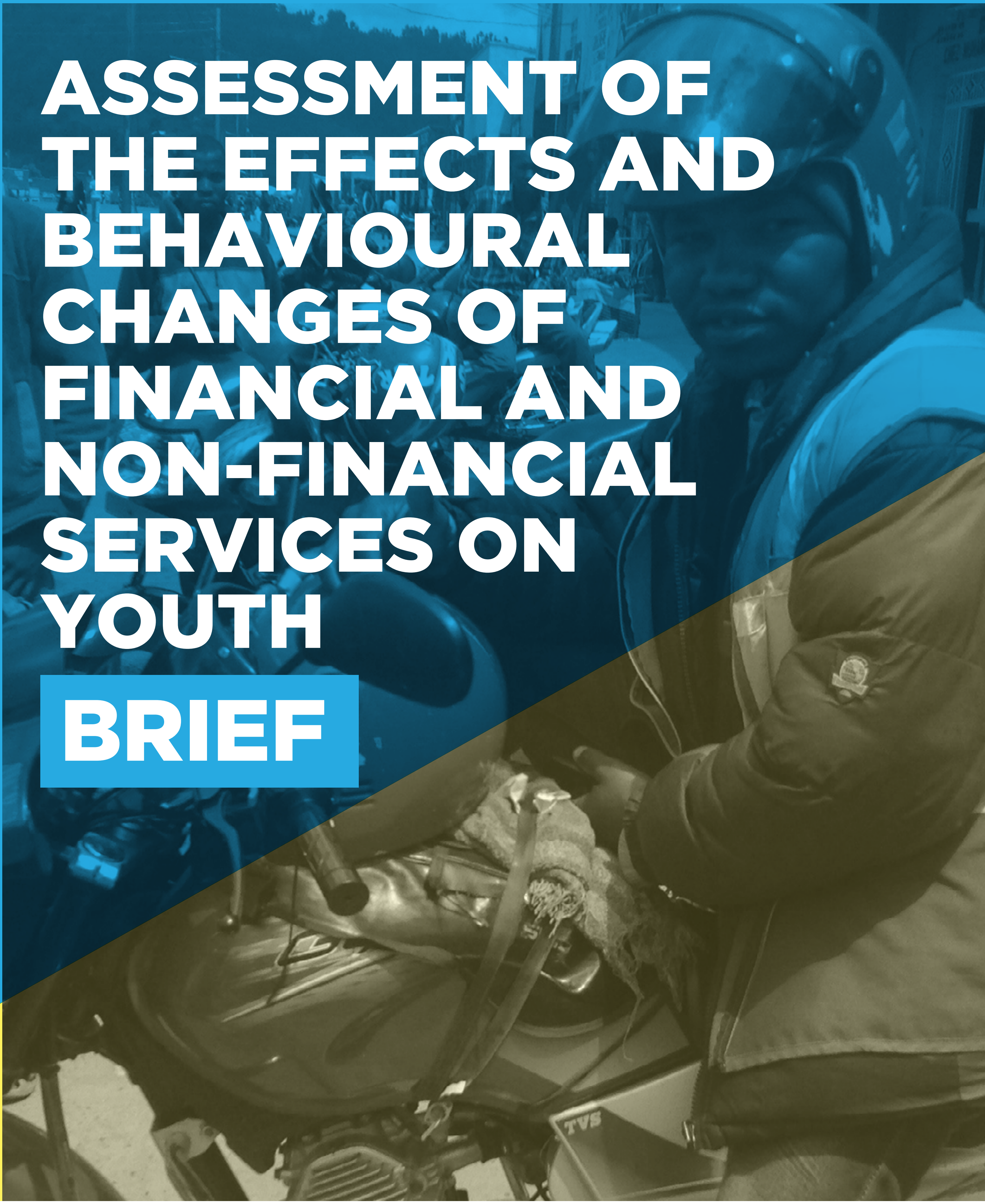
ASSESSMENT OF THE EFFECTS AND BEHAVIOURAL CHANGES OF FINANCIAL AND NON-FINANCIAL SERVICES ON YOUTH

