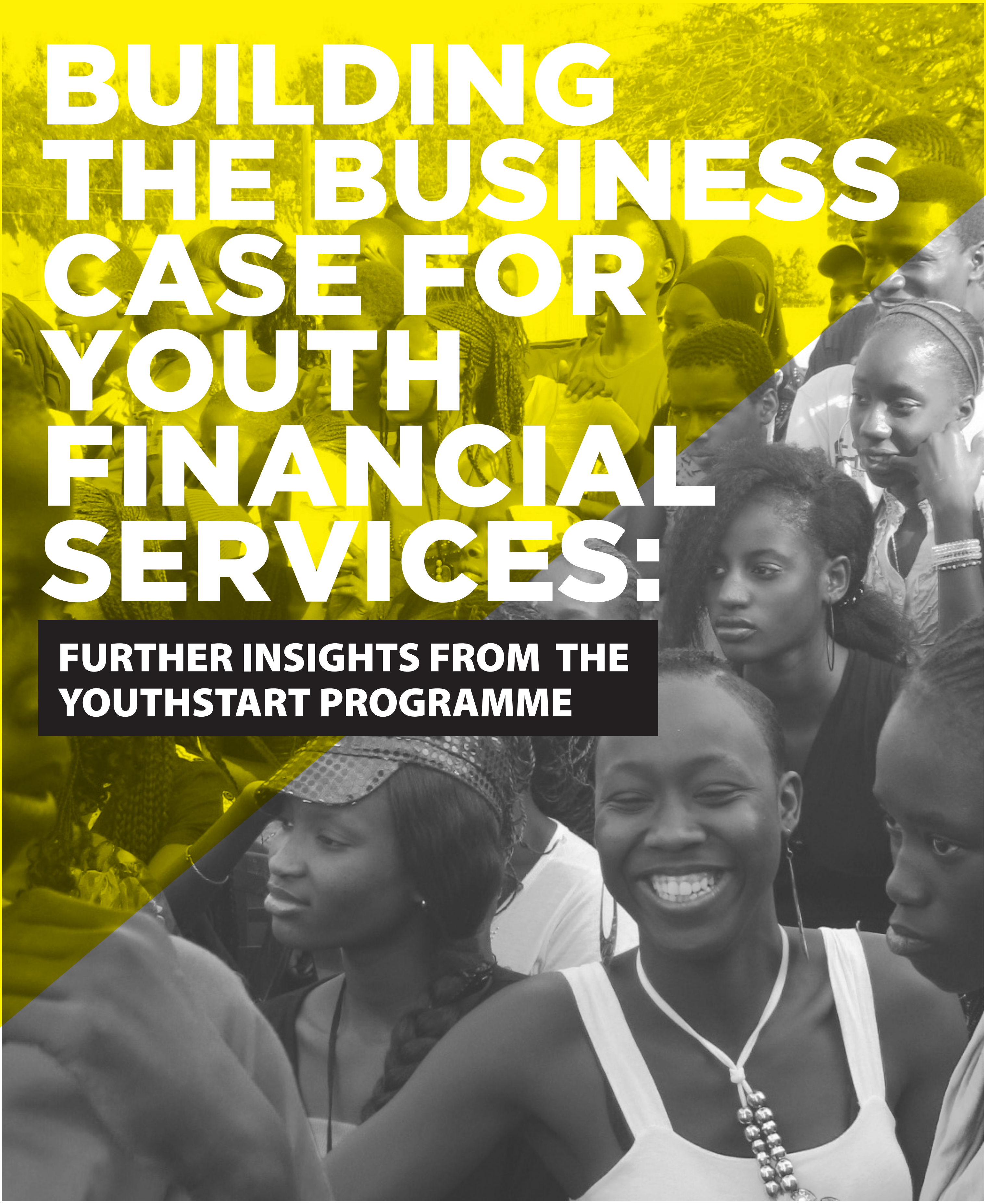
BUILDING THE BUSINESS CASE FOR YOUTH FINANCIAL SERVICES:

FURTHER INSIGHTS FROM THE YOUTHSTART PROGRAMME



The MasterCard Foundation

UNCDF

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The United Nations Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 Least Developed Countries (LDCs). UNCDF uses its capital mandate to help LDCs pursue inclusive growth. UNCDF *uses 'smart' Official Development Assistance (ODA) to unlock and leverage public and private domestic resources; it promotes financial inclusion*, including through digital finance, as a key enabler of poverty reduction and inclusive growth; and it demonstrates how *localizing finance* outside the capital cities can accelerate growth in local economies, promote sustainable and climate resilient infrastructure development, and empower local communities. Using capital grants, loans, and credit enhancements, UNCDF tests financial models in *inclusive finance* and *local development finance*; 'de-risks' the local investment space; and proves concept, paving the way for larger and more risk-averse investors to come in and scale up.
For more information, visit http://www.uncdf.org/.

ABOUT YOUTHSTART

UNCDF in partnership with The MasterCard Foundation launched YouthStart in 2010, in response to the lack of economic opportunities for the growing population of young people around the world, especially in sub-Saharan Africa. For the past four years, YouthStart has supported 10 partner financial service providers in eight African countries to design, test and scale up sustainable services tailored to the needs of young people between the ages of 12 and 24.
For more information, visit http://www.uncdf.org/YouthStart/.

ABOUT THE MASTERCARD FOUNDATION

The MasterCard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in sub-Saharan Africa. As one of the largest, independent foundations, its work is guided by its mission to advance learning and promote financial inclusion in order to alleviate poverty. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006.
For more information, please visit http://www.mastercardfdn.org or follow us on Twitter @MCFoundation.

ACKNOWLEDGEMENTS

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AUTHORS
David Kruijff
Maria Perdomo, UNCDF

DESIGNER
Lushomo

COPY EDITOR
Chela Cea

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ACRONYMS

CGAP Consultative Group to Assist the Poor

FCPB Faîtière des Caisses Populaires du Burkina

FSP financial service provider

FINCA DRC FINCA Democratic Republic of the Congo

Frankfurt School Frankfurt School of Finance & Management

MK Malawian kwacha

OIBM Opportunity International Bank Malawi

PAR portfolio at risk

PAR30 portfolio at risk over 30 days

PCT Product Costing Tool

RF Rwandan franc

SACCO savings and credit co-operative

UFC Umutanguha Finance Company

UNCDF United Nations Capital Development Fund

US$ United States dollar

YFS youth financial services

EXECUTIVE SUMMARY

“THE INTERNATIONAL LABOUR ORGANIZATION ESTIMATES THAT 60 PERCENT OF AFRICA’S UNEMPLOYED ARE YOUNG PEOPLE”

Currently, there are about 1.2 billion people aged 15 to 24, representing around a sixth of the world’s total population. The population in this age cohort is still increasing rapidly in Africa, whereas it is declining or is projected to decline in all other major areas.[1] With almost 200 million people aged 15 to 24, Africa has the youngest population in the world. The International Labour Organization estimates that 60 percent of Africa’s unemployed are young people, and among employed youth, there is a high level of underemployment—especially in the informal sector. The costs of inadequate employment are high. Poverty is the most obvious consequence. On average, 72 percent of African youth live on less than US$2 per day.[2]

The merits of financial inclusion are strongly rooted in empowerment. Access to financial services is a key link between economic opportunity and economic outcome.[3] By empowering youth to cultivate economic opportunities, financial inclusion can be a powerful agent for strong and inclusive growth. Greater financial inclusion for Africa’s youth has the potential to help youth manage their finances in the short term and develop responsible financial habits in the long term, thus helping them realize their economic potential.

On a global scale, financial inclusion is receiving unprecedented attention. Global- and national-level policymakers have embraced financial inclusion as an important development priority. The Group of 20 made the topic one of its pillars. Through the work of Alliance for Financial Inclusion, national-level policymaking and regulatory bodies from over 90 states have committed to financial inclusion strategies for their countries. The World Bank Group has developed its 2020 Universal Financial Access goals. The global financial standard setting bodies are changing their guidance to facilitate financial inclusion.[4] The United Nations, a key player through agencies such as the United Nations Capital Development Fund (UNCDF) and United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development, has also incorporated financial inclusion in its post-2015 development agenda. Together with a multitude of international organizations and foundations, they are striving to eradicate financial exclusion. While this effort is very promising, most of the attention is geared towards the financially excluded adult population.

Africa is home to around 200 million youth, one third of its population, and this number is predicted to double by 2045.[5] Despite the significantly large number of youth (age 15–24), they are less likely than adults (age 25 and above) to have an account at a financial institution. The financial inclusion gap between adult and youth account holders in the three countries where the selected financial service providers (FSPs) for this study operate is as high as 31 percent in Rwanda and reaches 10 percent and 9 percent in Burkina

1 ‘Concise report on the world population situation in 2014’ (ST/ESA/SER.A/354).
2 African Economic Outlook, ‘Promoting Youth Employment in Africa,’ 28 May 2015. Available from http://www.africaneconomicoutlook.org/en/theme/youth_employment/.
3 Christine Lagarde, Managing Director of the International Monetary Fund, ‘Empowerment Through Financial Inclusion,’ address to the International Forum for Financial Inclusion, Mexico, 26 June 2014. Available from http://www.imf.org/external/np/speeches/2014/062614a.htm.
4 ‘The Basel Committee on Banking Supervision (BCBS), the Committee on Payment and Settlement Systems (CPSS), the Financial Action Task Force (FATF), the International Association of Deposit Insurers (IADI), and the International Association of Insurance Supervisors (IAIS) have significant influence on how many poor households get access to what range and quality of formal financial services and at what cost.’ CGAP, Global Partnership for Financial Inclusion, ‘Global Standard-Setting Bodies and Financial Inclusion for the Poor,’ 15 October 2011. Available from http://www.cgap.org/publications/global-standard-setting-bodies-and-financial-inclusion-poor.
5 African Economic Outlook, ‘Promoting Youth Employment in Africa’; The Brookings Institution, ‘Foresight Africa: Top Priorities for the Continent in 2013,’ January 2013. Available from http://www.brookings.edu/research/reports/2013/01/foresight-africa-2013.

Faso and Malawi, respectively.[6] High levels of financial exclusion among youth in Africa is something that needs to be tackled as many youth are ready to join the labour force and many more are soon to follow. A financially educated youth who has had the opportunity to save money to achieve goals and to take loans for productive purposes will become a strong force for economic and social prosperity. It is therefore imperative that youth be included in international and national financial inclusion initiatives, and get the attention of FSPs that function as intermediaries.

YouthStart, a $12 million UNCDF programme in partnership with The MasterCard Foundation, was launched in 2010 to spur innovation and delivery of financial services to youth in Africa and mainstream them into inclusive financial sectors.

YouthStart has three main objectives:

1. Catalyse efforts by financial institutions to innovate financial services for at least 200,000 poor youth (at least half female);

2. Build capacity to offer youth sustainable, quality financial services; and

3. Share learning with a range of stakeholders to mainstream youth into financial sectors.

The MasterCard Foundation commissioned Frankfurt School of Finance & Management (Frankfurt School) to conduct an in-depth profitability analysis of 3 of YouthStart's 10 FSP partners: Umutanguha Finance Company (UFC) in Rwanda, Faîtière des Caisses Populaires du Burkina (FCPB) in Burkina Faso and Opportunity International Bank Malawi (OIBM) in Malawi. The analysis aimed to deepen understanding of the revenue and cost drivers that affect profitability of serving the youth segment (age 18–24),[7] including a disaggregated analysis of the costs associated with providing non-financial services. The study attempted to answer the question, What makes youth accounts (both savings and loans targeting youth between the ages of 18 and 24) attractive—or not—for financial institutions in different contexts?

The decision to serve youth and the necessary time frame to break even on initial investments depend on the market in which the FSP operates, the FSP's institutional muscle and the segment of youth the FSP targets (rural/urban, age, gender, etc.). An assessment of the different market, institutional and segment specific levers will help an FSP decide whether or not to start serving youth in a targeted manner. The Frankfurt School made such a qualitative assessment of the different levers following the Consultative Group to Assist the Poor (CGAP) business case framework for youth services.[8] To further assess the business case for youth products, a quantitative assessment of the profitability drivers using the Product Costing Tool (PCT) developed by the Frankfurt School was also conducted. This approach formed the basis of a multidimensional study that applied a quantitative cost/revenue analysis for products targeting youth and analysed the results within market and institutional contexts.

The main findings of the Frankfurt School report[9] related to the business case for youth products:

- For there to be a business case for youth financial services (YFS), they must be integrated into the overall approach of the FSP and not be simply stand-alone offerings. In other words, YFS need to be part of an FSP's overall market approach. The processes of service offerings must be well integrated, and traditional products must be connected with YFS.

- Standardization of processes helps an FSP increase efficiencies (lower costs) to deliver services to youth. While products seem differentiable to clients, the actual production process is best organized when it is similar across all products. All three FSPs in the study have achieved this standardization. The only step in which YFS differ from standard products is related to financial education. An important early lesson from the YouthStart programme was to increase the efficiency and outreach of financial education products by applying the 'critical minimum approach.' This approach was used by UFC and FCPB to deliver financial education. The methodology provides youth with three 30-minute targeted sessions, which allow them to internalize content and effectively nudge them towards a culture of building financial capabilities.

- YFS in tandem with financial education should be viewed as a means to financially educate youth, hence creating financially responsible clients who will increase their savings balance over time and/or utilize other financial products. Initially, however, youth savings accounts can lead to the accumulation of large numbers of dormant accounts with very low balances. In the short term, it is unlikely for a youth savings product to be a profitable business line. FSPs tend to offer youth savings for both social and strategic objectives. The latter is related to market positioning and ensuring sustainable institutional growth. The main challenge for an FSP is to engage these dormant account holders over time and ensure that a certain percentage become financially and economically active.

- Both UFC and FCPB do not use alternative delivery channels, and OIBM was not observed deploying them for its youth savings product. For several reasons, the use of technology for creating alternative delivery channels is viewed as a necessary path to engage youth to actively use their savings account:

1. For the FSP, alternative delivery channels reduce transactions costs. Transaction costs involving staff are dis-proportionately high for low account balances and decrease product profitability if cost-covering fees are not charged.

2. For savers, traditional channels involve additional costs, such as traveling to the branch and waiting in line, which can discourage youth from using their account.

3. For savers, the initial savings account is only a medium to store surplus funds, which are only available through a tedious withdrawal process. The use of technology can open up alternative functions (e.g., payments, transfers or mobile phone account top-ups). As such, it becomes an active medium to manage finances rather than to just store surplus funds.

- Among the three FSPs analysed, only FCPB has a profitable youth savings product. Its profitability is due to several factors: maintaining a minimum opening balance requirement, limiting account-opening cost and targeting more affluent youth to cross-subsidize youth that hold a minimal balance. As a result, around 50 percent of FCPB's youth accounts financially break even within the first year, while almost none of the youth accounts of the other FSPs do so. For UFC and OIBM, serving youth clients is seen as a future investment, with direct contribution to their social goal of financial inclusion for vulnerable youth.

- Youth loans have a different set of characteristics. While the cost of opening a youth savings account is known and calculable, the costs of managing a poor performing youth portfolio are more difficult to predict. Lending involves risk and youth are often perceived as a high-risk category. The first challenge for an FSP is to institutionalize YFS beyond the youth savings product. As FSPs have limited resources, there can always be a tendency to divert resources to more lucrative lending products. The second challenge for the FSP is to design the product in such a manner that the perceived risks are sufficiently mitigated. A large part of the risk mitigation can be realized through meaningful financial training. A good training programme, as demonstrated by UFC, covers very specific business aspects, is split into a pre-disbursement training and a post-disbursement coaching phase, and is likely to have a positive effect on the portfolio quality of youth loans and to deliver a valuable contribution to the business case. UFC's approach to financial training is one of the reasons for its successful youth loan product. The other reason is its institutional muscle, as described below.

- An important observation of the youth loan products is that the institutional muscle of the FSP has a direct positive or negative correlation on the performance of the youth loan portfolio. When an FSP is successful with its microlending product and is committed to offering youth loans, it has a good chance of being successful with its youth loan product as well, as demonstrated by UFC. If the FSP is having difficulties with its microlending product, then there is a reasonable chance that the youth loan product's performance is low too, as demonstrated by OIBM. Due to the small number of youth loans at FCPB, no robust conclusions could be made on the performance of its youth loan product. As such, it was not incorporated in this report.

As seen in the main findings of the report, the Frankfurt School has produced important new insights related to the circumstances under which YFS have the potential to become a reasonable business proposition and what an FSP needs to consider when designing youth products. The business case for youth loan products is well illustrated by UFC. Good institutions can issue profitable youth loans, especially if they integrate a meaningful financial education programme. The business case for youth savings, however, is very difficult to make in general, especially when focusing on vulnerable youth. FCPB has a profitable youth savings product, but it is only able to realize this profitability through a more commercial focus on a wealthier youth segment.

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6 Asli Demirguc-Kunt and others, 'The Global Findex Database 2014: Measuring Financial Inclusion around the World,' Policy Research Working Paper, No. 7255 (Washington, D.C., World Bank, April 2015). Available from http://www.worldbank.org/en/programs/globalfindex.

7 The minimum age for youth financial services, particularly savings products, can be lower in certain countries.

8 For more details on the framework, see the following: Tanaya Kilara, Barbara Magnoni and Emily Zimmerman, 'The Business Case for Youth Savings: A Framework,' Focus Note, No. 96 (Washington, D.C., CGAP, July 2014). Available from http://www.cgap.org/sites/default/files/Focus-Note-Business-Case-for-Youth-Savings-A-Framework-Jul-2014.pdf.

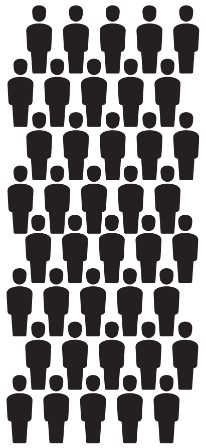
9 Frankfurt School of Finance & Management, 'YouthStart Business Case Analysis' (internal document).

SUMMARY IN PICTURES

WHY?

