How to foster access to finance for youth in the agri-food sector

Brief desk research
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Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Structure of this document

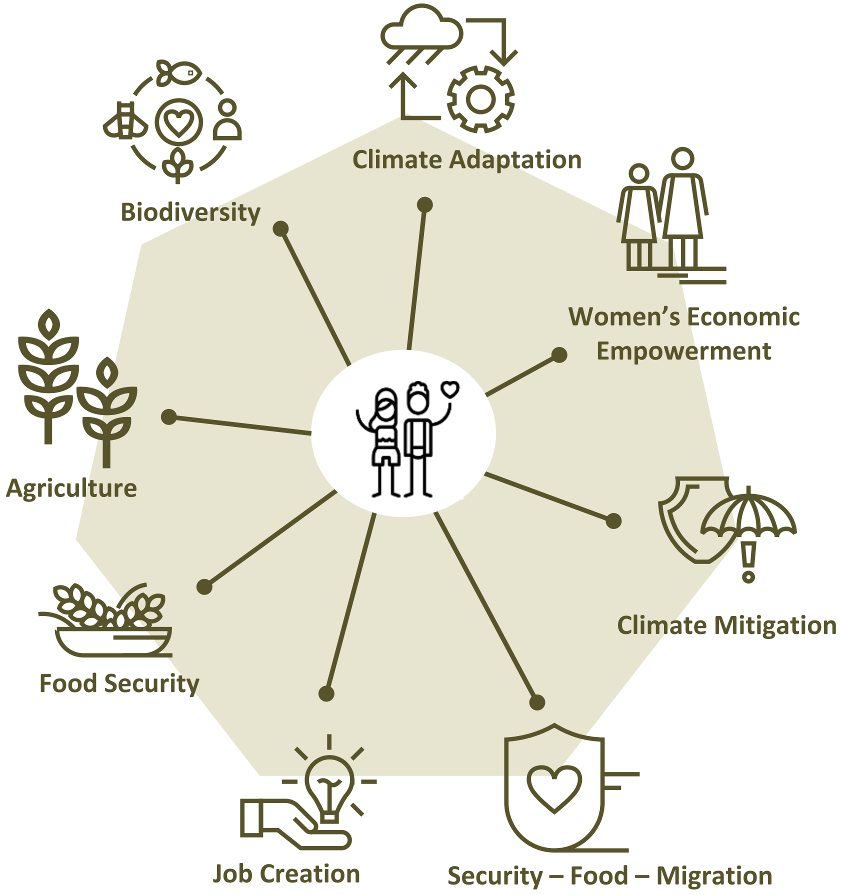
1. Relevance and definitions
2. Obstacles and opportunities
3. Lessons learned
4. Business case for financial service providers
5. Examples from GIZ projects
6. GIZ entry points

Limitations. This short document focuses on access to financial services and thus mainly leaves aside non-financial interventions, such as skills training, match-making and other capacity building interventions.

1. **Relevance and definitions**

Relevance of youth' access to finance

Young people make up a significant and growing part of the population, and youth unemployment is also projected to rise. Meanwhile, agriculture will continue to be the largest employment sector for youth. Youth are disproportionately impacted by current crises like climate change and food insecurity. The increasing number of young people in unstable situations poses a risk to the stability of partner countries. However, youth can also be a key part of the solution—if they have access to necessary resources, including financial resources, to fully develop their potential.



- 90% of youth worldwide live in developing countries, almost 1 bn of them in Africa and Asia
- 60% of the population in Africa is below 24 years of age
- Africa's share of young people in rural areas is expected to rise from 20% in 2019 to 37% in 2050

BMZ's Feminist Development Policy refers to marginalized groups in all their diversity and aims at eliminating discriminatory structures to build a society which enables equal participation by all people. Youth are mentioned prominently in the policy document.

- Youth unemployment is 3 times higher than that of older adults and is increasing
- Youth are more likely to work in the informal sector, be underemployed, work part-time or work in low-paid or precarious jobs
- Farming is the largest employer of young people (two thirds) at any level of the value chain (smallholder farmer, day labourer, transformation, etc.)
- It is forecasted that only 1 in 4 youth will find wage employment, with a tiny share only in the formal economy

Sources:

FMO, Y Initiative: Finance for youth, Compendium of Global Good Practice, 2022

IFAD, Creating opportunities for rural youth, 2019 Rural development report, 2019

ISF Advisors, Pathways to Prosperity, Understanding youth's rural transitions and service needs, 2019

Who are the Youth?

