Unlocking Public and Private Finance for the Poor

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PATHWAYS FOR YOUTH EMPLOYMENT

Leaving No One Behind in the Digital Era

YOUTH EMPLOYMENT, A GLOBAL PRIORITY

The youth employment crisis is a global development priority. The youth demographic 'bulge' (a staggering 3 billion people under the age of 25, with 1.2 billion of them aged 15–24),[1] a stubbornly high youth unemployment rate, a significant proportion of the working poor in vulnerable employment, and a high level of economic disengagement, together can create disaffection, drive migration, incite social unrest and slow progress towards development goals.

The least developed countries are particularly vulnerable to the combined effects of the youth demographic bulge and the high youth unemployment rate, which is disproportionately elevated compared to the rate of other age groups. In Africa, three out of five young people are unemployed, while in Southeast Asia and the Pacific, the youth unemployment rate is six times that of adults.[2] Available data suggest that, even during periods of economic growth, many economies have failed to absorb large youth populations in their labour markets and have hence fallen short of translating growth into greater economic opportunities for youth.

470 MILLION JOBS will be needed to absorb **new entrants** **TO THE LABOUR MARKET** BETWEEN **2016 → 2030**[3]

Young people account for an estimated 35 percent of the total worldwide unemployed.[4] Unemployment rates of young women are significantly higher than those of young men, and the gender gap in the rate of young people not in employment, education or training (NEET) is even wider. Globally, the NEET rate for females is 34.4 percent, compared to 9.8 percent for males.[5] This phenomenon is even more acute in low-income countries. Disengaged NEET youth are at risk of contributing to social unrest or radicalization and being excluded from economic opportunities (e.g., participating in the economy as employees, subsistence-entrepreneurs or opportunity-entrepreneurs).

THE DIFFERENT 'AGES' OF YOUTH

The youth segment has much to offer the world in terms of innovation, creativity, labour and enthusiasm, provided that appropriate support and learning opportunities are made available to them as they transition into adulthood. Traditionally, these transitions occur at 'hinge points' between specific age periods: 12–14, 15–18, 19–25 and 26–35. Those aged 12–14 are likely to find themselves in a learning stage, while those aged 15–18 experience the first important transition in their life as they start their journey into adolescence. As they move towards adulthood (around the age of 18), their choices and challenges include decisions about family, career (when available) and entry to the labour market. Young adults (those aged 19–25) go through another complex transition as they take definite steps towards achieving measures of financial, residential and emotional independence. Fully engaged in their work life, those aged 26–35 continuously strive to build a better life for themselves and their families and learn to develop support networks in order to advance.

The youth time period is precisely when the absence of support and learning opportunities, coupled with social and financial pressures, may force some to take on adult roles at a premature age. For example, a 15-year-old may be forced to drop out of school and get married (particularly if the youth is a girl) or work to contribute to household income. Abrupt shifts may cause feelings of uncertainty among youth, which can result in stress, poorly informed personal decisions and limits on what they see for their own future. There is an urgent need for sustainable and innovative solutions to build the resilience of youth (young women especially) to successfully navigate school-to-work transitions while developing critical capabilities that will broaden their economic opportunities.

OPPORTUNITIES FOR YOUTH IN A DIGITAL ERA

The rapid development of digital finance and digital innovation across entire economies is providing a timely opportunity to address the youth employment challenge in new ways. In discussing these opportunities, it is clear that a digital approach is not, and should not be seen as, a silver bullet. The digital era also comes with a new set of questions for the development community and other stakeholders, which will be discussed later in this document. Yet digital technology, properly understood as a medium and purposefully directed at local issues using context-specific approaches, has the potential to produce positive results.