CURRENTLY, THERE ARE ABOUT **1.2 BILLION** PEOPLE AGED 15 TO 24, REPRESENTING AROUND **1/6** OF THE WORLD'S POPULATION

WITH ALMOST **200 MILLION** PEOPLE AGED 15 TO 24, AFRICA HAS THE YOUNGEST POPULATION IN THE WORLD



AFRICA'S YOUTH POPULATION IS SET TO **DOUBLE BY 2045**

The International Labour Organization estimates that:

60% OF AFRICA'S UNEMPLOYED ARE YOUNG PEOPLE

ON AVERAGE 72% OF AFRICAN YOUTH LIVE ON LESS THAN **US$2** PER DAY

GREATER FINANCIAL INCLUSION

SHORT TERM:

HELP YOUTH MANAGE THEIR FINANCES

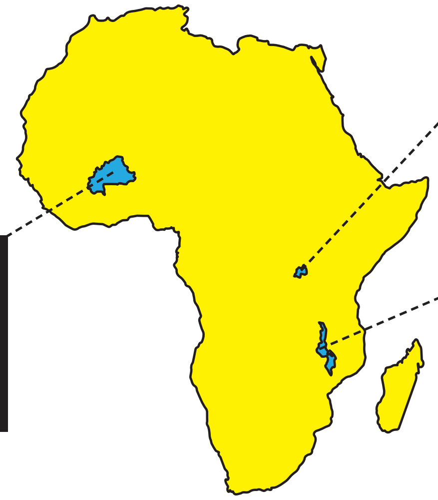
LONG TERM:

HELP YOUTH REALIZE THEIR ECONOMIC POTENTIAL

HOW?

YouthStart, a **$12 million UNCDF programme** in partnership with The MasterCard Foundation, was launched in **2010** to spur innovation and delivery of financial services to youth in Africa and mainstream them into inclusive financial sectors.

THE FRANKFURT SCHOOL CONDUCTED AN **IN-DEPTH PROFITABILITY ANALYSIS** OF 3 OF YOUTHSTART'S 10 FSP PARTNERS:



RWANDA: UMUTANGUHA FINANCE COMPANY (UFC)

BURKINA FASO: FAÎTIÈRE DES CAISSES POPULAIRES DU BURKINA (FCPB)

MALAWI: OPPORTUNITY INTERNATIONAL BANK MALAWI (OIBM)

THE STUDY ATTEMPTED TO **ANSWER THIS QUESTION:**

What makes youth accounts (both savings and loans targeting youth between the ages of 18 and 24) attractive—or not—for financial institutions in different contexts?

The study resulted in **NEW INSIGHTS:**

- For there to be a business case for youth financial services (YFS), they must be integrated into the overall approach of the FSP and not be simply stand-alone offerings.
- Standardization of processes helps an FSP increase efficiencies (lower costs) to deliver services to youth.
- YFS in tandem with financial education should be viewed as a means to financially educate youth, hence creating financially responsible clients.

1 INTRODUCTION

THE IMPORTANCE OF INCLUDING YOUTH

> “YOUTH UNEMPLOYMENT RATES ARE DOUBLE THOSE OF ADULT UNEMPLOYMENT RATES IN MOST AFRICAN COUNTRIES”

Since the turn of the century, many African countries have boasted a consistently strong growth performance. Africa's growth rate has outperformed the global rate over the last decade. From 2001 to 2010, sub-Saharan Africa claimed 6 of the world's 10 fastest-growing economies. Africa weathered the 2008 financial crisis well, with many economies already growing at rates close to their pre-crisis averages. From an economic growth perspective, Africa's prospects for the coming decade seem stable.[10]

With almost 200 million people aged 15 to 24, Africa has the youngest population in the world. Young people make up the greatest proportion of the population in sub-Saharan Africa, with more than one third of the population between the ages of 10 and 24. Sub-Saharan Africa is also the only region of the world in which the number of young people continues to grow substantially.[11] The number of young people in Africa is predicted to double by 2045.[12]

However, this burgeoning youth population is a challenge for the region and can also present a significant risk and threat to social cohesion and political stability if Africa fails to create sufficient economic and employment opportunities to accommodate the new entrants to the workforce. Large sections of the population, particularly the young, can be left behind and become frustrated.

Although many jobs have been created, there have not been enough to accommodate the number of young people in search of work. The International Labour Organization estimates that 60 percent of Africa's unemployed are young people. In fact, youth unemployment rates are double those of adult unemployment in most African countries.[13] Further, among employed youth, the proportion of underemployed—who mostly work informally—is significantly higher than that of adults.

The costs of inadequate employment are high. Poverty is the most obvious consequence. On average, 72 percent of African youth live on less than $2 per day. The incidence of poverty among young people in Burundi, Ethiopia, Nigeria, Uganda and Zambia is over 80 percent.[14] The highest rates of poverty can be observed among young women and young people living in rural areas. In fragile states, the lack of adequate employment is one of the major risks to stability.

Considering Africa's strong population growth and constrained public sectors (in most countries), a vigorous private sector is the most important source of jobs for youth. Maximizing the impact of stronger economic growth on youth employment requires intelligent forward-looking policies. There are no easy solutions, but considering the large size of the informal sector in most countries, sound financial inclusion policies should be an integral step of any policy direction chosen.

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10 African Economic Outlook, 'Promoting Youth Employment in Africa.'
11 'The power of 1.8 billion: Adolescents, youth and the transformation of the future' (E.14.III.H.1-E/9,500/2014).
12 The Brookings Institution, 'Foresight Africa: Top Priorities for the Continent in 2013.'
13 Alexandra Hervish and Donna Clifton, *Status Report on Adolescents and Young People in Sub-Saharan Africa: Opportunities and Challenges*, The State of World Population 2014 (Johannesburg, South Africa, UNFPA, 2012) p. 12. Available from http://www.prb.org/pdf12/status-report-youth-subsaharan-Africa.pdf.
14 African Economic Outlook, 'Promoting Youth Employment in Africa.'

“WHILE FSPs ARE OFTEN LIKELY TO INCLUDE YOUTH (ESPECIALLY OLDER YOUTH) IN THEIR MAINSTREAM PRODUCT OFFERINGS, VERY FEW FSPs ACTIVELY TARGET YOUTH”

Financial inclusion is an effective tool for empowerment of the poor as well as a means to improve efficiency of capital allocation and job creation.[15] It is an effective tool that can be implemented relatively fast. There is nothing more counterproductive than excluding a growing young population from full access to financial services. Focusing on financial services makes a lot of sense, in particular for sub-Saharan Africa.

While financial service providers (FSPs) are often likely to include youth (especially older youth) in their mainstream product offerings, very few FSPs actively target youth. FSPs might not see the business case or strategic relevance, they might have other priorities to which they allocate resources, or they might perceive youth as too risky. Whatever the reason, the result is a significant gap in financial inclusion between youth and adults.

Globally, young adults (age 15–24) are less likely than older adults (age 25 and above) to have an account at a financial institution. The gap in account penetration between these two age groups averages between 10 and 20 percentage points.[16] Figure I displays the financial inclusion gap between adults and youth in the three countries where the selected FSPs for this study operate.

Providing appropriate financial education and services for youth can help them build assets and protect themselves against risk, and it can unlock economic potential. Failing to financially include the rapidly increasing youth population may also contribute to growing unrest and social turmoil, as many youth feel left behind and powerless.[17] Development initiatives aimed at providing FSPs with the understanding and resources to internalize youth financial services (YFS) in their product offerings are indispensable.

The social business case for YFS is evident. The social benefits alone are unfortunately insufficient to stimulate many FSPs to specifically include youth in their mainstream product offerings. Making the business case for YFS is therefore necessary but unfortunately not so straightforward.

Despite growing interest in YFS as a means to increase financial inclusion, until recently there has been little information publicly available on whether FSPs can offer youth savings and loan products sustainably, or whether certain approaches make a better business case for youth products than others.

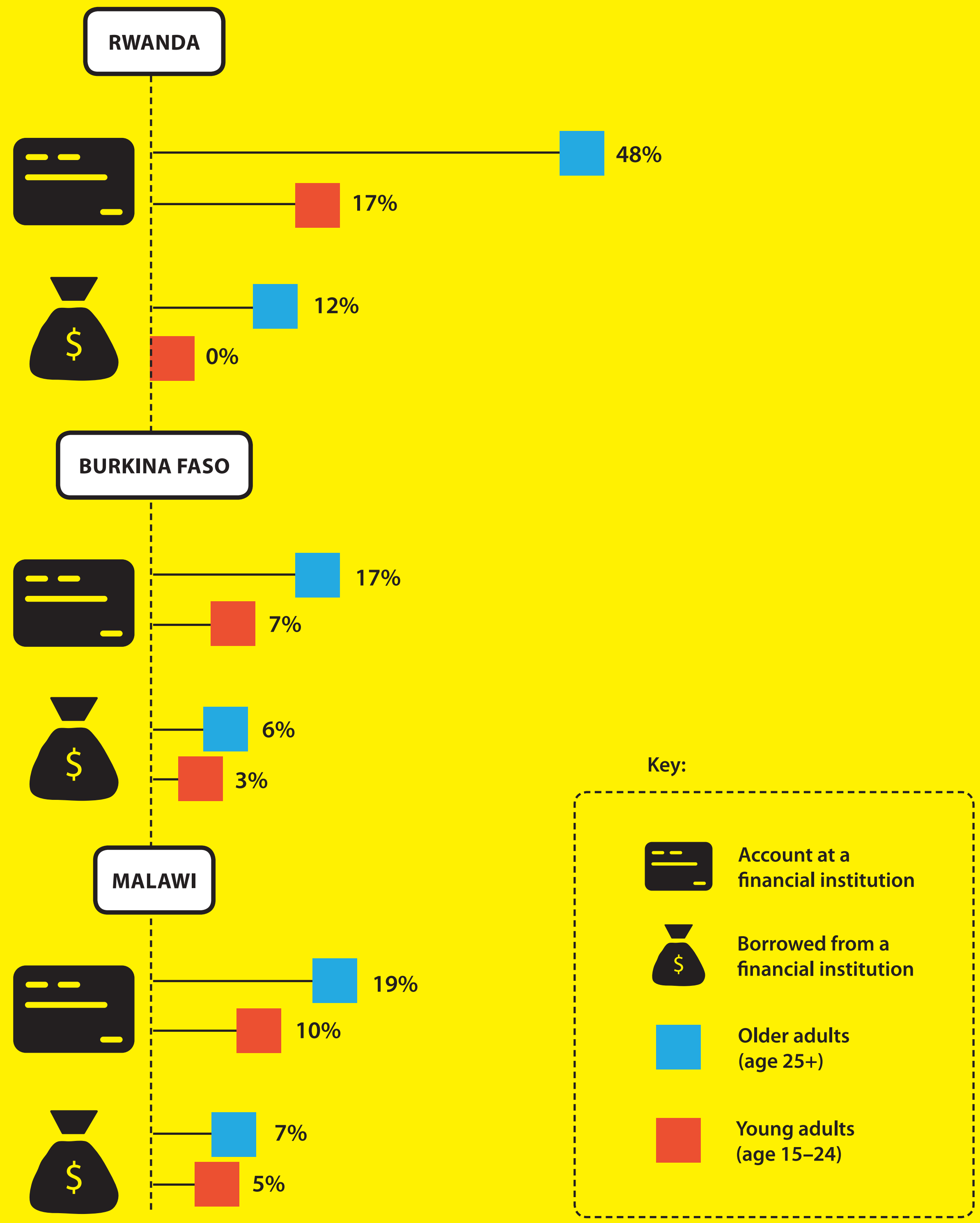
[15] Peter Kasprowicz and Elisabeth Rhyne, ‘Looking Through the Demographic Window: Implications for Financial Inclusion--Financial Inclusion 2020 Project: Mapping the Invisible Market,’ Publication 18 (Washington, D.C., Center for Financial Inclusion, January 2013). Available from https://centerforfinancialinclusionblog.files.wordpress.com/2013/02/looking_through_the_demographic_window.pdf.

[16] Asli Demirguc-Kunt and others, ‘The Global Findex Database 2014.’

[17] International Labour Organization, ‘Are economic stagnation and unemployment fueling social unrest?’ 8 July 2013. Available from http://www.ilo.org/newyork/voices-at-work/WCMS_217280/lang--en/index.htm; Jeanette Thomas, ‘Youth Financial Services: Changing the mindset,’ 17 April 2013. Available from http://blogs.worldbank.org/youthink/youth-financial-services-changing-the-mindset.

FIGURE I

Financial inclusion data comparisons



Source: Asli Demirguc-Kunt and others, ‘The Global Findex Database 2014: Measuring Financial Inclusion around the World, Policy Research Working Paper, No. 7255 (Washington, D.C., World Bank, April 2015).

YOUTHSTART

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 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.18

As of December 2014, over 514,000 youth (46 percent young women and girls) had saved close to $14 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 502,000 had participated in financial education sessions. Figure II provides a summary of the overall achievements of the programme, while figure III is an overview of the aggregated key indicators of all the YouthStart FSP partners.

This paper is a follow-up to the 2013 UNCDF publication 'Building the Business Case for Youth Services: Insights of the YouthStart Programme.'[19] The first paper examined the business case for youth savings, recommended how FSPs can improve the pathway towards profitability of youth services, and showed how the support of donors impacts the pathway towards profitability and fosters youth financial inclusion.[20] The paper took the first steps in demonstrating that youth are a viable market, and it focused on the business case for serving youth if FSPs follow three pathways to profitability of youth services: 1) optimizing expenses, 2) increasing savings volume and 3) increasing return from youth (see box 1 for more details).

FIGURE II

Summary of 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**

[18] See http://www.uncdf.org/en/youthstart.
[19] See http://www.uncdf.org/sites/default/files/Documents/yfs-bus-case.pdf.
[20] The first study worked with two different FSPs from the YouthStart programme (Poverty Eradication and Community Empowerment in Ethiopia and Uganda Finance Trust in Uganda), while Umutanguha Finance Company in Rwanda participated in both studies.

FIGURE III

Aggregated key indicators of YouthStart programme

PART I - Institutional indicators

	Baseline 2010	Expected 2014	Actual Dec. 2014	Change from baseline
Active borrowers	1,294,593	–	1,583,169	CHANGE 288,626
Voluntary savers	3,017,657	4,652,961	6,733,845	CHANGE 3,716,188
Value of loans outstanding (US$)	513,300,219	–	734,575,199	CHANGE 221,274,980
Value of voluntary deposits (US$)	454,465,414	–	795,020,404	CHANGE 340,554,990
Percentage of women clients	53%	50%	48%	CHANGE -5%
Portfolio at risk over 30 days	5%	5%	5%	CHANGE 0%
Operational self-sustainability	133%	>100%	107%	CHANGE -26%

PART II - Youth programme indicators

	Baseline 2010	Expected 2014	Actual Dec. 2014	Change from baseline
Active youth clients[a]	352,548	803,624	986,772	CHANGE 634,224

PART II - Youth programme indicators (continued)

	Baseline 2010	Expected 2014	Actual 2014	Change from baseline
Active YouthStart clients	0	388,300	514,766	CHANGE 514,766
Percentage of young women	0%	>50%	46%	CHANGE 46%
Percentage below 18	0%	–	18 26%	CHANGE 26%
Savings volume (US$)	0	–	14,299,945	CHANGE 14,299,945
Borrowers	0	–	71,706	CHANGE 71,706
Volume of loans outstanding (US$)	0	–	7,347,496	CHANGE 7,347,496
Youth portfolio at risk over 30 days	0%	–	3%	CHANGE 3%
Youth participants in financial education	13,912	363,095	502,618	CHANGE 488,706

a All youth clients opting for specific products and services designed under the YouthStart programme and those opting to use mass-market products

BOX 1

Recap of first paper, 'Building the Business Case for Youth Services: Insights of the YouthStart Programme'

Main findings:

- The marginal costs of providing financial services to youth are high—similar to that of adult small savers, fixed salaries being the main component. FSPs should focus on marketing activities and delivery mechanisms to reduce expenses.
- Product cross-selling and technological innovations have a great potential to offset the high expenses but are usually not measured.
- Larger, more developed FSPs find it easier to integrate youth services in their existing operations, and experience less of an impact on overall profitability in the onset.
- FSPs should engage youth with a long-term perspective in mind.

Implications for FSPs:

- By acquiring customers at a young age, FSPs have the opportunity to be the bank of choice for these customers over their lifetime, tap into their network (family and friends) and strengthen the FSP's corporate branding related to community development.
- FSPs that like to serve youth and are able to assume the costs on their own are looking at a three- to five-year time frame to recuperate costs. FSPs must thus determine whether they have the technical and financial capacity to do so alone.
- FSPs must clearly define their target youth segment. Targeting older youth shortens the break-even horizon, as their average savings balances tend to be higher and they are more likely candidates for other financial services. This cross-subsidization not only shortens the path to profitability but also underlines the need to design different approaches for sub-segments.

Implications for donors:

- Subsidies can shorten the learning curve and path to break even as well as allow for more youth to be served in a shorter time span.
- Donors should understand that their intervention can persuade an FSP to engage in youth services, but they should be wary not to distort the market with unsound funding strategies.
- Tailoring the funding strategy to the size, needs and capacity of an FSP as well as working with different mechanisms such as grants/concessional loans, performance-based contracts, etc., should be integral to donors' approach.
- Donors should understand that there is not 'one' business model but multiple suitable models depending on and influenced by the developmental stage of the FSP and the specific market levers within which it is operating.

Overall, the study indicates that there are enough incentives to service older youth and that the business case for serving early youth is more complicated. Donors should consider focusing their effort and finances on helping FSPs service this more difficult segment in a responsible manner, helping FSPs accompany early youth from a young age to adulthood through a combination of youth-friendly savings products and tailored financial education programmes. This recommendation does not simply that donors should not assist FSPs in servicing older youth, since the resulting cross-subsidization between segments strengthens the business case.

“THIS PAPER ATTEMPTS TO ANSWER THE QUESTION, WHAT MAKES YOUTH ACCOUNTS ATTRACTIVE—OR NOT—FOR FINANCIAL INSTITUTIONS IN DIFFERENT CONTEXTS?”

This follow-up paper continues examining the business case for youth as clients of both savings and loan products and as participants in financial education training. It attempts to answer the question, What makes youth accounts (both savings and loans for youth between the ages of 18 and 24) attractive—or not—for financial institutions in different contexts? Although the papers differ in their approach to calculating the business case, they are similar in their approach to analysing the institutional and market characteristics which have a significant influence on the business case. Both use the Consultative Group to Assist the Poor (CGAP) business case framework (see figure IV), which reflects the varying internal and external factors (the 'levers') that influence an FSP's decision to offer YFS and complementary non-financial services and how to design them. The levers are organized into three segments: market, institutional and segment specific. Understanding these levers enables an FSP to modify its product offering to fit the local context.