- There is no internationally recognized definition
- Youth include adolescents and young adults
- Most definitions are based on the biological age, i.e. 15 to 24 years (especially donors often use this definition)
- The African Union and many African countries extend the definition to 15 to 35 years, depending on specific socio-cultural, institutional, economic and political factors
- These factors include intergenerational relationships, entry into the labor market, education, gender, marital status, economic and financial experience and independence, sources of income, life stage, etc.

→ **These factors define more than age how someone is perceived in their community and what his or her specific needs are**

→ **GIZ in general uses the African Union's definition for youth (15 to 35 years of age)**

USAID's Ages and Stages Approach

USAID uses an ages and stages framework to design age-specific interventions across sectors, tailored to different phases of youth development:

- **Early Adolescence (10–14 years):** Focus on building life skills, positive values, and critical thinking. Reproductive health becomes essential with the onset of puberty.
- **Late Adolescence (15–19 years):** Key period for reinforcing health and education, protecting rights, and preparing for adult roles in society, family, and work.
- **Emerging Adulthood (20–24 years):** Emphasis on constructive decision-making and resilience as final brain development shapes behavior.
- **Transition to Adulthood (25–29 years):** Continued learning opportunities are essential, especially in post-conflict settings where accelerated learning and psychosocial support help recover lost time.

Source:
USAID, Youth in Development Policy 2022 Companion Guide, 2022

Status of youth’ access to finance

There are few examples of youth accessing formal financial services, especially credit products. Many projects or case studies focus on non-financial services, such as entrepreneurship training, financial literacy programs, business matchmaking, coaching for business planning, or providing grants to support startup ventures.

58%

of young people have an **account** at a formal financial service provider

13%

received a **loan** from a financial institution

19%

use **savings**

Youth and access to finance

- **Access to finance is largest constraint.** For 83% of youth access to finance is the largest constraint and 93% believed that a loan was necessary to start a business. The need for guarantors are mentioned as one of the most significant barriers
- **Informal providers.** Youth rely heavily on informal providers to fulfill their financial needs, including informal moneylenders, actors along the value chain such as input providers or retailers, village savings and loan associations (VSLAs), youth savings associations (YSAs), as well as family and friends
- **Rural-urban divide.** There is a notable gap between rural and urban youth in developing countries, with a smaller percentage of rural youth having an account at a formal financial service provider (44% versus 35%)
- **Remittances and payment services** are the most widely utilized financial services by youth in developing countries
- **Youth-specific products** are scarce and mostly limited to savings accounts*)

What is access to finance?

… it is a state where both individuals and businesses have

- opportunities to **access** and
- the ability to **use**
- a **diverse range of appropriate** financial services, including savings, payments, loans, insurance, etc.
- that are **responsibly and sustainably provided**
- by formal financial institutions and other (informal) financial service providers

Access to finance aims at providing:

Resilience	+	Opportunity
Prepare against and manage risks, Recover from shocks		Ability to invest in professional and personal future

Sources:
The World Bank, Global Findex 2021, 2022
Making Cents, Rural Youth Economic Empowerment Program 2013-2016, Findings from Five Youth-Inclusive Rural Finance Pilot Projects, 2016
CGAP (www.cgap.org)
*) For example, IFAD’s Rural Youth Economic Empowerment Program supported more than 6,000 rural youth in Morocco, provided financial literacy training to 3,000 but linked only 30 to microfinance lending services.

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The positive impact of youth’ access to finance

Youth financial inclusion is important from an impact lens at three different levels. Access to finance can help youth develop responsible financial habits in the long term to realize their economic potential.

Economic development (macro level)

Increased savings and investments

Business creation (meso level)

Positive impact at the household and community levels: business creation, job creation, spillover effects from training and education

Livelihoods (micro level)

Including educational outcomes and overall financial health or financial well-being

Sources:
FMO, Y Initiative: Finance for youth, Compendium of Global Good Practice, 2022
UNCDF, Building the business case for youth financial services, 2015.

2. **Obstacles and opportunities**

Rural youth’ obstacles in accessing financial services

Access to finance for youth in the agri-food sector represents a triple challenge, combining small often informal businesses (MSMEs), the agri-food sector, as well as the youth segment. Overall, barriers to accessing finance for agri-food sector actors or MSMEs have been discussed broadly in many papers. They include lack of collateral, difficult access to identification, low overall and financial literacy, lack of experience on how to deal with financial institutions, distance, seasonality, agricultural production risks, weather/climate, and many more. Some of these barriers are even more pronounced with regards to youth.

