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The background is a collage of three photographs: a woman in a patterned scarf looking at a document, a man with glasses working with red cables, and a woman in a blue shirt working with a red container. A large, stylized arrow graphic in red and teal points upwards and to the right, framing the title text.

# YOUTH ENTREPRENEURSHIP AND FINANCIAL INCLUSION: OUTLOOK FOR ASEAN AND SAARC

YOUTH  
CO:LAB

## **ABSTRACT**

In the context of efforts to increase levels of inclusive economic growth and entrepreneurship, bringing youth into developing economies is of real importance. However, despite the large pool of talent and high entrepreneurial capacities, access to business financing remains a significant hinderance to youth financial inclusion. As part of efforts to fill this gap, and to demonstrate how the leveraging of new and pre-existing data can strongly contribute to improve youth access to enterprise financing, UNCDF has authored this working paper to provide an overview of youth entrepreneurship and access to finance in South and Southeast Asia – with a specific focus on the developing economies of Cambodia, Myanmar, and Lao PDR – and to offer more in-depth insights into barriers to finance and financial service usage for youth. To achieve this, it draws from Findex and FinScope financial inclusion data, entrepreneurship survey data (EDS and GEM), and an in-house Big Data study conducted by UNCDF (2018). The paper finds that while youth have sufficient business or learning opportunities and are in fact more loyal customers and use savings accounts more actively than their older counterparts, their access to formal credit is constrained due to barriers including a lack of collateral and credit history, and certain restrictive regulatory issues such as minimum age requirements to open an account, amongst others. The paper concludes that creating positive regulatory environments and removing service barriers to youth financial inclusion can unlock significant growth and entrepreneurship opportunities in emerging ASEAN and SAARC markets – including LDCs – and that new business models are emerging through the rise of financial technology ('fintech') that can accelerate youth financial inclusion and entrepreneurship in these nations including alternative credit scoring, digital banking for millennials, crowd- and P2P-lending, digital financial literacy and business skills platforms.

## ABOUT UNCDF

The United Nations Capital Development Fund (UNCDF) **makes public and private finance work for the poor in the world's 47 least developed countries.** With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF’s financing models work through two channels: **financial inclusion** that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how **localized investments** — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

## ABOUT THE UNITED NATIONS DEVELOPMENT PROGRAMME

The United Nations Development Programme (UNDP) partners with people at all levels of society to help build nations that can withstand crisis, and drive and sustain growth that improves the quality of life for everyone. On the ground in more than 170 countries and territories, UNDP offers a global perspective, as well as local insights to help empower lives and build resilient nations.

## ABOUT YOUTH CO:LAB

Youth Co:Lab, the United Nations Development Programme’s (UNDP) Asia-Pacific youth entrepreneurship initiative, is positioning young people front and center in order to solve the region’s most pressing challenges. Led by UNDP and Citi Foundation, in partnership with Baoshang Bank as well as network partners such as TechStars and MaGIC, the initiative aims to instigate, catalyse and sustain youth innovation by supporting the region’s youth-led start-ups and social enterprises.



# CONTENTS

Abbreviations and acronyms	iv
Authorship	v
Acknowledgements	v
Executive summary	vi
<b>01 INTRODUCTION</b>	<b>1</b>
<b>02 YOUTH ENTREPRENEURSHIP IN SOUTH ASIA AND SOUTHEAST ASIA</b>	<b>2</b>
<b>03 YOUTH ACCESS TO FINANCE IN SOUTH ASIA AND SOUTHEAST ASIA</b>	<b>5</b>
<b>04 YOUTH GAP IN FINANCIAL INCLUSION IN CAMBODIA, LAO PDR AND MYANMAR</b>	<b>9</b>
<b>05 YOUTH GAP IN FINANCIAL SERVICE USE IN CAMBODIA</b>	<b>13</b>
<b>06 FINTECH AND DIGITAL FINANCE SOLUTIONS TO IMPROVE YOUTH'S FINANCIAL INCLUSION AND CAPABILITY</b>	<b>16</b>
<b>07 RECOMMENDATIONS FOR IMPROVING YOUTH FINANCIAL INCLUSION FOR POLICYMAKERS AND REGULATORS</b>	<b>20</b>
References	21

# ABBREVIATIONS AND ACRONYMS

<b>AML</b>	Anti Money Laundering
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>CLM</b>	Cambodia, Lao PDR and Myanmar
<b>FINTECH</b>	Financial Technology
<b>FSP</b>	Financial Service Provider
<b>ILO</b>	International Labour Organization
<b>KYC</b>	Know your customer
<b>LDC</b>	Least Developed Countries
<b>MSME</b>	Micro, small and medium-sized enterprise
<b>P2P</b>	Peer-to-peer
<b>SAARC</b>	South Asian Association for Regional Cooperation
<b>UNCDF</b>	United Nations Capital Development Fund
<b>UNDP</b>	United Nations Development Programme

## AUTHORSHIP

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## EXECUTIVE SUMMARY

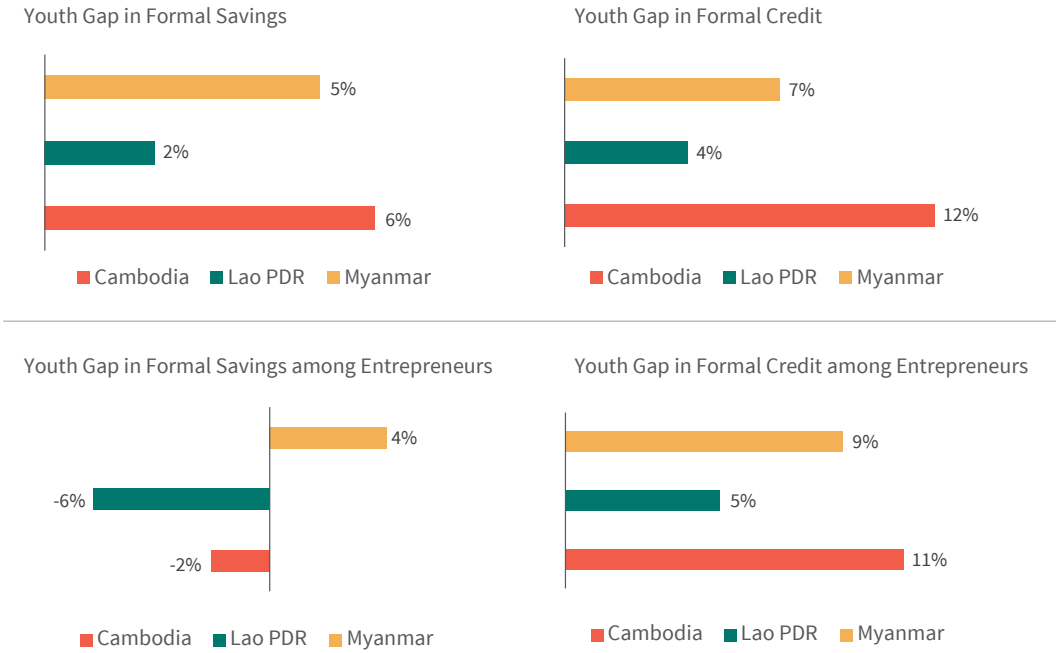
South and Southeast Asia are home to a combined 441 million youths, equivalent to almost 37 percent of the world's population aged 15-24 years (UNDESA, 2015). Although most of the countries in these regions are currently experiencing strong economic growth, over 50 percent of working-age people are engaged in vulnerable low-paid employment and youth unemployment remains high with an increasing number of young people reaching the working age (ILO, 2016). One way to generate decent work and inclusive growth is by empowering young people to innovate and respond to the needs of society - increasing youth entrepreneurship and social enterprise. Difficulties persist, however, as besides legal and regulatory challenges, lack of access to finance is a major obstacle to youth entrepreneurship. Fulfilling the financial needs of young people can empower them as entrepreneurs or to serve as innovators, leading to increased employment, income and economic growth. This working paper focuses on youth entrepreneurship and financial inclusion in South Asia and Southeast Asia, with a focus on the frontier economies of Cambodia, Lao PDR and Myanmar (CLM).