While the first paper highlighted three pathways for achieving profitability of youth savings, it was restricted in its findings due to the relatively short period of time the selected FSPs had implemented the new products.

The research method underlying the findings of the first paper assumed FSPs would on-lend youth savings to other clients. To assess the profitability of offering youth savings, the research team examined if the marginal costs of serving youth were lower than the income FSPs would obtain from on-lending youth savings to other clients.[21] In their effort to calculate profitability ratios for youth savings, the team had to work with certain assumptions related to capacity utilization of staff, behavioural savings characteristics of clients and cost of interest payments to clients.

This new research benefits from the availability of more data over a longer time span, although it still faces limitations. Further, this paper is drawn from intensive field research and data analysis executed by the Frankfurt School of Finance & Management (Frankfurt School), whose staff spent three weeks at each of the three selected FSPs participating in the YouthStart programme. As such, it allows the researchers to use activity-based costing methods from the time period under consideration, without the need to make future projections. By applying the Frankfurt School's Product Costing Tool (PCT),[22] this new study differentiates itself by eliminating any assumptions related to the business case from the calculation method. The final additional value of the new study is that it incorporates not only youth savings but also loan products and non-financial services.

There is an important difference in the approach used by both studies related to the business case for youth savings. The first study analysed the marginal profitability of the youth savings business line as a whole, while the current study analyses the marginal cost per savings account issued by the FSP. The first study used the portfolio yield of the FSP to calculate income generated from the savings balance and then deducted operating and financial costs. The current study uses the concept of opportunity cost for the calculation of the profitability of its savings accounts. It assesses under which circumstances collecting youth savings carries an economic benefit for the institution, as the funds raised in this way are cheaper than borrowed funds from the market. The methodology used in the first study examined youth savings with a more social agenda and if the product line could be profitable. The methodology in this study scrutinizes the business case to understand when collecting savings from youth provides an economic benefit for the institution.

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[21] The study followed the recommendation of considering marginal costs when analysing profitability of a client segment from the following publication: Glenn D. Westley and Xavier Martín Palomas, 'Is There A Business Case For Small Savers?' Occasional Paper, No. 18 (Washington, D.C., CGAP, September 2010). Available from http://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Is-There-A-Business-Case-for-Small-Savers-Sep-2010.pdf.

[22] The Product Costing Tool (PCT) is a proprietary tool developed by the Frankfurt School of Finance & Management based on a pragmatic adaption of the Activity Based Costing (ABC) method.

2 RESEARCH METHODOLOGY

In 2014, The MasterCard Foundation commissioned the Frankfurt School to conduct an in-depth profitability analysis of 3 of YouthStart's 10 FSP partners to deepen understanding of the revenue and cost drivers that affect profitability of serving the youth segment, including a disaggregated analysis of the costs associated with providing non-financial services. The three FSPs—Umutanguha Finance Company (UFC) in Rwanda, Faîtière des Caisses Populaires du Burkina (FCPB) in Burkina Faso and Opportunity International Bank Malawi (OIBM) in Malawi—were selected based on criteria of interest, availability and commitment.

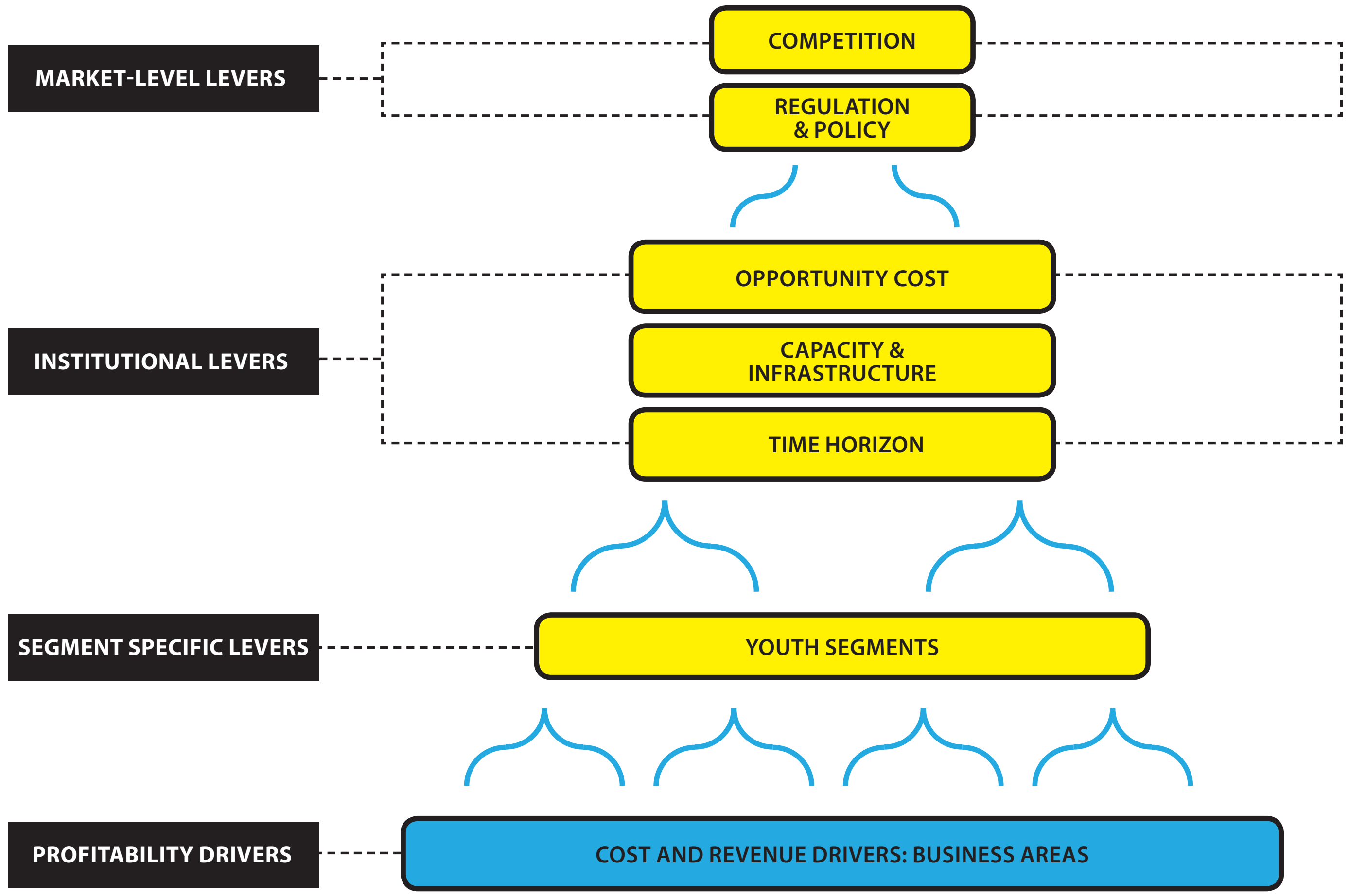
The goal of the study was to present a quantitative, fact-based business case for youth accounts, built on a robust profitability analysis of the three FSPs analysed, which would enable The MasterCard Foundation and UNCDF to contribute to the understanding of how to maximize the contextual levers (market/institutional/segment specific) that affect profitability in order to make the business justification to FSPs to fully integrate youth accounts and accompanied non-financial services into their existing product and service offerings.

To achieve its goal, the study followed a two-pronged approach:

1) A qualitative assessment of the first three levers following the CGAP business case framework for youth services (see figure IV), and 2) a quantitative assessment of the profitability drivers using the PCT developed by the Frankfurt School (see figure V). This approach formed the basis of a multidimensional study that applied a quantitative cost/revenue analysis for products targeting clients aged 18–24 and analysed the results within the market and institutional contexts.

FIGURE IV

CGAP business case framework



Source: Figure from Tanaya Kilara, Barbara Magnoni and Emily Zimmerman, 'The Business Case for Youth Savings: A Framework,' Focus Note, No. 96 (Washington, D.C., CGAP). © 2014 by CGAP. Used with permission.

QUANTITATIVE ASSESSMENT OF PROFITABILITY DRIVERS

The PCT is a robust tool that recognizes the influence of staff expenditures on the profitability of a financial product. The PCT can deliver meaningful insights due to its focus on operational processes required to produce a loan or savings account. The methodology not only concentrates on the origination of costs but also determines the income produced by the manner in which these costs were used. The PCT is also a useful management tool to conduct a sensitivity analysis to predict the effect of allocating more resources or modifying the product terms on the product's overall profitability. The conceptual approach of the PCT is shown in figure V using a loan product as example.[23]

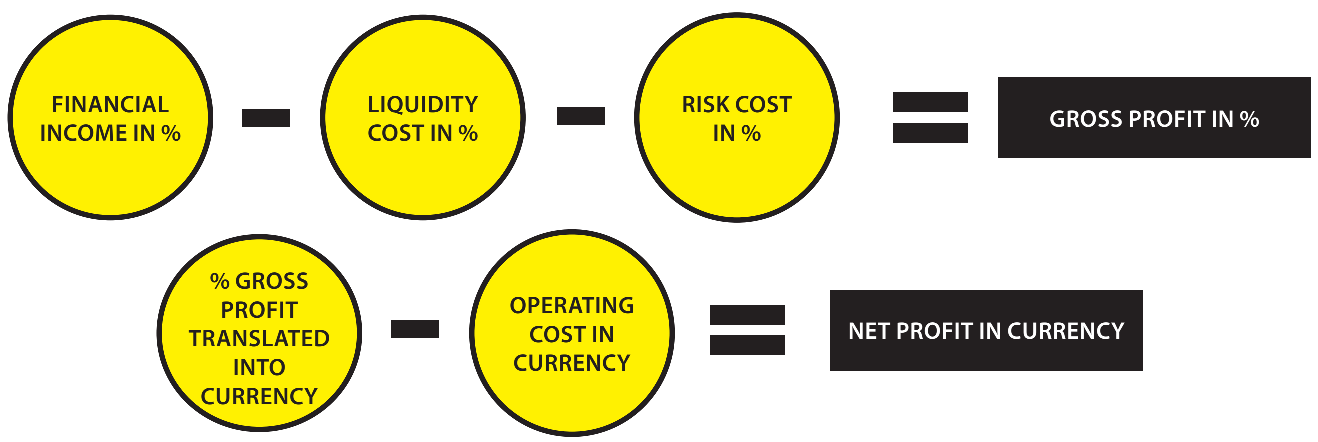
The calculation of financial income, liquidity cost and risk cost are rather straightforward and do not differentiate significantly from other product costing methods (see annex 1). It is with the calculation of operating cost where the PCT stands out for its focus on the actual processes and the corresponding allocation of costs. By observing and documenting the complete life cycle of a product, the process of the product is split into several phases. The time allocated by each staff member is measured per phase and documented in timesheets, and using a price-per-minute calculation, costs are assigned to staff time throughout the process. Using these timesheets (timing actual activities of staff) and calculating the price-per-minute of labour allows for the calculation of tangible costs throughout the process of a product's life cycle. In this way, the cost effects of, for example, a certain task being performed by a loan officer versus a cashier can be assessed. The PCT calculates the cost-per-minute based on salary, related expenses and minutes worked per year (reflecting vacation, time off, distribution time, etc.).

In addition, other direct expenses are allocated to the process cost, although these are less influential since labour forms the bulk of direct costs. This calculation is a time-consuming process that requires a deep understanding of the organization and the product being examined. Understanding the costs of a product requires solid insight into operational costs (i.e., labour costs), where there is often the most room for manoeuvring and influencing profitability.

Indirect expenses (e.g., office rent, utility cost and administration overhead) are not included in the PCT. The reasoning is that it is more meaningful to have insight into whether a product covers its direct costs and thus contributes to the coverage of indirect expenses. Allocating indirect expenses in the product costing exercise is only useful when a loan officer, branch and institution as a whole operate on full capacity. As that is seldom the case, it would distort the picture.

FIGURE V

Conceptual calculation using the Product Costing Tool



Source: Figure from Frankfurt School of Finance & Management, Product Costing Tool (PCT) framework, 2015. ©2015 by Frankfurt School of Finance & Management. Used with permission.

[23] For a savings product, the financial income is calculated as the income derived by on-lending the savings amount collected (i.e., the opportunity costs).

When using the PCT's methodology to calculate the profitability of youth loans, the current cost of funds for external/institutional borrowings (from third parties) is used to calculate the transfer price. This calculation provides the rate at which the FSPs can borrow funds if no other sources such as savings or equity are immediately available for lending. This rate can therefore be considered the neutral opportunity cost for both borrowing and lending.

To calculate the cost of credit risk, for each loan in the actual portfolio, the total provisioned amount is divided by the initially disbursed loan amount. A weighted average of this ratio is built for the portfolio and for subcategories of the portfolio. For the purpose of the analysis, the portfolio of loans is split by products and within the product by branch and disbursed amount. This approach is used to see whether the credit risk is homogeneous across the institution or whether there are any patterns or pockets of risk, such as a weaker performing branch or region. Further, unless the FSP is experiencing high portfolio in arrears, delinquency management is not included in the analysis as it is not part of the regular lending process.

LIMITATIONS OF THIS RESEARCH

No data available related to the frequency of savings account transactions:
It is important to understand that there is no information available related to the frequency of savings account transactions in this study. A large portion of the youth savings accounts are dormant and therefore do not generate any transactions and related costs. It would be interesting to examine the profitability of those youth accounts that do show transactions. As most of the FSPs in the study have significantly reduced or eliminated account-servicing fees, to make the product youth friendly, it is likely that the business case would actually take an initial hit when youth savers become active account users with small transaction amounts. In their article on the business case for small savers in Banco ADOPEM and Centenary Bank, Westley and Palomas point out that the 'savings accounts for small savers are a very high-cost product for MFIs [microfinance institutions] to offer, with annual operating costs on a marginal basis of 59%–241% of the deposit balance of small savers.'[24] They continue by justifying these costs with the large profits generated through cross-sales of loan products.

Selected FSPs:
The three selected FSPs operate through traditional brick-and-mortar branches with limited to no use of technology. Although the impact technology would have on costs for opening a youth savings account or issuing a youth loan are limited, technology can significantly influence the uptake and usage of savings accounts and greatly facilitate repayment behaviour as well. Another limitation of the selected FSPs was the early stage of their youth lending products, which limited the analysis of youth loan products in numbers and youth loan clients over time.

Limited data provided by FCPB:
It must be taken into consideration that FCPB provided details about the individual youth accounts of only 2 of 185 branches; therefore, this overview is not representative of the institution as a whole, which as of December 2014 had 19,045 youth accounts. At the time of field research, FCPB had only issued 33 youth loans throughout its whole network of cooperatives. Therefore, the data analysed does not allow for any robust conclusions related to the business case for youth loans.

Limited data provided by OIBM:
As of December 2014, OIBM had a total of 234 youth group loans reaching 7,142 youth. The portfolio data provided by OIBM, however, was incomplete and provided information on just 179 youth group loans. It is assumed that the information is a good representation of the overall portfolio composition and quality; therefore, the results can be viewed as a reflection of the current situation. In addition, OIBM did not provide details on its fund providers. Therefore, as per the management accounts, an interest rate of 9.2 percent has been derived as the transfer price.

[24] Glenn D. Westley and Xavier Martín Palomas, 'Is There A Business Case For Small Savers?'

3

DESCRIPTION OF THE YOUTH PROGRAMMES

In general, the youth products follow the same operational procedures as the standardized products, while rates, fees and promotional activities have been modified to make them more youth friendly. The three FSPs that participated in the study—UFC, FCPB and OIBM—offer savings products, loans (individual or group) and financial education (see box 2 for the different business models used to deliver the financial education). The following section provides an overview of the youth programme implemented in the three selected FSPs.

BOX 2

Models for non-financial services

When examining the business model of the three FSPs, it is also important to consider the model used to deliver non-financial services, in particular financial education, as a complement to YFS. Typical models to integrate non-financial services are shown in the following table.[a] The choice of model depends on the capacity and availability of resources of the FSP. An FSP may also combine aspects of the different models, which can be called a 'hybrid model.'

	Organizations	Service delivery staff	End users	
Linked model	≠	≠	=	In a linked model, the FSP collaborates with one or more independent organizations for the delivery of non-financial services.
Parallel model	=	≠	=	In a parallel model, the FSP offers non-financial services through different staff to the same clients.
Unified model	=	=	=	In a unified model, the FSP uses the same staff for delivering both financial as well as non-financial services.

KEY: = Same organization/staff/end users ≠ Different organization/staff/end users

a Christopher Dunford, 'Building Better Lives: Sustainable Integration of Microfinance and Education in Child Survival, Reproductive Health, and HIV/AIDS Prevention for the Poorest Entrepreneurs,' *Journal of Microfinance*, vol. 3, No. 2 (2001), pp. 1–25. Available from http://scholarsarchive.byu.edu/cgi/viewcontent.cgi?article=1186&context=esr.

UMUTANGUHA FINANCE COMPANY – RWANDA

UFC experienced strong growth since its conception by the Rwandan Association of Widowers in 2003. Microfinance operations started in 2004, when it registered as a single savings and credit cooperative (SACCO), though it later split into five cooperatives and registered as a union providing full financial services. Currently, UFC is a nationally licensed SACCO but is seeking to continue its operations as a limited liability company to avoid the high opening balances otherwise required under SACCO regulations. As of December 2014, UFC had 43 staff and 7 branches operating throughout Rwanda. Figure VI provides an overview of UFC outreach and volume, including the share of youth products. The loan accounts are based on group-lending methodology. UFC has plans to expand its branch network and delivery channels to reach more clients, among them youth. In the next five years, the goal is to serve 75,000 youth clients.

UFC follows a well-defined market segmentation strategy and a well-reasoned youth strategy. It targets youth between 12 and 24 with several youth products tailored to youth of different ages.

UFC has two youth savings products:

- The first savings product is a general savings account for youth to keep their money safe, which is combined with financial education to foster a savings culture. The minimum account balance is RF100 (~$0.12) with a fee of RF1,000 (~$1.20) for a passbook.[25] There are no other charges, and no interest is paid over these accounts. The financial education component of this product is a large push factor for youth to open an account.
- The second savings product is structured for youth to save for a specific purpose. A minimum of RF5,000(~$5.70) must be deposited monthly for six consecutive months, at which time the account holder is eligible for a loan equal to four times the final savings balance. An interest of 6 percent is paid, and early withdrawals are forbidden.

