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Policy Lessons from YouthSave

Fred M. Ssewamala and Scarlett Aldebot-Green

Recognizing that today's youth will be tomorrow's productive labor force, policymakers in developing countries are making concerted efforts to facilitate youth economic empowerment. YouthSave and other research indicates that youth savings programs have the potential to help low-income young people build better futures. This research demonstrates that low-income young people can and do save if given the opportunity, and that savings programs for young people can have far-reaching educational, economic, health, and behavioral outcomes.[1]

But the policy implications around formal-sector youth savings in the developing world are complex and varied, dependent as they are upon the particular regulatory environment of each country context. YouthSave data has taught us that within this broader policy context, there are nevertheless some specific policy measures that could facilitate youth financial inclusion in general and savings in particular.

It is important to keep some specific factors in mind when considering youth-savings policy questions. First, young people in developing countries, particularly those young people living in poverty, often occupy precarious positions at the margins of their societies, excluded from

1 See for example Johnson et al. (2015); Ssewamala & Ismayilova (2009); Ssewamala et al. (2010); and Ssewamala et al. (2012).

many societal institutions, including the formal financial sector. As a result, savings programs designed for these youth must make concerted efforts to reach them. Second, this social vulnerability means that concerted efforts must also be made to protect their interests and those of the institution lest a relationship intended for mutual benefit should end up causing unintended harmful consequences to either party.[2] To address these issues, and based on our findings from YouthSave, we suggest the following policy lessons.

2 Aldebot-Green, Scarlett and Aleta Sprague. 2014. *Regulatory Environments for Youth Savings in the Developing World*. YouthSave Policy Brief. Washington, D.C.: New America. Available at: https://www.newamerica.org/downloads/Regulatory_Environments_for_Youth_Savings_Developing_World_Youthsave.pdf

1. Creating Generally Supportive Regulatory Environments for Youth Savings.

The goal here is to identify the most common barriers and then to craft solutions in collaboration with a broad base of stakeholders—including ministries of youth, education, social welfare, and finance (including central banks); formal financial institutions; youth-serving organizations; faith-based organizations; and schools. These stakeholders should address the two most prevalent regulatory constraints: proof of identity and account control. Many low-income youth lack birth certificates or other official government-issued identity documents but may be able to provide reasonable alternatives (e.g., school IDs or letters of introduction from local authorities). Creating flexible policies around identity verification would allow more young people potential access to accounts. At the same time, policies aimed at facilitating flexibility for youth should also protect financial institutions and, more broadly, financial systems. A tiered system might be appropriate—one that allows alternatives to government issued identification for younger minors or those with lower account balances while still requiring more formal proof of identity for older youth or larger-volume accounts.

We recommend governments and financial institutions design policies that provide youth maximum control of their accounts while ensuring age-appropriate protections through flexibility around opening, management, and closure or transformation of accounts.[3] Indeed, in the countries where YouthSave was implemented, we found that many commercial banks were already offering savings products aimed at helping adults save *on behalf of or in the name of their children* (or grandchildren or other minor child), but regulations made it difficult to design a product that youth could

3 Ibid.

open and manage themselves. While certain product design workarounds served to ease access somewhat for YouthSave participants, this barrier could be most effectively addressed through policy.

As an example, we could learn from the U.S. Community Reinvestment Act of 1977 (CRA) (P.L. 95-128, 91 Stat. 1147, title VIII of the Housing and Community Development Act of 1977) intended to address the discriminatory credit practices against individuals and businesses from low-income neighborhoods. The CRA provides a framework for financial institutions, working together with state and local governments, and community organizations, to promote affordable financial and banking services to all members of a community, including low-income residents. It does so while emphasizing that safe and sound practices are in place to protect institutions against loss.

Governments in developing countries have devised their own policies and regulations and may use them as a means to advance financial inclusion for young people. For example, the Kenyan Government's *Vision 2030* (which explicitly focuses on greater financial inclusion of low-income individuals and families) includes youth financial inclusion as a specific target. Kenya, along with Ghana, also provides an example of a concrete tactic to make it easier to extend savings services to young people. In both of those countries, for youth participating in YouthSave, regulatory or institutional policy was waived in order to allow "trusted adults" to be cosignatories on minors' accounts rather than only parents. The result was that 56 percent of accounts were opened with cosignatories other than parents.[4] This may suggest that for 56 percent of youth account holders, it was the regulations (or their interpretation) that may have been the factor determining the youths' willingness, or perhaps ability, to take advantage of the opportunity to save.