The 2016 Global Entrepreneurship Monitoring survey (GERA, 2017) shows that youth and adults are equally optimistic about starting new ventures, however, the prevalence of entrepreneurial activities among youth is relatively low. In South Asia and Southeast Asia fewer than 20 percent of new businesses are started by young entrepreneurs aged 18-24 years (GERA 2017). Lower perceived knowledge

and experience, limited financial literacy and awareness, fear of failure, and most importantly lack of access to finance all act to deter youth from entrepreneurial activities. Accessing formal finance is even more difficult for less educated youth. By way of example, only 5 percent of entrepreneurs with primary level education in the Philippines have raised business capital from formal financial sources, while one in three entrepreneurs with a secondary or tertiary degree has done so (GERA, 2017).

Although account ownership among young adults in South and Southeast Asia has more than doubled between 2011 and 2017, there remains a significant 'youth gap' between account ownership of older adults and young adults of 13 percent for SAARC<sup>1</sup> and 8 percent for ASEAN<sup>2</sup> respectively. Only 41 percent of youth in ASEAN and 60 percent in SAARC countries have a bank or a mobile money account (Findex, 2017). Furthermore, while account ownership remains low, usage of such accounts is even lower, as nearly 45 percent of savings accounts in South Asia and 24 percent in Southeast Asia<sup>3</sup> are reported inactive<sup>4</sup> (Findex, 2017). For the majority of youth, digital financial services are likely to be their first contact with the banking sector and in this respect, the use of digital payments including mobile money, credit and debit cards has increased among youth in SAARC from 13 to 21 percent and in ASEAN from 24 to 32 percent over the period 2014-2017 alone. Yet still less than 5 percent of the youth in South and Southeast Asia have a mobile money wallet.

**Figure 1: % Gap in Access to Formal Savings and Credit between Older Adults and Youth in CLM**



Source: FinScope Consumer Survey for Cambodia (2015), Lao PDR (2014), and Myanmar (2013). Gap is calculated by taking the % of access for the population > 25 years minus the % of access for people 25 years and below.

The share of youth borrowing any money has reduced between 2014 and 2017 from 40 percent to 34 percent in South Asia and 50 percent to 47 percent in Southeast Asia (Findex, 2017). Fewer than 7 percent of youth borrow from formal financial institutions, and the majority of youth borrow through informal sources (30 percent). Furthermore, few young people in the ASEAN and SAARC region borrow (4 percent) or save (20 percent) for business or farming purposes. Youth looking to access formal finance face similar yet potentially larger barriers than their older counterparts, including a lack of collateral and credit history, and additional regulatory issues such as minimum age requirements to open an account, among others.

The financial exclusion of youth is especially prevalent in the low-income economies of Cambodia, Lao PDR and Myanmar (CLM): approximately half of the youth in Cambodia and Myanmar, and one-third in Lao PDR, are completely excluded from formal and informal

financial services (FinScope, 2013, 2014, 2015). The youth gap in access to formal financial services such as savings, credit, insurance and payments is particularly high in Cambodia (20 percent) compared with Myanmar (11 percent) and Lao PDR (4 percent). This suggests that young people in CLM are less likely to have opportunities to start an enterprise or increase farm production and have fewer financial tools to protect themselves from economic shocks and contingencies. Figure 1 shows the youth gap in savings and credit among the total young population and young entrepreneurs. Interestingly, young entrepreneurs in Cambodia and Lao PDR are more likely to save at formal financial institutions than older adults, which contradicts the popular belief that young people save less or do not save at all. The majority of young entrepreneurs in CLM rely on informal savings and/or borrowing to start or operate a business, which suggests that access to formal finance is deeply constrained, in part because of existing institutional, infrastructure and regulatory barriers.



A recent UNCDF and UN Pulse Lab (2018) Big Data<sup>5</sup> study on financial service usage undertaken in Cambodia demonstrates that youth have fewer low-value or passive savings accounts<sup>6</sup> and tend to stay longer in the borrowing relationship with FSPs than older adults (UNCDF, 2018). Yet, despite being more loyal customers, youth entrepreneurs receive lower individual loans because they are perceived as high-risk borrowers. Based on such evidence, there is a strong business case and market need for FSPs to expand their services to young entrepreneurs.

## **WAYS TO IMPROVE YOUTH FINANCIAL INCLUSION AND CAPABILITY**

Removing barriers to youth financial inclusion can unlock significant growth and entrepreneurship opportunities in emerging ASEAN and SAARC markets, especially in the region's Least Developed Countries (LDCs). For the majority of youth, digital financial services are likely to be their first contact with the banking sector. New business models are emerging through the rise of financial technology ('fintechs') that can accelerate youth financial inclusion and entrepreneurship in these nations. What follows is a set of suggested solutions to improve youth financial inclusion and capability, including examples of digital finance and fintech solutions that have been effective in improving youth entrepreneurship and financial inclusion and that can be replicated in other Asian developing countries, as well as suggested regulatory measures and actions that may be taken by youth entrepreneurs.

## **DIGITAL FINANCE AND FINTECH SOLUTIONS:**

**Alternative credit scoring for youth entrepreneurship financing:** Fintechs can analyse social media, mobile phone and transaction data, as well as conduct surveys to develop alternative credit scoring models that reduce collateral requirements. This Big Data can be applied to develop responsible financial

products that score youth based on their education and talent rather than their limited credit history and/or assets. The surveys contain subjective questions on entrepreneurial skills and capabilities which can be benchmarked to a Big Data set and credit score that accurately predicts default rates, opening new channels of finance to youth enterprises. With better data insights, larger loans can be given to the 'missing middle'<sup>7</sup> of MSMEs that lack traditional collateral and financial track record while maintaining high repayment rates.<sup>8</sup>

**Youth-focused mobile wallets and digital banking:** While youth tend to be financially excluded, their participation in the digital economy is generally high and thus their first financial contact with a bank is likely to be a digital one. FSPs can develop and implement digital mobile-based banking solutions<sup>9</sup> to provide financial products to unbanked young customers. These mobile wallets can provide savings, loans and payment services on a mobile device and in some cases allow for financial interaction through social media outlets such as WhatsApp and Facebook.<sup>10</sup> The use of social media to conduct business payments and transactions has a clear youth focus, as young people are often familiar with such platforms. Furthermore, digital financial service providers can make use of youth-friendly delivery channels to market financial services. For example, the LienVietPostBank in Viet Nam (LVPB) started the marketing of its mobile wallet initially at universities as well as through the Viet Nam Women's Union which generated a distribution channel specifically for youth and women. Other FSPs have begun to collect deposits at schools or universities and places where youth are working (UNCDF 2015).

**Expansion of business funding platforms:** Crowd funding, peer-to-peer (P2P) lending and venture capital financiers open a new channel of available funding for youth entrepreneurs, away from traditional financial institutions

and/or locally sourced informal credit, and fintechs play a key role in facilitating this shift. P2P lending platforms active in Southeast Asia directly connect MSMEs looking for finance with a crowd of investors, allowing the MSME to choose the best offer made by potential investors.<sup>11</sup> Another model is incubation and accelerator programmes that foster innovative start-up businesses offering blended finance and mentoring programmes at different stages of entrepreneurship.

#### **Promoting digital financial literacy and capability among young entrepreneurs:**

Fintechs increasingly incorporate learning and best-practice elements into products to increase financial literacy and capability among their customers. An example is Wave Money in Myanmar, which launched the first digital financial literacy app in Myanmar in collaboration with UNCDF. There are also digital education tools tailored to children, including mobile piggy banks such as Ernit and Bankaroo.

