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YOUTH SAVINGS ACCOUNTS: A FINANCIAL SERVICE PERSPECTIVE

A LITERATURE AND PROGRAM REVIEW

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Photo: Thirteen-year old in the Philippines, banking by mobile phone.

Photo credit: John V. Owens, USAID-supported MABS program, The Philippines

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EXECUTIVE SUMMARY

Over a third of the world's population is between the ages of fourteen and twenty-five and lives in developing countries. Nearly one in five of these youth live on less than US\$ 1 a day and a large portion have few economic opportunities. In response to this reality, palliative approaches that support vulnerable youth with charity and reactive social services are giving way to approaches that focus more proactively on realizing youth's economic potential. In this context, savings accounts are seen as one in a promising package of services that, together, can help youth cushion themselves against economic shocks, build assets and accumulate wealth that can be used to invest in a better future. In this paper, we look at youth savings services from a financial service rather than a youth service perspective.

YOUTH DEMAND FOR SAVINGS SERVICES

Youth demand for savings services is not distinct from that of low-income adults. Like these adults, young people save informally. In fact, youth demand to save is more widespread than their demand for credit. Above all, both youth and low-income adults want savings services that are convenient, relative secure, liquid in case of emergencies, and illiquid to provide a secure place to accumulate larger sums. Beyond this, youth demand is not uniform. Rather, it tends to be differentiated by gender, economic level, marital status, whether youth live in rural or urban areas, and whether they are attending school. As with other low-income populations, their demand for financial savings may be latent. It can be catalyzed by promotion and incentives.

SAVINGS PRODUCTS

Youth demand for savings services seems to be met best by two products. The top demand - especially for youth such as street children who are responsible for their own livelihood - seems to be a demand deposit product by which they can deposit or withdraw at any time. This fits their irregular income flows and allows them to withdraw to meet consumption needs and emergencies. Their other pressing demand is a youth savings product by which the timing and size of deposits is open but the entire amount is withdrawn at a predetermined time. This product allows for irregular income and also provides the discipline – illiquidity – to enable youth to accumulate larger sums. In contrast, a straight contractual product that requires regular payments may push youth, particularly girls, into harmful relationships or activities.

FINANCIAL EDUCATION

Many youth service providers suggest that for youth to benefit from financial services, these services must be accompanied by financial education. Although financial illiteracy among youth is widespread, what constitutes effective financial education for this group is not clear. Furthermore, a review of the literature on the effectiveness of youth financial education concluded that evaluations of even seemingly-effective programs either did not aim to establish impact or had methodological weaknesses. The review did not find conclusive evidence that financial education programs lead to greater financial knowledge and better financial behavior.

A number of practitioners and researchers raise questions about the effectiveness and cost-effectiveness of financial education and propose some alternatives. Financial institutions themselves might educate their clients by providing simple product explanations. Access to financial services right where they live or work might replace the need for financial education, enabling the poor to learn to manage their money by actually managing their money. A number of practitioners and researchers suggest that, at a minimum, financial education should target specific audiences and areas of financial activity, offering “just-in-time” training using “teachable moments” that are relevant to actual experience (Hathaway and Khatiwada). However, others suggest just the opposite, expanding financial education by starting it at earlier ages and continuing it throughout school. These questions should be studied empirically, considering the costs and benefits of financial education relative to other types of education.

BARRIERS TO YOUTH USING SAVINGS SERVICES

Many barriers that inhibit youth from savings in institutions are common to much of the small-balance depositor market. These groups will not find services useful if they involve more than a few kilometers of travel, a significant wait, or inconvenient hours. For many, typical fees, minimum balance requirements and minimum deposits requirement are not feasible. These groups also will be deterred from opening a savings account by paperwork, fear of or discomfort with banks, or a lack of understanding of savings products.

Other barriers are specific to youth. They may not be able to shield their savings from adults, may hear less than adults to about available savings options, and legally may not be able to hold an account. Street children may not be able to provide a street address to meet Know Your Customer regulations. Notably, none of these youth-specific barriers relate to product design.

THE COST RECOVERY CHALLENGE

For financial institutions, the chief challenge to serving low-balance markets - including youth - is high per-transaction operating costs. Providing the low opening and maintaining balances, flexible deposit amounts, liquidity, and convenience that they seek is costly. Few financial institutions can afford to offer low-income savers the stand-alone liquid product that they most want, unless they are able to use new e-technologies.

Although mobile phone and correspondent banking are dramatically lowering per-transaction costs, for now, these and other low-cost delivery channels tend to provide only limited product offerings. Furthermore, a guiding principle for sustainable low-balance deposit mobilization is to provide a few generic services that can meet the bulk of market demand. Typically, youth save very small amounts that represent just a slice of a low-income market. For all these reasons, financial institutions have little reason or ability to serve youth as distinct from the broader adult market. However, as the above discussion highlights, most youth demand *for savings services* is not so different from adult demand as to require distinct products.

The youth market can pose two particular financial challenges. First, many researchers and practitioners agree that providing vulnerable youth with economic opportunities requires a bundle of services. This is much more costly than providing only a savings service. Furthermore, low-balance savings services do not generate revenues to support additional services. One option is to offer these additional services through a different channel.

Second, many financial institutions believe that incentives are needed to attract and retain youth savers and to motivate higher levels of savings. Financial institutions may offer small incentives such as a school notebook as a way to improve their profitability. Alternatively, donors or governments may provide significant incentives such as a two-to-one match for savings as a way to stimulate asset accumulation for all youth or for less-advantaged youth. With this second approach, the party providing the incentive – to engender a social good - does not expect to recover its costs.

Institutions that are providing youth savings services while recovering or nearly recovering costs tend to do so in one or more of the following ways.

School savers accounts, a youth savings account, often cover only their direct costs but are expected to engender long-term client loyalty. Some financial institutions mobilize significant deposits in schools on a profitable basis. Others find school-based collection to be prohibitively costly and mobilize small volumes of deposits in their branches.

Mobile phone banking dramatically reduces transaction costs and saves clients time and travel costs. In the Philippines, children of thirteen years and older are transacting with these accounts, which are generic accounts that serve adults and youth alike.

Doorstep collection: In the slums of Dhaka, *SafeSave* also serves youth without targeting them. Its keys to cost recovery are to hire minimally-educated local women as collectors and to couple loan and savings service delivery.

Serving informal groups rather than individuals: Some programs serve groups that include youth – particularly married women – alongside adults on a cost-recovering basis.

Lock boxes: Many financial institutions provide clients – sometimes especially youth or their parents - with “lockboxes” – slotted locked boxes to which staff alone hold the key. The boxes provide a round-the-clock deposit service at negligible cost to the financial institution.

The vast majority of financial institutions that serve youth separately from adults provide school savers accounts. Most other institutions that serve youth do so without differentiating them from adults. Aside from school savers accounts, we are not seeing institutions that expect to recover costs provide specific products for the mass youth market. There are two likely reasons for this: first, the demand of out-of-school youth is not distinct and, second, serving youth separately is not potentially profitable.

Where profitable low-cost delivery is not yet feasible, banks might be enticed to serve youth because youth clients can become loyal, lifetime value clients and because serving them may be a way to cross-sell products to parents while fulfilling their corporate social responsibility.

YOUTH AS SOLE ACCOUNT HOLDERS

In many countries, youth under sixteen or eighteen years of age may not legally hold a savings account. Many youth may lack a trustworthy adult to transact on their behalf. In any case, adults may not transact when or as frequently as youth might want. Further, having an adult as the account holder might mute the positive impact of holding a savings account. Age restrictions that exclude youth account holders might be mitigated in the following ways:

- Having the caretaker serve as a joint signatory with the youth may meet legal requirements while affording youth some protection from an exploitative caretaker. With a matched fund, a caretaker may not be allowed to touch the matched funds, which may be directly transferred to a school for school fees.
- To prevent caretakers from misusing youths’ savings and youth from making rash decisions, the use of funds can be restricted such as for education or health care.
- An NGO might serve as a joint signatory with the youth. This solution may be short-term as NGO programs may be time-limited.

INFORMAL SERVICES: APPROPRIATE OR EFFECTIVE FOR YOUTH?

For many economically active poor households and for youth, informal savings services are their only savings option. Until technologies move the financial frontier to lower-income and more rural markets, providing small depositors with formal financial options on a sustainable basis may not be possible.

Informal savings mechanisms often have distinct advantages: convenience, transaction sizes that match savers’ capacities; relatively low fees, transaction costs and opportunity costs; and service terms that, though simple and apparently rigid, can often be bent to meet individual circumstances.

These services also have disadvantages. Individuals can run off with others’ savings and, if they do, savers have no recourse. The regular fixed-amount deposits often required may not match the cash flow of low-income adults or youth. ROSCAs provide no interest, are not customized to the individual, and provide only medium-term services: they cannot manage either the daily in and out that street children might require nor the long-term accumulation that might provide for a substantial investment in school fees or an enterprise.