Specific obstacles for youth

- **Lack of track record.** Due to their age, young people often lack business experience and a credit history, making it difficult for financial institutions to assess their reliability
- **Lower asset base.** Youth typically have fewer assets to offer as collateral, which further limits their access to loans
- **Smaller businesses.** Youth generally own smaller farms or businesses, leading to smaller loan requests that are often less profitable for financial institutions
- **Regulatory age restrictions.** Age-based restrictions on opening bank accounts, taking out loans, or registering businesses can prevent young people from accessing formal financial services
- **Lack of access to land.** Youth face challenges in accessing farmland due to climate change and high population growth, which result in smaller land inheritances. In many cases, daughters aren’t considered rightful heirs, and some parents fear that children may sell inherited land to fund migration

Youth show specific behavior which can be interpreted by financial service providers as being more risky

- **Increased openness to migration**. Young people in Africa are 40% more likely to migrate to urban areas (and back!) than adults which can have an impact on (the perception) of their level of engagement and makes them higher risk clients for financial institutions
- **More flexible and open to change.** Youth are driven by (the lack of) opportunities and necessity, and move between different types of employment, including formal and informal, in and out of agriculture
- **Negative perception of agriculture which is seen as an interim activity**. Agriculture is often considered old-fashioned and without a lot of potential and low social status, a fallback option for illiterate and those who failed to take up a white-collar job in the city or any other paid job. As such, agricultural activities are often considered an interim activity to earn some money before the next off-farm opportunity comes up
- **Agricultural deskilling in formal education.** Curricula in formal educational institutions lack agricultural education leading to a disconnect between the skills and knowledge youth learn and the opportunities they have in their local reality
- **Social norms regarding youth and specifically young women.** Gendered social norms influence the relations and interaction between young people and adults and within the youth peer group (e.g., young people’s opinions value less, knowledge and experience exclusively linked to age). Also, peer behavior affects adolescents’ perception of prevailing social norms and influences their own decision-making

Opportunities for youth accessing finance

Opportunities

- **Digital savviness.** Young people are more digitally savvy and open to using digital devices than older people
- **Openness for innovation.** Agriculture may become more attractive through more innovative and dynamic approaches, such as digital platforms/D4Ag providing advisory services, market linkages, financial access and supply chain management, often as bundled services
- **Youth are big savers.** Youth save money on their own, in small amounts, over a relatively short horizon and often using informal mechanisms. In most regions, youth save more at financial institutions than informally at home (except for SSA) and they are more likely to use financial institutions to save than to borrow, e.g., youth (ages 15 to 30) in Mozambique, Tanzania and Pakistan saved an average of two to five times as much as adults
- **Higher education has an influence.** More educated youth are more likely to save or borrow at a financial institution, e.g., youth are two times more likely to save or borrow if they have secondary education as opposed to primary education

Digitalisation in access to finance – opportunities and risks (example Kenya)

- A study in Kenya showed that youth understand basic financial information provided through mobile messages better than adults (13.8% gap in favor of youth)
- Youth between 16 and 34 years accounted for 67% of all M-Shwari customers in Kenya (2016), including young rural women who are 50% more likely to have used digital credit compared with adult women in rural areas
- As of 2020, Kenya alone registered 64 D4Ag companies and 120 that provide services from abroad (e.g. Tulaa, DigiFarm, Pula, MobiGrow, Twiga Foods)
- In Sub-Saharan Africa, over 33 million smallholders registered for digital services, of which more than 70% are youth (2019)

However, ….

- Over 100 unregulated companies were marketing digital finance services through mobiles apps in Kenya (2018)
- Some charge extremely high interest rates (up to well over a hundred percent)
- Over 2.7 million Kenyans defaulted on digital loans between 2016 and 2018 with outstanding balances of less than USD 10 and are now blacklisted
- Of these, only 30% understand what a credit bureau and the implication of blacklisting is
- There are no numbers available on the percentage of young people blacklisted, but it often impacts young people disproportionately

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3. **Lessons learned**

Lessons learned and recommendations: Micro level (1/2)