4 Johnson, Lissa, YungSoo Lee, David Ansong, et al. 2015. *Youth Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal*. YouthSave Research Report 2015. St. Louis, MO: Center for Social Development at Washington University. Available at: http://csd.wustl.edu/Publications/Documents/RR15-01.pdf

2. Policy Should Also Account for Specific Vulnerabilities—Economic, Legal, Social, and Gender

Depending on their circumstances, young people can face different barriers to accessing youth savings programs. Very low-income youth, those out of school, and girls face particular challenges. YouthSave results indicate that, although an estimated 48 percent of account holders were living under USD 2.50 per day, higher poverty likelihood was associated with lower savers in Ghana and Kenya.[5] Out-of-school youth represented only 1.6 percent of the total number of YouthSave account holders, and in Kenya and Ghana, boys outnumbered girls by a ratio of 3:2.

> If secondary schools are the main targets for marketing, girls and the very poor may be neglected.

These trends could reflect marketing and targeting strategies. If marketing is done for the most part in secondary schools, for example, it is likely that fewer girls will be reached due to generally lower female enrollment rates at that level. In the African countries where YouthSave was implemented, although primary school is free, secondary school is not. That means that if secondary schools are the main targets for youth financial inclusion, the very poor will also be neglected.

5 Ibid.

To be truly inclusive, savings programs must tailor their outreach strategies to take account of the particular obstacles faced by girls, poorer youth, and out-of-school youth. Along with more effective marketing and targeting, financial education may foster more equitable inclusion. Financial institutions may also consider entering into partnerships with organizations that already deliver other services to marginalized youth and that might be open to learning about the potential benefits of adding financial services and asset building to their programming. Policymakers are well positioned to encourage such relationships since their role is to identify strategies that can reach more vulnerable segments and since they can design interventions with a partnership model in mind.

3. Think Beyond Access to Usage

Youth involved in the YouthSave project opened over 130,000 accounts as of May 2015. Out of the 66,606 research accounts opened as of May 2014, 61 percent had become inactive within the prior six-month period.[6] Youth participants explained that, at least in some cases, accounts went dormant because the youths' parents or other trusted adults could not take or accompany youth to bank branches.[7] In other cases, youth became discouraged from saving when adults in their lives became less involved in what had been a joint enterprise.[8]

It has been suggested that the drop-off in usage, at least to the extent it reflects logistical challenges, could be addressed through technology. For example, mobile phone-based tools could enable youth to access accounts whenever or wherever needed. Although such tools have the potential to increase savings and to lower the cost to youth and banks of doing business with one another, significant barriers exist.[9] Mobile phones may be ubiquitous, but cost could still be a constraint for young people. In some countries, minor youth are barred by law from owning a SIM card or a phone in his or her own name, and in remote or rural areas, network access is another barrier as well.[10] ■

6 Johnson, Lissa, YungSoo Lee, David Ansong, et al. (2015)

7 Comments from Colombian YouthSaver, Multi-Stakeholder Meeting, Bogotá, Colombia (2014)

8 See for example Otoo, Adadezwa and Christina Williams, May 11, 2015, "If You Build It, Will They (Continue to) Come?", YouthSave blog, www.newamerica.org/youthsave/if-you-build-it-will-they-continue-to-come as well as Cramer, Reid, Justin King, Rachel Black, and Patricia Hart. 2015. *Addressing the Challenge of Account Dormancy in Youth Savings Initiatives*. Washington, DC: New America. Available at: https://static.newamerica.org/attachments/4464-addressing-the-challenge-of-account-dormancy-in-youth-savings-initiatives/Youth%20Savings%20Dormancy.67e61dc850904c4988bb75926cd7c478.pdf

9 Johnson, Lissa, YungSoo Lee, David Ansong, et al. (2015)

10 Zimmerman, Jamie M., Lex Nowak, Elizabeth Carls, et al. 2013. *Beyond the Buzz: The Allure and Challenge of Using Mobile Phones to Increase Youth Financial Inclusion*. Washington, D.C.: New America. Available at: http://preview.newamerica.org/downloads/Beyond_the_BuzzFINAL.pdf

References and Background Reading

The YouthSave Consortium is grateful to all the scholars and practitioners whose writings have helped shape our project and the fields of youth financial services and youth wellbeing generally. Where possible, we have provided URLs where interested readers can download the works cited in this report. Please note that URLs were valid at the time of writing. We regret that, with the exception of YouthSave's own work products, we cannot be responsible for any links that may break or decay over time, nor can we ensure that downloads are or will remain free of charge. Works produced under the auspices of the YouthSave Consortium itself are indicated with an asterisk (*).

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