to learn more about the youth segment and to determine how best to serve them, for example, through client-centric design. Child and Youth Finance International, for instance, conducted youth-friendly product development workshops with financial institutions and government agencies in numerous countries to improve their understanding of the youth segment and how they could offer child and youth-friendly products (CYFI, 2017; CYFI, 2018).[33]

> "One of the elements under the Women Mainstreaming Policy that will be launched is to encourage banks to see the various life cycles stages that women go through, be mindful of products and services that they develop, for example, for a young college-age girl or a young woman who just started to work."
>
> (AFI member interview, State Bank of Pakistan, 2020)

Macro-level stakeholders can prioritize finding partners to build local capacity and improve understanding of the business case within their financial inclusion sector. For instance, the Bank of Zambia has conducted product development workshops with financial institutions to sensitize them about developing youth-centric products (AFI member interview, 2020).

It is even more important that FSPs recognize the double barriers young women face: first because of their age and second because of their gender. The needs of young women, especially young mothers, are therefore starkly different than those of young men who do not yet have families. FSPs need to recognize these differences and call for distinct product designs.

D) LINKAGES BETWEEN FORMAL AND SEMI-FORMAL FINANCIAL SERVICES

The importance of community-based financial mechanisms, such as savings groups, in advancing financial inclusion should not be underestimated. These semi-formal mechanisms often provide the first opportunity for young people to save and borrow in a systematic way. With the support of international and national agencies, savings groups have evolved to become robust and reliable. Most importantly, women tend to dominate these groups, which gives young women a boost in building their financial management skills.

However, savings groups do have limitations and should be viewed as a gateway to financial inclusion rather than an end goal. Drawbacks to savings groups include: risk of theft or loss of funds (even when placed in a lockbox); limited availability of loans (funds are available to just a few members based on the group's total savings); and the limited duration of each cycle (the point at which all savings and group revenues are distributed). The best strategies treat savings groups as a stepping stone for youth financial inclusion and include partnerships and linkages that pave the way to formal financial services.

Linkages between formal and semi-formal financial services require partnerships with financial institutions and can benefit from technical support. The participation of mobile network operators (MNOs) can be useful to facilitate mobile-based transactions for savings groups in rural areas. To be effective, financial institutions need to offer a product that meets the needs and preferences of savings group members. There are also some additional challenges to consider, such as the need to access deposits as needed. Savings group members need to be trained in how formal financial services work and what they can expect. To this end, the Banking for Change initiative, which has managed one of the largest savings group programs worldwide, has issued a set of principles on linking savings groups with formal financial institutions that is applicable to youth savings groups.[34]

33 In 2017 and 2018, CYFI product development workshops were held in Lebanon, Cameroon, Chile, Peru, Kenya, Madagascar, Malawi, Georgia, Pakistan, Rwanda and Zimbabwe.

34 For more information, visit: https://www.careinternational.org.uk/linking-for-change/images/linking for change savings charter.pdf

THE IMPACT OF COVID-19

The AFI YFI Survey asked members about their strategies for addressing the COVID-19 pandemic, specifically ones aimed at youth and/or youth MSMEs. Only five respondents indicated they were implementing some form of regulatory intervention.

The five AFI members taking some measures are focused primarily on MSME credit, including youth-led MSMEs. Their measures include:

- Special lending programs targeting SMEs, including youth;
- Facilitating access to loans for MSMEs led by youth and women;
- Encouraging FSPs to relax enforcement on loan repayments (for clients with good repayment history);
- Easing some prudential regulations so that service providers have adequate capabilities to adopt measures;
- Financial sector regulatory adjustments to stimulate bank lending to MSMEs;
- Fiscal measures to provide liquidity; and
- Measures to improve access to finance, such as concessional loans and guarantee fund programs.

> “In response to the COVID-19 situation, we allow digital onboarding to open accounts or mobile wallets directly online, with a grace period of 3 months at any point in time so they can visit the bank and give them a copy of their ID. It is under study right now whether to extend it.”
>
> (AFI member interview, Central Bank of Egypt, 2020)

Additional measures are also underway. Egypt is allowing online onboarding for account opening, with the caveat that an ID must be presented within three months (AFI member interview, 2020), and the Zimbabwe Government is providing $10 million for MSMEs, youth, women and the elderly (AFI, 2020).