BRIEF



The MasterCard Foundation

1966 2016 UNCDF

March 2016

YouthStart, a United Nations Capital Development Fund (UNCDF) initiative established in partnership with The MasterCard Foundation, aims to increase access to financial services for low-income youth in sub-Saharan Africa. The programme supports financial service providers (FSPs) to design, test and scale up sustainable services tailored to the needs of young people, while helping to create an enabling regulatory environment for young people to access the right financial and other services they need to make sound financial decisions, build a strong asset base, and create sustainable livelihoods for themselves. As of December 2015, over 665,000 youth (49 percent young women and girls) had saved over US$18 million either in the form of an individual savings account or a group-based savings mechanism; close to 90,000 had received an individual or a group loan to start up or expand their own business; and over 727,000 had participated in financial education sessions.

While the program's focus was to increase access to financial services for youth, it also endeavored to understand the effects on youth of the financial and non-financial services which were offered by the 10 FSP partners.

YouthStart's theory of change lies on the premise that

> *"When accessing the right combination of financial and non-financial services, youth - young women and girls in particular- are better equipped to make more informed financial decisions, build financial (e.g. savings), social (e.g. social networks) and human assets (e.g. skills and knowledge) for their futures and create sustainable livelihoods."*

In order to test this hypothesis, UNCDF undertook an extensive research study to deepen its understanding on the current knowledge, skills, attitudes and behaviors of youth that have been accessing financial and non-financial services, and how their participation in the programme has led or not to small changes that could become the foundation for greater impact in the future. Through the financial diaries methodology, the study followed the savings and spending patterns of youth by conducting weekly interviews with them over a six-month span. This paper provides a high-level synopsis of the findings from the study of two YouthStart Partners involved in the study: FUCEC in Togo and ACSI in Ethiopia.

SUMMARY IN PICTURES

WHY?

52% of youth considered lack of access to financial services the major obstacle to entrepreneurship*

THE STUDY

THE AIM

of this paper is to add to the body of knowledge and understanding about the effects and impacts that access to financial services has on youth.

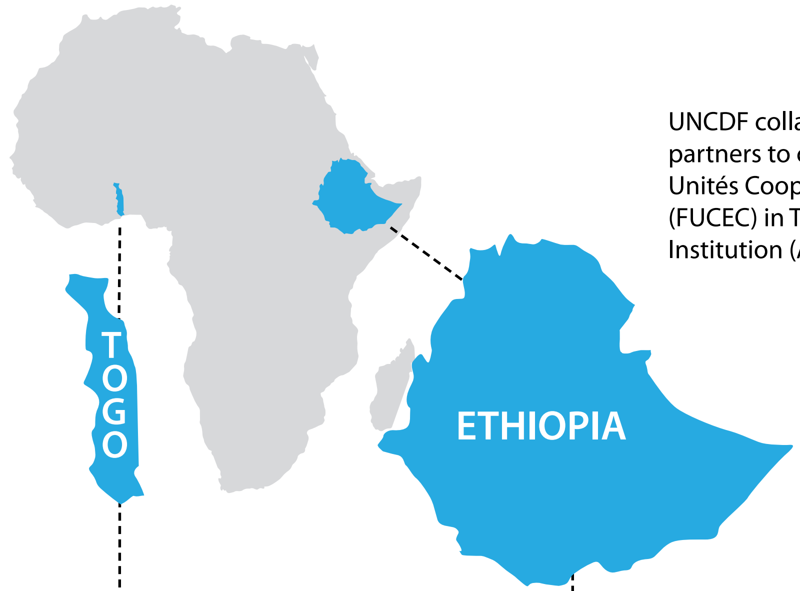
RESEARCH QUESTIONS

The research aimed to answer the following questions about participation in a YouthStart programme:

1. How does it contribute to improved money management skills of youth?
2. How does it contribute to increased use of financial services by youth?
3. How does it contribute to youth planning ahead for their future?