UFC has two youth loan products:

- To be eligible for a youth business loan, the client first needs to have a savings account that shows a certain level of account activity for a month. After a month, the savings client can apply for a loan. This feature is used to get some understanding of the client's cash flow. The loan product has a maximum maturity of three years and a maximum amount of RF3.5 million (~$4,000). Loans carry a declining interest of 1.8 percent per month (loans below $500 being more expensive), and a marginal fee and life insurance costs are deducted from the loan.
- The micro-leasing product works with the same amounts and rates. It does not have the required precondition of opening an account one month in advance; however, it does require an adult to co-sign and guarantee the loan, when the client is younger than 21 years of age. The micro-leasing product is available for start-up businesses.

UFC delivers non-financial services:

- Through its hybrid model, UFC loan officers are trained by Reach Global, YouthStart's technical service provider, and in turn train young account holders and leaders in their communities. They become the peer educators. Trainings facilitated by the peer educators are carried out monthly with groups of 30 participants. UFC loan officers not only cascade the training to youth clients, they also control the quality of the education delivered by the peer educators. These trainings are held in different types of community centres.
- Under its linked model, UFC partners with youth serving organizations, such as the Education Development Center-Akazi Kanoze programme, TechnoServe and Digital Opportunity Trust, which provide and pay for capacity-building and training in life skills, entrepreneurship, business skills and technology. Through these partnerships, the youth participating in the livelihood programmes of the respective NGOs start saving with UFC as they learn new skills. When they complete their training, they have already built a relationship with a financial institution (in this case UFC) that may in turn consider them for a business loan to support their livelihood. Some of these partners monitor the youth after loan disbursements as well as their businesses through their aftercare programmes. The financial education received from these partners and the additional monitoring is expected to significantly contribute to the improved credit quality of UFC's portfolio.

[25] Conversion rates used throughout this report were based on rates provided by www.oanda.com for 31 December 2014: Rwanda: US$1 = RF679.58, Burkina Faso: US$1 = CFAF539.63 and Malawi: US$1 = MK463.08.

FIGURE VI

Umutanguha Finance Company data (December 2014)

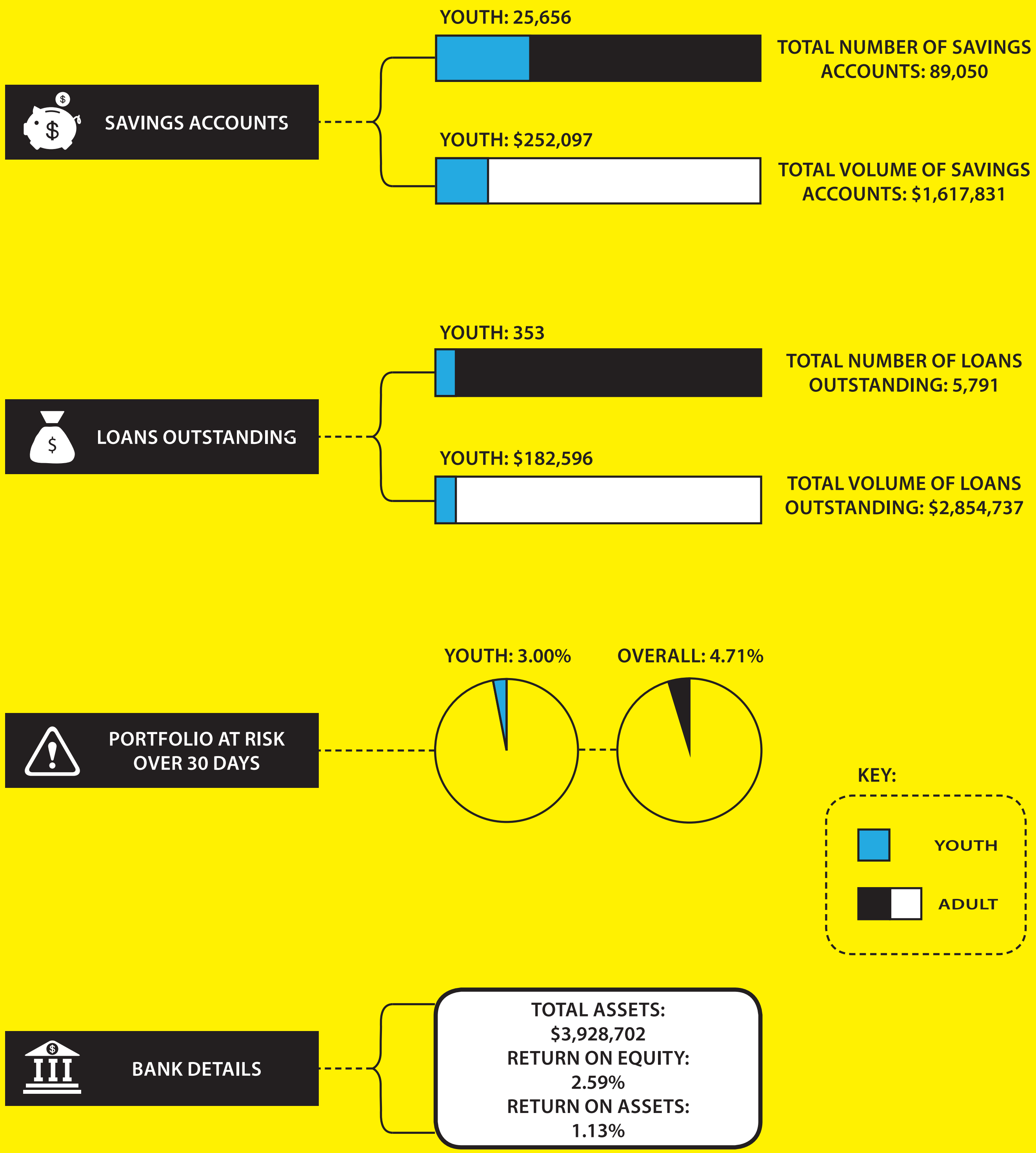
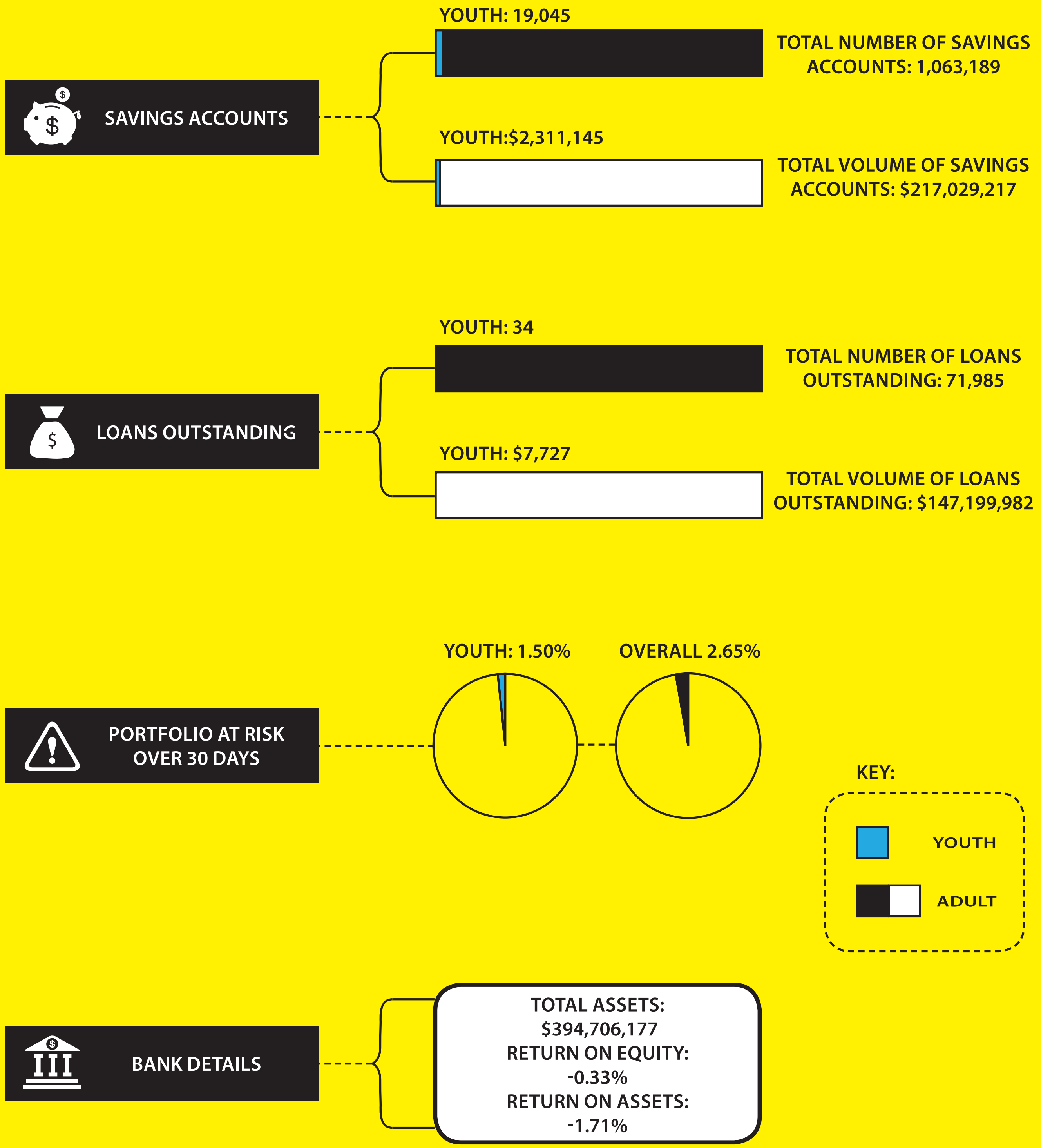


FIGURE VII

Faîtière des Caisses Populaires du Burkina data (December 2014)



FAÎTIÈRE DES CAISSES POPULAIRES DU BURKINA – BURKINA FASO

Established in 1972 under a different name, FCPB created the first 'caisses populaires' replicated after the credit union model imported from Ghana. Today, FCPB is a strong membership credit union with a national outreach of 185 'caisses' or branches. Figure VII provides an overview of FCPB outreach and volume, including the share of youth products.

FCPB is a network of cooperatives with each caisse operating as a single microfinance institution but with all using the same branding. Generally, FCPB does not segment its market to identify market needs and preferences. This approach is likely a result of the credit union model and the fact that, as a market leader (it holds 80 percent of the market), FCPB does not see the need to develop specific products but is rather focused on use of the existing mass products. Although FCPB received technical assistance from YouthStart to adapt its offerings to the youth market, the reality is that it only tweaked some of the fees of their mass market products to make them more attractive to youth. For example, it offers a youth savings account that charges half of the minimum opening balance required for the mass market savings accounts. The processes for the YouthStart products are identical to those of the standard products. Also, FCPB's MIS is not able to differentiate between an ordinary credit product and a youth credit product. A loan to a youth is entered into the system according to the activity of the youth.

FCPB has one youth savings product:
It offers a youth savings account with a minimum opening balance of ~$3 and charges no maintenance fees.

FCPB has one youth loan product:
The youth loan allows youth between 18 and 24 years of age to benefit from a loan. Please note that FCPB's microloan product (mass market product) is only available for those above 21 years of age. The interest rate charged is 12 percent declining per annum, which is 1 percent lower than for FCPB's mass market loan product.

FCPB offers non-financial services:
FCPB provides non-financial services to youth using a unified model, meaning that the FCPB staff who open the savings accounts for youth also offer the financial education. The training is not mandatory and averages 15 youth clients per group. The savings module, which takes places over a two- to three-day period (depending on the level of education of the group), educates youth on the importance of savings and explains FCPB's savings product. These commercial agents were hired especially to carry out promotion and training with youth clients. The credit module has been developed but still needs to be implemented. Unlike UFC, FCPB does not work with third-party service providers. They have attempted to establish a linked approach, but there are few providers in Burkina Faso and the fees are exorbitant.

> **"FCPB PROVIDES NON-FINANCIAL SERVICES TO YOUTH USING A UNIFIED MODEL, MEANING THAT THE FCPB STAFF WHO OPEN THE SAVINGS ACCOUNTS FOR YOUTH ALSO OFFER THE FINANCIAL EDUCATION"**

OPPORTUNITY INTERNATIONAL BANK MALAWI – MALAWI

OIBM started operations in 2003 and is the only commercial microfinance bank in Malawi. As of December 2014, OIBM had 793 staff, 55 main branches and 240 micro-branches (including branches with less than 15 staff, sales offices, ATMs and mobile vans). Of the three FSPs included in the study, OIBM is the only one using alternative delivery channels (e.g., mobile banking, ATMs, POS and agency banking). OIBM is currently working on expanding its agency network to further improve rural outreach. Unfortunately, the macroeconomic crisis in Malawi has worsened over the past three years, resulting in a deterioration of OIBM's key performance indicators at both the institutional level and the youth programme level. Figure VIII provides an overview of OIBM outreach and volume, including the share of youth products.

OIBM offers one youth savings product:
Although the youth savings product is open to youth between 15 and 24 years of age, OIBM made the strategic decision to focus its efforts on those between 18 and 24 because of regulation requiring parental authorization for youth under 18. For the youth savings account, there is a minimum opening balance of MK150 (~$0.30)—roughly five times less than that for normal savings accounts. There are no maintenance fees, but withdrawals are charged ~$0.20, similar to the normal savings product. A letter from the chief of the community is accepted as proof of identification in case no passport or voter registration is available. The youth account pays the same interest as a normal account, at 5 percent below a balance of $1,000 and 7 percent above.

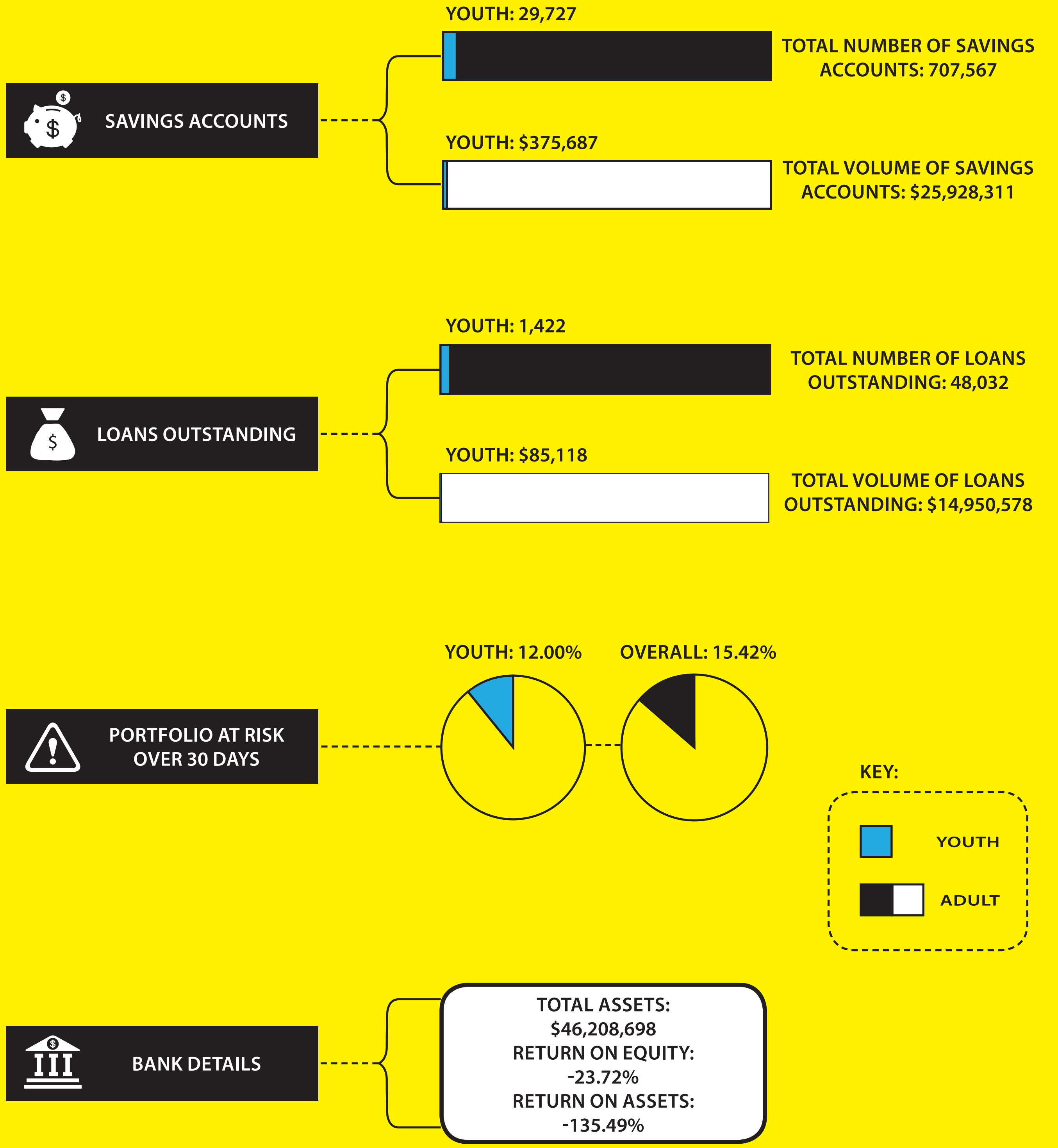
OIBM offers one youth loan product:
The youth loan product is a group loan. With four to seven members, the groups are typically smaller than adult groups and they require one or two members who are just above the age of 24 whose function is to guide the group. A flat monthly interest rate of 3.67 percent and a processing fee of 3 percent are charged. Both are slightly lower than for non-youth loan products. For all loan products, a one-time health insurance fee of 1.2 percent of the loan amount is also charged. Additionally, youth groups need to provide 15 percent of the total loan amount as a security deposit. These loans are not intended to finance start-up activities.

OIBM offers non-financial services:
OIBM uses staff from its 'transformation department' to deliver financial education to youth, meaning it uses a parallel model. Prior to loan disbursement, the bank organizes four different group sessions where all relevant aspects are covered: introduction to the bank, the importance of savings and loans, the loan application and account-opening processes, the functioning of a group, etc. The training, which covers both savings and loans, is a mandatory step in the process for obtaining a loan.