In conclusion, the interest in developing youth savings accounts comes primarily from youth service providers and their supporters. To be efficient in our use of development resources, we should broaden our perspective to look carefully at whether and what aspects of youth demand actually require separate products and delivery channels and the extent to which models that successfully serve other small-balance depositors and recover their costs fit the demand of youth. Absent policymakers providing major financial incentives as an asset-building strategy for youth,

creating accounts specifically for youth other than school savings accounts may be a donor-driven enterprise that may not make sense given the great overlap between what youth and adults demand. These questions and others about the value of complementary services merit inspection before the field moves forward.

INTRODUCTION

Over 1.5 billion people - nearly 40% of the world's population - are between the ages of fourteen and twenty-five, and 85% of them live in developing countries (World Bank). One in five youth lives on less than US\$ 1 a day and the unemployment rate among youth is several times that of adults (United Nations, International Labour Organisation). Worldwide, AIDS orphans number about fifteen million. Youth also make up about half of the world's thirty-five million refugees and, in 2005, some 300,000 were serving as soldiers (Stark). With a burgeoning population that is both young and vulnerable, it is no surprise that there is tremendous interest in how to support these youth economically.

In recent years, those interested in vulnerable youth have shifted from a palliative focus on reactive charitable services to a proactive focus on realizing youths' economic potential. In this context, youth savings accounts are seen as one in a powerful package of services that can lead to social and economic development. Specifically, these accounts are seen as a tool to cushion against economic shocks, build assets and accumulate wealth. For example, a focus on economic empowerment and family-based asset building is seen as a way to keep AIDS orphans in families and prevent them from dropping out of school and migrating to cities where many become street children vulnerable to exploitation, substance abuse, and AIDS (Ssewamala, 2005). Assets such as savings, educational and economic opportunities are recognized as having important economic, social and psychological benefits. They catalyze a "future orientation" that enables youth to help themselves while providing them with a productive means to reduce their poverty (Sherraden 1990, 1991).

Very little has been written about youth savings accounts as financial rather than youth services. That is the task of this paper. We look at the demand for these services, products that meet this demand, and the barriers to providing services that youth can use. Looking at this development intervention as a financial service serves us well. To the extent that savings services for youth involve challenges common to other markets for savings services, we can draw on existing experience. In this way, we can focus our "frontier work" on the aspects of this market that differ from other markets. Our focus on the financial service aspect of savings services also serves those who seek to provide these services as a development intervention.

Many who work in this field hope that the great impact that youth savings services can have will translate into government policies that will spread youth savings accounts and livelihood training to all youth or all low-income youth. This paper can serve as a tool to help this happen. Ensuring that the financial service component is sound, effective and cost-effective will increase the ease of promoting these services on a large scale. This paper also can support savings services as an interim measure – a way to provide much larger numbers of youth with access to unadorned savings services until these government policies catch up.

Specifically, we examine the following questions:

- What do we know about youths' demand for savings services?
- What products might meet this demand?
- What do we know about the importance of financial education to the take-up and impact of youth savings services?
- What are the chief barriers to youth access and use of savings services?
- In particular, what is the nature of the costs barrier to offering savings services and how might this be overcome?
- Similarly, are legal restrictions on youth holding savings accounts a barrier and how might these be surmounted?
- Finally, to what extent can informal savings services meet youth demand and overcome these barriers?

For many of these questions, we fruitfully start by looking at what we know about the small-balance depositor market

of which the youth market is a subset. We then explore how the youth market differs from the adult market. In many cases, we find that the diversity of the youth market is such that different segments resemble the adult small-balance depositor market more than they resemble each other.

That we do not find answers to all of our questions is no surprise. The microfinance world has done much less work on savings than on credit and the interest in youth as users of financial services is new. Although savings and credit cooperatives and savings banks have been offering youth products for some time, they have not focused on understanding this market.

This paper is founded on a reading of the literature on youth savings as well as on interviews with practitioners, researchers and donors who are involved with youth savings services or who simply serve youth. Some of these actors use savings as a development intervention. Others are engaged in serving youth without holding that as an explicit focus or without seeing these services as more than a financial service. Together, their perspectives shed light on how we might expand youth savings services.

DEMAND

From street kids to middle-class school goers, evidence from Africa, Asia, and Latin America suggests that young people can and do save. In fact, as with adults, the demand to save often seems to be more widespread than the demand for credit (Nagarajan, 2005; Stark). While some countries seem to have a culture of savings, in others the demand seems to be more latent but has been realized through promotion, incentives, or social support.

Generally, what youth want most in savings services is what low-income adults want: convenient access, relative security, liquidity in case of emergencies, and illiquidity to provide a secure place to accumulate larger sums. The specifics of youths' demand for savings services varies from region to region and market segment to market segment. In fact, there is not a uniform demand that is characteristic of youth but distinct from that of low-income adults. For example, the savings demand of urban working youth may resemble the demand of low-income urban adults more than it resembles the demand of rural school children (Parrott).

The demand of youth for savings services is not well-documented. Nevertheless, evidence from a few studies and numerous programs suggests that many youth can and do save:

- One survey of microfinance institutions found that nearly one quarter of microfinance clients are between the ages of fifteen and twenty-four (McNulty and Nagarajan).
- Three years after Mexico's largest financial cooperative, Caja Popular Mexicana, extended its savings services to workers less than eighteen years of age and began to provide loans to eighteen year-olds, its youth clientele grew from 2,336 to 175,000 (Lennon).
- When programs in South Asia and Zambia offered convenient savings services designed for street children, street children used them (Street Kids International, Serrokh). The Bal Vikas Bank in Afghanistan, Bangladesh, India and Nepal serves over 3400 street children between the ages of eight and eighteen (Serrokh). These children often earn substantial amounts (Gupta and Umarji).
- A study of the TRY program for girls in Kenya found that, before the program began, 28% of the young women surveyed who chose *not* to participate in the program already were saving with a median savings amount of US\$ 26 (3.8% of per capita GNI). The percentage was much higher among young women who did choose to participate: 63% among those who worked and 48% among those who did not (Hall, Donde and Sebstad; Erulkar et al).

YOUTH AND SAVINGS

Generally, what youth want most in savings services is what low-income adults want: convenient access, relative security, liquidity in case of emergencies, and illiquidity to provide a secure place to accumulate larger sums. The specifics of youths' demand for savings services varies from region to region and market segment to market segment. In fact, there is not a uniform demand that is characteristic of youth but distinct from that of low-income adults.

- The SHAZ program in Zimbabwe found that out-of-school orphaned adolescent girls of all ages were eager to save if the savings instruments were voluntary, secure, accessible and flexible (Lukas).
- In-depth interviews with seventy-six girls between the ages of thirteen and twenty-five in Gujarat, India found that all had income from at least one source, either earnings or gifts. Most kept their savings at home, often in a mud bank (Kalyanwala and Sebstad).
- A high proportion of India’s estimated sixty to one hundred million working children would like a way to save for the short-term. A growing number would also like to save for the long-term in order to invest in a business and pay for education (Gupta and Umarji).
- Various programs have observed that the youth that they serve, especially those who are younger, value savings services over loans. In some cases, older youth note that starting a new business using savings is safer than starting with a loan (Donahue, James-Wilson, and Stark).

In the absence of more secure alternatives, youth typically save at home, with money guards, or in ROSCAs or ASCAs. These savings options tend to be convenient but often are not secure.

WHAT THEY SEEK

Although we lack large-scale studies of what youth want in savings services, findings from programs that target specific youth markets suggest that youth seek the same general qualities in savings services that are sought by lower-income adults.

The Demand to Save among Street Kids

Street kids demand savings services especially because of the relative security these services would provide. Street youth often earn a daily income from activities like garbage picking, vending and theft. They are responsible for purchasing their own food, transport and clothes yet face uncertainty in their day-to-day work. Further, they are highly vulnerable to theft, especially at night. Therefore, they often want a convenient and secure place to save daily and withdraw regularly.

They also may save for medium- or longer-term purposes – to support their families, to purchase medicines, for schooling, to invest in an income-generating activity, and to cope with emergencies (Serrokh).

Several sources suggest that, in the absence of a safe place to save, street children learn to use their income immediately because the risk of theft is so high. One study found that, without a safe place to save, street children typically split their income about equally between necessities and potentially harmful purchases from drugs to alcohol or sex. (Street Kids International)

Security: Above all, young women living in urban slum communities, youth living in a conflict situation, and street children seek savings options that are more secure than their typically insecure, informal alternatives (Sewamala and Ismayilova). In urban slums, youth often lack a secure place to hide savings, which male relatives often will steal.

Flexibility: The young women in the SEWA study in Gujarat, those in the TRY program, and youth in conflicted areas in the West Bank all needed to be able to make deposits that were irregular (Kalyanwala and Sebstad; Hall, Donde and Sebstad; Erulkar et al). Some practitioners find that the requirement that deposits be regular and fixed can push young women to exploitative adults to get funds when their regular income is insufficient. Street children cannot count on regular fixed income for deposits.