RESEARCH HYPOTHESES

1. Youth develop good practices around money management such as tracking their money and spending it wisely.
2. Youth deposit savings on a regular basis, increase frequency and value of savings over time and develop good practices around savings and loans.
3. Youth set and achieve savings goals, accumulate assets over time and feel less stress about their future.



UNCDF collaborated with two of its strongest partners to conduct this study, Faîtière des Unités Coopératives d'Epargne et de Crédit (FUCEC) in Togo and Amhara Credit and Savings Institution (ACSI) in Ethiopia.

RESEARCH FINDINGS

Togo

1. Participants of the YouthStart programme had nearly double the amount of net average income as youth in the control group.
2. YouthStart participants saved through their YouthStart account nearly 50% of the time, while the control group saved almost entirely through informal mechanisms. An increase in the frequency and value of savings deposits, positive net savings, good savings practices and good loan practices correlate with participation in the YouthStart programme.
3. YouthStart participants developed a financial plan and set and achieved saving goals. They were more confident about their future, less stressed and happier overall.

Ethiopia

1. Participants of the YouthStart programme had more than double the amount of net average income as youth in the control group.
2. YouthStart participants saved through their YouthStart account nearly 50% of the time. The control group also saved through a savings account, indicating a more banked population than in Togo. An increase in the frequency and value of savings deposits, positive net savings, good savings practices and good loan practices correlate with participation in the YouthStart programme.
3. YouthStart participants developed a financial plan and set and achieved saving goals. They were more confident about their future, less stressed and happier overall. In Ethiopia, participation in the programme may also lead to the accumulation of assets.

RESEARCH METHODS

- 280 youth between 18 and 24 years of age participated in the research.
- Researchers conducted a financial diaries study, through biweekly interviews over a six-month period.
- They also used a number of validating qualitative research methods, such as focus-group discussions and in-depth interviews.

LIMITATIONS & IMPLICATIONS

- The study has several limitations, such as small sample size, possible self-selection bias of the sample and lack of baseline data. However, the objective of the study was not to demonstrate or prove programme impact but to gain insights into youth financial behaviours.
- Findings from the study may be helpful for stakeholders such as policymakers, regulators, donors, financial service providers, NGOs and youth serving organizations.

* Data from youth surveyed in 2012. Source: United Nations, 'Report on the United Nations System-wide Action Plan on Youth (SWAP) Survey.'

THE IMPORTANCE OF INCLUDING YOUTH

Youth in the developing world are faced with poor economic conditions and a lack of educational and employment opportunities. Of youth surveyed in 2012 by the United Nations Inter-Agency Network on Youth Development, 52% considered lack of access to financial services the major obstacle to entrepreneurship.[1] Although progress has been made in the field of youth-inclusive financial services, youth still face many barriers to access such as age and ID limitations to open a savings account or access a loan, inappropriate and inaccessible financial products and services, and low financial capability to manage and regularly use the products and services.[2]

In this context, access to financial assets and resources is gaining attention as a key contributing factor to help youth make their own economic decisions and successful transitions into adulthood. In recent years, various youth programmes began integrating youth financial services into a broader portfolio of youth programming (e.g., economic development and youth development) while still seeking to advance the youth economic opportunities agenda.

As the lead United Nations agency in financial inclusion, United Nations Capital Development Fund (UNCDF)—in partnership with The MasterCard Foundation—launched YouthStart (YS) in 2010, a 4.5-year programme with the aim of bringing access to finance to 200,000 young people and contributing to solving the youth employment challenge in sub-Saharan Africa. As of December 2014, over 510,000 youth (46% young women and girls) had saved $14.2 million either in the form of an individual savings account or a group-based savings mechanism; close to 72,000 had received an individual or a group loan to start up or expand their own business; and over 500,000 had participated in financial education sessions.