#### **Advancing youth social enterprise financing:**

One business area which is increasingly capturing the attention of youth in South and Southeast Asia is the concept of social business (Yunus, 2007) and social entrepreneurship (Nichols 2006:xiv; Lehner 2012).<sup>12</sup> Social enterprises are involved in a diverse set of activities varying from microfinance and fair trade to agricultural cooperatives and increasingly also fintech solutions, sharing a commonality to pursue development goals through financially sustainable business models rather than grant-dependant activities. Social entrepreneurship programmes can offer training and funding opportunities that help young entrepreneurs find innovative business solutions to address sustainable development goals. Social businesses increasingly receive funds from impact investment and challenge funds to scale their operations as well as crowd funding and peer-to-peer lending platforms which are expanding the network of young

entrepreneurs and opening new avenues of financing businesses (Gravesteyn 2014).<sup>13</sup> Rather than funding the most profitable business ideas, these funding vehicles take into account the projects' social returns and innovativeness.

#### **Offering client-centric products and financial services that respond to the needs of youth:**

Since 2010 UNCDF has been actively working to increase youths' financial inclusion. With a specific emphasis on savings, UNCDF's YouthStart programme works with FSPs to pilot and roll out sustainable financial and non-financial services tailored to young people. For example, Finance Trust Bank in Uganda proposed a savings account developed specifically for youth and used technology to reach young clients at an early age. In Senegal, the PAMECAS developed a loan product for young entrepreneurs that integrates financial education and uses savings as collateral to minimize the risks associated with lending to such customers. The programme also triggered dialogue among policymakers on youth financial inclusion, particularly in Rwanda and in West Africa.

#### **Encouraging financial institutions to leverage technology for facilitating lending to youth in rural areas:**

70 percent of the youth in CLM still live in rural areas and are employed in agricultural activities, and have low access to (digital) credit, savings and insurance, but are generally active mobile phone and internet users. Fintech can offer solutions, for example in the use of geotagging of farms for remote monitoring and evaluation and assessing the profitability of farmers based on input and output costs, thus helping financial institutions to shift from asset-based lending towards cash-flow based lending. Mobile banking can also enable young entrepreneurs in rural areas to develop new value-added products and services along the agro-food value chain (OECD, 2017).

## FOR POLICYMAKERS AND REGULATORS

### **Set ambitious targets for improving access to financial services among youth and young entrepreneurs under national financial inclusion strategies:**

Under the Maya Declaration,<sup>14</sup> several Asian countries such as Malaysia, Bangladesh, Bhutan and Nepal have already committed to advance youth financial inclusion in their national financial inclusion strategies.

### **Collect demand and supply side data on the financing of youth-led micro and small enterprises for evidence-based policy making:**

This will help policymakers and FSPs to understand the barriers to youth financial inclusion and to design and deliver needs-based financial products and services.

### **Encourage FSPs to partner with non-financial institutions such as telecom companies, education institutions and youth-serving organisations to improve youths' financial literacy and awareness of digital banking services:**

Delivering financial education digitally can improve the outreach of governments in their mission to improve financial inclusion. Furthermore, incorporating financial literacy, basic accounting, and business education into the secondary school curriculum can help to build the financial capabilities of younger people (UNCDF, 2015).

### **Implement programmes such as those offering Individual Development Accounts (IDA) which can help youth to save for asset building or income-generating activities and provide them with financial literacy skills and business training.**

The IDA holders must participate in a programme for a period during which they save money for a specific goal. Every dollar saved in an IDA is matched by a participating public or private donor. At the end of the programme the youth can access the savings for a variety of asset building activities, including education and training, and income generating activities.

## FOR YOUTH ENTREPRENEURS

Young entrepreneurs should network with social enterprises and entrepreneur associations to gain sufficient training in and exposure to entrepreneurship. Such institutions<sup>15</sup> look to train, fund, connect, and empower youth entrepreneurs to find innovative solutions to social and business problems.

Many FSPs employ project managers to specifically focus on providing financial and non-financial services to the youth customers. Young people can actively engage with such youth officers to understand the products and services offered by the FSPs and requirements to access them.

Social media provides an excellent platform for advertising, growing, and sustaining a business for young entrepreneurs. Social media enables young entrepreneurs to expand business networks, advertise brands, communicate with clients, and seek the support of entrepreneurs for business problems, thus offering a solution to barriers that may restrict youth entrepreneurs from accessing such business services through “traditional” routes.

Youth should inquire about the pricing, fees, penalties, and other terms and conditions for accessing the needed financial products and services. Youth-focused FSPs also provide financial education sessions to disclose clear and accurate product information to the young customers. Youth also have the right to register a complaint and seek timely resolution should there be any dispute with the financial institutions.

- 
- 1 South Asian Association for Regional Cooperation (SAARC) also referred to as South Asia in this study includes Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan, and Sri Lanka.
  - 2 Association of Southeast Asian Nations (ASEAN) also referred to as Southeast Asia in this study includes Brunei, Cambodia, Viet Nam, Lao PDR, Myanmar, Philippines, Indonesia, Malaysia, Thailand, and Singapore.
  - 3 Excluding Singapore and Thailand where savings account dormancy is less than 10 percent.
  - 4 Inactive accounts are defined as accounts that have had no deposits or withdrawals within the past 12 months.
  - 5 Big Data refers to data sources that require new tools or methods to capture, curate, and process data in an efficient way. Big data can be characterized by the large volume of data, the wide variety of types of data, and the routine processes by which it is collected. In the financial service industry this includes, in particular, transaction data and historical savings and loan balances.
  - 6 We refer to ‘passive savings accounts’ as those accounts with a total savings balance below US\$5. Nearly 80 percent of the dormant savings accounts we studied were also passive.
  - 7 The ‘missing middle’ may be defined as MSMEs whose needs may be too large for traditional microfinance lending, though too small for traditional brick and mortar banks. This finance gap was recently estimated to be as large as US\$5.2 trillion in developing countries, or 1.4 times the current available lending to MSMEs (IFC, 2018).
  - 8 Examples of organizations driving alternative credit scoring include Lenddo, Entrepreneurial Finance Lab (EFL), Ant Financial, Bitbond, Confirmu, Dianrong and Ftcash.
  - 9 An example is the Finacle Youth Banking Solution.
  - 10 Examples of mobile wallets include Wing Money, Wave Money Myanmar, MyPay, Mycash Online, Paykey and RedDot.
  - 11 Beehive and Funding Circle are examples of P2P platforms.
  - 12 Social entrepreneurship resonates with views on sustainable development and advocates double or triple bottom-line management which focuses on “People, Planet, Profit” (Nichols 2006; Lehner 2012). One of the early leading Asian examples includes the work of Muhammed Yunus with the Grameen Bank in Bangladesh that supported microfinance as well as food-nutrition activities (Yunus 2007).
  - 13 Examples of such programmes, which look to inculcate entrepreneurial thinking, business and finance skills among youth, include Youth Social Entrepreneurship (YSE) and the Youth School for Social Entrepreneurs (YSSE).
  - 14 The Alliance for Financial Inclusion’s (AFI) Maya Declaration is the first global and measurable set of commitments by developing and emerging country policymakers to unlock the economic and social potential of the 2.5 billion poorest people through greater financial inclusion.
  - 15 Examples include the Young Entrepreneurs Association of Cambodia, Social Enterprise Cambodia and Myanmar Young Entrepreneurs Association.

# 01

## INTRODUCTION

South and Southeast Asia are home to a combined 441 million youths, equivalent to almost 37 percent of the world's population aged 15-24 years (UNDESA, 2015). Though most of the countries in these regions experience rapid economic growth and have strong human capital in the form of youth, more than 50 percent of working-age people are engaged in vulnerable low-paid jobs and youth unemployment remains high with an increasing number of young adults reaching the working age (ILO, 2016). One way to generate decent employment and inclusive growth is to empower young entrepreneurs to innovate and respond to the needs of society. That is easier said than done, as besides the legal and regulatory environment, lack of access to finance is a major obstacle to youth entrepreneurship. Fulfilling the financial needs of young people can empower them to serve as innovators, fostering the economic prosperity of developing nations.