That promise is certainly seen with digital finance, which estimates say could alone create **95 million new jobs and boost the GDP of all emerging economies by US$3.7 trillion by 2025.**[6] Beyond these dollar figures, the expected speed and scale of change triggered by digital technology are still greater. Advancements in artificial intelligence, robotics, virtual reality and the Internet are reshaping the way people produce, exchange and even consumer goods, services and information globally. Developments in remote sensing, data processing and machine learning translate into a means to extend credit to farmers. The combination of remote lock and digital finance offers an ability to distribute alternative off-grid access to clean energy, driving both life improvements and productivity gains. The emergence of platforms (e.g., ride hailing, e-commerce and online learning) creates new revenue opportunities in sectors as diverse as transportation, commerce and leasing, opening up pathways to economic empowerment and changing the way people access knowledge and learn. Virtually every area of human endeavour is being touched by the digital revolution.

UNCDF, AN EXPERIENCED HAND

Given its history of local-market development, field presence, sectorial expertise and long-term partnerships with both the public and private sectors, the UN Capital Development Fund (UNCDF) feels well positioned to champion these conversations.

We aim to support 5 million young people, in particular women and those at the 'last mile,' to successfully transition from school to work through digital initiatives by 2030.

Since 2010, UNCDF has played a strong role in market development in the digital finance space and has significantly contributed to increasing access to finance for youth. As a result, as of December 2017, over 850,000 young people (47 percent women) have accessed financial and complementary nonfinancial services. Young people have saved over US$23 million with financial service providers. Over 240,000 young entrepreneurs have accessed US$29 million in loans. Simultaneously, we also expanded our support to include digital financial services for smallholder farmers, women, families with children, pensioners, and micro, small and medium enterprises (MSMEs). These efforts have led to creative approaches to the development of human-centric services and have fostered an innovation ecosystem around financial services.

UNCDF is now channelling its experience to support the development and scaling up of digital innovations that empower young people and smoothen their transition to adulthood, with the specific objective of increasing the number of youth engaged in entrepreneurship, decent employment, school, or further education and training.

In order to achieve our objectives, we will continue to invest in emerging ecosystems that facilitate access to finance for young people while stepping up our support of other digital innovations that provide holistic solutions for youth. These digital solutions will include those that develop skills, create new jobs with the same level of income and livelihood security that formal work offers, and unlock access to information, networks and new market opportunities. The support we will provide to young people will particularly focus on the most vulnerable, including girls, the poor and those in refugee camps.

Under the umbrella of the UNCDF 'Leaving No One Behind in the Digital Era' strategy in Africa, Asia and the Pacific, we will mobilize partners and deploy our resources in four strategic workstreams:

ENABLING POLICY AND REGULATION

- Win government support to craft policy and regulatory environments where digital solutions for youth can flourish.
- Ensure regulatory frameworks and policies are protective of youth clients in the digital era.
- Encourage the collection of age- and gender-disaggregated data in order to inform the development of pro-youth policies.
- Foster youth participation in policy discussion and regulatory development.

OPEN DIGITAL PAYMENT ECOSYSTEM

- Support market infrastructure projects (e.g., foundational ID, shared market infrastructure for e-payments, e-know-your-customer systems and credit reporting).
- Support inclusive and ubiquitous access to payment accounts for all, at an affordable cost.
- Encourage and support innovations and business models that advance access to digital financial services for youth.

INCLUSIVE INNOVATION

- Support the development of ecosystems to accelerate the development of ideas and start-ups that produce job outcomes.
- Promote digital innovations for dignified and fulfilling jobs.
- Transform the way young people access learning and economic opportunities, as well as networks and financial services.
- Promote digital innovations that provide the same level of income and livelihood security for new jobs.
- Run accelerator programmes to empower young people to become agents of change in digital economies.
- Facilitate the dissemination of knowledge that can amplify the development of digital solutions for youth.

EMPOWERED CUSTOMERS

- Integrate financial and digital literacy into schools, universities, technical and vocational education and training centres, incubators and financial service providers.
- Equip organizations that are offering relevant education/training to youth and SMEs with digital solutions where relevant.
- Train youth to leverage social networks and platforms to build their networks, access skills and develop business opportunities.