Through YS, UNCDF aims to demonstrate that i) when accessing the right combination of financial and non-financial services, youth—young women and girls in particular—are better equipped to make more informed financial decisions, build financial (e.g., savings), social (e.g., social networks) and human assets (e.g., skills and knowledge) for their futures and create sustainable livelihoods; and ii) youth financial services contribute to increasing outreach and sustainability of financial service providers (FSPs) over time.

YOUTHSTART PROGRAMME ACHIEVEMENTS (DECEMBER 2014)

SAVINGS — OVER **514, 000 YOUTH** (46 PERCENT YOUNG WOMEN AND GIRLS) HAD **SAVED** CLOSE TO **$14 MILLION**

LOANS — CLOSE TO **72,000** HAD RECEIVED AN INDIVIDUAL OR A GROUP **LOAN** TO **START UP OR EXPAND** THEIR OWN **BUSINESS**

EDUCATION — OVER **502,000** HAD PARTICIPATED IN **FINANCIAL EDUCATION SESSIONS**

For more information, visit http://www.uncdf.org/en/youthstart

[1] United Nations, 'Report on the United Nations System-wide Action Plan on Youth (SWAP) Survey' (New York, 2012). Available from http://www.un.org/esa/socdev/unyin/documents/ReportonSWAPsurvey.pdf

[2] Danielle Hopkins and others, 'Policy Opportunities and Constraints to Access Youth Financial Services' (New York, UNCDF, 2012). Available from http://www.uncdf.org/sites/default/files/Download/AccesstoYFS_05_for_printing.pdf

THE FINANCIAL DIARIES STUDY

This paper is based on research commissioned by UNCDF and carried out by *MicroSave*[3] between September 2014 and February 2015 with two of its strongest partners, Faîtière des Unités Coopératives d'Epargne et de Crédit (FUCEC) in Togo and Amhara Credit and Savings Institution (ACSI) in Ethiopia.

The evaluation consisted mainly of a financial diaries study conducted through biweekly (BW) interviews with 280 total youth (ages 18-24) over a six-month period from September 2014 to February 2015. The data on formal and informal transactions generated from the interviews provides insight into youth financial behaviour around three central themes: money management, use of financial services, and planning ahead for the future. In addition to the financial diaries methodology, researchers used a number of validating qualitative research methods. For example, they conducted 15 focus-group discussions with youth and 8 in-depth interviews with parents.

The youth participants in the study were segmented by participation in the YS programme (control vs. treatment group), geographic location, gender, marital status, occupation and by time in the YS programme (for the treatment group). By separating youth into participants of the YS programme (treatment group) and non-participants (control group), researchers were able to explore the potential effects of the programme on three youth financial capability indicators: money management, use of financial services, and planning ahead.

Key research questions for the three financial capability indicators include:

1. How does the programme contribute to improved money management skills of youth?
2. How does the programme contribute to increased use of financial services by youth?
3. How does the programme contribute to youth planning ahead for their future?

By analysing changes in these financial capability indicators over time through financial diaries, the study demonstrates the circumstances under which financial diaries can be used to evaluate the effects of an integrated, holistic youth programme that combines youth financial services with youth non-financial services. Given some of the limitations of the study and the qualitative research methodology, the objective was not to demonstrate or prove programme impact but to gain insights into youth financial behaviours and potentially their financial decisions as a result of their access to and use of the financial and non-financial services offered by the FSPs.

[3] *MicroSave*, 'Financial Diaries Research Project: Assessment of the Effect and Behavioural Changes of Financial and Non-Financial Services on Youth' (n.p., June 2015).

CONCLUSIONS

The findings show positive effects for each of the three categories: money management, use of financial services, and planning ahead. In terms of money management, participants of the YS programme had nearly double the amount of net average income (average income – average expenses) as youth in the control group in Togo and more than double that of youth in the control group in Ethiopia. This result was most likely due to participation by the treatment group in financial education sessions that promoted better money management strategies, such as being more careful about how they spend their money (i.e., spending less on unnecessary expenses like food on the street, toiletries, alcoholic beverages, etc.), using self-control for impulse purchases, tracking income and expenses, and tracking savings through a passbook.