This working paper focuses on youth entrepreneurship and youth access to formal financial services in South Asia and Southeast Asia, particularly focussing on Cambodia, Lao PDR and Myanmar (CLM). The study analyses youth entrepreneurship in South Asia and Southeast Asia using the Global Entrepreneurship Monitor (GEM) survey data (Section 1), youth financial inclusion data, and the Global Findex database (Section 2). The analysis then dives deeper to examine youth financial inclusion in Cambodia, Myanmar and Lao PDR using FinScope consumer surveys (Section 3), followed by an analysis of the use of financial services using Big Data analysis from Cambodia (Section 4). Finally, the paper proposes recommendations for policy makers, FSPs and young entrepreneurs that can foster youth entrepreneurship and financial inclusion (Section 5).

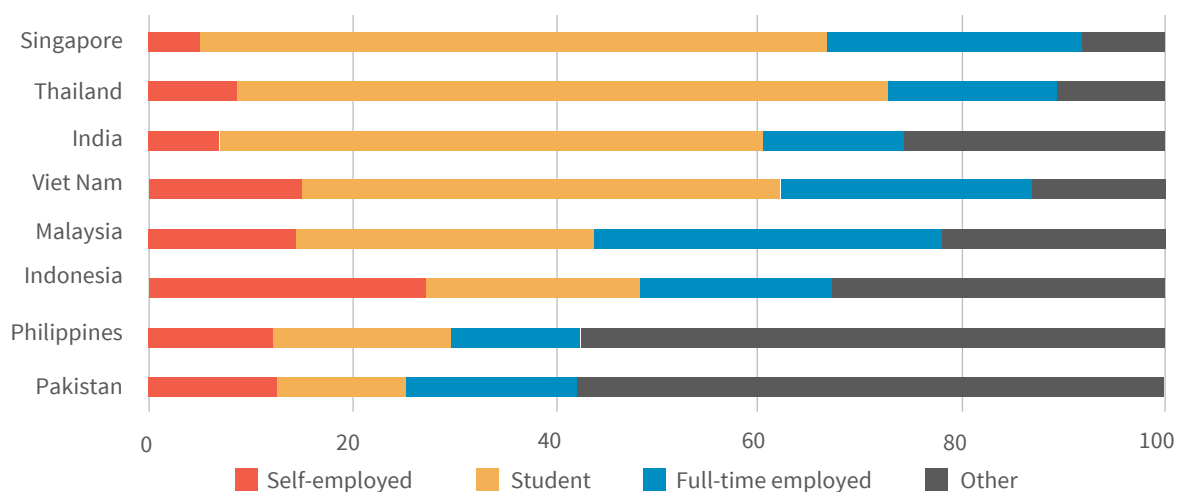
# 02

## YOUTH ENTREPRENEURSHIP IN SOUTH ASIA AND SOUTHEAST ASIA

The 2016 Global Entrepreneurship Monitor Survey<sup>16</sup> (GERA, 2017) finds that although youth and adults are equally optimistic about starting new ventures, the prevalence of entrepreneurial activities among youth is relatively low. With the exception of Indonesia, fewer than 15 percent of youth are self-employed in both South and Southeast Asia (Figure 2: Youth Occupation in a selection of Asian countries (%)). In both regions, fewer than 20 percent of new businesses are started by young entrepreneurs aged 18-24 years whereby the lack of formal employment represents a critical deciding factor in establishing a business for these entrepreneurs (GERA, 2017). The survey also finds that entrepreneurial intentions tend to be higher for developing economies that rely on subsistence agriculture and unskilled labour such as Cambodia, because there are fewer alternatives for people to generate income.

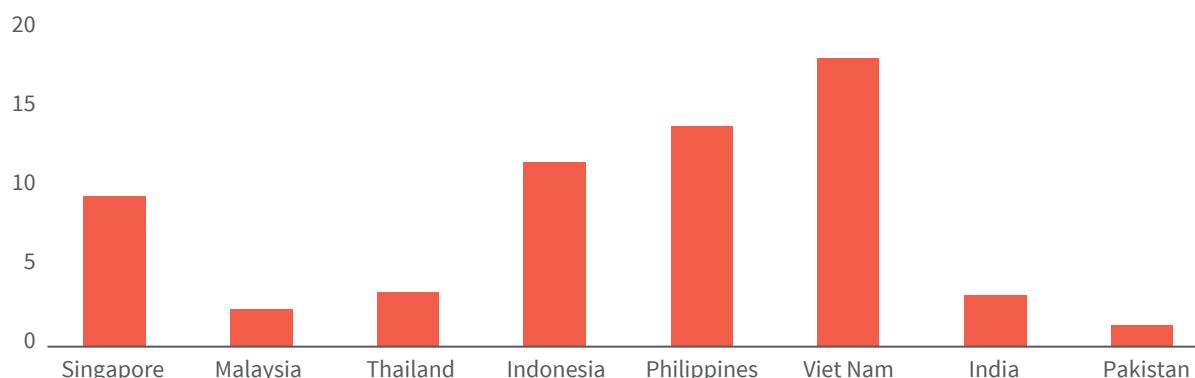
One of the reasons for lower rates of entrepreneurship among youths compared to older adults is their increasing participation in tertiary education (GERA, 2017). For example, between 2004 and 2014 the enrolment of Cambodian youth in tertiary education increased from 5 percent to 20 percent and the rate of tertiary qualification attainment increased from 2 percent to 13 percent (OECD, 2017). This is a positive scenario given that investments in human capital not only increase job market opportunities but also generate better chances of accessing formal sources of finance for entrepreneurial activities. By way of example, according to the GEM survey, one third of entrepreneurs with a secondary or tertiary degree were able to secure business capital from formal financial sources, in comparison with only 5 percent of entrepreneurs with primary education in the Philippines. As such, young school leavers

**Figure 2: Youth Occupation in a selection of Asian countries (%)**



Source: Global Entrepreneurship Monitor Survey, 2016

**Figure 3: % Youth Gap in Self-perception of Skills and Experience for Pursuing Business**



Source: *Global Entrepreneurship Monitor Survey, 2016*

enter the labour market early with limited awareness and understanding of formal financial services compared to those who will study longer, thus are subsequently forced to access informal sources of finance such as local money lenders.

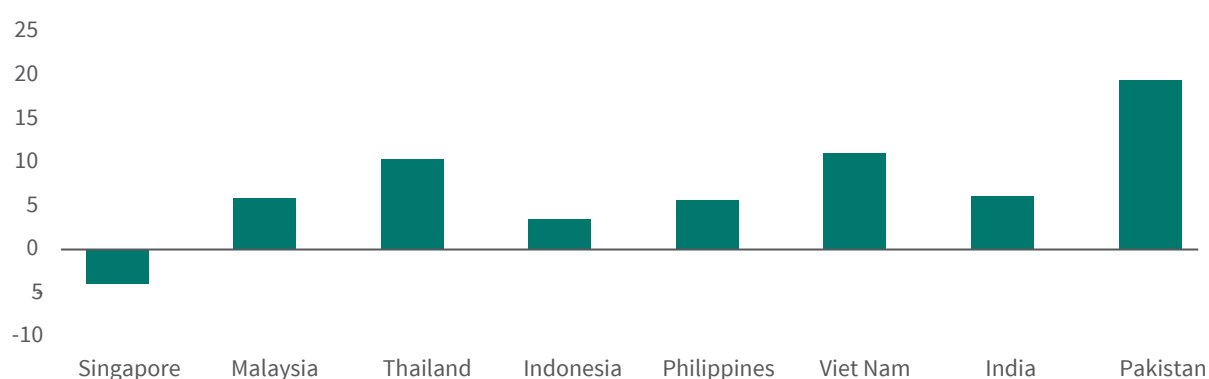
While lack of education can be seen as a major obstacle for youth in accessing formal financing for entrepreneurial pursuits, lack of confidence in one's business skills is also a major hindrance. Figure 3: % Youth Gap in Self-perception of Skills and Experience for Pursuing Business shows youth seem to be much less confident than adults about starting a new business. For example, in Cambodia 46 percent of the youth (aged 15-30 years) are under-educated for their current occupations (OECD, 2017). As a result, employers find it difficult to fill job vacancies, while youth struggle in low-paid vulnerable and informal work activities. There is a lack of comprehensive skills and training government programmes for start-ups to support business plan development, management and access to capital. The gap in skills needs to be addressed by providing on-the-job training to youth and align training as per the needs of young farmers, SMEs and emerging sectors like agro-food, services and tourism (OECD, 2017).