CONNECTING THE YOUTH AGENDA WITH THE FINANCIAL COMMUNITY

As part of its funding strategy, UNCDF plans to connect the youth employment agenda with the financial community in order to increase the sources of funding of its initiatives in the following ways:

i) Support the creation of youth investment clubs in countries where financial markets are sufficiently mature.[7]

ii) Support the development of a Youth Employment Exchange Traded Fund, supported by a youth index.

iii) Partner with impact investors to structure Development Impact Bonds linked to youth employment outcomes.

iv) Deploy a mixture of financial instruments (i.e., grants, loans and guarantees) to de-risk the development of pro-youth digital solutions, strategically placing resources in order to mobilize additional private finance in blended finance approaches that increase investment in digital solutions that empower youth.

ADDRESSING THE FOUR LIMITATIONS YOUTH FACE

If properly channelled, all of these innovations have the potential to address the four main limitations that youth face as they transition from childhood to adulthood: a skills gap, limited access to finance, limited access to networks and limited access to economic opportunities.

ADDRESSING THE SKILLS GAP

From accessing basic financial services such as digital credit to becoming an active participant in the digital economy, young people will nee to develop a variety of digital (and nondigital) skills through their life transitions.

Basic skill acquisition should start at the youngest age in school, and hurdles undermining access or attendance should be tackled to prevent early exclusion. In that respect, digitally enabled financial services such as goal-based savings, student loans, instalment payments and remittances can help manage and smoothen payments related to education. UNCDF leveraged innovations in digital finance to address inefficient cash management at schools, cumbersome payment experience for parents, and dropouts due to late or insufficient fee payments in East Africa as well as in the Pacific. These efforts resulted in an increase in attendance from 78 percent to 100 percent in one of the participating schools in Uganda. UNCDF also used smart technology to train 2,000 adolescent girls in the slums of Kampala in financial education via an online solution. This digital tool not only helped UNCDF to reduce the cost of reaching the 'last mile' but also to deliver the training to a record number of vulnerable girls in a limited amount of time with a more engaging methodology that ensured greater impact of the education.

Digital platforms provide digital training that SMEs are searching for in young professionals, like 21CC. Beyond training, online platforms can also facilitate access to mentors and peers. These platforms must be harnessed to bridge the skill gaps found among young people and be complemented by purposeful partnerships with training and academic institutions as well as civil society organizations.

DRIVING EMPLOYMENT

Digital finance is facilitating new business models in finance, clean energy and the sharing economy, which are creating opportunities for youth in their local markets. UNCDF carried out projects with telecom operators in Senegal, Uganda and Zambia that contributed to the creation of job for thousands of agents in addition to a reduction in the financial access gap.

Through the work of UNCDF with clean energy companies like Fenix International and d.light, 350 jobs were created in Uganda for mostly young sales agents. Increasingly popular ride-hailing services are also providing new jobs for low-skilled youth while facilitating their mobility, which is something often taken for granted. The support UNCDF gave to Tootle and SafeBoda on their growth journey contributed to the registration of 12,000 bike riders in Nepal and 7,000 bike riders in Uganda, respectively.

Digital technology can help solve another pain point: it is difficult for employers in the formal and informal sectors to find people with the right qualifications to match their job descriptions. This issue can be solved by online job-matching platforms, such as the digital platform Lynk in Kenya that connects professionals (e.g., carpenters, painters, electricians and plumbers) with potential customers.

For their part, young people find it difficult to share their educational, professional and reputational assets with potential employers. Yet, early experiments with blockchain technology in the credentialing space show promise of overcoming this problem. All of these innovations connect young people to job opportunities and must be encouraged, even more so in the least digitally advanced markets.

UNLOCKING MARKET OPPORTUNITIES

Internet platforms can help young entrepreneurs and MSMEs access global marketplaces and participate in cross-border trade in an unprecedented way, which supports livelihoods and in turn creates jobs for youth.