For all other non-financial services, OIBM uses the linked model, meaning that the bank collaborates with third-party organizations that work with youth in various educational activities, vocational training, technical training, etc. Once youth have successfully participated in such training activities, they are referred to OIBM to benefit from the youth products (i.e., savings, loans and financial education).

FIGURE VIII

Opportunity International Bank Malawi data (December 2014)



SPECIAL CONSIDERATIONS FOR THE DELIVERY OF FINANCIAL EDUCATION

The 'critical minimum approach' endorsed by UNCDF and Reach Global, YouthStart's technical service provider, was used by UFC and FCPB to deliver financial education. This methodology provides youth with three 30-minute targeted sessions, which allow them to internalize content and effectively nudge them towards a culture of building financial capabilities.[26] The points listed below are the main components of this approach.

Key messages:
The financial literacy modules focus only on key messages that are geared towards changing key behaviours. People tend to believe that a longer curriculum will have greater impact. However, sometimes less may mean more.[27] The reason is that a longer curriculum is more expensive to deliver and facilitators may end up 'adapting' the content themselves to be able to deliver it in less time. Since facilitators are not always experienced in curriculum development, when 'adapting' the modules, they end up cutting important pieces in the education sessions that are critical to foster behaviour change in participants. They also tend to reduce participatory techniques, causing the sessions to turn into monologues with little chance to generate the desired changes in behaviour.

Minimum materials:
The materials to deliver the education are kept to a critical minimum. Materials such as workbooks are expensive to reproduce and may put scale and sustainability of the programme at risk. If learning for the youth depends on having materials for the sessions, then the youth that are in remote areas—and therefore the most vulnerable—will be excluded from the education since facilitators are often deterred from transporting the materials needed to deliver the sessions on a motorcycle in bad road conditions. Instead, conducting highly interactive sessions that employ games, group exercises and materials that are easy to find in any given context (e.g., tree leaves, stones) serves as a more appropriate and cost-effective approach.

Simple facilitation techniques:
The education sessions must be designed in a manner that a facilitator with little experience and some critical minimum training on facilitation techniques can easily pick it up and train others. This approach is particularly important if, for example, the goal is to have youth with very little training and support become facilitators of the education. UFC used a peer-to-peer model to deliver financial education and was so successful that the Government of Rwanda is promoting it as a best practice in its National Financial Education Strategy.

Standardization:
The sessions must also be as standardized as possible (four steps, 30 minutes per session). Standardization facilitates the FSP's task of scheduling the delivery of the education to youth and also eases the task of monitoring the quantity and quality of the education delivered. Simpler, standard sessions also make delivery easier for the facilitators.

[26] Building financial capabilities is about 'the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one's life, within an enabling environment that includes, but is not limited to, access to appropriate financial services.' Microfinance Opportunities for Center for Financial Inclusion, 'What Is "Financial Capability?"' 1 November 2013. Available from http://cfi-blog.org/2013/11/01/what-is-financial-capability/.

[27] L. O'Prey and D. Shephard, 'Financial Education for Children and Youth: A Systematic Review and Meta-analysis,' Aflatoun Working Paper, No. 2014.1C (2014) p. 23. Available from www.aflatoun.org/evaluation.

4

QUALITATIVE ANALYSIS OF KEY LEVERS

Using the CGAP business case framework (see figure IV), this section reviews the institutional and market characteristics of the FSPs and the markets in which they operate in an attempt to understand the external and internal factors influential to the design of youth products and the successful implementation thereof. Drawing upon the CGAP framework, the following six premises assess the overall business case for youth products.

Premise 1:
The business case is, generally speaking, stronger in highly competitive environments where limited opportunity costs provide a clear motivation to capture future clients early. Youth products generally have lower margins than more mainstream financial products. In regards to youth savings products, they are often seen as an investment in future clients. When an FSP can still significantly grow its market share of mainstream product offerings and has limited resources, diverting assets to youth products comes with an opportunity cost. When the market is more saturated or when serving youth is part and parcel of the FSP's mission, opportunity costs are less. UFC is operating in the most competitive environment and has placed youth at the centre of its business model. FCPB is a market leader with potential to further grow its adult client base but has been committed to youth savings. FCPB is less committed to youth loans due to previous negative experiences, which is exemplified by its small number of youth loans, especially when compared to more lucrative products like salary and consumer loans. OIBM is also a market leader with sufficient growth potential, but it has made reaching youth a core priority. High operational expenses related to reaching youth in rural areas and an institutional crisis that has affected the youth programme and, in particular, the quality of its youth loan portfolio does curb the institution's enthusiasm.

Premise 2:
Certain macroeconomic factors such as stable/high GDP growth and low inflation have a positive impact on the business case. Currently, Rwanda and Burkina Faso show high GDP growth coupled with low inflation. Malawi shows strong GDP growth, but it is coupled with high inflation and political instability that make it difficult to promote savings and put an upward pressure on financial costs.

Premise 3:
A high proportion of youth in the population, including a high level of urbanization, works favourably on the business case for youth products. In all three countries, there is a large population of youth presenting an untapped market for FSPs. Rwanda, Burkina Faso and Malawi have a median age of 18.7, 17.0 and 17.3, respectively. In all three countries but especially in Malawi, the majority of youth are located in rural areas, which makes them more difficult to reach in a cost-effective manner through traditional brick-and-mortar models.

Premise 4:
A youth-friendly regulatory environment promotes a stronger business case. It is often argued that minimum age requirements to enter into contracts stifle an early flow of

youth into the financial spectrum. In Rwanda, a youth can independently open and manage a savings account at the age of 16. However, youth below the age of 21 cannot be challenged in court, which prevents many FSPs from engaging with them on loans. UFC has entered the under-21 space with loans using alternative mechanisms like solidarity guarantees and an innovative lease product. In Burkina Faso and Malawi, youth at the age of 18 can access financial services independently. FCPB and OIBM are operating in the least favourable environment for reaching under-18 youth. OIBM tries to compensate by actively engaging parents with children's savings accounts and school-fee loans.

Premise 5:

A strong, or a weak, institutional capacity and infrastructure facilitates, or prevents, the FSP from delivering efficient and affordable youth products. An obstacle faced by all three FSPs is that branches are often located far from communities where youth reside. The use of alternative delivery channels is increasingly seen as an adequate solution. UFC has a strong management team and healthy assets. It will have to invest in more staff and delivery channels (branches and alternative channels) if it wants to stay ahead of the competition for the youth segment. FCPB has the most extensive network, but the independence of all of FCPB's branches makes it difficult to implement standardized cooperative policies, procedures and processes. This factor, combined with a weak MIS that only aggregates data from the individual cooperatives and does not track youth loans or the age of clients, makes segmented portfolio management difficult. It is also not transparent to what extent the YouthStart programme has been ingrained in the different institutional departments and individual cooperatives. As mentioned previously, a macroeconomic crisis in Malawi, coupled with an institutional crisis over the past two years, had negative effects on OIBM's youth programme. As a result, YouthStart temporarily discontinued funding its programme until OIBM implemented adequate measures. Still, OIBM is weak in underwriting loans and has experienced large write-offs. OIBM also needs to understand how to use technology more efficiently. Operational inefficiencies contribute to cumbersome processes for clients. OIBM is in the process of expanding its agent network and adding more youth officers, which will bring some improvement. More management buy-in is required, especially to avoid high staff turnover and to ensure healthy continuity and scale-up of the youth products.

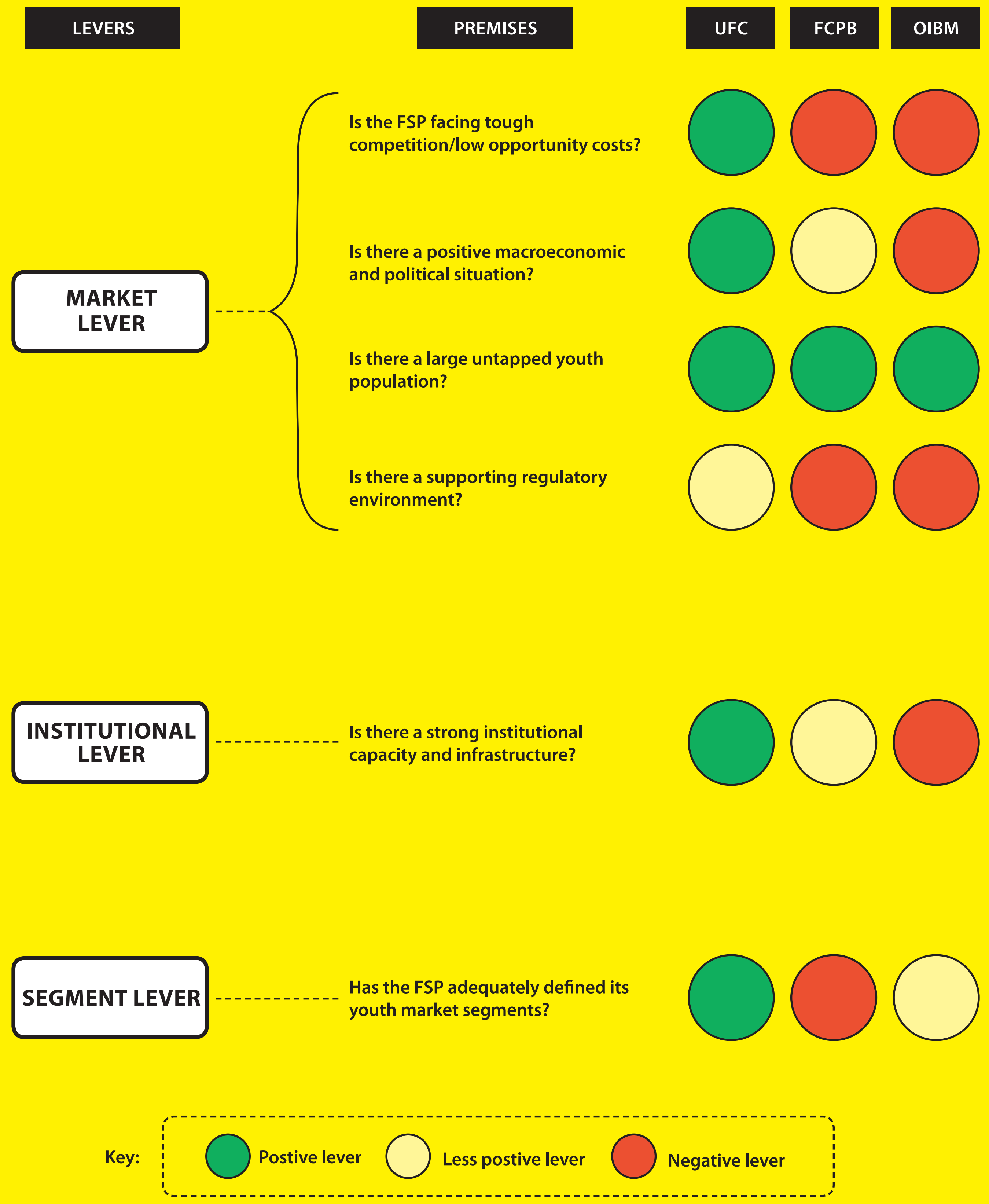
Premise 6:

Defining appropriate youth segments is key to a successful youth inclusion strategy. Besides clear segmentation, success also hinges on the FSP's ability to guide youth through the different products and eventually towards adult products. This approach would require the FSP to view youth as lifelong clients and to have the appropriate systems in place to report and analyse client demographics and financial needs. The level of adequate segmentation varies across the three FSPs, but all three could benefit from clear policies for transitioning youth to adult-segment products. With four different products designed for youth of different ages and a well-structured delivery of non-financial services, UFC has clearly translated its commitment into practice. FCPB does not segment its market to identify market needs and preferences of youth. This decision is likely a result of the credit union model and the fact that, as a market leader, it does not see the need to have specific youth segmentation. Similar to FCPB, OIBM has no clear youth segmentation. It does offer indirect services to minors and includes them in its non-financial services.

Figure IX gives a colour-coded snapshot of which FSP is most likely to efficiently scale up YFS in a sustainable manner along the lines of the CGAP business case framework. The colour green represents a positive lever, yellow a less positive lever and red a negative lever. A quick look shows that UFC is best positioned to deliver YFS, while FCPB and OIBM each face some significant challenges.

FIGURE IX

Financial service providers' lever ratings



5 PROFITABILITY DRIVERS

Market and institutional levers will determine the manner in which an FSP defines its target segments and how it will serve them. As the previous section has given the reader an overview of how each lever contributes to an FSP's strategy towards YFS, the following section tackles the cost and profitability drivers for each of the selected FSPs. Specifically, the results of the PCT are used to determine the operational costs and profitability of youth savings and youth loans. Since the three FSPs used the linked model to deliver non-financial services other than financial education, none of them incurred indirect costs for providing these linked services, and therefore they were not taken into consideration for the analysis. The profitability drivers of delivering financial education when the FSP used the unified, parallel or hybrid model were included in the profitability analysis of both youth savings and youth loans. Finally, this section ends by analysing how the use of technology may or may not accelerate the business case for youth products.

YOUTH SAVINGS: UMUTANGUHA FINANCE COMPANY

Table 1 and figure X give a rather grim picture in regards to the business case for youth savers at UFC, with around 88 percent of the youth savings accounts failing to break even anytime in the near future. In total, only 4 percent of all youth savings accounts are profitable in the first year, which is not enough to cross-subsidize the loss-making component. As shown in the table, the average savings account in UFC's youth portfolio has a first year profitability of $-1.22. Opening an account costs the institution $1.66, which is reasonable considering this amount includes promotion and training. A savings balance of roughly $30 would offset these charges. The amount, however, is high for youth when considering that 64 percent of account holders have an average balance of $0.30. Please note that the majority of dormant accounts have been opened within the last year, which partially explains the significant number of small accounts. Another explanation is found when considering UFC's vulnerable target group: 53 percent are female youth, as young as 16 years of age, from rural areas.

An influential limitation on overall profitability is a 39 percent liquidity reserve measure taken by UFC to be able to honour withdrawal requests by its youth savers. In general, a 39 percent liquidity reserve is very high, but it is a prudent measure due to UFC's unfamiliarity with this new target group. The liquidity reserve, which brings down the opportunity interest

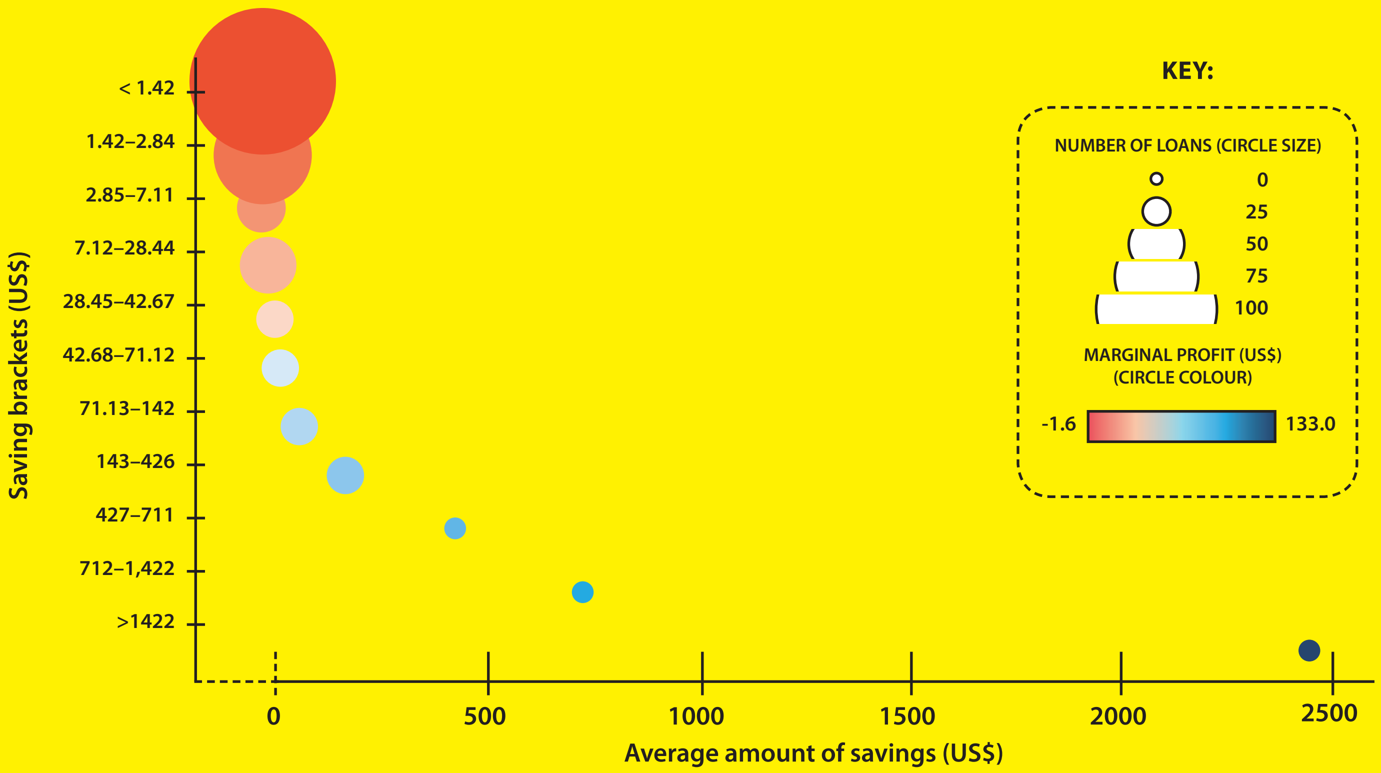
TABLE 1

Profitability analysis of Umutanguha Finance Company youth savings product

Savings brackets (US$)	Average amounts (US$)	Number of accounts	Percentage of total (%)	First year profitability (US$)	Years to break even
< 1.42	0.30	13,120	64	-1.64	98.99
1.42–2.84	1.96	4,967	24	-1.55	14.23
2.85–7.11	5.18	559	3	-1.37	4.77
7.12–28.44	13.52	993	5	-0.91	1.21
28.45–42.67	33.55	225	1	0.20	
42.68–71.12	53.58	234	1	1.32	
71.13–142	96.71	233	1	3.71	
143–426	219	183	1	10.52	
427–711	545	39	0	28.61	
712–1,422	904	17	0	48.59	
> 1,422	2,414	6	0	133.00	
Total	**7.96**	**20,576**	**100**	**-1.22**	

FIGURE X

Table 1 visualised: Number of loans and marginal profit per saving bracket at Umutanguha Finance Company



from 9.10 percent to 5.56 percent, can be modified over time when UFC becomes more familiar with youth behavioural characteristics.