There are also strong differences in skills and levels of confidence about entrepreneurial abilities between genders. For example, in Cambodia half of the female workers are

undereducated to pursue their occupations compared to 41 percent of the males (OECD, 2017). Figure 4: % Gender Gap in Self-perception of Skills and Experience for Pursuing Business shows that in all ASEAN countries, with the exception of Singapore, young women are less confident about starting a new business than men. In Viet Nam around 40 percent of the young men feel confident about their business skills compared to only 30 percent of the women. This is due in part to women's limited control of household economic resources, fewer opportunities to improve skills and prevailing social norms that affect their decision making. A UNCDF (2016) study in Cambodia found that amongst youth who do want to start their own businesses, awareness about economic opportunities was generally low and largely determined by their experience and communities, especially in rural areas.

Financial literacy in ASEAN and SAARC is generally low, with less than half of the adult population being able to measure fundamental concepts for financial decision-making such as basic numeracy, interest compounding, inflation, and risk diversification. In countries such as Cambodia, Viet Nam, Bangladesh, Nepal and Afghanistan, less than 25 percent of the population is financially literate (Klapper et al, 2015). A recent youth financial literacy study in Cambodia finds that only 26 percent of secondary school students had visited a bank or MFI, and

**Figure 4: % Gender Gap in Self-perception of Skills and Experience for Pursuing Business**



Source: *Global Entrepreneurship Monitor Survey, 2016*

less than 6 percent knew the steps to open a bank account (Save the Children, 2014). There is a need for Children’s Financial Literacy programmes that teach children the value of savings, and develop wider community understanding of financial literacy through children.

However, besides some of the above-mentioned barriers, youths’ lack of access to finance tends to be the biggest obstacle to entrepreneurship. As with the rest of the population, youth also need financial services to save money, insure against risks, and borrow at affordable interest rates to capitalize on business opportunities. However, young people are denied financial services due to lack of credit history, collateral and identity documents, lack of business skills and experience, and the higher transaction costs FSPs must bear on small loans. This results in youth accessing funds on unfavourable terms from informal financial sources and putting their business ventures at greater financial risks.

Although there are a number of FSPs interested in serving youth, particularly in regard to securing future clientele, few understand the nuanced needs of this group or tailor services to their needs.

For example, while some financial institutions provide collateral free loans, these are limited and not designed for youth specifically. Most microfinance institutions limit loans to one year, which is not sufficient time for a young entrepreneur to get a business off the ground (UNCDF,2016). Likewise, some banks and MFIs provide education loans but require the parents who own collateral to act as guarantors, which still makes it difficult for youth from poor families to take advantage of these, even though they have the most urgent need. Furthermore, even if youth are offered business loans they often fear not being able to repay in the case of the business failing. In addition, some FSP staff have a negative bias against youth as clients, while others assume mass-market products should be sufficient to meet youth needs (UNCDF,2015).<sup>17</sup> Under such circumstances it is more effective to combine youth finance with non-financial services such as financial literacy training and business development services (ILO, 2014; UNCDF, 2015).

In the following sections, we focus on the youth gap in access to finance—a major factor hindering youth entrepreneurship in South and Southeast Asia—and identify a number of possible solutions.

16 This survey examines the participation, attitude, and ambition of youth and adults towards entrepreneurial activity.

17 For example, a customer journey mapping in Viet Nam among young students found that they are increasingly downloading mobile money wallets and that they initially utilize them for making payments. They are price sensitive and don’t mind switching to other apps. More active promotions can generate long-term usage and once youth earn salaries they can start using digital finance for savings mobilisation (UNCDF 2018, forthcoming).



# 03

## YOUTH ACCESS TO FINANCE IN SOUTH ASIA AND SOUTHEAST ASIA

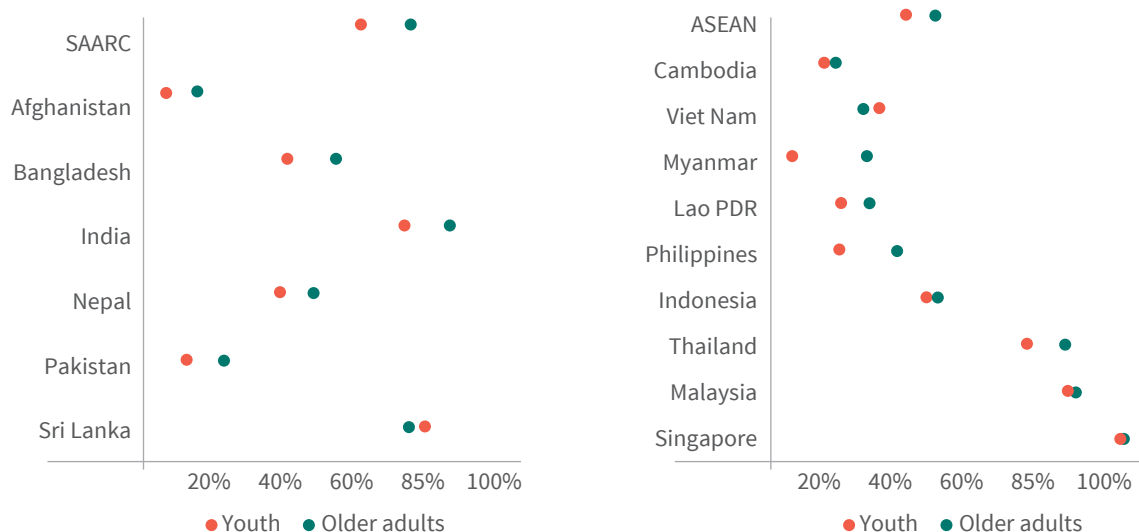
Nearly 41 percent of youth in ASEAN and 60 percent in SAARC countries have a bank or a mobile money account (Findex, 2017) with account ownership varying across countries. In South Asia, most of the growth in account ownership came from India and Sri Lanka, where more than 70 percent of youth have an account, while only 15 percent of youth have an account in Pakistan. In Southeast Asia, high and middle-income countries like Thailand, Malaysia and Singapore have an account ownership rate of more than 70 percent among youth, whereas in low-income economies such as Cambodia, Lao PDR, and Myanmar fewer than 24 percent have an account.

Although account ownership among young adults in South and Southeast Asia has more than doubled between 2011 and 2017, there remains a significant ‘youth gap’<sup>18</sup> in account ownership between older adults and young adults. Figure

5: Account Ownership in SAARC and ASEAN among Youth and Older Adults (%), 2017 shows that youth in both regions are less likely to have an account than older adults, except Sri Lanka and Viet Nam, and a high proportion of these accounts - 24 percent in ASEAN and 45 percent in SAARC - remained inactive with no deposit or withdrawal in the past 12 months (Findex, 2017). Female account owners are more likely to have inactive and low-value savings accounts compared to men (UNCDF, 2018).