Players like Jumia in Africa and Alibaba in Asia are revolutionizing the way people trade and are driving economic growth, which is of significance in emerging markets where most formal jobs are generated by SMEs. Highlighting that point, Alibaba supported the creation of nearly 37 million jobs in 2017.[8] In addition to their contribution to employment, digital platforms and the simultaneous participation of youth in the 'gig economy' together offer a unique opportunity to foster the resilience of youth through embedded social services, such as unemployment insurance, in order to compensate for a lack of social protection.

Turning to rural areas, the digitization of agriculture and the provision of e-extension services allow farmers to access new markets, increase their productivity and modernize their business, which can make agriculture more attractive to young people. As agriculture is the largest employer in many nations, representing between 40 percent and 60 percent of the labour force, such digitization efforts hold significant potential.[9]

INCREASING ACCESS TO CAPITAL

Digital financial services have the potential to empower young people. With savings digitization, for example, youth are less vulnerable to theft, family or peer pressure to share funds and, in some cases, their own lack of discipline. When digital financial services are done properly (i.e., combined with financial education), they also leave young people with a financial history that unlocks access to more sophisticated financial services.

For instance, the support UNCDF provided to Finance Trust Bank in Uganda led 2,100 adolescent girls (almost 40 percent below 18 years of age) to open savings accounts and save almost US$1,500 in less than six months through an interactive digital platform that allowed the girls to set savings goals and track progress against them.

Another potential means to access start-up capital is through crowdfunding platforms. The 1%Club is a case in point: it has so far raised US$10 million in capital for youth-led start-ups around the world, both from diaspora organizations and domestic investors. In addition to accessing capital, youth participants also benefit from mentoring opportunities.

When crowdfunding platforms are connected to local financial service providers, such efforts can help young people build a 'credit history' and access greater capital to grow their business. This credit history can be complemented by other digital transactions, like airtime purchases or social media posts. This area is yet another that has a strong bearing on the ability of youth to access financial resources.

TAKING A MARKET DEVELOPMENT APPROACH

Setting up a 'virtuous circle' that will unleash the potential of digital technology calls for a deliberate market development approach, of the kind that UNCDF has demonstrably employed in the development of digital finance markets around the world. For the virtuous circle to unfold, strong actions are required to address the multiple challenges faced by youth, with digital technology being the underlying enabler.

DIGITAL TECHNOLOGY OFFERS **MANY NEW OPPORTUNITIES**

the MORE pervasive it becomes, **the MORE** linkages there are to **different parts of the economy** & **the MORE TRANSFORMATIVE** the impact on the lives of young people.

LOOKING AT THE RISKS

Yet, digitization must be carefully managed if the aim is to achieve positive and lasting impact. While digital technology has the potential to address certain gaps faced by youth, it also poses a variety of new questions that do not have straightforward answers:

- How can organizations ensure that digitally delivered education is relevant to young people and results in positive employment outcomes?
- How can organizations make sure that work accessible through online platforms is both dignified and meaningful?
- Is increased access to finance going to help or hurt youth?
- Is there a risk of excluding or marginalizing anyone in the process?

These questions address foundational issues and call for thoughtful consideration and coordinated response from concerned stakeholders.

The results, when such thought and coordination are not given to digital innovations, are already being seen and underline the point. In the United States of America, there was a staggering 53-percent drop in the earnings of freelance drivers between 2013 and 2017 due to the dramatic increase in the number of drivers, which calls into question the financial sustainability of digitally intermediated labour.[10]

In Kenya, the nano-lending phenomenon is causing growing concern about the potentially damaging effects of easy access to credit. And, with over 7 million platform workers across the globe, the issues of fairness and human dignity are increasingly being raised and have triggered new initiatives like 'fair work.'[11]

Around the world, legitimate concerns are being voiced regarding the marginalizing effects of digitization, particularly in rural areas, and they must be addressed if actors in this field are to create a story of convergence that offers lasting opportunities to youth.