Convenience: Like low-income adults, youth require services that are nearby and available during convenient hours. When a Dhaka program for street children provided convenient services that allowed for variable transactions, it saw a 157% growth in savings in seventeen months (Serrokh).

Financially accessibility: Understandably, youth require services that have no or low minimum balances and fees and accept small deposits. Young people, at least those in school, save very small amounts (Parrott). When La Poste

Marocaine, the Moroccan postal savings bank, raised its minimum deposit size to US\$ 7, many youth that Save the Children and the Zakhoura Foundation had helped bring to the bank were no longer able to save there (Derdari, et

Savings Demand of Adolescent Girls in Kibera, Kenya: The TRY Program

The TRY program in the Kibera slum of Nairobi served young women between the ages of sixteen and twenty-two. The program offered business development services and organized self-help groups called Young Savers Clubs that enabled and required members to save regularly and access loans from their communal savings. The aim was to change attitudes about gender.

Of the TRY participants, 83% joined and saved in the Young Savers Clubs. In comparison, before the advent of the program, 63% of the TRY participants who were working and 47% of those who were not working were saving. Of nonparticipants in the TRY program, 28% were saving.

A solid evaluation of the program found that the program resulted in increased income, assets and savings for those that participated. Physical security, the ability to keep savings away from relatives, and proximity emerged as key demands. Prior to the program, seventy per cent of savers were keeping their savings at home. At the same time, promotion went slowly and two thirds of the original participants dropped out.

While participants appreciated the discipline of the TRY savings product, they were put off by the requirement that they make regular payments and by the restriction that they could not access their savings in case of emergencies. In fact, handling emergencies, sickness or death was cited as participants' most common reason for saving. Consumption of personal items followed at 20%, investing in a business at 16% and education of self or others at 15%. Developing a financial track record in order to access a loan or developing a business was cited much less frequently.

Participation in TRY and its impact on level of savings was differentiated by age. Two thirds of the young women in the TRY program were over twenty years of age. While the older participants' average savings - US\$67 - was significantly higher than before the program's inception, the younger TRY participants saved only marginally more than the nonparticipants. The younger girls, in particular, wanted access to their savings and were not interested in taking loans and receiving business development services, which they did not find to be relevant.

Many of the young women preferred ROSCAs, known as Merry Go Rounds - that provided a regular opportunity to save and emergency loans as needed - to TRY services that required them to take and repay loans and did not provide access to savings. Learning from this, the program established savings clubs that met weekly and were of greater interest.

The program demonstrated that vulnerable adolescent girls already do save and can and will save more but they want access to these savings. They also prefer financial services that are optional, simple, and flexible. (Hall, Donde and Sebstad; Erulkar et al)

al).

Liquidity – and illiquidity: Low-income savers and youth need to know that they can access their savings in case of emergency. However, once they have this access, they also often seek a means to save that keeps their savings safe from trivial every day demands. Programs serving street children and girls found that each demonstrate a desire for liquidity. At the same time, both market segments also seek to save for short- and medium-term goals so may want to not be able to withdraw their savings too easily (Parrott).

NOT A DISTINCT OR UNIFIED MARKET

In regards to demand, youth represent neither a unified nor a distinct market segment. As described above, what youth demand in a savings product is not fundamentally different than what low-income adults demand. In fact, one estimate suggests that youth already represent 5% to 25% of MFIs' portfolios (Torres). At the same time, youth

demand for savings services is not homogenous. Rather, it is differentiated by gender, economic level, marital status, whether they live in rural or urban areas, and whether they are attending school (Making Cents International).

For example, in Uganda, market research found that the earning cycle for rural schoolchildren was very short – the month between school sessions – after which they began to consume their small savings such that they had little use for a savings service. Out-of-school youth had quite different income streams that more closely resembled those of adults. Differences in demand existed even within school attendees: unlike her rural counterpart, a school goer in an urban slum who braids hair daily to raise her school fees might benefit greatly from a product that enables her to accumulate small deposits over the course of four months (Parrott).

Reaching youth without tailored services or financial education: *SafeSave*, Bangladesh

SafeSave successfully serves low-income youth with precisely the same product and delivery channel that it serves low-income adults. Youth are not differentiated from adults: they receive no financial education, incentives or special features. Although *SafeSave* experiments with offering different products in different areas, in each area, it offers just one or two products. Beyond providing clear and simple product descriptions, *SafeSave* finds financial education to be costly and not necessary to engage youth to use its products. *SafeSave* finds that low-income people including youth will use appropriate financial services if they are offered at their doorsteps and will learn about financial services by using them. The key to generating demand for its products is that its services are flexible, allowing for irregular deposits and emergency access - and highly convenient. In the densely-populated slums of Dhaka, *SafeSave* is able to cover or nearly cover the costs of daily doorstep services by using low-wage local women as staff. (Rutherford, Hirschland)

The basic overlap between adult and youth demand for savings services contrasts sharply with other services for youth. Youth service providers find that, to be effective, services like financial education, livelihood training and, even, credit require careful tailoring not only for youth versus for adults but even for younger versus older girls. These different modes of approaching services for youth need not be in conflict: youth may take advantage of a few generic savings products while benefitting from carefully tailored nonfinancial services.

The SHAZ program in Zimbabwe provides a case in point: The program serves low-income out of school orphaned girls between the ages of sixteen and nineteen. SHAZ found that the demand for non-financial services of the younger adolescents differed from that of the older adolescents, which also differed from those of adults. However, it also found that adolescents of all ages were eager to save if the savings instruments were voluntary, safe, accessible and flexible – the same qualities that adults seek (Miamiian, Sykes, and Beri).

REALIZING LATENT DEMAND: PROMOTION, INCENTIVES AND MATCHES

As with other low-income populations, the demand for financial savings among youth may be latent. This demand can be catalyzed by simple promotion tailored to this market, for example, drawing the connection between the bits of change regularly spent on small luxuries and the potential to accumulate lump sums big enough to pay for important items (Dupas; Hirschland).

Numerous sources also propose motivating savings with incentives. Incentives can run from government provision of a financial match that is tied to a particular use or uses of the funds (such as for education or investment in a business) to small scholarships to small gifts such as a school notebook or pencil box. Where substantial financial incentives are provided – for example, a two-to-one match of savings – managers should carefully consider how to assure that the saving of surplus is encouraged without cutting into needed household income (James-Wilson, et al.).

Although this exploration gives us a general sense of what youth want, the specifics – such as the minimum amounts and frequency of deposits and, if relevant, the period of time before the withdrawal - will vary from market segment to market segment. Designing products that match this demand requires market research. While trained researchers are valuable, a “quick and dirty” study by an MFI’s staff can be quite adequate to glean the information needed so long as staff are trained to ask a uniform set of open-ended questions and management assigns serious responsibility

for tabulating results. Once we understand the specific demand, we can determine what products and delivery channels will meet them.

PRODUCTS

Savings products actually are quite simple. In this section, we lay out the possibilities for savings products and which are most likely to be appropriate for the youth market.

TYPES OF SAVINGS PRODUCTS

There are three basic types of savings products and two common variants:

Demand deposit accounts, including passbook and current accounts, are flexible and liquid: the depositor makes no advance commitments and can deposit and withdraw any amount at any time that the point of service is available. A semi-liquid demand deposit account limits the number of withdrawals permitted per month. Because of the large volume of transactions of unpredictable sizes, this product tends to be the most costly and demanding for financial institutions to manage, even though it typically pays no or low interest.

Contractual deposit accounts, also known as programmed savings, are inflexible and illiquid: depositors choose an amount to deposit daily, weekly or monthly for a predetermined period of their choice after which time they withdraw the entire amount plus interest. Similar to the informal savings and credit groups in which so many of the poor participate, contractual accounts often feel familiar to low-income savers and provide a similarly disciplined means to accumulate small amounts to meet expected needs. Some research found that when savers were provided the option of this type of restricted-withdrawal account, 28% took it and saved 81% more than a control group who were not offered this option (Tufano and Schneider).

Time deposits, also known as fixed deposits or certificates of deposit, are single deposits that can be withdrawn only at a predetermined time. These products typically are not in much demand among small-balance depositors other than farmers and, possibly, recipients of occasional large remittances.

Payroll or remittance account: With these demand deposit-type accounts, salary payments or remittances are automatically deposited into the employee's or recipient's account. The account could be a demand deposit or a contractual account.

Pension, child or youth savings accounts: These accounts are a mix between a demand deposit and a contractual account. Although any amount can be deposited at any time, savings can only be withdrawn at a predetermined time.¹ This product is sometimes called a youth account because it can be used by school children to save their pocket change, by guardians to accumulate school fees over the short or medium term, or by guardians to accumulate funds for university tuition or for investment in an enterprise when a child reaches maturity.

Deposit accounts vary according to the following features: liquid or illiquid; if illiquid, a single deposit, regular deposits, or deposits when the depositor chooses; size of the minimum required opening balance, maintaining balance and / or minimum deposit size; frequency of deposits; fixed or variable amounts; maturity – how long from inception to pay-out; number of withdrawals permitted per month; possibility of and penalty for early withdrawals; and pricing – interest rates, fees, and incentives.