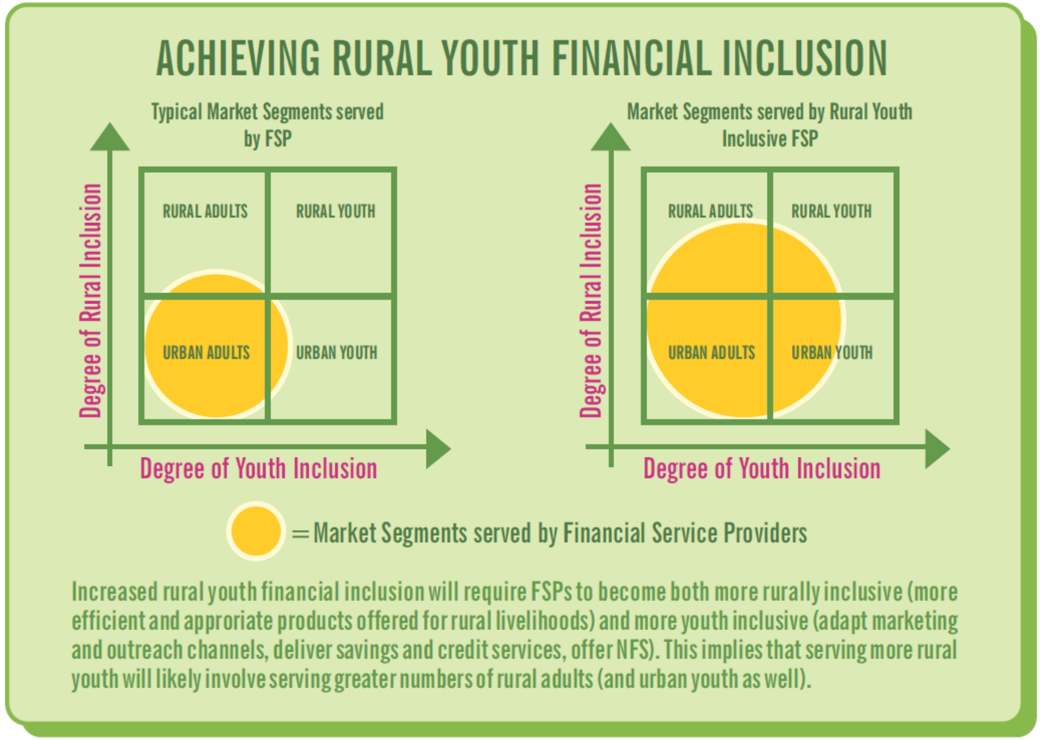
- **Segmenting youth.** The approach and activities significantly differ depending on specific characteristics of youth, such as age, life stage, gender, education, ethnicity, health, geographic location, etc. In addition, needs change over time as youth develop and move towards different life stages
- **Participatory market research.** Understanding the specific barriers for youth as well as their needs is key and can be determined using participatory market research (focus group discussions)
- **Access to finance for youth in the agri-food sector is a process.** It is not recommended that a financial institution that has not worked with the agri-food sector in the past moves to financing youth in the agri-food sector directly. Urban financial service providers will have to move in two directions, becoming rurally inclusive and more youth-inclusive
- **Favoring youth-inclusive approaches.** Expanding opportunities across the board instead of for a specific group (i.e., youth) is recommended when opportunities overall are limited
- **Savings-led approaches are key.** Savings-led approaches should remain at the center including savings groups with linkage to banks and formal savings products
- **Partnerships.** Partnerships with stakeholders dealing with rural youth, such as farmer organizations, youth organizations, schools or development partners providing support and training to youth are key
- **Integrate access to finance with capacity building.** Non-financial services, e.g., vocational training, business and life skills capacitation, financial literacy, business tutorage and mentorship, training on good farming practices, etc. are essential (see partnerships above)
- **Scaled access to finance based on milestones.** Financial graduation programs in partnership with a local financial institution include a step-wise provision of financial services to young entrepreneurs, conditional on the successful completion of a series of capacity building-related steps
- **Product and service design.** Design needs to consider low-income levels of youth in rural areas, income fluctuations due to seasonality in agricultural production, as well as the availability of touch points (bank branches, service points or agent networks) and digital financial services, including reminders to save
- **Training and incentives for bank staff.** Training bank staff on the new product and the characteristics of a new client group, including adapting incentive structures and selecting "youth champions" within a financial institution, including balancing consumer protection and outreach
- **Social media and messaging.** Reaching out to youth via social media (e.g., Facebook or other platforms used by youth in a certain context) and include social networks or community-level influencers into project design
- **Make sure approach is sustainable.** Especially when working with a combination of grants and other financial instruments (savings, loans), avoid one-off interventions and make sure there are linkages to local partners. Youth entrepreneurs have a regular need for working capital to leverage investments and base their business decisions on the availability of finance (trust issue)