ACRONYMS

AFI	Alliance for Financial Inclusion
CYFI	Child and Youth Finance International
DFS	Digital Financial Services
FI	Financial Institution
FSP	Financial Service Provider
GPFI	Global Partnership for Financial Inclusion
KYC	Know Your Customer
ILO	International Labour Organization
LMIC	Low- and Middle-Income Country
MSME	Micro, Small and Medium Enterprise
NCC	Non-Conventional Collateral
NEET	Not in Employment, Education or Training
NFES	National Financial Education Strategy
NFIS	National Financial Inclusion Strategy
UN	United Nations
UNCDF	United Nations Capital Development Fund
VSLA	Village Savings and Loan Association
YFI	Youth Financial Inclusion

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ANNEX A:
MINIMUM AGE FOR FINANCIAL ACCESS (AFI MEMBERS)

	LEGAL AGE	NON-BANKING FSP	BANKING FSP	E-WALLET
AFGHANISTAN	18	18	18	18
ANGOLA	18	18	18	18
BANGLADESH	18	18	18	18
BURUNDI	18	18	18	16
CAMBODIA	18	18	18	18
COSTA RICA	18	-	18	-
ECUADOR	15	18	18	18
ESWATINI	18/21	18	18	18
FIJI	16	18	18	-
GHANA	18	18	18	-
MADAGASCAR	21	-	18	18
MALAYSIA	15	18	18	18
MALDIVES	16	18	18	18
MAURITANIA	14	18	18	-
MEXICO	18	18	15	18
MOZAMBIQUE	-	21	21	21
PALESTINE	18	18	18	16
PAPUA NEW GUINEA	18	18	18	18
PARAGUAY	18	18	18	18
PERU	14	-	-	-
PHILIPPINES	18	-	18	-
SAMOA	17	-	-	-
SURINAME	21	-	21	21
TANZANIA	18	18	18	16
TIMOR LESTE	17	17	17	17
TUNISIA	18	-	-	-
ZAMBIA	18	18	18	-

Source: AFI YFI Survey

ANNEX B: FINANCIAL INCLUSION DATA AND INFORMATION SOURCES

SOURCE	TYPE OF DATA	USE OF DATA	GEOGRAPHY, AGE AND GENDER DISAGGREGATION
GLOBAL FINDEX	Demand-side financial inclusion indicators for people 15+	Assess extent of access and usage of financial services	> Global > Age disaggregation for all indicators > Age and gender disaggregation available only in the microdata database, which requires additional calculations for country and regional aggregates
FINSCOPE	Demand-side financial inclusion indicators for people 15+	Assess extent of access and usage of financial services	> Available only for a few countries > Age disaggregation for numerous indicators > Age and gender disaggregation not widely available
FINANCIAL ACCESS SURVEY - IMF	Supply-side financial inclusion indicators for people 15+	Assess extent of available financial services	> Gender, but not age disaggregation
ILOSTAT	Labor indicators for people 15+	Extent of employment and labor	> Global > Age and gender disaggregation, but country and regional aggregates require additional calculations

TYPE OF INFORMATION	USEFUL REFERENCES
BUSINESS CASE FOR YOUTH SAVINGS	The Business Case for Youth Savings: A Framework (CGAP, 2014)
BUSINESS CASE FOR YOUTH FINANCIAL SERVICES	Building the Business Case for Youth Financial Services: Further Insights from the YouthStart Programme (UNCDF, 2015)
BUSINESS CASE FOR YOUTH SAVINGS	Show Me the Money: Cost and Revenues of Youth Savings and Financial Education Services Offered by Credit Unions in Mali and Ecuador (Loupeda, 2014)
YOUTH CONSUMER PROTECTION GUIDELINES	Client Protection for Youth Clients: UNCDF-YouthStart Technical Note (UNCDF, 2013)
CHILD AND YOUTH-FRIENDLY BANKING PRODUCTS	Banking a New Generation: Developing Responsible Retail Banking Products for Children and Youth (CYFI, 2014)

ANNEX C:
CYFI CHILD AND YOUTH FRIENDLY BANKING PRINCIPLES

PRINCIPLE	PRODUCT CHARACTERISTICS
AVAILABILITY AND ACCESSIBILITY FOR CHILDREN AND YOUTH	They are widely available and accessible to children and youth despite their economic, social, cultural, or religious situation, gender, age, or ability.
MAXIMUM CONTROL TOCHILDREN AND YOUTH	They provide the maximum possible control to children and youth within the boundaries of local jurisdiction and ensure financial ownership.
POSITIVE FINANCIAL INCENTIVEFOR CHILDREN AND YOUTH	To build confidence as children and youth enter the financial system, positive financial incentives (e.g. no overdraft and relatively higher interest rates) are important.
REACHING UNBANKED CHILDRENAND YOUTH	The financial institution will proactively reach out to unbanked children and youth in vulnerable communities as part of a larger financial inclusion agenda, within the boundaries of local jurisdiction.
EMPLOYING CHILD AND YOUTHFRIENDLY COMMUNICATION STRATEGIES	The communication and marketing materials around the product will be child and youth centered, connecting to their needs, interests and level of comprehension. This will be complemented by the ability of all staff within a financial institution to interact in a child and youth friendly manner
A COMPONENT OF ECONOMIC CITIZENSHIP EDUCATION	In combination with the product, children and youth are offered a component of Economic Citizenship Education, with elements of financial, life skills, and livelihoods education.
MONITORING OF CHILD AND YOUTH SATISFACTION	The financial institution monitors the extent to which the product and relating services satisfy the needs and interests of children and youth
INTERNAL CONTROL	The financial institution has internal controls in place on all these principles

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