¹ Some pension accounts provide a stream of payments rather than a single lump sum.

SAVINGS PRODUCTS FOR YOUTH

Youth demand described above would seem to be met best by two products, a demand deposit product and a youth savings product. Before all else, youth who bear some or complete responsibility for their own or their family's livelihood, are likely to want a demand deposit product that enables them to deposit and withdraw at any time. This product fits both their likely irregular income pattern and allows for withdrawals to meet consumption needs and emergencies (Meyer, Zimmerman, and Boshara). After this demand is met, the youth savings product described above is likely to respond to their other demands and to the demands of other youth. This second product allows for irregular income but also provides discipline in the form of illiquidity to enable youth to accumulate larger sums.

Although we do not have extensive information on what products youth demand, the information we do have largely confirms our expectations:

- Street children seem to require, above all, a demand deposit account that permits them to deposit irregular amounts frequently and to access their savings at any time. They easily may lose a passbook so an alternative seems to be important. Once their primary demand for liquidity is met, street children may also appreciate a traditional youth savings product that will enable them to save for family or to invest in a microenterprise (Serrokh).
- Schoolchildren whose families care for them seem to appreciate the youth savings account described above. Schoolchildren may not have regular amounts to save, may not require liquidity to cope with emergencies in the ways that their caretakers might, and may benefit from the illiquidity that allows their savings to accumulate.
- Similarly, youth in conflict situations may demand a youth savings product that enables them to accumulate savings over the short-term to accumulate sufficient funds to launch an income-generating activity (Nagarajan).
- In general, fixed deposit products do not arise as appropriate for youth. However, one study of child labor in the Philippines concludes that these youth need a fixed deposit product (Miranda).

For all types of youth, the youth savings product described above may be preferable to a standard contractual product. Practitioners suggest that the regular payments required by the latter may push youth, particularly girls, into harmful activities or relationships. SEWA provides a counterexample, however: it serves low-income working girls and women in Ahmedabad India with only contractual savings products (Kalyanwala and Sebstad).

Determining what product or products to offer is fairly simple in contrast to determining whether financial education ought also to be offered.

Youth Savings Account: World Council of Credit Unions

Credit unions affiliated with the World Council of Credit Unions have long offered youth savings accounts, illiquid accounts with variable deposits. The accounts typically cover their direct costs while indirect costs are cross-subsidized by other products. The accounts do not accrue substantial losses and managers see them as a way to promote a culture of savings – part of the cooperatives' mission - while developing client loyalty. Managers anticipate that youth savers will become cooperative members when they reach the age of eighteen or twenty-one.

These accounts primarily target school children. Their small minimum balances can be met by children and parents can provide deposits as well. The sizes of these accounts tend to be quite small but, in order to attract youth, the cooperatives typically pay a slightly higher interest rate on these as compared to other similar accounts. The accounts may also provide prizes including scholarships and educational materials for participation. (Richardson)

FINANCIAL EDUCATION

Many youth service providers suggest that for youth to benefit from financial services, these services must be accompanied by financial education. In this section, we look at what is meant by financial education, what its proponents expect it to do, and what we know about its impact. We also suggest some proposed alternatives to increase financial literacy without financial education.

What constitutes sound financial education for youth is not yet clear. Leading promoters of financial education define financial education as teaching “people concepts of money and how to manage it wisely. It offers the opportunity to learn basic skills related to earning, spending, budgeting, saving, and borrowing” (Financial Education) with the goal of enabling participants “to make good financial decisions” (Making Cents International). However, a program and literature review on youth financial education notes that we do not know the specific barriers that financial education for youth needs to address and we lack “clearly defined or widely accepted standards of excellence for achieving effective youth financial education” (Networks Financial Institute, McCormick). In the words of one practitioner, “what ends are we seeking with financial education, changes in current or future behavior or knowledge about what?”

Financial illiteracy among youth does seem to be widespread. In India, for example, one study found that young women knew little about their own savings accounts. They were unaware in whose name the accounts were held, the amounts in their accounts, and the terms of the account including frequency of deposits. However, the older young women knew more than the younger ones (Kalyanwala and Sebstad). A modest study in Mongolia found that lower income and working girls did not understand the mechanics of savings or the concept of budgeting. They also lacked the confidence that they could save and become bank customers (Shell). In East Africa as well, many youth may not understand financial basics: what a bank does, the meaning of savings and credit, and how to budget (Parrott). However, whether financial education is an effective or cost-effective means to address these gaps and whether an understanding of these concepts affects how youth use financial services is less clear (Parrott).

Proponents of financial education do not necessarily expect it to have a direct positive impact on youth wellbeing. For example, the Financial Education for the Poor Project simply claims that financial literacy has the potential to “reduce (youths’) vulnerability to the many risks associated with the transition to adulthood, and enhance their skills in managing money as they enter the world of work” (Financial Education...). The modesty of this expected impact may reflect the belief that, to be effective in helping youth build assets or develop a livelihood, financial education must be one element in a package of services. Regarding street children, orphans and vulnerable children, and youth in conflict situations, this opinion seems to be unanimous. At a minimum, some suggest, financial education must be tied to opportunities to put its lessons into practice. The bundling of financial education with others services makes evaluating its impact and importance more difficult (Indiana State University Networks Financial Institute, McCormick).

Although many programs and studies note benefits from financial education – from increased discussion and autonomy in making financial decisions to greater levels of savings (Kalyanwala and Sebstad, Making Cents International, Torres) a review of the literature on the effectiveness of youth financial education concluded that evaluations of even seemingly-effective programs either did not aim to establish impact or had methodological weaknesses. Program efficacy has been established only by measuring outcomes indirectly. Evaluation work lacked control and randomized comparative samples, long-term follow-up, a qualitative framework, and solid data collection. Impact evaluation has not focused on long-term behavioral change but on short-term increases in financial knowledge, satisfaction, and confidence. Further, the data is self-reported rather than objective and evaluations have confused correlation with causality. This review did not find conclusive evidence that financial education programs lead to greater financial knowledge and better financial behavior (Willis a and Willis b, Indiana State University Networks Financial Institute, McCormick).

A number of practitioners and researchers are uncertain about the cost-effectiveness of financial education. A large study in Indonesia found that a standard financial education package had a positive impact on the financial participation of uneducated and financially illiterate households but that an incentive of US\$3 to US\$14 was more than two times more effective in stimulating participation (among the entire population) than the financial education (Cole, Sampson, and Zia). However, the validity of the study’s methodology for establishing the efficacy of financial education has been questioned. While recognizing that financial education might well have positive impact, the

founder of *SafeSave* suggests that financial education is not relevant for the mass market because of its costs. Based on experience in the U.S., some academics find that financial education not only is costly without having a proven impact but also is risky, generating a possibly false sense of confidence and implicitly reducing the responsibility of financial service providers to provide simple transparent terms of service (Willis, Cole and Shastry).

Rutherford proposes two low- to no-cost alternatives. First, financial institutions themselves might educate their clients by providing simple product explanations (Rutherford, Richardson, Owens, Willis a, Willis b). Of course, transparent promotion of services does not address many of the issues that proponents of more structured financial education see as important. Second, he and others concur that the poor learn to manage their money by managing their money (Meyer, Zimmerman and Boshara). The experience of the Grameen Bank demonstrates that serving people where they live and work provides financial education through experience (Rutherford).

In response to inconclusive evaluation results, some researchers suggest that financial education should target specific audiences and areas of financial activity, offering “just-in-time” training using “teachable moments” that are relevant to actual experience (Hathaway and Khatiwada). Research from India supports the idea that, for youth, learning concepts without hands-on experience is not so effective (Kalywala and Sebstad). Others draw quite a different conclusion. They suggest that, to correct misinformation and catch children early before they drop out, more training in financial literacy is needed starting at an earlier age and continuing throughout school (McCormick, Junior Achievement).

Financial education may have many benefits but we do not have the evidence to prove it. Nor do we know what content is most effective. These issues must be studied empirically (Hathaway and Khatiwada). Moreover, the costs and benefits of financial education should be weighed. With limited development resources, the question should not only be whether financial education is valuable but how valuable it is relative to its cost and to other types of education. To echo one practitioner involved in this work, if we have half an hour to work with youth, what should be the priority: AIDS education, business development or financial education? Financial education might be fairly low on the list (Parrott).

BARRIERS

A number of barriers that keep youth from saving in institutions are common to much of the small-balance depositor market. Savings services may be too far away to be relevant. The terms of savings products may not be feasible for small savers. These savers may not be able to handle the paperwork or identification requirements. And, small savers may feel uncomfortable or unwelcome in financial institutions.

Other barriers are specific to youth or to segments of the youth market. Youth may not be able to shield their savings from adults. They may hear less about available savings options than adults do and they may not legally be able to hold an account. Finally, street children may not be able to provide a street address to meet Know Your Customer regulations.