Other influential cost drivers are the non-financial service training expenses as well as the promotional expenses, both only relevant for the youth product. Taking them out lowers account-opening costs by 56 percent (from $1.66 to $0.72). Table 2 estimates the business case for small savers in the situation all youth-related elements (promotion, training and high liquidity reserve) are removed. In the scenario used for the table, the liquidity reserve is set at 20 percent, which is more in line with industry practice for adult savings accounts.

Table 2 (and its visual representation figure XI) demonstrates that the business case for serving clients who have very limited means (often referred to as small savers) is still a challenge but not as difficult as for youth savers. The break-even scenario for the first bracket improves to around 30 years, which is significantly lower yet still undesirable from a business case perspective. Slightly higher average savings amounts, however, show a more optimistic picture with amounts of $5 needing less than a year to break even. This example shows that opening accounts for small savers is still costly but requires a lower account balance than the one needed for youth savers, in order to recuperate costs within a year. If UFC achieves a minimum balance of $9.89 from its small savers, the product would reach first year break-even according to the above scenario, while the youth savings product shows a break-even balance of around $30. Further, the overall product profitability, although still negative at $-0.14, is much closer to break-even. The above scenario does not pay interest on savings accounts, which would otherwise lengthen the break-even period/average required balance.

UFC has strong social outreach, with the majority of its youth savers belonging to vulnerable groups (i.e., female and in rural areas). Its social drive, however, does result in a large percentage of accounts with very low balances (64 percent of accounts have an average balance of $0.30 and an additional 24 percent hold a balance just below $2.00). Further, a large portion of these 'small accounts' are reported to be dormant. Unfortunately, there are no data available to verify the exact percentage of dormant accounts.

The key for UFC is to ensure that those dormant accounts start accumulating savings over time and potentially become suitable accounts for cross-selling other financial services. At the same time, UFC should try to increase the balances of already active accounts for cross-subsidizing dormant accounts. If UFC successfully converts one savings account into an actively managed account with a balance of $280, the revenues generated within just one year compensate for the cost of an additional nine accounts that remain dormant.

Although this logic is warranted, UFC should manage its expectation as to the number of youth savers likely to need or qualify for other financial services. It is reasonable to expect economically active (often older) youth to increase their balances and demand other financial services. The more vulnerable clientele of UFC (largely young women in rural areas) might encounter more obstacles on their path to becoming economically active. Unfortunately, there is no information on the level of account transactions or on the average age of youth per bracket, which makes it difficult to predict anything useful related to increasing balances or cross-selling products.

If UFC is able to activate its dormant accounts, alternative delivery channels become imperative in order to manage the costs related to transactions on accounts with low balances. With traditional brick-and-mortar channels involving staff, account transaction costs are disproportionately high for small amounts. Table 3 provides hypothetical numbers of transactions per savings bracket per year for UFC, in order to demonstrate the effects on product profitability when traditional channels are used. If UFC does not charge cost-covering fees for account transactions (under this hypothesis), the UFC youth savings product would have a break-even balance requirement of around $95 instead of $30. The average first year profitability per savings account decreases from $-1.22 to $-1.64.

The underlying assumptions used to generate the above findings are the following:

- Sixty-four percent of the accounts (the first bracket) are assumed dormant, so no transactions are included.
- The savings brackets are populated with annual account transactions, gradually increasing as the savings balances increase. The assumption is that a high savings balance indicates a higher probability that the youth is economically active.
- Average balances remain equal (i.e., cash inflow and outflow with transactions offsetting each other).
- Consistent with the nature of youth-friendly savings accounts, the FSP does NOT charge transaction fees.

As will be explained in further detail later, this analysis of UFC provides some important lessons, relevant for all the FSPs in this study (see figure XII).

TABLE 2

Umutanguha Finance Company savings product without youth elements

Savings brackets (US$)	Average amounts (US$)	Number of accounts	Percentage of total (%)	First year profitability (US$)		Years to break even without youth elements
				Without youth elements	With youth elements	
< 1.42	0.30	13,120	64	-0.70	-1.64	32.17
1.42–2.84	1.96	4,967	24	-0.58	-1.55	4.05
2.85–7.11	5.18	559	3	-0.34	-1.37	0.91
7.12–28.44	13.52	993	5	0.26	-0.91	
28.45–42.67	33.55	225	1	1.72	0.20	
42.68–71.12	53.58	234	1	3.17	1.32	
71.13–142	96.71	233	1	6.31	3.71	
143–426	219	183	1	15.21	10.52	
427–711	545	39	0	38.86	28.61	
712–1,422	904	17	0	65.00	48.59	
> 1,422	2,414	6	0	174.74	133	
Total	**7.96**	**20,576**	**100**	**-0.14**	**-1.22**	

FIGURE XI

Table 2 visualised: First year profitability of accounts per average savings amount, with and without youth elements

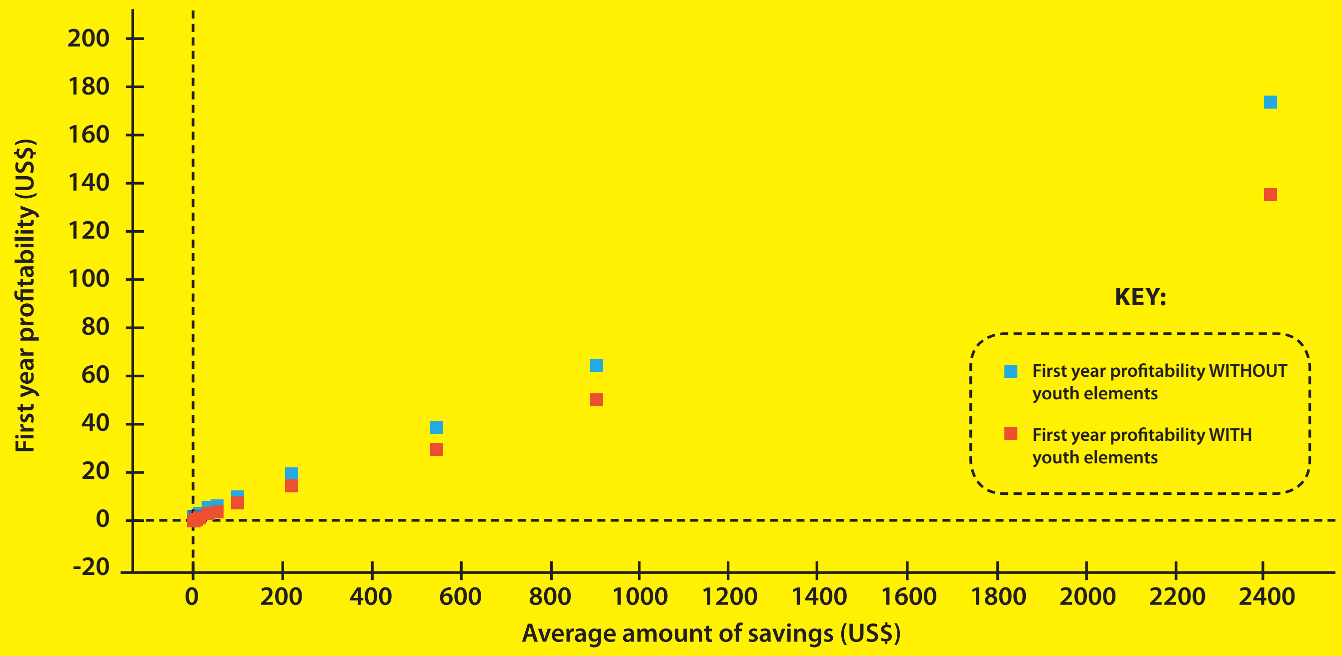


TABLE 3

Profitability analysis of Umutanguha Finance Company youth savings product: USING HYPOTHETICAL ACCOUNT TRANSACTIONS

Savings brackets (US$)	Average amounts (US$)	Number of accounts	Percentage of total (%)	Number of yearly deposits	Number of yearly withdrawals	First year profit (US$)	Years to break even
< 1.42	0.30	13,120	64	0	0	-1.64	98.99
1.42–2.84	1.96	4,967	24	2	2	-2.17	19.84
2.85–7.11	5.18	559	3	4	4	-2.61	9.09
7.12–28.44	13.52	993	5	6	6	-2.77	3.69
28.45–42.67	33.55	225	1	8	8	-2.28	1.22
42.68–71.12	53.58	234	1	10	10	-1.78	0.60
71.13–142	96.71	233	1	12	12	0.00	
143–426	219	183	1	12	12	6.81	
427–711	545	39	0	12	12	24.90	
712–1,422	904	17	0	24	24	41.16	
> 1,422	2,414	6	0	24	24	125.57	
Total	**7.96**	**20,576**	**100**			**-1.64**	

FIGURE XII

Relevant lessons from Umutanguha Finance Company for all financial service providers

RELEVANT LESSONS FROM UMUTANGUHA FINANCE COMPANY FOR ALL FINANCIAL SERVICE PROVIDERS

1. IMPLEMENTATION OF A YOUTH SAVINGS PRODUCT WILL LIKELY RESULT IN A HIGH NUMBER OF DORMANT ACCOUNTS.

2. THE CHALLENGE FOR UFC IS, OVER TIME, TO ACTIVELY ENGAGE THE DORMANT ACCOUNT HOLDERS TO INCREASE THEIR BALANCES AND TO CROSS-SELL OTHER FINANCIAL SERVICES.

3. ALTERNATIVE DELIVERY CHANNELS, SUCH AS AGENT NETWORKS, ATM AND POS, WILL MAKE THE ACCOUNT MORE USER FRIENDLY FOR THE ACCOUNT HOLDER.

4. ALTERNATIVE DELIVERY CHANNELS WILL HELP UFC KEEP ITS COSTS UNDER CONTROL AND STRENGTHEN THE BUSINESS CASE FOR YOUTH SAVINGS ACCOUNTS.

YOUTH SAVINGS: FAÎTIÈRE DES CAISSES POPULAIRES DU BURKINA

FCPB provided details about the individual youth accounts for only two branches, which have a combined total of 1,696 YouthStart savings accounts, in its portfolio as of June 2014. There are several important differences between the approach of FCPB and UFC:

1 FCPB maintains a minimum opening balance requirement of $3;

2 The cost of opening an account is around 35 percent lower ($1.06 for FCPB versus $1.66 for UFC). The difference is arguably due to cheaper training costs incurred by FCPB. FCPB needs about 10 minutes less on financial education per savings client than UFC (3 minutes for FCPB versus 13 minutes for UFC); and

3 FCPB targets youth that live closer to its branch, are urban and are wealthier or more economically active, while UFC targets primarily vulnerable youth in rural areas.

Although opening costs for a youth savings account are lower for FCPB than UFC, the average balance required for reaching first year break-even is higher at $43 for FCPB, compared to $30 for UFC. The difference is directly related to the cheaper funding environment in Burkina Faso that results in a lower opportunity interest rate of 2.50 percent, compared to an opportunity interest of 5.56 percent for UFC. Nevertheless, by avoiding a large number of very small savers and by attracting a significant number of financially active youth, FCPB maintains a high average savings balance and, relatedly, sees a large portion of its youth clients supporting profitable accounts.

As tables 1 and 4 show, the average savings balance of FCPB's youth clients is $165 compared to $7.96 for UFC's youth clients. Table 4 reveals that 50 percent of the accounts fall inside profitable savings brackets, which will break even in the first year. Table 4 also shows an overall profitability of $3.16 for FCPB in the first year, indicating a positive cross-subsidization within this product. Some very large savings balances in the highest brackets positively influence the break-even. Nevertheless, removing the highest two brackets still renders a positive overall first year profitability of $2.60.

In comparison to UFC, it is clear that the business case for youth savings is more apparent with FCPB. The approach taken by FCPB, which includes minimizing costs of financial education and focusing on wealthier/economically active youth, might make sense from a business case approach. While around 50 percent of its youth savers have low balances that do not break even in the first year, the upper half of the youth savers abundantly compensate for it. The business case might be jeopardized, however, in the long run by a lower quality of financial education. Will this light touch actually develop a responsible savings culture among its youth clients and will these youth clients actually increase their account balances over time? Further, without more client-friendly delivery channels, it is unclear how FCPB will keep the upper segment of youth savers once more sophisticated banks enter the competition for youth accounts.

> "THE APPROACH TAKEN BY FCPB, WHICH INCLUDES MINIMIZING COSTS OF FINANCIAL EDUCATION AND FOCUSING ON WEALTHIER/ECONOMICALLY ACTIVE YOUTH, MIGHT MAKE SENSE FROM A BUSINESS CASE APPROACH"

TABLE 4

Profitability analysis of Faîtière des Caisses Populaires du Burkina youth savings product

Savings brackets (US$)	Average amounts (US$)	Number of accounts	Percentage of total (%)	First year profitability (US$)	Years to break even
< 4.63	2.01	439	26	-1.01	20.61
4.63–9.25	5.73	207	12	-0.91	7.24
9.26–18.50	11.29	206	12	-0.77	3.67
18.51–92.50	44.53	343	20	0.08	
92.51–185	126	170	10	2.17	
186–925	390	269	16	8.89	
926–1,850	1,192	44	3	29.34	
1,851–2,775	2,197	10	1	54.97	
2,776–3,700	3,289	4	0	82.81	
3,701–5,550	3,904	2	0	98.48	
> 5,550	19,493	2	0	496.00	
Total	**165**	**1,696**	**100**	**3.16**	

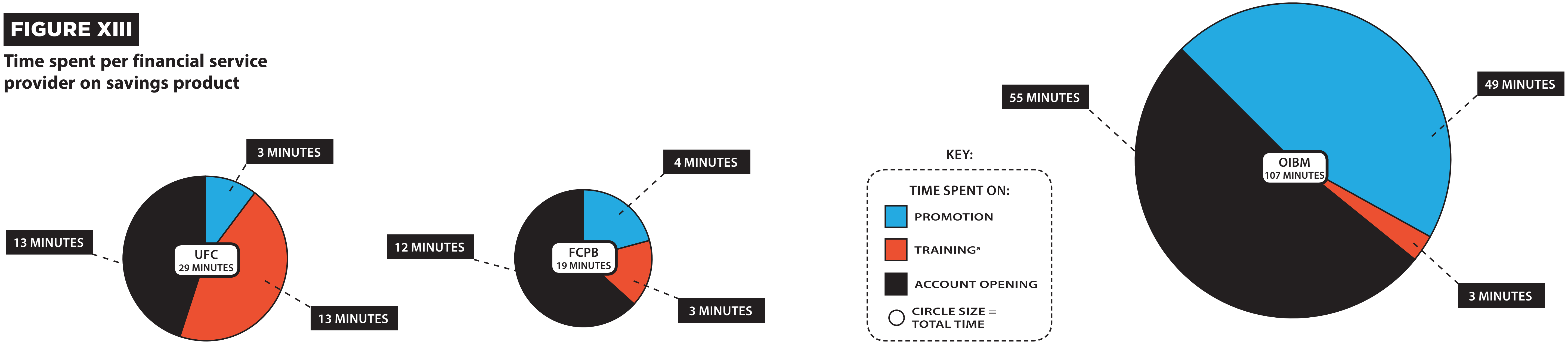
TABLE 5

Profitability analysis of Opportunity International Bank Malawi youth savings product

Savings brackets (US$)	Average amounts (US$)	Number of accounts	Percentage of total (%)	First year profitability (US$)	Years to break even
<0.10	0.05	95	8	-4.50	5,367
0.10–1.04	0.40	558	49	-4.49	604
1.05–2.08	1.29	157	14	-4.47	186
2.09–10.40	4.40	179	16	-4.42	55
10.41–20.80	14.39	41	4	-4.23	17
20.81–104	51.89	80	7	-3.53	4.6
105–208	147	15	1	-1.76	1.64
209–520	313	12	1	1.35	
521–1,040	705	4	0	8.69	
1,041–2,080	0	0	0	-4.50	
> 2,080	2,733	1	0	-49.05	
Total	**15.29**	**1,142**	**100**	**-3.85**	

FIGURE XIII

Time spent per financial service provider on savings product



a Training is given to groups of an average 15 clients. So, if 3 minutes are spent per client, it is because that client is participating in a group training that lasts 45 minutes.

YOUTH SAVINGS: OPPORTUNITY INTERNATIONAL BANK MALAWI

A striking difference between OIBM and the other two FSPs is that OIBM rewards youth savers with interest payments. In general, OIBM pays a high interest rate for savings accounts, both traditional and youth specific. This approach might be in part a reaction to the inflationary pressures in Malawi, or a deliberate drive to accumulate funds. It does put significant pressure on the financial margin, which even becomes negative for balances roughly above $1,000.

The labour cost-per-minute is slightly lower than in the other two FSPs, but a crucial difference is the time spent for the promotion and account-opening processes. Figure XIII compares time spent in minutes per client among the three FSPs on their savings product.

For OIBM, time spent and transportation costs are part of the reason account-opening costs are roughly four times higher than in the other two FSPs. This disparity is a direct consequence of OIBM's heavy outreach to rural areas. Another time-consuming activity is meeting with the village elder (or other reputable person). The time spent on training by OIBM is, however, comparable to the other FSPs. Finally, the lengthy time required for the actual account opening is related to inefficiencies throughout this process.

The low minimum opening balance of $0.30 is rather insignificant compared to the $212 minimum balance required to break even in the first year, and the majority of the savings accounts with low balances are reported to be dormant. Please note that this significant number of dormant accounts is to a certain extent related to the institutional crisis the bank has faced in recent years that diverted its attention from the youth programme. From the information above, and further supported by table 5, it is clear that OIBM has the least compelling business case for youth savings products.

Like UFC, the majority of youth savers hold very small balances on dormant accounts. What makes the business case even more difficult is the higher account-opening costs influenced by excessive transport costs. OIBM intends to make more use of alternative channels such as agent networks and POS systems. However, the financial benefits thereof on youth account-opening costs might be less significant than one might expect. OIBM will have to spend money to maintain its agent network, and the agents will charge service fees either to the youth clients or OIBM. Furthermore, OIBM will still need to provide the financial education component for its youth savings product, as it is unlikely to be outsourced to agents.