For the majority of youth, digital financial services are likely to be their first contact with the banking sector and in this respect, the use of digital payments including mobile money, credit and debit cards has increased among youth in SAARC from 13 percent to 21 percent and in ASEAN from 24 percent to 32 percent over the period 2014 to 2017. The usage of debit and credit cards for

**Figure 5: Account Ownership in SAARC and ASEAN among Youth and Older Adults (%), 2017**



Source: Global Findex Survey, 2017

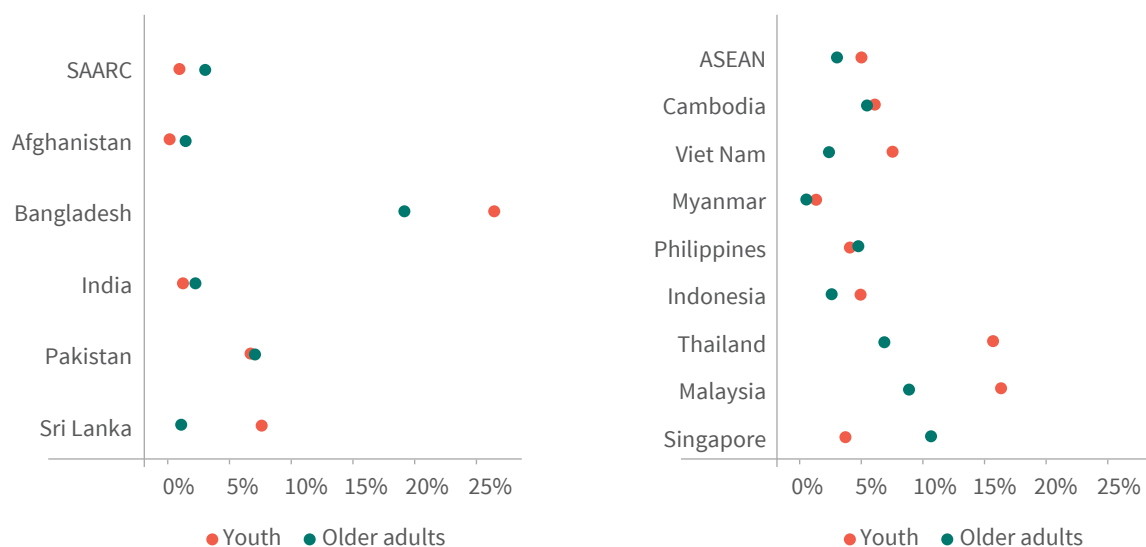
payments have seen rapid increase in many South East and South Asian nations.

Most ASEAN and SAARC nations are only now getting into the mood of mobile money. In 2017, the penetration of mobile money account ownership among youth remained less than 5 percent in South and Southeast Asia. Furthermore, youth in South Asia are 2 percent less likely to have mobile money accounts than older adults, while the exact opposite holds true in Southeast Asia (see Figure 6: Mobile Money Account ownership in SAARC and ASEAN among Youth and Older Adults (%), 2017). Yet, several Asian countries are experiencing rapid growth in mobile account ownership, especially across younger generations. In Viet Nam, mobile account ownership for the overall adult population increased from nil to three percent over the period 2014 to 2017, and for young adults the increase in financial inclusion has been much stronger from nil to 8 percent. In Bangladesh, there was an increase in mobile money account ownership from two to 19 percent for the overall adult population over the period 2014 to 2017 (+17 percent), and among the youth population the increase was an impressive three to 27 percent (+24 percent).

Figure 7a shows that only 25 percent of youth in South Asia save money formally or informally, which is very low compared to a world average of 43 percent, and the region has an 11 percent youth gap in savings. Apart from Sri Lanka (34 percent), fewer than 13 percent of youth in SAARC countries save at formal financial institutions and there is a strong culture of saving at informal or semi-formal institutions. Southeast Asian youth on the other hand have a high savings rate of 61 percent, which is on par with the 58 percent savings rate among older adults. In most of the ASEAN economies, except Myanmar, more than 50 percent of young people save money. Despite reasonably good savings behavior among ASEAN youth, fewer than 17 percent save at formal financial institutions and a similar share of youth access savings through a savings club or another informal channel. Between 2014 and 2017, the youth gap in formal savings in the ASEAN region has fallen from 7 percent to 5 percent due to increased use of mobile banking but has increased in the SAARC region from 5 percent to 9 percent where no progress is seen in the use of mobile money accounts among young people.

These findings suggest that there is a need for FSPs to design youth-specific digital mobile

**Figure 6: Mobile Money Account ownership in SAARC and ASEAN among Youth and Older**



Source: Global Findex Survey, 2017

money solutions for convenient access to low-cost savings accounts, payments, insurance and micro-loans. Mobile wallets may also offer convenient alternatives to informal savings as deposits can be made in relatively low and frequent amounts, mirroring the convenience of informal savings and mitigating some of the major barriers young customer may face at banks. In addition, youth-specific savings mobilization and financial inclusion targets could be set by policymakers to improve formal savings behaviour in low-income economies such as Afghanistan, Cambodia and Myanmar where only 3 to 4 percent of youth save formally.

Between 2014 and 2017, youth propensity to save for entrepreneurial activities improved in both the ASEAN (+5 percentage points) and SAARC (+3 percentage points) regions. Simultaneously, it decreased significantly among youth in low-income economies such as Cambodia and Myanmar and improved by more than 10 percentage points in the middle-income economies of Thailand and Indonesia. Youth in Southeast Asia are more inclined to save for investing in business activities; nearly 20 percent of ASEAN youth save to start, operate or expand a farm or business compared to only 7 percent in South Asia.

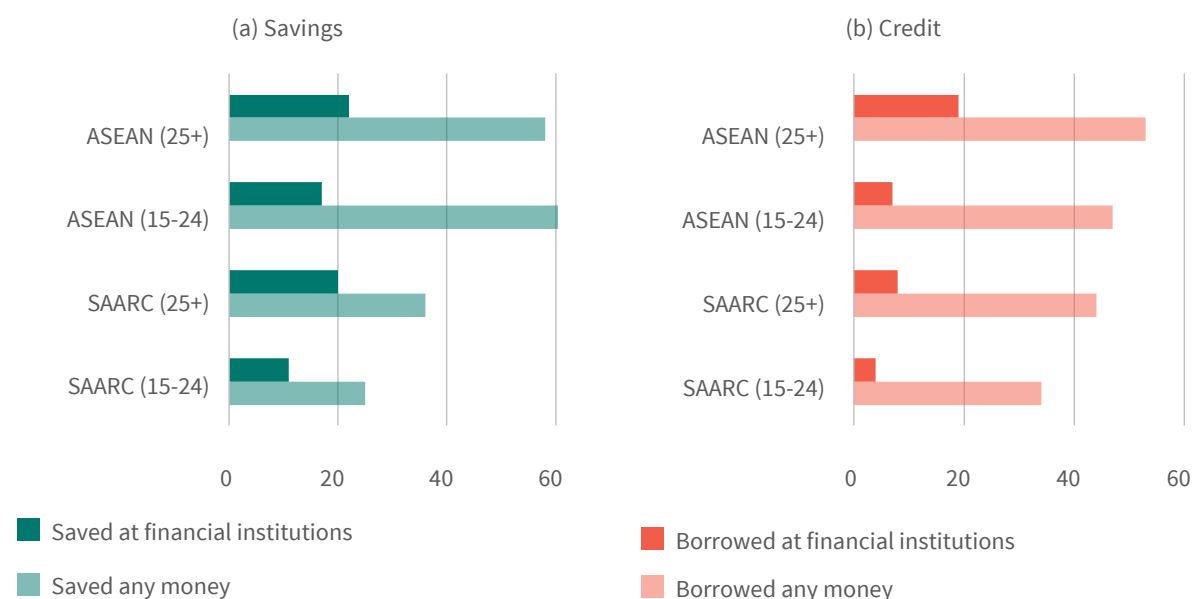
The share of youth borrowing any money has reduced between 2014 and 2017 from 40 to 34 percent of the youth population in South Asia and 50 to 47 percent in Southeast Asia. Figure 7b shows that less than 7 percent of young adults in both the regions borrow from formal financial institutions and more than 30 percent access informal sources. Furthermore, less than 4 percent of young people in these regions borrow money from formal financial institutions to start, operate, or expand a farm or business. This suggests that youth access to formal credit is constrained by factors including unavailability of documents required by FSPs, collateral and know your customer/anti-money laundering (KYC/AML) requirements, insufficient credit history and a

lack of business skills and experience. Physical barriers include the time it takes for customers to reach a bank, multiple visits required to get a loan approved, and absence of officers to deal specifically with the young customers. For example, in Cambodia it takes on average more than 30 minutes for customers to reach a bank, and young borrowers were given lower loan amounts despite being more loyal than older adults (UNCDF, 2018).