We look at the common barriers first before examining the barriers that are specific to youth.

BARRIERS COMMON TO SMALL-BALANCE SAVERS

We have significant evidence of the demand for savings services: where savings and credit services are available, savings accounts typically outnumber credit accounts by a factor of five or six to one; informal savings schemes such as ROSCAs and money guards are prevalent throughout the world; and, where doorstep savings services are available, low-income people are often ready to pay for the opportunity to save. In fact, the major barriers to small-balance savers relate to the supply of rather than the demand for services.

Physical Inaccessibility

For small-balance depositors, savings services typically must be convenient to be of any value. For savers who wish to

make a small deposit, services may not be useful if they require more than a few kilometers of travel, involve a significant wait, or are not available at convenient hours. Establishing points of service that are financially sustainable and are in close enough proximity to low-income savers often has not been possible (Hirschland). Technology is changing that reality in ways that are likely to greatly expand the financial frontier. For now, however, one study found that only half of the MFIs it surveyed even offered savings services (McNulty and Nagarajan) let alone provided points of service that are convenient.

Of course, the convenience of a point of service varies by market segment. A point of service in a marketplace may be highly convenient for market vendors, adults and youth who work in or near the market and some street children but may be inaccessible for schoolchildren. In contrast, a school-based point of service is ideal for schoolchildren but useless for street children. In some urban environments and in parts of South Asia, services for women and girls will be useful or safe only if they are near their homes.

Financial barriers

The fees, opening balances and minimum balances required by financial and microfinance institutions often are not feasible for small-balance depositors including youth. Some advocates of youth services interpret these product terms as an institutional unwillingness to serve youth. While these product terms do exclude small-balance depositors of all ages, they likely reflect institutions' bottom line expectation that their services should be profitable. In fact, many youth would save smaller amounts than most financial institutions could collect on a financially viable basis (Parrott). We look at this issue from the institutions' perspective in Section V.

Social Inaccessibility

Paperwork, a fear of banks or a sense that they are for the rich, and a lack of understanding of savings products may deter youth and low-income adults alike from opening a savings account. Research in Kenya and Uganda found youth not using financial services because they did not understand how services work and were uncomfortable with financial institutions (Parrot; Hall, Donde and Sebstad; Erulkar et al). Some suggest that youth require special services such as financial education to overcome these barriers.

Identification Requirements

For youth and adults alike, opening an account may require an identification card or birth certificate that they may not possess. If this is not required by law, then an institution may choose to establish identity in other ways, such as through fingerprint recognition technology or a photo identification card that might enable use in a single branch. For example, SEWA uses photo identification and thumbprints in order to include illiterate youth (Kalyanwala and Sebstad).

BARRIERS SPECIFIC TO YOUTH

Although many youth save, they may face a number of barriers specific to them:

Proof of residence requirements

The need to provide proof of permanent residence in order to open an account may exclude street children. Overcoming this may require an adaptation of Know Your Customer regulations for example allowing an NGO to introduce a young person to a financial institution or to hold an account jointly with this youth.

Age restrictions on account holding

In many countries, youth under eighteen years of age cannot legally hold an account. Adults may hold an account on behalf of a younger person and, in some cases, the two may have cosigning authority whereby the young person's signature may be required before the adult can make a withdrawal.

Lack of control over savings

Youth may be less able to shield their savings from others. Caregivers likely know if their charges have savings and may pressure these young people to hand over rather than bank their savings (van Bastelaer).

Market information

More than low-income adults, youth may not know where they can save (Torres). Some practitioners suggest that youth are quite cut off from information that adults might hear and will not hear about services unless promotion is specifically geared to them (Denamey and Fowler). Institutions may not even consider promotion to youth because they may see youth as “charity cases” who are unable to save (Torres).

Notably, none of these youth-specific barriers have to do with basic product design. There is little to suggest that youth access to services is impeded by the type of savings products offered beyond features – such as fees or minimum balance requirement - that are impediments to many low-income savers. The greatest challenge to offering youth savings services may be bringing these services close enough to youth to be relevant while still recovering costs.

COST-EFFECTIVENESS

For financial institutions, the chief challenge to serving low-balance markets - including youth markets - is high costs. In this section, we explore this challenge, examine some ways that financial institutions that aim to recover costs are already serving the youth market, and delineate what might induce financial institutions to offer services that meet youth demand.

THE CHALLENGE

The operating cost per transaction in a branch of even a highly efficient financial institution typically makes it difficult to serve small-balance clients, including youth, on a sustainable basis. Youth and low-income adults alike seek low opening and maintaining balances, small flexible deposit amounts, and liquidity in case of an emergency. They also find services relevant only if they are highly convenient. For a financial institution, these features are costly (Hirschland; Nagarajan 2005; Meyer, Zimmerman and Boshara).

In fact, few financial institutions can afford to offer low-income savers, including youth, the stand-alone liquid product that they most want. At the same time, offering an illiquid product – like a child savings account – without a liquid account can be risky for vulnerable youth, who need a way to meet frequent but unpredictable emergencies. Fortunately, mobile phone and correspondent banking are dramatically lowering per-transaction costs. For the foreseeable future, however, these and other low-cost delivery channels will likely provide only limited product offerings.

Even for standard branches, a guiding principle for sustainable low-balance deposit mobilization is to provide a few generic services that can meet the bulk of market demand. While attracting a large volume of deposits is a key to recovering the costs of savings mobilization, most youth savers save very small amounts and, in aggregate, represent a slice of a low-income market that already is difficult to serve on a viable basis (Parrott, Nagarajan 2005). For these reasons, financial institutions may have little reason to serve youth as distinct from the broader adult market. By and large, proposing that products be tailored for the youth market is likely to be a non-starter for financial institutions. As discussed above, however, youth demand is not so different from adult demand as to require distinct products. In fact, one survey and numerous examples indicate that many MFIs that serve the youth market are doing so with the same products that they serve the adult market (McNulty and Nagarajan).

At the same time, the youth market can pose two particular financial challenges: the expectation that savings services be complemented by other non-financial services and that they include incentives that motivate youth to save.

COMPLEMENTARY SERVICES

Many researchers and practitioners agree that providing vulnerable youth with economic opportunities requires providing them with a bundle of services. This is much more costly than simply providing a savings service. Furthermore, employing staff who are versed both in microfinance and youth issues also increases costs (Nagarajan 2005). While organizations like Freedom from Hunger have demonstrated that, with credit, providing tight training modules in the context of group meetings can be sustainable, this is unlikely to be the case with savings, which does not generate income the way credit does. In fact, even providing ongoing staff support to minimalist savings-only groups is not sustainable. Income-wise, savings is a different beast than credit; it does not generate revenues that can support even minimal ongoing services beyond the simple handling of transactions.

Therefore, if we seek to provide a sustainable savings service as well as additional services, we should consider offering these additional services through a separate delivery channel. Alternatively, we can see the savings service not as a mainstream financial service that should recover costs but rather as one in a bundle of social services. If legally feasible, an NGO might then serve as the agent for a financial institution – handling non-financial services, promotion, and, perhaps, forming and training groups in order to bundle transactions achieve a viable size for the financial institution.

INCENTIVES

Many financial institutions find that incentives can attract and retain youth savers and can motivate higher levels of savings. These incentives take two general forms based on their rationale. Financial institutions may offer small incentives such as a school notebook as a way to improve their profitability (Moore). In contrast, policy makers may provide significant incentives in the form of a seed, match or top-up for savings as a way to stimulate asset accumulation for all youth or for youth who are low-income or disadvantaged. With this second approach, the goal is a social good rather than the institution's wellbeing.

Incentives to enhance the bottom line could be pencils and pencil boxes, a slightly higher interest rate than received by adult accounts, access to a loan, small scholarships or, at high account levels, insurance (Moore, Owens, Richardson). While such incentives often succeed in attracting depositors, in some cases the motivation to save flags after a few months. Ongoing incentives and effective promotion of, for example, savings targets may be needed to maintain the interest of families to deposit in the account (Owens). The challenge is to balance the direct and indirect cost of the incentive needed to motivate increased savings against the income generated by the increase in net savings (Tufano and Schneider). For the incentive to work, savers must be able to achieve the savings level required to receive the incentive. Incentives should be designed carefully with attention to existing and target levels of savings. For example, an additional incentive might be provided for a level of savings slightly above the existing median account balance (Owens).

Some financial institutions find that the cost of incentives is offset by the value of the additional savings that they motivate. However, this may not be the case for accounts for lower-income youth. Equity Bank in Kenya found these types of incentives were not viable for the small account sizes typical of lower-income savers. While the cost of incentives might be offset by fees, these too tend to exclude lower-income markets (Meyer, Zimmerman, and Boshara).

With matched savings or other larger incentives, cost recovery typically is not expected. In most cases, more substantial incentives such as matches are provided by third parties, often the government. Some youth service organizations and, more recently, the World Council of Credit Unions use donor funds to match savings. More substantial incentives often are provided along with financial education, case management and the restricted use of funds. The financial institution benefits from the higher level of savings without bearing the cost of the incentive and the third party does not expect to recover its costs.