YOUTH LOANS: UMUTANGUHA FINANCE COMPANY

At the time of the analysis, there were 71 youth loans outstanding; however, since then, the total number of youth clients that have benefited from a loan exceeds 300. The youth loans (business loans and micro-leasing) represent 4.0 percent of all loan accounts but only 1.4 percent of the outstanding loan portfolio. Due to the low number of youth leasing contracts, there is no specific assessment of leasing, as no process steps could be observed and the number is too small to calculate an average performance.

Table 6 indicates that UFC has implemented a profitable youth loan product. The effective interest rate is equal across all loan brackets at 21.60 percent as well as the 2 percent fees. Cost of funds and cost of credit risk are also equal at 9.10 percent and 1.63 percent, respectively. Larger loans and longer maturities logically drive up the marginal profit. The lowest loan amount bracket (roughly those loans below $100) shows a negative marginal profit. This result is acceptable since these clients are likely to request repeat loans, which will be larger in size and require less time to issue.

The healthy youth loan portfolio has a substantial positive influence on the product's profitability as it translates into a low credit risk cost. For youth loans, the total credit risk is 1.63 percent, which compares favourably to 3.50 percent for the institution as a whole. The Kigali branch is the weakest performer with a risk of 13.69 percent, whereas all of the other branches range between 0 percent and 0.51 percent. In general, it is still too early to draw robust conclusions—not only is the number of loans still low, but most of the youth loans are also still in their first cycle. Yet, the preliminary results do show positive indicators of youth's credit behaviour.

A plausible and partial explanation for the superior credit quality of the youth loans is related to the positive influence of the financial training the youth must undergo as part of the application process. The training, however, comes with an additional cost of $1.50 per client. This amount is fairly low compared to the total operational cost of issuing a youth loan, which equals $17.75 (without the collection phase).

When examining the possible effect that financial education has on the youth loan product, improved portfolio quality can be measured as a monetary saving. If UFC has a successful financial education component that improves credit risk by just 0.5 percent, the institution could save $2.42 per loan. It costs UFC $1.50 to train each loan client. In terms of credit risk, it is the equivalent of an improvement in credit risk of 0.3 percent. If the training helps reduce the credit risk of an average loan size ($706) by only 0.3 percent, the whole training effort is accounted for. Improving credit risk can be the most effective area for management to make improvements towards product profitability as raising interest rates is difficult, especially for youth loans, and decreasing funding costs is dependent on many other outside factors.

Finally, the return of a standard youth loan at UFC would cover the account-opening expenses of several youth savers. At UFC, the most common of the youth loans has an average disbursed amount of $483 and a maturity of 350 days. It generates a profit before indirect expenses of $54. Considering the cost of opening a savings account of $1.65, one standard youth loan would cover the opening expenses of 33 youth savings accounts.

TABLE 6

Profitability analysis of Umutanguha Finance Company youth loans

Amount (US$)	Number of loans	Average amount (US$)	Duration (days)	Marginal profit (US$)
< 107	4	82	315	-5.68
107–213	9	136	373	7
214–320	14	249	369	26
321–426	2	355	360	43
427–710	21	484	350	63
711–1,065	5	872	474	56
1,066–1,420	3	1,183	660	120
1,421–3,550	5	1,420	504	110
3,551–7,100	1	1,846	720	217
7,101–10,650	6	2,130	560	194
> 10,650	1	4,544	1,080	840
Total	**71**	**706**	**421**	**126**

YOUTH LOANS: OPPORTUNITY INTERNATIONAL BANK MALAWI

There were 297 youth group loans in the portfolio, with an average amount of $687, analysed in the study. The youth group loans comprise 1.47 percent of all loans and 0.59 percent of total volume. Due in great part to the macroeconomic and institutional crisis mentioned before, performance has been constantly weak—especially in 2014, when portfolio at risk over 30 days (PAR30) went from 17 percent in Q1, to 37 percent in Q2 and down to 23 percent in Q3. A significant write-off in Q4 allowed PAR30 to reduce to 12 percent, which is below the institutional PAR of 15 percent. The weak and volatile PAR30 ratio signifies that there is room for improvement in the monitoring systems of the bank or the manner in which training is conducted, or that youth require post-disbursement follow-up training. Other observations were that loan officers should spend more time assessing the credit quality of the application and that OIBM should apply more strict repayment policies. Not only does OIBM face the highest risk costs, it also shows very high operational expenses. Issuing and monitoring a loan costs OIBM more than twice as much than it costs UFC. A significant portion of time and related costs are spent on transportation, which is reflective of OIBM's social outreach.

Despite the high operational cost and credit risk cost, table 7 (and its visual representation figure XIV) does reveal a business case for all youth group loans above an average of $400, which show a profitable net margin. With targeted focus, it is possible for OIBM to improve its credit quality and streamline procedures to improve efficiency. With such improvements, the product as a whole may demonstrate a good business case. Of the three FSPs, OIBM charges the highest interest rates (45 percent

TABLE 7

Profitability analysis of Opportunity International Bank Malawi youth loans

Amount (US$)	Number of loans	Average amount (US$)	Marginal profit (US$)
< 208	17	187	-25
208–312	41	258	-12
313–416	80	370	-2
417–520	72	458	11
521–624	32	560	17
625–728	16	653	32
729–832	11	759	35
833–936	5	888	55
937–1,040	4	936	85
1,041–1,560	2	1169	90
> 1,560	17	2729	597
Total	**297**	**672**	**32**

FIGURE XIV

Table 7 visualised: Marginal profit and number of loans per average loan amount

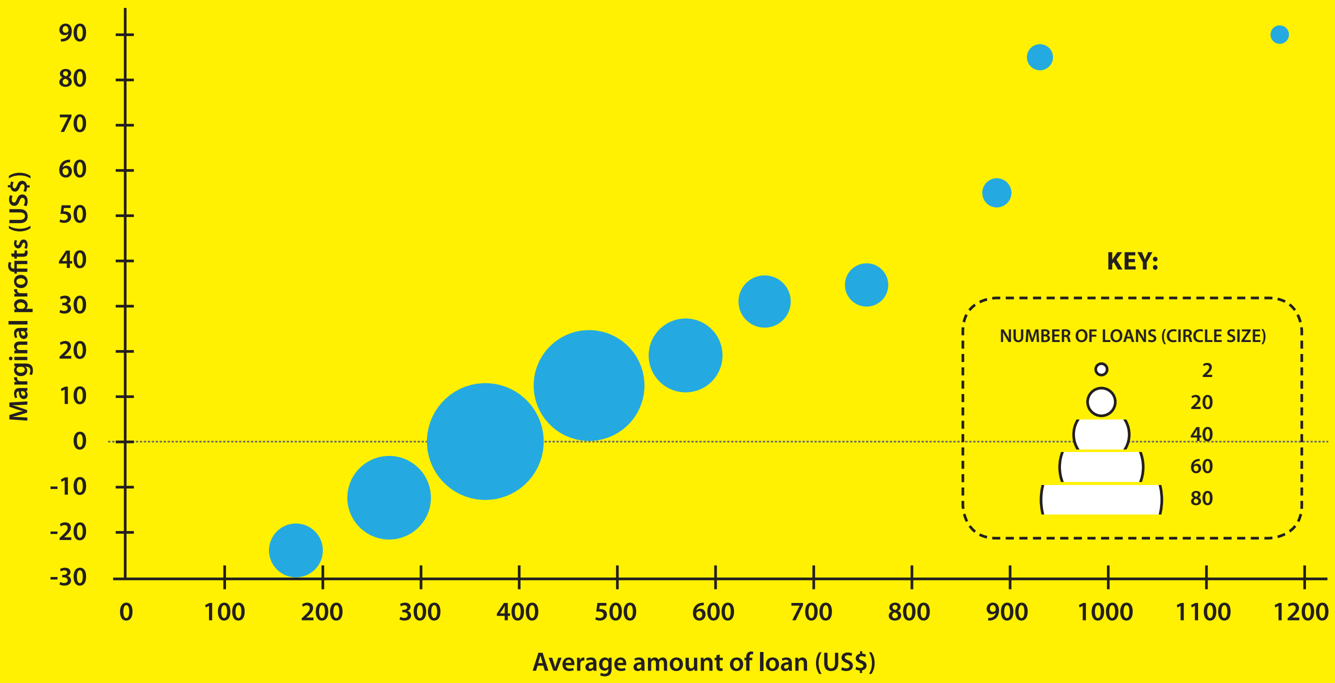
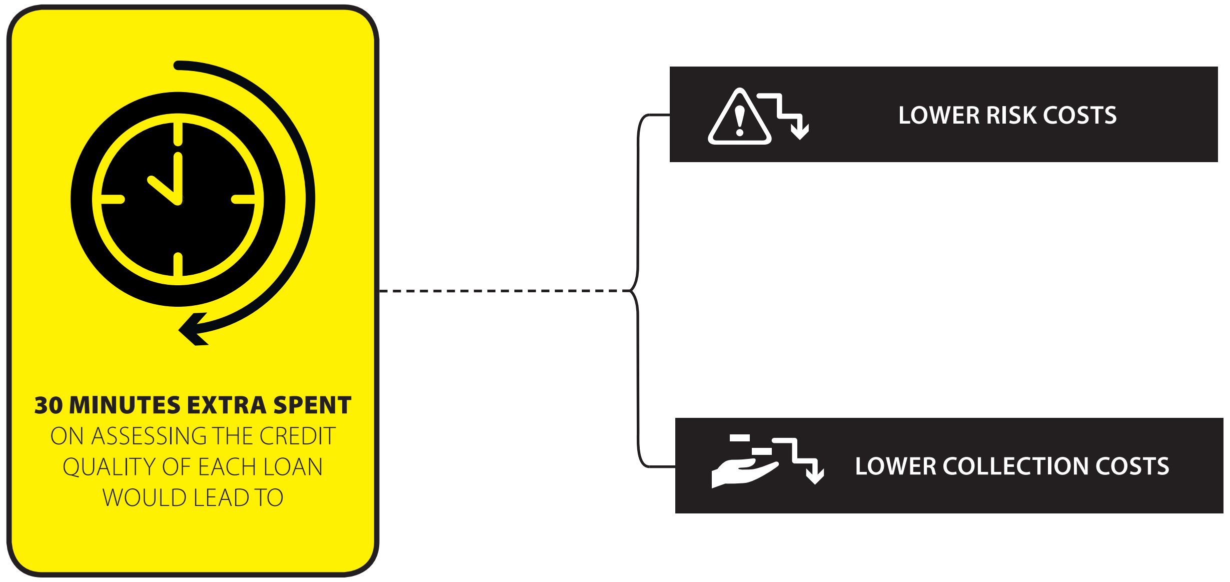


FIGURE XV

Effect of time spent on assessment of credit quality



annually), which is what keeps it in a relatively good position.

There is still room, however, for strengthening the financial education services. OIBM will have to review its training efforts from an effectiveness perspective, especially for its youth loan product. Training for lending products needs to go beyond an explanation of product details. Ideally, it should include aspects of managing a business and cover time before disbursement as well as provide coaching over the life of the loan. The current in-house training programme for youth borrowers is extensive but exclusively focused on the pre-disbursement phase. There seems to be no training on debt management, business support or other necessary skills over the life of the loan. Youth clients at UFC are receiving this type of training through youth serving organizations and the benefits are apparent.

As PAR30 is so volatile, it is interesting to look at the effect on profitability. An increase of credit risk from 9.01 percent to 10.01 percent would have a negative impact of $5.99 on the profitability of each youth loan (using the average loan size as example). In the same way, the institution could save $2.80 with a decrease in credit risk by 0.5 percent. The time and cost for the whole loan analysis and assessment phase is 112 minutes and $9.04, respectively. It was observed that there seems to be no step in which the loan officers assess the credit quality of the application and write a recommendation weighing the risks of the application. If the youth relationship officer were to spend 30 minutes extra per loan to assess credit quality (at a cost of $1.46), it could have a positive influence on portfolio quality. If it translates into an improved risk by just 0.5 percent, the effort pays off though less cost for risk and less cost for collections (see figure XV).

Finally, it was analysed how the return of a standard youth loan would cover the account-opening expenses of several youth savers. In the case of OIBM, the most common of the youth loans has a disbursed amount of $672 and a maturity of 169 days. It generates a profit of $32 before indirect expenses. Considering the cost of opening a savings account of $4.50, one standard OIBM youth loan would cover the opening costs of seven youth savings accounts.

6 MANAGEMENT INFORMATION SYSTEM & TECHNOLOGY

> “FOR ALL FSPs, THE USE OF TECHNOLOGY CAN BE BENEFICIAL IN THE AREA OF TRANSACTIONS SUCH AS DEPOSITS AND WITHDRAWALS”

In general, technology can reduce operating expenses for a financial institution and can facilitate processes for and increase the pace of institutional expansion. For all FSPs, the use of technology can be beneficial in the area of transactions such as deposits and withdrawals. It also allows for more efficient data collection and analysis, which can later be used for credit scoring or poverty impact measurements. For clients, technology facilitates use of the account outside the branch, increasing user convenience at lower transaction prices.

FINCA Democratic Republic of the Congo (FINCA DRC), which is also a YouthStart programme participant, provides a clear example of the benefits of using technology well. Box 3 gives a brief overview of FINCA DRC to highlight the benefits of a properly functioning MIS supporting alternative channels.

BOX 3

FINCA Democratic Republic of the Congo and technology

In 2011, when FINCA DRC was selected to participate in YouthStart, it had nine branches. Today, thanks to POS technology, it has more than 300 points of service.[a] During the implementation of YouthStart, the FSP experienced a growth of 82 percent in outreach measured by the number of active clients. Today, it counts almost 500,000 clients, of which almost 10 percent are youth.

A decisive factor in the success of the FINCA DRC programme has to do with the inception of the POS agent network. This technology not only had a very positive effect on the institution as a whole but also on the youth programme. At the institutional level, for example, the cost-per-client decreased from $78 in 2013 to $54 in 2014. Thanks to POS, the number of youth clients more than tripled over a period of six months and transactions on youth accounts increased from 921 to 5,377 in 2013, which represents an increase of over 480 percent. Furthermore, savings volume increased from $129,750 to $276,083.[b]

a FINCA DRC obtained its POS license in 2013.
b Quarterly reports submitted by FINCA DRC to UNCDF under the YouthStart programme.

As this study mainly deals with first-time credit cycles and only focuses on the process of account opening, the benefits of using technology are not so apparent. For account opening, meetings between the client and the bank officer still need to take place, processes and product information need to be explained, data need to be collected, etc. Technology will only have a marginal impact on efficiency and costs, as it is labour-intensive work. An exception arises when, and if permitted by the regulatory authorities, an FSP partners with a reliable agent network and can outsource the account-opening process. Agents need to be reliable in the sense that they need to be able to represent the FSP appropriately, understand all legal requirements (i.e., know-your-customer regulations) and be able to securely accept fees and deposit money. Establishing and maintaining a good relationship with an agent network will cost money on top of the fee the agent takes, but the FSP can significantly save on transportation costs as well as benefit from an increased presence. The cost and benefits need to be carefully examined. This option seems especially beneficial for rural operations similar to that of OIBM.

“AS THIS STUDY ONLY FOCUSES ON THE PROCESS OF ACCOUNT OPENING, THE BENEFITS OF USING TECHNOLOGY ARE NOT SO APPARENT”

What technology can do is facilitate significant use of the saving accounts. While the initial savings account is only a medium to store surplus funds, which are only available through a tedious withdrawal process, the use of technology can open up many alternative functions. If it is possible to pay for purchases through a POS system, to top up a mobile phone account balance or to transfer funds from one client to another, then the purpose of the account expands. It becomes an active medium to manage finances. Technology can facilitate this conversion. In addition, the use of technology can make actively managed accounts less expensive for the financial institution due to the reduced labour effort.[28]

At this stage, only OIBM currently uses alternative channels to deliver financial services. UFC is aware of the importance of such channels to stay ahead of competition for the youth market and is now looking at different options. OIBM is currently working on expanding its agency network. Agency banking is viewed as the key to success for expanding into rural areas where OIBM has no branches yet. Presently, OIBM has around 267 agents. Youth uptake with these agents appears to be very low. OIBM also uses POS systems, but the systems were only observed during the visit being used inside the branch, which does not lead to any efficiency gains.

28 Frankfurt School of Finance & Management, 'YouthStart Business Case Analysis.'

“FSPs NEED TO HAVE A STRONG BACK-OFFICE MIS BEFORE ATTEMPTING TO DEPLOY ANY ADVANCED FRONT-END APPLICATIONS OR DELIVERY CHANNELS”

The FSPs should also assess the capacity of their MIS. An MIS has several roles, among which the most important is to capture information, create new information, store information and provide information to the user. There is no doubt that 'the right information' at 'the right time' at 'the right place' is crucial in decision making.[29] Therefore, information and data are considered to be among the most valuable assets and fundamental to the success of an FSP. What is often not sufficiently realized is that FSPs need to have a strong back-office MIS before attempting to deploy any advanced front-end applications or delivery channels. With the growth and advancement of the microfinance industry, new innovations are being witnessed. Among these innovations, technology-based delivery channels and mechanisms are creating opportunities as well as intensifying the competitive environment for FSPs. The channels are not only targeted at lowering transaction costs and extending the reach of FSPs to large populations, they are also focused on customer convenience. These technology-based mechanisms enhance efficiency of the FSPs, while posing substantial challenges in managing such technologies. One of the main challenges is that of integration and consolidation. It is essential that the back-office MIS have the flexibility to integrate with such systems.[30]

The back-office MIS has received little attention within the sector. The general perception is that new technology-based delivery systems would easily integrate with the core MIS, whereas in reality it is not that simple. Examples reveal that FSPs that have adopted such systems without assessment of their core MIS are struggling to integrate them. Because of non-integration, FSPs fall back on electronic spreadsheets or manual procedures to prepare consolidated information. Integration and consolidation are very important for FSPs, and inability to integrate new technological innovations holds them back and makes them less rather than more efficient.[31]

One of the most significant constraints of the research was the lack of access to sufficient data. In all three FSPs, the reporting function of the MIS is weak, hindering the ability to get complete portfolio information. For FCPB, the portfolio information was not categorized by product nor by performance. The institution consolidates its financials on an aggregate level, without information on individual loans. In the case of OIBM, the most current portfolio information was incomplete. It was not categorized by product and did not contain any information on terms, disbursement amounts or performance. The account classification was ambiguous. UFC provided the required portfolio data information; however, the MIS was unable to provide sufficient data on the clients who formed the groups for the group loan products. These findings alone justify an assessment of whether the FSPs are working with a supportive MIS. These findings also lead to doubts of whether their system can easily integrate new technologies.