Using digital identification<sup>19</sup> for e-KYC, leveraging transactional data of young customers for assessing their credit-worthiness, and extending digital lending facilities can enable an increased uptake of credit among young borrowers. A digital identification database can further support the protection of young customers and help to increase the monitoring of over-indebtedness and multiple lending for the FSPs. For example, research in Malawi suggests that use of digital identification has increased loan repayment rates amongst risky borrowers (Findex, 2017). As discussed in Section 5, fintech firms are beginning to use social media, mobile phone usage, and e-commerce transactional data of customers to develop alternative credit scoring models, which can help in quick assessments and provide need-specific credit to the young entrepreneurs.

On the policy and regulation side, under the Maya Declaration,<sup>20</sup> Asian countries such as Malaysia, Bangladesh, Bhutan and Nepal have committed to advance youth financial inclusion in their national financial inclusion strategies. These countries are developing policies aimed at enhancing financial literacy among young students, designing youth-specific financial products and services, and reaching out to youth to elevate their financial capabilities (AFI data-portal).<sup>21</sup> India, Malaysia and Bangladesh are also actively advancing micro and small enterprises' access to finance by increasing their awareness of the availability of financial products, extending additional finances, and creating special platforms to provide support for debt-distressed

**Figure 7: Source of Savings and Credit among Youth and Adults in South Asia & Southeast Asia (%)**



Source: Global Findex Survey, 2017

enterprises.<sup>22</sup> Pursuing similar commitments, other emerging Asian nations could improve the pace of advancement of youth entrepreneurship and youth access to finance.

In most low-income nations such as Cambodia, Lao PDR and Myanmar, access to finance for youth entrepreneurs can be even more

challenging than in developed Asian nations. UNCDF has conducted national financial inclusion surveys, as well as analysed banking transaction data that can scope youth entrepreneurship finance in more detail. Using such data, the next section will analyse youths’ access to finance in Cambodia, Lao PDR and Myanmar using the country-specific FinScope<sup>23</sup> data.

18 Youth gap in account ownership is 13 percent in South Asia and 8 percent in South East Asia.

19 Digital Identification, for the purposes of this paper, can be described as the identification of a person based on information stored in a digital format, thus allowing for the interaction between a customer and FSP without the need for physical human interaction. Such information can include biological information (i.e. photos, fingerprints etc.) and user behaviour.

20 The Alliance for Financial Inclusion’s (AFI) Maya Declaration is the first global and measurable set of commitments by developing and emerging country policymakers to unlock the economic and social potential of the 2.5 billion poorest people through greater financial inclusion.

21 <https://www.afi-dataportal.org>

22 The Micro Units Development & Refinance Agency (MUDRA) of the Indian government is one such programme.

23 The FinScope survey is conducted to measure and profile the levels of access to and uptake of financial products/ services (both formal and informal) in a particular country, across income ranges and other demographics (FinScope, 2013, 2014, 2015).

# 04

## YOUTH GAP IN FINANCIAL INCLUSION IN CAMBODIA, LAO PDR AND MYANMAR

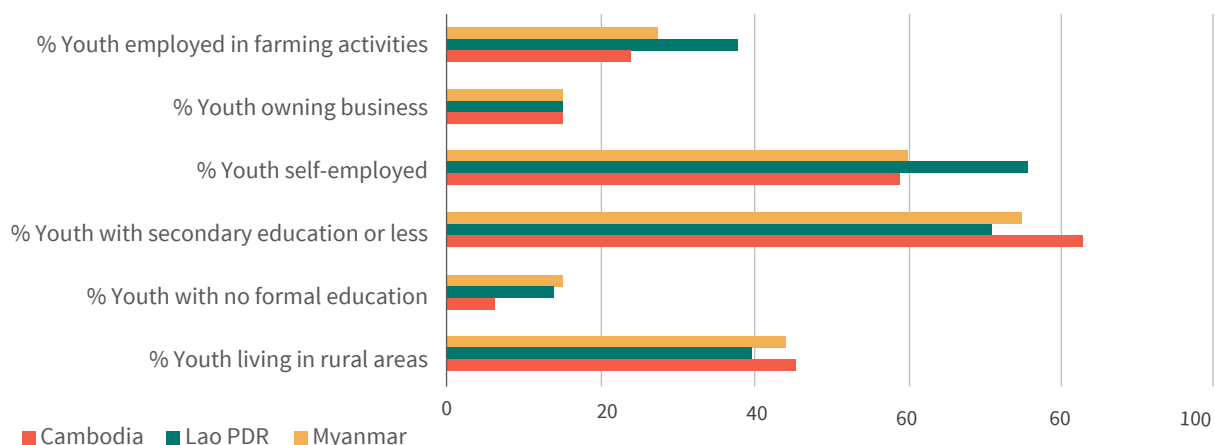
### YOUTH PROFILE

Cambodia, Lao PDR, and Myanmar (CLM) have nearly 7 million young people aged 18-24 combined, representing 13 percent of the total adult population of these countries, with Cambodia (24 percent) having the highest share of young people in its population, followed by Lao PDR (12 percent) and Myanmar (10 percent). Figure 8: Youth profile in CLM (%) profiles youth in CLM. Around 75 percent of the youth have a secondary level of education or less and live in rural areas; and nearly 15 percent in Lao PDR and Myanmar have no formal education, compared with only 3 percent in Cambodia. In all three countries, the share of youth having primary or higher education is significantly higher compared to older adults. Most of the adult population in CLM, including young adults, are self-employed in farming or other activities with low levels of business ownership. Business ownership among youth is 15 percent, which is lower than older adults.

### YOUTH GAP ACCESS TO FINANCE IN CLM

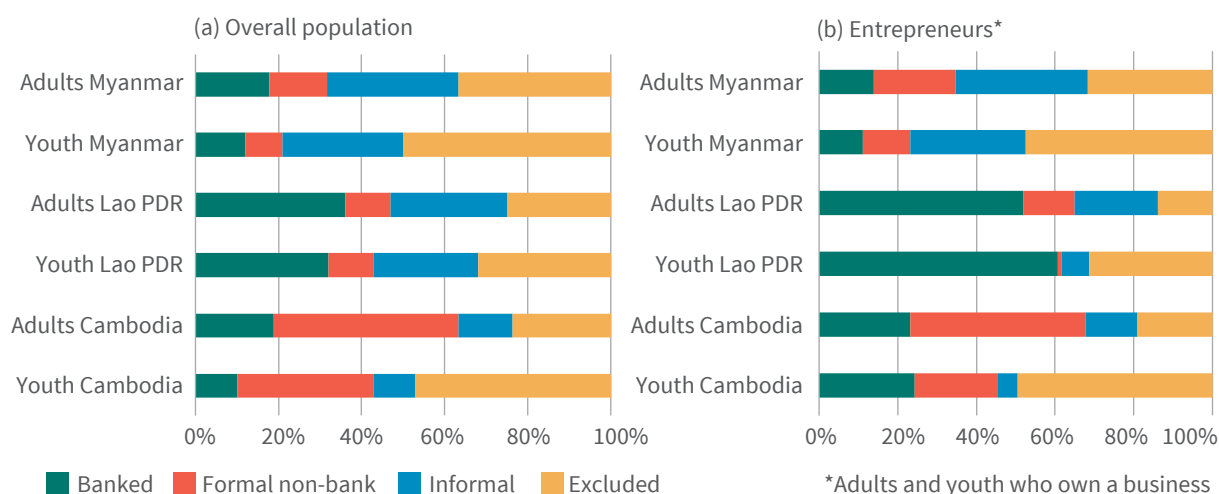
Across CLM, youth are less likely to have access to formal financial services such as savings, credit and insurance than older adults which constrains young people's ability to start or expand a business or farming activities. Limited access to finance could also result in youth dropping out of school or cause an enterprise to fail, and leaves youths more vulnerable to shocks such as poor health or other emergencies (OECD, 2017). The FinScope surveys found that nearly half of the youth population in Cambodia and Myanmar and one-third in Lao PDR are financially excluded (Figure 9: Access to Finance among Youth and Adults in CLM (%)). The financial exclusion rate for youth is significantly higher than that of the general population. Cambodia (21 percent) has the highest youth gap in formal finance followed by Myanmar (11 percent) and Lao PDR (4 percent). Interestingly, the youth gap in informal finance is marginal (3