SafeSave has been experimenting with a lower-cost incentive: providing low-income clients with interest-free loans as a way to enable them to build up their savings. Once the savings balance exceeds the size of the loans, they can “take loans” – withdrawals - from their savings. Although *SafeSave* accrues some income from fees, the approach does not recover costs. However, it may motivate increases in savings at less cost than matched savings approaches (Rutherford).

Automatic enrollments or deposits or enrollment or deposits that require individuals to “opt out” in order not to be

included may increase account take-up and savings accumulation (Tufano and Schneider). This might be possible where government policy mandates opening an account at birth or where the savings account is piggy-backed on top of some other payment system from which deposits for saving accounts might be deducted (Tufano and Schneider).

The form of these large incentives may affect their efficacy and cost-effectiveness. Some research suggests that, initially, a one-to-one match has significantly less impact than a two-to-one match but that a match larger than two-to-one has decreasing impact as households have only a set amount of disposable income that they can save (Ssewamala, 2005). Furthermore, some research suggests that the match might be reduced to even one-to-three once an account is established (Sherraden). The SUUBI program that provided financial education and matched savings to vulnerable youth in Uganda found significant impact for program participants relative to a control group. However, matched savings accounts may also have mixed success, resulting in modest increases in savings and costing several times more to administer than the net increase in personal savings.

Larger incentives pose the danger that people will save funds that they actually ought to use for other purposes or that they will increase their savings by increasing their debt. Especially for the poor, meeting short-term emergencies may be more important than savings for the long-term (Tufano and Schneider; James-Wilson et al).

Effectiveness of a financial match for vulnerable youth: The SUUBI program in Uganda

The SUUBI program in Uganda provided a two-to-one match of up to US\$10 a month to youth savings accounts of orphans and children at risk coupled with six two-hour classes on career planning and financial literacy. The matched funds could only be used for education and investment in a business. Relative to a control group, the group of 286 participants experienced positive changes in HIV prevention attitudes, had more ambitious educational plans, and increased their savings more. In fact, the vulnerable youth in the program saved an average of US\$ 6.33 a month – in the local context, a very large amount. With the match, their average savings was enough after two years to fund their participation in secondary school. The study was limited by its small sample size and composition – school-goers only, self-reporting, and the short period before follow-up. (Ssewamala, 2005)

WHAT IS WORKING NOW

Institutions that are providing youth savings services while recovering or nearly recovering their costs tend to do so in one or more of the following ways.

School Savers Accounts: To instill the habit of savings, some banks and cooperatives target school children with youth accounts that have low minimum balance requirements.² These accounts often provide small incentives (Richardson) even though administering them is costly (Meyer, Zimmerman and Boshara). Although the revenue associated with these accounts typically covers only their direct costs, the World Council of Credit Unions finds that the accounts do not accrue substantial losses. For financial institutions with a social mission, school savers accounts typically are seen as promoting a culture of savings while developing client loyalty. For example, financial cooperatives offer these services with the expectation that youth savers will become members of the cooperative when they reach the age of eighteen or twenty-one (Richardson).

² “School accounts” also refers to accounts for parents to accumulate school fees for their children. The term or maturity of the account corresponds to the date when school fees are due.

Schools can provide an ideal channel for delivering youth savings services – many youth go to school five days a week and many carry pocket change with them. In some cases, the schools help with the service by collecting students’ deposits themselves and aggregating them into a single deposit or by working with the financial institutions to train students to manage the collection themselves (Andaya, Meyer, Zimmerman and Boshara). Hatton National Bank in Sri Lanka reportedly is mobilizing significant deposits from children in schools on a profitable basis. In contrast, other financial institutions find school-based collection to be prohibitively costly. Some rural banks in the Philippines that had enthusiastically embraced this delivery channel have since stopped offering these services in schools because of high costs (Owens, Andaya). Although they now deliver these services within their branches, the demand tends to be much lower.

Youth Savings at Hatton National Bank: School Accounts and Rural Accounts

Hatton National Bank (HNB) of Sri Lanka is a commercial bank that holds nearly 15% of the market share of the banking business of the country, which has a population of 20 million. HNB prides itself on its outreach to youth, which it sees as the key to Sri Lanka’s future, particularly in light of several recent youth uprisings. Senior management notes that focusing on youth requires a long-term perspective, including “commitment, passion and patience.” In reporting on its focus on youth, the bank cites two services, its school savings program and its rural microfinance program for the poor that reaches youth along with other farmers and entrepreneurs. A key to both programs is that HNB trains and uses youth to reach youth.

For its school savings program, HNB works with the government and the schools to identify and train five students in a school to serve as student bankers, with close supervision from the bank itself and a trained teacher. The bank has 180 branches that support a total of 200 student bank units. By way of comparison, HNB sponsors a national competitions in the arts in which some 15,000 schools participate. It opens about 20,000 new student accounts per year – an average of 100 per school. The average new account balance is US\$100. The student-run branches serve parents as well as students. HNB organizes one national and eight regional conferences a year for its student bankers.

Recognizing that 70% of Sri Lanka’s population – and therefore, a large percentage of its youth – are based in rural areas, HNB initiated a rural microfinance strategy to target rural farmers, youth and entrepreneurs with financial education as well as financial services. The bank identifies young people who can serve as professional barefoot bankers to work with the farming community and rural youth. Some 65% of its total microfinance loan portfolio is held by clients between the ages of 18 and 26 years. Not including fixed deposits – that tend to represent a large portion of a bank’s savings portfolio and would likely not include youth savings accounts – the bank holds US\$600 million in deposits. About 10% of these deposits belong to youth, including both the school and the rural savings products. (Abeywickrema, “Role of...”; Abeywickrema, “Access to...”)

Mobile phone banking: Mobile phone banking dramatically reduces per-transaction operating costs and saves clients costly and time-consuming trips to town to transact. In the Philippines and likely in other countries as well, “m- banking” serves youth alongside adults (Owens). Because services tend to be provided by a huge network of agents rather than by bank employees, agents who have a financial incentive to serve more clients may serve youth who are not yet legally of age to use a savings service (Owens). Furthermore, many youth seem to adopt this technology more easily than their caretakers. In the Philippines, children of thirteen and older frequently transact with these accounts (Owens).

Doorstep collection with low-wage staff: In the urban slums of Dhaka, Bangladesh, *SafeSave* serves youth alongside adults with daily or frequent doorstep collection. For *SafeSave*, the keys to recovering costs while serving

small-balance savers is to use minimally-educated local women as collectors who can be paid very little and to couple loan and savings service delivery. Excess savings can be invested to generate some income. This is seen as cheaper than matched savings while accomplishing a similar end (Rutherford). A collection service where savers work or live provides the discipline to save rather than consume excess liquidity such that depositors often save as much daily as they would weekly.

Other youth service organizations provide collection services specifically for some segment of the youth market – such as the SKI program that targets street children with a bi-weekly or weekly collection service - but they do not aim to recover costs and do not do so (Street Kids International).

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Serving groups: Numerous programs have enabled youth to save in groups rather than directly in a formal institution (Erulkar, et al; Gupta and Umarji). Groups may educate, encourage, and support saving by their members while enabling these members to avoid the obligation to give savings to family members for trivial purposes (Tufano and Schneider).

Proximity, incentives and m-banking: the rural banks of the Philippines

Long-time providers of youth savings services, the rural banks of the Philippines see attracting youth savers as an investment in developing the life-time loyalty of clients and an opportunity to cross-sell products to parents. They find that proximity is a key determinant of demand and that small incentives also matter.

Many of the rural banks of the Philippines offer youth demand deposit accounts with minimum maintaining balances of \$10 to \$40. These accounts provide a slightly higher rate of interest than other similar accounts when accounts exceed a certain size. The most poor-friendly account has a minimum maintaining balance of US\$.40 and a minimum interest-bearing balance of US\$ 10. At the other extreme, one bank charges US\$2 per month – US\$36 per year - for accounts with a balance below US\$ 40. Typically, banks serve youth aged twelve and older including for ATM and mobile phone transactions. However, some rural banks find serving children as young as seven to work well, so long as these youth can write their names.

Incentives such as interest rates and small promotional gifts are used strategically to motivate increases in account sizes. For example, the Cantilan Rural Bank of the Philippines courts student savers for life. For a youth passbook account, its minimum opening balance is US\$.40. When the balance reaches US\$2, the child receives a locked kiddie savings bank. At US\$10, she receives a case of pencils, an eraser and a sharpener and starts to earn 2% interest. A pack of crayons is awarded when the account size reaches US\$20, a pencil case at US\$30, and life and accident insurance coverage at US\$150. The banks do not see financial education as necessary. They find that going to schools to run workshops to be very costly (Owens).