PROVIDING MULTIDIMENSIONAL SOLUTIONS FOR YOUTH

In order to achieve the potential of digital technology for youth, multidimensional responses will be required from a variety of stakeholders (i.e., government, public-sector and development organizations): from the **modernization of the education sector** to prepare youth for the labour market of the future, to the promulgation of **calibrated policies** that promote **responsible digital innovation** in payments, education, financial access and the **online-platform economy**; from tax incentives for employers, to the promotion of online platforms that **distribute capital and knowledge more broadly** across segments of youth and that do so in a way that **secures and improves the livelihoods of youth**; from the development of **thriving innovation ecosystems and ICT sectors**, to approaches that **reduce exclusion, geographic isolation and growing economic precariousness**.

All of these fundamental issues demand a measure of thought leadership, policy development, sectorial investment, market development, private-sector–led business-model innovation, entrepreneurship support and protection of the most vulnerable. They also necessitate long-term action and commitment.

AROUND **1/2** A BILLION YOUNG PEOPLE will enter THE LABOUR MARKET in the next 12 years

The stakes are high. Digital technology is providing a unique set of tools with the potential to shape young people's future and equip them with the means to lead a dignified life and build their own pathway towards prosperity. However, the development community needs to act **now** if it is to have any positive influence on how that digital future is crafted and how it **actually** benefits youth. Otherwise, the development community is at risk of having to watch helplessly from the sideline as increasingly disillusioned youth become further marginalized and left out of the new digital age.

LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The UNCDF strategy 'Leaving no one behind in the digital era' is based on over a decade of experience in digital finance in Africa, Asia and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals (SDGs) aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the SDGs. UNCDF will apply a market development approach and continuously seek to address underlying market dysfunctions.

ABOUT THE UN CAPITAL DEVELOPMENT FUND

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. The UNCDF finance models work through two channels: financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and localized investments—fiscal decentralization, innovative municipal finance and structured project finance—that drive the public and private funding that underpins local economic expansion and sustainable development.

By strengthening how finance works for poor people at the household, small enterprise and local infrastructure levels, UNCDF contributes to SDG 1 on the eradication of poverty and SDG 17 on the means of implementation. By identifying those market segments in which innovative finance models can have a transformational impact in reaching the last mile while addressing exclusion and access inequalities, UNCDF contributes to a number of different SDGs.

For more information, please contact:

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[1] World Bank, 'Atlas of Sustainable Development Goals 2018: 8 Decent Work and Economic Growth.' Available from http://datatopics.worldbank.org/sdgatlas/SDG-08-decent-work-and-economic-growth.html (accessed February 2019).

[2] International Labour Office, 'Global employment trends for youth 2012,' Executive summary (Geneva, May 2012).

[3] United Nations Development Programme, Oslo Governance Centre, 'Goal 8: Decent Work and Economic Growth.' Available from http://www.undp.org/content/oslo-governance-centre/en/home/sustainable-development-goals/goal-8-decent-work-and-economic-growth.html (accessed February 2019).

[4] International Labour Office, *Global Employment Trends for Youth 2017: Paths to a better working future* (Geneva, 2017).

[5] Ibid.

[6] James Manyika and others, 'Digital Finance for All: Powering Inclusive Growth in Emerging Economies' (n.p., McKinsey Global Institute, September 2016).

[7] The clubs will be similar to the Women's Investment Club that already exists in Senegal.

[8] The Economic Times, 'Alibaba creates over 36.8 million jobs in 2017,' 9 April 2018. Available from https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/alibaba-creates-over-36-8-million-jobs-in-2017/63680309

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[10] Diana Farrell, Fiona Greig and Amar Hamoudi, 'The Online Platform Economy in 2018: Drivers, Workers, Sellers and Lessors' (n.p., JPMorgan Chase Institute, 2018).

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