In terms of use of financial services, YS participants in both countries saved nearly 50% of the time during the research period through their YS account (the most frequently used savings option), followed by other informal means (e.g., at home, on body/in clothes/in wallet). In comparison, youth in the control group in Togo saved almost entirely through informal mechanisms. Youth in the control group in Ethiopia also saved through a savings account in addition to informal options, indicating a more banked population than in Togo. YS participants in Togo saved more in value at home than in their YS account at FUCEC, while in Ethiopia they saved more in value through their YS account at ACSI. This finding indicates the continued use of informal savings even after opening a savings account.

Participation in the YS programme correlates with increased frequency of deposits across all savings mechanisms—particularly in the YS account—over time in addition to a higher ratio of number of deposits to withdrawals across all savings mechanisms and to the YS account. Participation in the YS programme can also lead to an increase in the value of savings deposits over time and a surplus or positive net savings as youth deposit more than they withdraw across all savings mechanisms. YS participants adopted the practices of saving regularly, saving automatically and saving in a secure place. They also adopted the practice of taking as few loans as possible and evaluating the cost of the loan. In addition, newer youth clients of the FSP in both countries were more interested in accessing a loan than those who joined earlier, which may be due to the recent focus of both programmes on providing loans to youth.

Finally, participation in the YS programme encourages youth to plan ahead for their future and thus smooth the transition from childhood to adulthood and build financial capital. YS participants in both countries were able to develop a financial plan and set and achieve savings goals, mainly due to the financial education sessions they received as part of the YS programme and support from their parents. YS participants in both countries were also more confident about their future, less stressed and happier overall than non-programme participants. Participation in the YS programme in Ethiopia may also lead to the accumulation of assets.

IMPLICATIONS OF THE STUDY

Findings from this study may be helpful in the following way to these stakeholders:

- Policymakers, regulators and donors (e.g., Ministry of Finance, Ministry of Youth, Ministry of Education, Central Bank) can increase their awareness of financial strategies employed by youth to manage money, use financial services, and plan ahead, which could ultimately enable them to develop closely aligned policies and activities that support financial inclusion for youth (e.g., minimizing age and ID requirements for youth to open a savings account and to conduct transactions on their own) and to link these policies to agricultural and rural transformation[4]
- Participating FSPs can use the findings to influence or modify the design of their financial and non-financial services for youth to make them more appropriate for different youth segments (e.g., gender, age)
- FSPs, NGOs and youth serving organizations (YSOs) that are in the process of evaluating the feasibility of offering youth financial and non-financial services can see that participation in a programme like YS can lead to improved money management skills and financial practices, an increase in the frequency and value of savings (both formal and informal), a higher ratio of the number of deposits to withdrawals, and improvements in planning for the future through developing a financial plan and setting savings goals
- Other FSPs, NGOs and YSOs can determine the appropriateness of using financial diaries to gain insights into youth financial behaviour, develop or improve their offerings of youth financial services to particular market segments (e.g., gender, geographic location, age, etc.), analyse the potential outcomes and long-term profitability of non-financial services, and evaluate these financial and non-financial services

[4] Structural transformation is changing the economic opportunity structure for youth in Africa (especially girls) as it is pushing them off farms, and into non-agricultural activities and labour markets, and encouraging migration to urban settings. As a result, traditional social structures and norms regarding occupational choices, girls' education, gender and mobility are breaking down. Financial services are an important resource for young people to diversify into non-farm activities (e.g., service activities, trade activities) and urban labour markets. Source: Jennefer Sebstad, Senior Technical Advisor at United States Agency for International Development, comments to author on this paper, 19 October 2015.

UN CAPITAL DEVELOPMENT FUND

Two United Nations Plaza

New York, NY 10017

www.uncdf.org

Email: youthstart@uncdf.org

Tel: +1 212 906 6565