Lessons learned and recommendations: Micro level (2/2)

Strategic approaches to serving youth

- **Sequential strategy.** This approach prioritizes serving rural adults first, then extends the infrastructure and innovations used for adults to benefit youth or to serve both adults and youth. It aims to tackle common challenges in rural finance, such as weak infrastructure and low population density, by developing branch networks or adopting digital tools
- **Youth-first (specific/focused) strategy.** Solutions are specifically tailored to youth needs. This can be resource intensive and thus better suited to address urban youth where the existing financial infrastructure is sufficiently strong

The graph below illustrates how a sustainable rural youth growth strategy starts from those who are easiest to serve and works outwards



Source: Pathways to reaching rural youth (2016 Making Cents)

Lessons learned and recommendations: Meso and macro levels

Meso level

- **Enrich school curricula.** Including entrepreneurship promotion and financial education in existing school curricula at the national level, including in TVET institutions
- **Leverage incubators.** Incubators provide young entrepreneurs with resources, mentorship, and support to help them develop, launch, and grow their business ideas.

Macro level

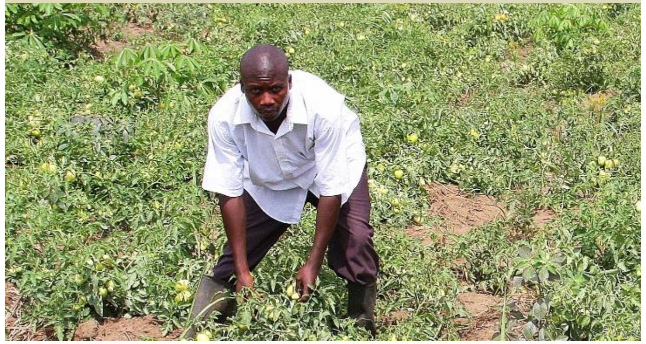
- **Review age restrictions based on risk considerations.** The legal minimum age of 18 or requiring a parent or representative's signature can be barriers, particularly for opening savings accounts. Some countries are working on allowing younger individuals to open savings accounts independently to help them develop saving habits early
- **Flexible and innovative identification.** Accessing national identity cards (most common identity verification) is costly and cumbersome, allowing the use of alternative identification (e.g. student cards, school certificates, letters from school or a provincial administration, baptism cards) or biometric identification systems could be a solution
- **Risk-based know-your-customer (KYC).** Tiered know-your-customer processes with lower requirements and lower functionalities (e.g. lower amounts) for youth-specific products
- **Flexible collateral requirements.** Regulators could allow for other forms of collateral, such as movables or alternative collateral (e.g. based on historic transaction data such as the continuity of building savings) and background checks
- **Tax breaks.** Governments can provide tax breaks (or other compensations) to financial institutions for serving youth entrepreneurs
- **Government guarantees.** Government could (via dedicated and carefully designed credit guarantee funds or facilities) guarantee loans to youth entrepreneurs
- **More flexible savings collections.** Regulators could be more flexible regarding savings collections of non-deposit collecting (well-performing!) financial institutions (including appropriate risk-management mechanisms for these deposits) to develop savings habits with youth early on
- **Simplify formalization.** Simplify formalization processes for SMEs, including registering, running and closing a business, would help many young (and older) entrepreneurs
- **Adequate consumer protection measures.** For youth it's even more important to make sure that adequate consumer protection mechanisms exist and that they are easily accessible to them (including recourse mechanisms)

Government as a promotor not a provider

According to research no successful case of governments funding youth directly is recorded:

– An evaluation of the **Youth Enterprise Development Fund in Kenya** found that only 1.2% of youth targeted with loans were reached, the reasons being too strict conditions of intermediary financial institutions which favored mostly well-educated rural youth. In addition, corruption and the diversion of funds were revealed

– The audit of the **Uwezo government fund in Kenya**, which was supposed to loan out funds to youth for 3% with 6 months grace period found that almost 37 Mio USD were missing with no documentation and that the fund showed a default rate of up to 60%



Source: FAO, Agricultural finance and the youth, Prospects for financial inclusion in Kenya, 2020.