When bank staff were sent to schools to promote and collect from youth accounts, the accounts were popular, more popular than longer-term, higher-interest accounts to accumulate tuition for high school and university. Recently, however, many banks have found that delivering services in schools is too costly. The banks now offer the accounts but do not actively promote them and no longer send staff to the schools. As a result, the number of these accounts has plummeted (Andaya).

At the same time, the rural banks are finding that their mobile phone banking services – that has no special youth product features, incentives, or marketing - is attracting large numbers of youth. The service is highly convenient and the product is very flexible. M-banking drastically reduces the banks' costs, enabling transactions to be made without bricks and mortar. For the bank, m-banking is cheaper than providing and collecting from a locked savings box – another delivery tool used by the rural banks – and saves clients costly and time-consuming trips to town to receive a payment or make a savings transaction. Youth seem to be less daunted by the technology than their parents. In the Philippines, it is quite normal for teens and even pre-teens to m-bank for themselves or their parents. (Owens)

Serving Vulnerable Children in Groups with Adults: Catholic Relief Services, Rwanda

In Rwanda, Catholic Relief Services facilitates providing over 6,000 orphans and vulnerable children (OVCs), mostly fifteen years of age and older, with access to savings services through self-managed microfinance groups. To do so, it employs its Savings and Internal Lending Communities (SILC) methodology developed to serve very poor adults. Members of SILC groups save small amounts weekly and can take small loans from their pooled savings. After eight to twelve months, all savings with interest is distributed to members and groups may choose to disband or begin again.

Most SILC groups are composed of both youth and adults, which is seen as beneficial to both groups. The promotion through community awareness-raising events and training used for OVCs is the same as that used for adults. Nearly one quarter of the 27,000 SILC members in CRS' Rwanda program are OVCs. The majority are heads of households and are also enrolled in CRS' vocational training. The one-time cost per youth of the SILC program alone is US\$50; the cost with all non-financial services is US\$318.

While the TRY program found that the social aspect of groups encouraged adolescent girls to participate, a Zambian program for street children found that group-based collection left youth vulnerable to theft from within the group (Street Kids International). Youth – particularly married women – may be served alongside adults on a cost-recovering basis. Because groups increase transaction size while reducing the number of transactions, serving them can be more financially viable than serving individuals. However, we have no evidence of institutions that serve groups of youth on a viable basis.

Lock boxes: Many financial institutions provide youth with “lockboxes” – slotted locked boxes to which staff alone hold the key. The boxes provide a round-the-clock deposit service while withdrawals can be made only when a collector visits or the saver goes to the branch. While they are ideal for collecting small change, after a time, promotion may be needed to encourage youth to continue saving.

The services described here might be offered weekly, bi-weekly, daily or when depositors want. In all cases, frequent, convenient access is the key to collecting savings before it is consumed. Although these services may be financially viable or nearly so, they typically are not lucrative so interesting financial institutions in offering them can be challenging.

HOW MIGHT FINANCIAL INSTITUTIONS BE INTERESTED

First, where low-cost delivery channels such as mobile banking or agent banking with POS devices are feasible, serving youth may simply be a profitable venture. This is the case for some of the Philippine rural banks where youth routinely bank by mobile phone. Where this is not the case, banks might be enticed to serve youth with three arguments.

First, financial institutions may be persuaded that youth clients, though not initially profitable, will become loyal, lifetime-value clients (Ngurukie). Some practitioners suggest that, compared to low-income adults, youth may be seen as having greater potential to develop into significant financial players (Parrott). This is more likely to be the case for school children than for less-educated working youth.

Second, serving youth may be a way to engage and cross-sell products to their parents who may have no prior experience with formal financial institutions. In this case, the youth accounts might be accepted as loss leaders (Ngurukie).

Finally, financial institutions may be persuaded to serve youth as a way to fulfill their corporate social responsibility

(Ngurukie). While this might not be compelling by itself to motivate serving the entire youth market, it might be a deciding factor for financial institutions that already are considering the benefits of developing client loyalty and the potential for cross-selling.

As discussed above, a number of financial institutions that require cost recovery but also are mission-driven find serving youth to be worthwhile – the services cover their direct costs while having value in terms of client loyalty, cross-selling and social responsibility. However, the vast majority of those that serve youth separately from adults provide school savers accounts. Most other institutions that serve youth do so without differentiating them from adults. Both strategies seem promising. ***Aside from school accounts, however, we are not seeing institutions that expect to recover costs provide specific products for the mass youth market. This is likely for two reasons: the demand of out-of-school youth is neither distinct nor potentially profitable.***

YOUTH AS SOLE ACCOUNT HOLDERS

In many countries, youth under sixteen or eighteen years of age may not legally hold a savings account. In this section, we explore the advantages and disadvantages of having adults hold accounts for different classes of young people and how the disadvantages might be mitigated.

While some youth may have a trustworthy adult to transact on their behalf, many, particularly AIDS orphans and street children, might have to rely on an adult who might exploit this role or might not have any adult to transact for them. This adult might take some or all of the young person's savings or require favors in exchange for his or her help. For these youth, requiring an adult signatory puts them or their savings at risk. At the same time, some research suggests that vulnerable youth who lack access to a savings account often spend a significant portion of their savings on harmful activities such as substance abuse (Meyer, Zimmerman and Boshara). Even for youth with trustworthy caretakers, the transaction costs - the time and travel expense to the adult involved in making a transaction – might mean that the adult would not transact when or as frequently as the youth might want.

Where a youth does have a trustworthy adult who could transact on his or her behalf, what are the advantages and disadvantages of having such a caretaker serve as account holder? Although there does not appear to be any research on this question, we can suggest some possibilities. In some instances, adults might protect young savers from unwise decisions such as withdrawing funds for an unnecessary impulse purchase. Some practitioners see this as beneficial while others suggest that youth should not be shielded from these decisions that will teach them valuable lessons while they are young and the stakes are still low (Richardson).

Having an adult as the account holder might mute the positive impact of having a savings account. For example, financial education seems to be more effective if it is practice-based (Zimmerman, Torres). Some research in the U.S. has found that youth who hold their own accounts have a more positive future orientation, although the research did not provide evidence of whether this resulted in higher levels of savings (Masa).

In any case, because situations are context-specific and cultures differ, considering youth as a monolith may be misleading. Segmenting youth by gender, marital status, region, and whether a youth is living with a parent or guardian will be more instructive regarding whether having an adult joint signatory is advised. In the Philippines, some rural banks find serving children as young as seven to work well, so long as they can write their names, while children twelve years and older frequently transact by ATM and mobile phone (Owens). Similarly, Banco Estado in Chile serves all youth aged fourteen and older (Meyer, Zimmerman, and Boshara).

In any case, age restrictions that exclude youth account holders might be mitigated in the following ways:

- Having the caretaker serve as a joint signatory with the youth – requiring both signatures for a withdrawal - may meet legal requirements for an adult account holder while affording youth some protection from an exploitative caretaker. For example, in a program initiated by World Vision Ethiopia, the adult caretaker can initiate a withdrawal but it must be approved by the youth as well (Meyer, Zimmerman and Boshara). A Ugandan program experimented with having a triple security number or *pim*, one each being held by the guardian, youth and youth service organization. The Bolivian credit union network, Served, will not permit adults to make withdrawals from child savings accounts without the child's permission (Meyer, Zimmerman, and Boshara).

- To prevent caretakers from misusing youths' savings and youth from making rash decisions, the use of funds can be restricted. For example, a youth savings program in Sri Lanka allows withdrawals only when the youth is in poor health or for his or her schooling (Meyer, Zimmerman and Boshara). In India, NGOs can open a joint account with young people with large withdrawals being restricted for use for education or other developmentally beneficial uses (Tufano and Schneider). With a matched fund, solutions can be simple: no one may be permitted to touch the matched funds, which may be directly transferred to a school for school fees or the match may be rescinded if the youth's savings are used for other than the specified purposes.
- Similarly, an NGO might serve as a joint signatory with youth. In Morocco, youth under the age of sixteen cannot legally open a savings account. Therefore, the Zakoura Foundation, an MFI that cannot legally mobilize deposits, has partnered with La Poste of Morocco so that Zakoura can open accounts on behalf of youth. However, this may be a short-term solution as NGO programs may be time-limited (Torres).

With any one of these arrangements, age restrictions on account holding should not have to exclude youth from having secure access to an account.

INFORMAL SAVINGS SERVICES: APPROPRIATE OR EFFECTIVE FOR YOUTH?

Whether informal savings services are appropriate for youth depends on their alternatives. Although these services have limits they also have advantages. In many contexts, they are the most valuable service that low-income savers can receive on a sustainable basis. As technology moves the financial frontier to lower-income and more rural markets, this will change. Even for somewhat better-off households, informal services are often one of a number of services that are used to diversify risk and manage household finances.

For youth as well as for adults, informal financial savings mechanisms such as credit and savings groups and money guards have distinct advantages: they are convenient, transaction sizes match savers' capacities, and fees and transaction costs are relatively low. Typically, they are very convenient and, even with their apparently rigid rules and simple services, they often can be bent to meet individual circumstances (Hirschland with Jazayeri and Lee, 2008; Torres). Further, because the group or individual determines the size of deposits, these can be very small, on par with the savings capacity of the participants. Finally, the fees, transaction costs, and opportunity costs of informal savings mechanisms are typically lower than those of formal savings services.