This section clearly shows the importance of a decent MIS for management purposes as well as expansion through alternative delivery channels. It also indicates that the three FSPs in the study have many areas of improvement related to the following: their information reporting capacity, monitoring and evaluation of the youth programme, monitoring of the demographics and needs of their youth clients, proper client segmentation and potential ability to use more efficient channels.

29 Ali Ahmad, 'Management Information Systems (MIS) for Microfinance,' (n.p., n.d.). Available from http://www.bwtp.org/pdfs/arcm/5Ahmad.pdf.
30-31 Ibid.

7

RECOMMENDATIONS FOR PROVIDERS CONSIDERING YOUTH FINANCIAL SERVICES

Based on the experience of the three FSPs, this study attempted to identify different factors that can make youth products (both savings and loans) attractive—or not—for financial institutions in different contexts. First and foremost, a simple assessment of the different market, institutional and segment specific levers may help FSPs decide whether or not to start serving youth in a targeted manner. Hopefully, the more in-depth assessment of the profitability drivers provided in this paper will also help FSPs to replicate best practices and/or design their youth products based on lessons learned from the three FSPs that participated in this study.

The following recommendations, which are imbedded in a high-level analysis of the three youth programmes, should be considered by FSPs and others when designing a YFS programme.

MARKET, INSTITUTIONAL AND SEGMENT SPECIFIC LEVERS

Maximizing these levers makes serving youth attractive and profitable in the long run. The decision to serve youth and the necessary time frame to break even on initial investments depend on the market in which the FSP operates, the FSP's institutional muscle and the age segment of the youth the FSP targets.

Market levers:
The business case for serving youth is most compelling in Rwanda, which experiences a growing economy, low inflation, a high population density, a high percentage of youth, a competitive financial services market and a government that fully supports YFS. However, changing market dynamics and growth of technology will demand that UFC remain competitive in the future to retain existing and capture new youth customers.[32]

FCPB as well as OIBM face less favourable environments. First, the more rural nature of their clientele and political instability make it harder for them to serve youth. Second, both FSPs are market leaders operating under less competitive pressure, which leads to favouring other more profitable and easy-to-reach target groups. Finally, the fact that they must have parental consent for youth under 18 to open an account makes their task not only more cumbersome but also more expensive than what it is for UFC. Additionally, the political environment is not stable in either country and the macroeconomic situation in Malawi is volatile.

Institutional levers:
Of the three FSPs, UFC has the strongest institutional muscle to facilitate the delivery of efficient and affordable youth products. It has a strong management team, a

[32] Frankfurt School of Finance & Management, 'YouthStart Business Case Analysis.'

> **“MAXIMIZING THESE LEVERS MAKES SERVING YOUTH ATTRACTIVE AND PROFITABLE IN THE LONG RUN”**

healthy portfolio and adequate assets that allow it to focus its attention on tapping the youth market in an innovative manner.

FCPB has the most extensive network, but the lack of capacity of its branches to implement standardized cooperative policies, procedures and processes—combined with a weak MIS—results in inefficiencies when attempting to reach the youth market. For OIBM, institutional muscle is even weaker due to the institutional crisis that it has faced over the past three years, which has prevented the bank from developing a business model to efficiently serve Malawian youth. One central finding of the analysis of youth loan products across the FSPs is that the institutional muscle of the FSP has a direct positive or negative correlation on the youth loan portfolio performance. It is very likely that, if one of the FSPs analysed is successful with its microlending product, it has a good chance of being successful with its youth loan product as well (as demonstrated by UFC). If the FSP is already having difficulties with its microlending product, then there is a good chance that the youth loan performance is low (as demonstrated by OIBM).

Segment specific levers:
Defining appropriate youth segments is key to a successful youth inclusion strategy. Of the three FSPs, only UFC consciously segments the youth in terms of their age, needs and use of financial instruments. FCPB and OIBM do not generally target youth of different segments with different products but instead reach their youth client base with slightly modified products to make them generally more attractive.[33]

PROFITABILITY LEVERS

Generating efficiencies, increasing savings balances and cross-selling higher margin products result in profitability levers that make serving youth attractive and profitable in the long run. Investing in non-financial services and technology have the potential to boost profitability levers.

FSPs must become more efficient in their operations:
As a rule of thumb, standardization of processes helps FSPs increase efficiencies to deliver services to youth. While products seem differentiable to clients, the actual production process is best organized when it is similar across all products. All three FSPs in the study have achieved this standardization. The only step in which YFS differentiate from standard products is related to training.

Thanks to the critical minimum methodology, UFC and FCPB have standardized their training efforts in a way to increase outreach numbers while keeping effort level low. From the perspective of efficiency management, this standardization is a positive trend as it minimizes cost. Both FSPs, however, should keep a fair balance between providing financial education and describing the institution’s youth products. OIBM, in particular, may want to review its training efforts from an effectiveness perspective as it may be recommended to identify other key messages that can support the youth to manage their loans in phases beyond the loan assessment.

FSPs must become more efficient in optimizing expenses:
The FSPs in this study have successfully attracted several thousand new clients through their marketing and promotion activities, subsidized with YouthStart grants. By spending a modest amount of money for client acquisition, namely a portion of salaries and transportation costs, the three institutions added between 20,000 and 40,000 savings accounts. However, there is still room for improvement. Among the three FSPs, OIBM has the highest costs and needs to find a way optimize them, in particular in the promotion and account-opening phases. FCPB can clearly leverage its extensive branch network, which puts the institution in closer proximity to its clients. UFC can also leverage its branch network, benefit from a decent infrastructure in a relative small country and efficiently organize promotional activities in centres where youth convene.

Youth savings accounts are an investment in the future, an investment that commercially driven FSPs have to be willing to make:
Although initial expenses for marketing/training and account opening are quite modest and may offset the fact that the majority of youth accounts have a rather low balance, increasing the savings balance makes a lot of sense for all three FSPs. From the data available from this study, it is not yet possible to derive an exact age or other factors that lead to more active use of an account. However, the previous study does suggest that more mature and economically active youth have greater savings capacity than other more vulnerable youth, which to a certain extent is confirmed in this study with the FCPB case. As such, FSPs should consider establishing a clearer segmentation of their youth clients and cross-subsidize more vulnerable youth with services provided to better-off youth. For example, if FCPB successfully converts one savings account into an actively managed account with a balance of $430 and UFC does the same with a balance of $280, the revenues generated within just one year compensate for the cost of an additional nine accounts that remain dormant.[34] Finally, note that even if the account remains dormant for a longer period of time or is not converted to an actively used savings account, the negative effects for the financial institution are manageable, as there are basically no maintenance costs associated. FSPs can, however, face difficulties and high costs if they want to or are required to close dormant accounts, as it often entails the consent of the account holder.

FSPs can increase return from youth through cross-sales:
The Frankfurt School study does analyse how the return of a standard youth loan would cover the account-opening expenses of several youth savers. UFC, for example, needs to convert 33 savings accounts into one YFS group loan in order to recover the investment cost, while OIBM would need to convert 7 savings accounts into one group loan. The logic is that a youth savings client, when eligible for a youth loan, can cross-subsidize the non-profitable youth savings accounts to the benefit of the overall youth programme.

Investment in non-financial services may influence the break-even calculation for youth accounts:
Since financial education represents a significant difference from the normal microloan, extra attention has to be given to the different ways the FSPs have organized it. For youth loans, the break-even calculation needs to take into consideration the cost of training and coaching of youth clients. If it is assumed that a well-structured financial education programme reduces the cost of risk to youth credit accounts, then the cost of training and coaching of youth clients does need to be considered in the break-even calculation. If the training has the desired effects on credit quality, then the break-even calculation can be reduced to a comparison of training cost versus cost of risk. An additional consideration for the valuation of the break-even cost is the potential that the client becomes a repeat borrower and that the costs related to financial education are eliminated and other operating expenses reduced. As noted earlier in this paper, if UFC increases its credit quality by only 0.3 percent, the cost of the training ($1.50 per loan account) will be recuperated. For OIBM, which faces significant portfolio quality challenges, adding 30 minutes of time to improve analysis of the loan application will add $1.46 to total cost. However, if that effort translates into an improved risk of only 0.5 percent, it pays off through less cost of risk and less cost for collections. Although the example of UFC looks promising, there is unfortunately insufficient information and data available to draw any conclusions on the effect of training on portfolio quality or general financial behaviour.

Technology has no significant impact on the opening costs for youth accounts but can help make the products more attractive:
The use of technology has no significant effect on the costs of opening a youth account. Arguably, if an FSP can rely on a solid agent network to outsource its account-opening process, it can expect to decrease costs. The extent thereof depends on the costs associated

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[33] Ibid.

[34] Ibid.

with maintaining the agent network relationship. Financial education and product promotion, both essential parts of YFS, are unlikely to be outsourced to an agent network. Therefore, the reduction of overall account-opening costs for youth services from the FSP using alternative delivery channels is limited. However, technology can facilitate the use of saving accounts significantly. While the initial savings account is only a medium to store surplus funds, which are only available through a tedious withdrawal process, the use of technology can open up many alternative functions. If it is possible to pay for purchases through a POS system, to top up a mobile phone account balance, to transact on the account with technology (POS, ATM or mobile) or to transfer funds from one client to another, then the purpose of the account expands. It becomes an active medium to manage finances. Technology can facilitate this conversion. In addition, the use of technology can make actively managed accounts less expensive for the financial institution due to the reduced labour effort.[35]

The costs of managing savings accounts with low volumes and multiple transactions usually do not outweigh the direct benefits.[36] Technology, however, not only has the potential to make savings accounts more useful for youth, but it also comes with the potential to significantly reduce the costs of transactions on these accounts. It becomes even more important as youth-friendly products have seen many transaction fees and maintenance fees reduced or waived all together. At this stage, only OIBM uses alternative channels to deliver financial services. OIBM is presently working on expanding its agency network. Agency banking is viewed as the key to success for expanding into rural areas where OIBM has no branches yet. UFC is aware of the importance of such channels to stay ahead of competition for the youth market and is now looking at different options.

Investing in appropriate financial education seems promising, but more data is needed:

All three FSPs are following the concept of a critical minimum approach. As such, they try to convey the most essential messages in a simple manner to produce knowledge, enhance skills and influence behaviour. The FSPs have standardized training efforts in order to increase outreach, through an approach that is easily replicable by field staff and youth volunteers, while keeping costs low.

Due to limited availability of data, this study was unfortunately unable to draw conclusions about the effectiveness of the financial education programmes. Although it is presumed that the financial education programme is a key driver behind the success of UFC's youth loan portfolio, the programme is still too nascent and lacks comparable data. For OIBM, however, the training for lending products focuses too much on explaining the institution and the product details (i.e., primarily concerned with the pre-disbursement phase). FCPB spends considerably less time and money on its financial education efforts compared to the other FSPs, which also raises questions related to the quality of its training as well as overall buy-in from management.

Data is also missing on the financial behaviour of youth savers, or if these savers are likely to access lending products in the future. What can be confirmed is that the costs of delivery are reasonable.

[35] Ibid.
[36] Glenn D. Westley and Xavier Martín Palomas, 'Is There A Business Case For Small Savers?'

8 CONCLUSIONS

The Frankfurt School study has provided a clear, in-depth profitability analysis of three FSP partners of the YouthStart programme. As seen in the recommendations section above, the study has deepened understanding of the revenue and cost drivers that affect the profitability of serving the youth segment (age 18–24). As such, the study has formulated many valuable lessons learned for any FSP or other stakeholder interested in YFS. This final section of the report will formulate an opinion on the business case for YFS, based on the data collected at the three FSPs. Before doing so, it is important to reiterate the main limitations of the study that are influential on the business case:

- The three FSPs operate as traditional brick-and-mortar institutions without using alternative delivery channels for their youth programme.
- There was no data available on the frequency of youth savings account transactions, which is why the study analysed the costs related to opening savings accounts (including the financial education component).
- The youth lending programmes of the FSPs are still nascent, limiting the research from further analysis of the youth loan clients over subsequent loan cycles.
- There was no data available on the cross-selling of youth loans to youth that started out as savers.

The data in figure XVI, summarizing key figures related to product profitability, provide clear evidence that only FCPB is able to establish a business case for youth savings and only UFC is able to do so for youth loans.

As explained in this report, FCPB is able to make the business case through a more commercial focus reaching older and wealthier youth as opposed to the more vulnerable youth targeted by UFC and OIBM. FCPB effectively subsidizes part of its youth savings product through a significant number of youth savers with balances far above the break-even point. Although this more commercial approach is a valid business strategy, FCPB should realize that commercial banks could possibly capture these account holders with high savings balances when they decide to target the youth segment.

FIGURE XVI

Key figures related to product profitability

YOUTH SAVINGS	UFC	FCPB	OIBM
AVERAGE YOUTH SAVINGS BALANCE	US$7.96	US$165.41	US$15.29
MINIMUM AVERAGE BALANCE TO BREAK EVEN IN Y1	US$30	US$43	US$212
PERCENTAGE OF ACCOUNTS IN SAVINGS BRACKETS	4%	5%	<1%
AVERAGE SAVINGS ACCOUNT PROFITABILITY IN Y1	US$ -1.22	US$3.16	US$ -3.85
YOUTH LOANS	**UFC**	**FCPB**	**OIBM**
CREDIT RISK	1.63%	–	9.01%
BREAK-EVEN AMOUNT FOR LOANS	US$107	–	US$416
AMOUNT OF MOST COMMON YOUTH LOAN	US$483	–	US$672
PERCENTAGE OF LOANS IN PROFITABLE BRACKETS	94%	–	53%
NUMBER OF SAVINGS ACCOUNTS THAT CAN BE SUBSIDIZED THROUGH ONE LOAN	33	–	7

To make an immediate business case for youth savings, an FSP would need to have a commercial approach towards the youth clients it targets. It would also need to make accounts more user friendly through alternative channels, multiple functions and possibly interest payments to ward off competition with commercial banks.

UFC and OIBM have a developmental approach targeting more vulnerable youth, which results initially in a large number of accounts far below the break-even balance. The challenge is to engage these youth over time to actively use their accounts. The likelihood of many vulnerable youth becoming economically and financially active to the extent that they can support higher savings balances and require other services is uncertain.

FSPs approaching youth savings from a developmental perspective—focusing on rural, vulnerable, early youth—should familiarize themselves with best practices and strive to be as efficient as possible. They should realize, however, that a business case for youth savings is not likely to be made, even in the midterm and possibly the long term. They will either need to subsidize their youth savings product internally or receive funding externally.

As many of the financially excluded youth in Africa fall into this vulnerable category, the following is important:

- To realize that the traditional brick-and-mortar approach will not be effective for furthering meaningful access to youth savings accounts.
- To further research the impact of alternative channels on the costs and usage of youth savings accounts.
- To expand research over a longer period of time to identify under which circumstances vulnerable youth can become more economically active, support higher savings balances and require other financial services. It is also important to understand what kind of financial education and business and entrepreneurship training is required, what the best delivery mechanisms are, and what the impact is on youth savers.
- That policymakers and donors understand the importance of youth financial inclusion and are not discouraged by the long road to commercial success. Given what is known now, donors should facilitate more targeted and focused experimentation and innovation, particularly around business models and delivery mechanisms.

Fortunately, UFC has proven that the business case for youth loans is possible even for those FSPs that foster a more social agenda. When an efficient FSP is good in underwriting its normal microfinance portfolio, resulting in low PAR levels and a profitable product, it is likely that it can do the same for prospective youth clients. It is critical, however, that the FSP clearly segment its youth market and understand the needs and capacities of the youth. Doing so requires in-depth market research. As the example of UFC illustrates, a meaningful pre- and post-disbursement training that ties into the needs and capacities of the youth can have a positive influence on the credit risk costs that ultimately represent a key driver towards product profitability in an efficiently managed FSP.

On a final note, it is important that FSPs and their supporters keep in mind the potential broader, long-term effects of YFS that contribute indirectly to the business case for YFS:

- The potential of converting youth savers into youth loan clients,
- The possibility of attracting new clientele (i.e., family members and relatives),
- Increasing client satisfaction and possibly mobilizing a loyal future client base, and
- Establishing a social brand identity. A targeted focus on youth will be well received by local, national and international stakeholders.

ANNEX 1

Definitions

Term	Definition[a]
Financial income	For loan products, the financial income consists of the revenues from interest and fee payments. The specific methodology of charging interests for microfinance institutions (flat rate versus declining balance) is considered. For savings products, the financial income is calculated as the opportunity cost at which the generated funds can be used/invested.
Cost of liquidity	To calculate the liquidity cost, several methodologies are available. The goal is to find an interest rate that reflects the opportunity cost for conducting client-related business versus sourcing/using funds in the banking market. An FSP that generates savings at a low interest rate saves money compared to borrowing funds from other institutions or investors at market rates. The cost of borrowing funds in the market can be seen as the opportunity rate to calculate the cost/benefit of liquidity for savings products. For those products, the cost of maintaining cash to service the liquidity needs of savings clients and the cost for keeping regulatory minimum reserves are reflected as well. The same opportunity rate is used for the calculation related to lending products. The calculation in this study does not reflect a contribution from equity, as the focus is on the calculation of marginal profitability, which is independent from the current or planned equity rate.
Cost of credit risk	To approximate the cost of credit risk for a loan, the PCT considers the outstanding loan amounts of loans in arrears, relative to the initially disbursed amount of all outstanding loans. This number is different than the institution's standard risk rate (PAR30). PAR30 is calculated as a ratio of amounts in arrears divided by the outstanding loan amounts. The ratio used in the PCT gives an indication of the potential credit losses relative to the disbursement amount, which serves as a proxy for the credit risk premium that should be charged to the borrower for the loan. The credit risk premium charged on all loans should compensate for the losses as a result of defaults across the portfolio. The approach approximates the actual cost of credit risk. It does not reflect the cost for special collection of defaulted loans or potential recovery of parts of the loan amount.

[a]***Source:*** Definitions from Frankfurt School of Finance & Management, 'YouthStart Business Case Analysis' (internal document). Used with permission.

UN CAPITAL DEVELOPMENT FUND

Two United Nations Plaza

New York, NY 10017

www.uncdf.org

Email: youthstart@uncdf.org

Tel: +1 212 906 6565

UN
CDF