4. The business case for financial service providers

The business case for financial service providers

- **Demographics**. The sheer size of the youth population makes it an important market for financial institutions to consider and develop over time
- **Dynamism and entrepreneurship**. The rate of entrepreneurial activity among youth exceeds that of adults in 36 of the 47 economies (2020)
- **Customer life-time approach (instead of short-term profitability).** Serving youth with a strategy that builds on savings, payments and remittances first, with credit being provided once clients' profiles have been adequately strengthened. Such strategies require time (estimated at three to five years) to achieve economies of scale and sustainability
- **Youth are good credit risks.** Evidence indicates that risk of default by youth may be overstated (see below)
- **Low(er) operational costs through technology.** Youth are open to using technology (ATMs, POS or mobile banking) which has the potential to increase outreach and lower operational costs
- **Cross sales.** Engaging with youth can open an opportunity for cross sales with parents and caretakers

Youth repayment behavior

- An analysis showed that seven out of the nine financial institutions (mostly in Africa and MENA) had a youth portfolio at risk (PAR) of 1.2% or less, whereas five of these institutions had a PAR of 0.02% or less
- The first start-up loan for youth in Jordan, developed by Microfund for Women (MFW) in partnership with MEDA, resulted in a low PAR of around 0.5 %

UNCDF's YouthStart Programme (2010-2015)

The programme supported 10 financial service providers in designing financial and non-financial services for youth (aged 15-25) in rural and urban areas. During the initial five-year programme, the savings and loan portfolios reached 18 Mio. USD and 11 Mio. USD, respectively. By 2017, the loan portfolio reached nearly 40 Mio. USD, exceeding by 17 Mio. USD savings.

→ *Financial service providers started to offer loan products to youth clients as they grew older because they no longer perceived them as a risky segment thanks to their long relationships as savers and to their increased financial literacy capabilities*

Save the Children's YouthSave Programme

A five-year initiative to design and test youth savings accounts for children and youth between the ages of 7 and 22 (depending on the country) in Colombia, Ghana, Kenya, Nepal, led by Save the Children and in partnership with the MasterCard Foundation, CGAP and others.

→ *The YouthSave program's results showed that account features shaped greatly behavior of youth savers. Many savings accounts opened via the program remained dormant, especially if there was no requirement for an initial deposit. Withdrawal restrictions were associated with lower rates of uptake in Colombia, but also with steadier savings in Ghana. Savings goals led in Colombia to 20% of savers withdrawing their money and closing the account once the goal reached, but SMS reminders to deposit and electronic means to consult the account increased savings and balance accumulation. Overall, younger children/youth saved more per month on average than older youth. Finally, financial education as well as engaging families and/or caretakers had positive effects on savings.*

Opportunity Bank Uganda Limited (OBUL)

OBUL launched its project under the Hanns R. Neumann Stiftung's (HRNS) TEAM Up project which offered in partnership with OBUL and Teach a Man to Fish good agricultural practice, business entrepreneurship and financial literacy training to rural youth in Central Uganda.

→ *The initiative managed to support 5,300 savers, and extended loans to 538 youth, with a portfolio at risk (PAR30) of 2.13% and a total loan portfolio of approx. 130,000 USD. Approx. 2/3 of youth were part of youth groups and 1/3 individuals. Contrary to other branches, young female clients at the project branch have been growing in numbers (from 60 in 2019 to 352 in 2021)*