These services also have distinct disadvantages relative to more formal savings services. Above all, group members can run off with others' savings and, if they do, savers have no recourse. The regular fixed-amount deposits required for some types of informal services - ROSCAs and informal deposit collectors - may not match the erratic cash flow of low-income adults or youth. ROSCAs do not provide interest and provide a collective product – while savers typically prefer an individual one (van Bastelaer). Finally, informal financial mechanisms typically provide only medium-term services: they cannot manage either the daily in and out that street children might require nor the long-term accumulation that might provide for a substantial investment in school fees or an enterprise.

Evidence from several projects suggests that youth often use informal savings services such as ROSCAs or money guards in the absence of more formal savings services (Stark, Parrott). A Ugandan program for youth in a conflict situation found that youth who were paid for work saved with ROSCAs (Nagarajan, 2005). Furthermore, even where formal savings services exist, youth may choose to use informal means if the formal services do not meet their demand. In the TRY program in Kenya, many of the girls preferred to participate in informal ROSCAs known as Merry Go Rounds that provided emergency loans rather than using the TRY services that required them to take and repay regular loans and did not provide access to savings (Erulkar, et al). ROSCAs seem particularly well-suited to schoolgirls from middle-income families, but may be difficult for poorer schoolchildren who do not have a regular income (Sebstad).

Yet, some categories of youth may be de facto excluded from informal ROSCAs and ASCAs. Frequently these informal groups seek out married women. Unmarried youth may be seen as spendthrifts or as too mobile to be reliable. Often, youth must be provided entrée into these groups by adults. Orphans and street children, in particular, may lack this kind of introduction and access.

Some research found that young women may not have the social capital necessary to form a ROSCA, may be afraid to participate, and may not form groups on their own (Fowler and Denamey). At the same time, the Aga Khan Foundation and Plan International have found that helping youth form informal savings groups has helped them develop social capital, build assets, and become more empowered. The groups have served as a forum for training in markets and entrepreneurship. At the same time, formal savings services provide the potential to design features and promote savings for specific developmentally beneficial uses (Diaz). This may not be possible with informal groups.

CONCLUSION

Like small-balance depositors, young people can and do save informally and demand to save even more than they demand credit. Youth and small-balance adult savers seek similar qualities in savings services: convenient access, relative security, liquidity in case of emergencies, and illiquidity to provide a secure place to accumulate larger sums. Beyond this, the specifics of youth demand tends to be differentiated by gender, economic level, marital status, whether they live in rural or urban areas, and whether they are attending school. Although the demand for financial savings among youth may be latent, it can be catalyzed by promotion and by incentives.

Two products seem to best fit the demand of youth: a demand deposit product, which allows for irregular deposits and withdrawals at any time, and a youth savings product, by which the amount and timing of deposits is flexible but the timing that the entire amount is withdrawn is set. In contrast, a straight contractual product that requires regular payments may push youth, particularly girls, into harmful relationships or activities.

SERVING THE YOUTH

Aside from school savers accounts, we are not seeing institutions that expect to recover costs provide specific products for the mass youth market. There are two likely reasons for this: first, the demand of out-of-school youth is not distinct and, second, serving youth separately is not potentially profitable.

FINANCIAL EDUCATION

Many youth service providers suggest that for youth to benefit from financial services, these services must be accompanied by financial education. However, what constitutes effective financial education for this group is not clear. Furthermore, while several financial education programs seem to be strong and effective, evaluations of these and other programs either have not aimed to establish impact or have had methodological weaknesses. We do not yet have conclusive evidence that, in general, financial education programs lead to greater financial knowledge and better financial behavior.

A number of practitioners and researchers question the effectiveness and cost-effectiveness of financial education and propose some alternatives. Financial institutions themselves might educate their clients by providing simple product explanations. Access to financial services right where savers live or work enables the poor to learn to manage their money by managing their money. Financial education should target specific audiences and areas of financial activity, offering “just-in-time” training using “teachable moments” that are relevant to actual experience – or, alternatively, it should

start at earlier ages and continue throughout school. In any case, these issues should be studied empirically with consideration of costs and benefits relative to other types of education.

BARRIERS TO YOUTH USING SAVINGS SERVICES

A number of barriers may keep youth, in particular, from saving in institutions. They may not be able to shield their savings from adults. They may hear less about available savings options than adults do. They may not legally be able to hold an account. Finally, street children may not be able to provide a street address to meet Know Your Customer regulations. Notably, none of these youth-specific barriers have to do with product design.

Other barriers are common to much of the small-balance depositor market. Services normally will not be useful to small depositors if they involve more than a few kilometers of travel, a significant wait, or inconvenient hours. Paperwork, fear of or discomfort with banks, or a lack of understanding of savings products may deter them from opening a savings account. The fees, minimum balance and minimum deposits required by many financial and microfinance institutions often are not feasible for small-balance depositors including youth.

THE COST RECOVERY CHALLENGE

For financial institutions, the chief challenge to serving youth and other low-balance depositor markets is high per-transaction operating costs. In fact, few financial institutions can afford to offer low-income savers the stand-alone liquid product that they most want. Financial institutions have little reason or ability to serve youth as distinct from the broader adult market – nor is this normally necessary.

The youth market can pose two particular financial challenges. First, many researchers and practitioners agree that providing vulnerable youth with economic opportunities requires a bundle of services. This greatly increases costs relative to offering savings alone. Second, many financial institutions believe that incentives are needed to attract and retain youth savers and to motivate higher levels of savings.

Institutions that provide youth savings services while recovering their costs tend to do so through a few delivery channels: school savings accounts, mobile phone banking, doorstep collection where minimally-educated local staff couple loan and savings delivery; groups of youth and adults together; and lock boxes.

Notably, the vast majority of financial institutions that serve youth separately from adults provide school savers accounts. Most other institutions that serve youth do so without differentiating them from adults. *Aside from school savers accounts, we are not seeing institutions that expect to recover costs provide specific products for the mass youth market. There are two likely reasons for this: first, the demand of out-of-school youth is not distinct and, second, serving youth separately is not potentially profitable.*

Where profitable low-cost delivery is not yet feasible, banks might be enticed to serve youth because youth clients can become loyal, lifetime value clients and because serving them may be a way to cross-sell products to parents while fulfilling their corporate social responsibility.

YOUTH AS SOLE ACCOUNT HOLDERS

Where youth under a certain age may not legally hold a savings account, some alternatives can provide them with the opportunity to save while providing them with some protection from adults who might otherwise exploit them: first, a caretaker might serve only as a joint signatory with the youth, second, the use of funds can be restricted to items that are in the interest of the youth such as health care or school fees, or, third an NGO might serve as a joint signatory.

INFORMAL SERVICES: APPROPRIATE OR EFFECTIVE FOR YOUTH?

For many economically active poor households and for youth, informal savings services are the only option that they have to save. Until technologies move the financial frontier to lower-income and more rural markets, providing small depositors with formal financial options on a sustainable basis may not be possible. These services have distinct advantages – chief among them convenience and small transactions size – as well as disadvantages.

UNANSWERED QUESTIONS

Until very recently, the area of youth savings has received little attention. Many questions remain to be answered:

- To what extent are services that serve low-income markets reaching youth? Where they are and what are the keys to success?

- To what extent are doorstep or highly convenient saving services that are not targeted to youth already reaching them?
- To what extent might doorstep access to services and transparent product description catalyze financial participation without financial education?
- What examples do we have of school-based youth savings accounts that are financially viable to the financial institution? What are the features that make them viable? To what extent are they mobilizing the savings of youth versus the savings of parents, and does this matter? To what extent are they reaching lower-income youth?
- Aside from “youth savings accounts”, do we have examples of savings services specifically targeted to youth that have broad appeal and are recovering their costs?
- To what extent is youth unawareness of existing services a function of their age? Why is this? If youth are less aware than adults, what creative low-cost strategies might be effective in addressing this shortcoming?
- What models might succeed in enabling the cost-recovering provision of savings services to youth while facilitating the delivery of nonfinancial service by other parties?
- How well are joint signatory arrangements working? What are we learning about what makes for success?
- What approaches are being used to overcome Know Your Customer barriers to youth utilization of savings services?

The interest in developing youth savings accounts comes primarily from youth service providers and those interested in them. To be efficient in our use of development resources, it is quite important that we look carefully at whether and what aspects of youth demand actually require separate products and delivery channels and the extent to which the models that successfully serve other small-balance depositors and recover their costs would fit the demand of youth. Absent policymakers providing major financial incentives as an asset-building strategy for youth, creating separate youth accounts may not make financial services sense for many youth segments given the great overlap between what youth and adults demand. These questions and questions about the value of complementary services of various types merit inspection before the field moves forward.

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