5. Examples from GIZ projects

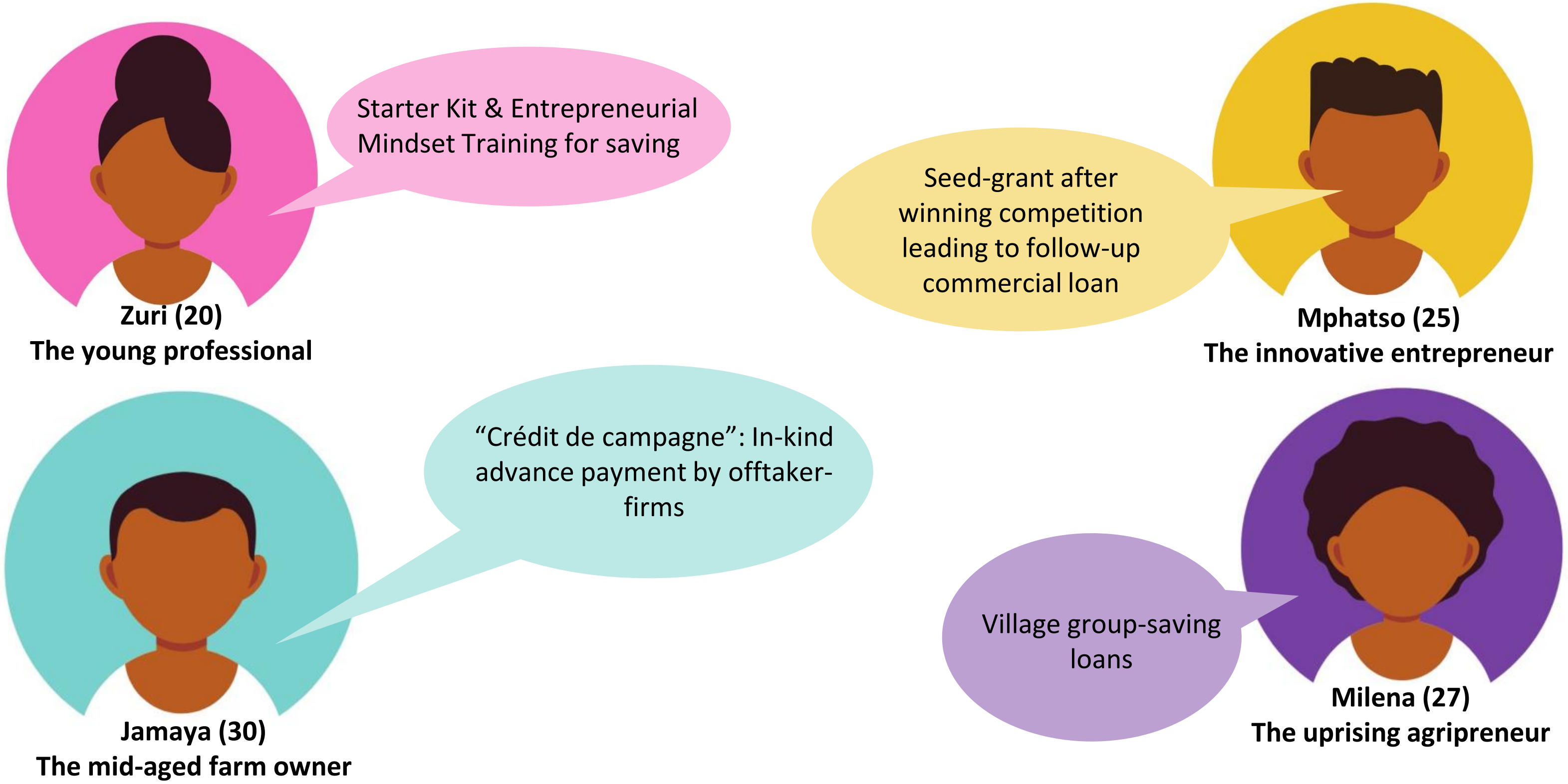
Example: Segmentation through the persona approach

The **Global Project "Employment in Rural Areas with Focus on Youth" (GP RYE)** aims to improve the qualification and employment situation in rural areas, particularly for young people (15-35 years). Therefore, the project supports rural youth in access to and utilisation of financial products in complementation with other approaches to increase employment promotion.

Resources:

- **Personaes:** [GV BLR_Evaluierung_Persona_v02.pptx] (draft version)
- **Website:** [Home - 360° AgriJobs (snrd-africa.net)]
- **Knowledge products overview:** [Knowledge_Product_Overview_DRAFT.pptx] (not the final version – Draft)
- **Knowledge product Access to Finance:** [How to... Facilitate Access to Finance for Youth and Women Agripreneurs - 360° AgriJobs (snrd-africa.net)]

Persona Approach. Financial inclusion drives economic growth and development, but many young people in Africa, especially in rural areas, still lack access to financial services. To address this, the project created personas within its target group—fictional characters based on qualitative research that represent different user types who may interact similarly with a service, product, or brand. These personas helped tailor a variety of strategies to meet the diverse needs within the target group, though they are not exhaustive..



Youth are not a homogeneous group! Segmentation helps to better understand youth as a target group and their specific needs and potentials. Based on this understanding targeted support activities can be designed, combined and implemented in the framework of a project.

Examples: further approaches to facilitate access to finance for youth within GP RYE

- **Direct seed grants**
  - for winners of start-up pitch competitions (through grant agreement)
  - combined with a crowdfunding scheme for start-ups
  - private companies present specific challenges, and youth teams develop business plans as solutions. Seed grants for the winners
- **Integrated credit schemes** through integrated development partnerships with the private sector (iDPP): Private Sector Partner acts as collateral (Value Chain Finance)
- **In kind support scheme** for start-ups and youth group competitions in combination with coaching
- **Trainings and soft skill development** to develop an entrepreneurial mindset: Being pro-active is an essential skill to be(come) an entrepreneur. The *Personal Initiative Training* is one training approach targeting those skills.

Resources:

- **Knowledge product Access to Finance:** How to... Facilitate Access to Finance for Youth and Women Agripreneurs - 360° AgriJobs (snrd-africa.net)
- **Entrepreneurial mindset trainings:** How to… promote an entrepreneur mindset in rural youth employment
- **Pitch Nights:** How to… Run Pitch Events

Malawian women participating in the Personal Initiative Training

Example: Youth inclusive approach

The **Global Project "Promotion of Agricultural Finance for Agri-based Enterprises in Rural Areas"** (GP AgFin) supports access to and usage of tailored financial solutions for the agriculture sector in predominantly underserved rural areas. To ensure farming and processing businesses have access to appropriate financial services, the project is working with local financial institutions (supply side) and agricultural value chain actors (demand side). Stakeholders on both sides can take advantage of needs-based trainings. Women and youth-led enterprises are a special focus area of the project.

Demand Side

Example Financial Literacy
The "Farmer's Financial Cycle" (FFC) is an integrated training approach that aims to improve the financial literacy of farmers. The training approach is structured as a participatory action learning method and is based on nine learning stations. Each station focuses on a key financial literacy skill, coupled with elements of business management, customised to the needs of the target group. The training was designed by the Global Project aiming to link farmers and agribusinesses to the financial sector.

36% of participants of trainings provided by GP AgFin are young entrepreneurs from the agri-sector or young smallholder farmers

31% of those who have used at least one financial service are youth

Supply Side

Example Buisness Model Analysis
The Business Model Analysis (BMA) identifies the financial needs of smallholder producers and agri-based businesses through the analysis of profitable business models. This forms the basis for the development of adapted financial services by the financial institutions.

<u>Example Togo:</u> In development with FUCEC, two financial services targeting youth entrepreneurs are about to be developed:
Equipment credit for young entrepreneurs in the agri-food sector
Operating credit for young entrepreneurs in the agri-food sector

<u>Example Malawi:</u> Currently developing a financial product for youth on the chili value chain, working closely with the GIZ Empowering Youth in Agriculture (EYA) project

Learnings: The youth are mainly attracted to value chains that easily gives them cash at the end of the season.

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- CGAP, The Business Case for Youth Savings: A Framework, Focus Note No. 96, 2014
- CGAP, Emerging Perspectives on Youth Savings, Focus Note No. 82, 2012

Tools

- Product development cycle (FMO 2022)

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Annex I: Overall challenges of demand and supply sides: often two sides of a coin

Challenges for Financial Service Providers (FSPs)

- **Lack of knowledge** about crop production cycles, inputs, seasonality and related cash flows and no tools to assess related risks
- Lack of qualified and trained staff
- **Lack of tailored products and services**, policies and procedures (esp. regarding maturity, repayment structure, collateral requirements, etc.)
- **High operational costs** and smaller loan sizes
- **Seasonality** of agricultural business
- Actual (or perceived) **high risk** of the agricultural sector
- **Lack of alternative distribution** channels
- **Lack of incentives** to serve the sector (on the institutional and individual level)
- Lack of **long-term** funding
- **Competition through concessional lending** by state-owned institutions

Challenges related to agriculture

- Low **productivity,** lack of knowledge on GAP, lack of/expensive labor
- **Volatile prices** (for inputs and/or produce)
- Diseases and pests
- Lack of transport and infrastructure
- Climate change and environmental risks

Challenges at the farmer/agri business level

- Limited market **access** and access to information
- **Insufficient collateral** (esp. land titles, assets)
- **No production records**, book-keeping or business plans
- **Distance** to financial institution
- **Lack of knowledge about financial services**
- Low literacy levels (language/culture)
- **Irregular income**

Challenges related to the policy environment

- Unstable agricultural policies (extension, input subsidies, etc.)
- Unfavourable financial sector regulations, e.g. strict KYC or collateral requirements