Figure 8: Youth profile in CLM (%)



Source: FinScope Consumer Survey for Cambodia (2015), Lao PDR (2014), and Myanmar (2013)

**Figure 9: Access to Finance among Youth and Adults in CLM (%)**



Source: FinScope Consumer Survey for Cambodia (2015), Lao PDR (2014), and Myanmar (2013)

percent), indicating that barriers exist primarily in the formal banking and non-banking sectors. Furthermore, FSPs in general are reluctant to serve young people and consider them ‘unbankable’ as they perceive that youth have lower levels of savings, lack collateral and documents required for AML/KYC procedures, and lack experience in business. As shown in Figure 9: Access to Finance among Youth and Adults in CLM (%)b, between 30 and 50 percent of young entrepreneurs do not have any form of financial access and rely on their own capital to finance their business. Accessing funds from local moneylenders at often exorbitant rates makes youth-led enterprises less profitable and less likely to remain sustainable over the long term.

### SAVINGS BEHAVIOUR AMONG YOUTH AND ADULTS IN CLM

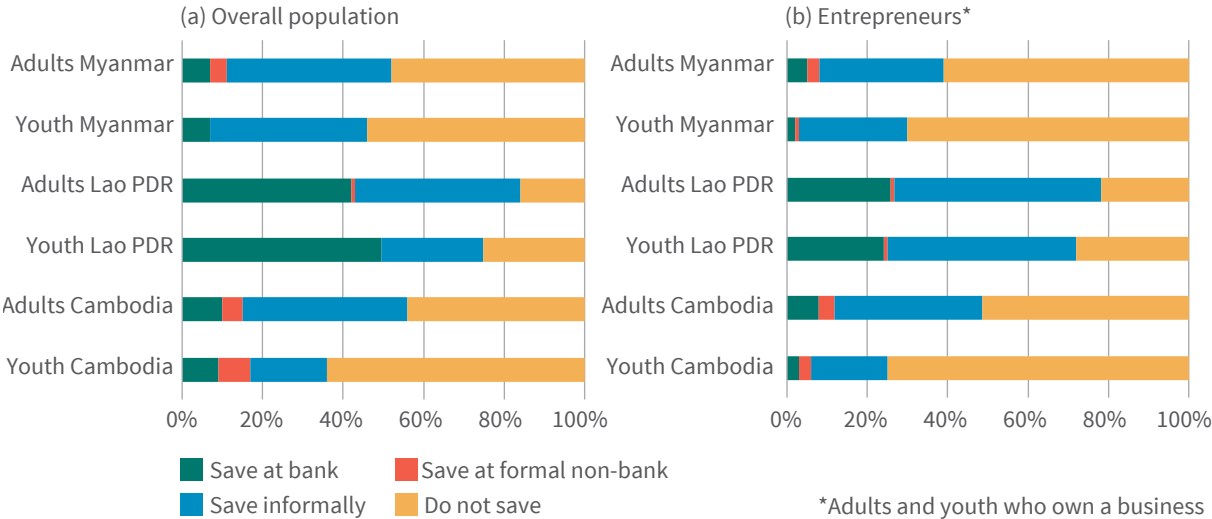
Youth in CLM are less likely to save than adults. Figure 10 shows that the youth gap in both formal and informal savings combined is highest in Cambodia (24 percent) followed by Myanmar (9 percent) and Lao PDR (7 percent). Three-quarters of the youth in Cambodia and Myanmar and one-third in Lao PDR are not saving formally or informally. Among youth who save for education, farming or business, most engage in informal savings including with family/friends,

savings clubs, jewellery, livestock or ‘under the mattress’, and 25 percent of youth in Lao PDR and only 6 percent in Myanmar and Cambodia save at regulated financial institutions (see Figure 10). Young entrepreneurs save more than the overall youth population in CLM. They are also much more likely to save at formal financial institutions than older adults, with more than 50 percent saving formally in Lao PDR. These findings contradict the popular belief that young people do not save. Providing youth with better access to savings and enabling linked financial services such as digital payments and domestic remittances on savings accounts can greatly help FSPs to transition informal savings into formal deposits, which in turn can help the banking sector to lower the cost of capital.

### YOUTH GAP IN ACCESS TO CREDIT IN CLM

Youth in CLM are less likely to borrow than older adults, and the youth gap in access to credit is highest in Cambodia (18 percent) compared with Lao PDR (6 percent) and Myanmar (13 percent). Less than 20 percent of youths borrow formally, nearly 10 percent engage in informal borrowing and more than two-thirds do not borrow at all and Myanmar indicates lack of capital from MFIs to offer to entrepreneurs starting small businesses (LYU and UNFPA, 2014) and limited

**Figure 10: Savings Behaviour among Youth and Adults in CLM (%)**

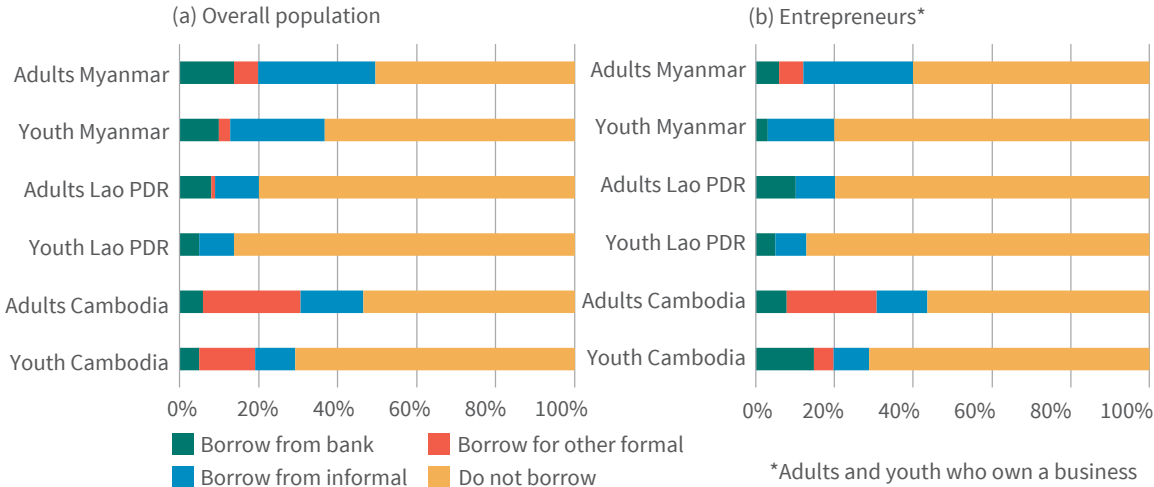


Source: FinScope Consumer Survey for Cambodia (2015), Lao PDR (2014), and Myanmar (2013)

presence of MFIs in rural areas (GIZ, 2014). More than 70 percent of youth business owners in CLM do not borrow any money and rely on their own capital to operate a business. Lack of access to credit also discourages young farmers from increasing farm production, which consequently affects rural development. Since rural people put greater trust on the local financial institutions, there is a need for remote expansions of MFIs and strengthening of rural institutions such as village funds to improve rural youth’s access to credit.

Most youth in these countries have a mobile phone and are active internet users and therefore well-placed to access digital financial services. Indeed, the use of technology to deliver needs-based digital financial products and services is potentially a major avenue to improve youth financial inclusion. Fintech also allows FSPs to use social media, mobile phone usage, and the transactional data of youth and youth-led enterprises to develop affordable and needs-based financial products and services.

**Figure 11: Credit Behaviour among Youth and Adults in CLM (%)**



Source: FinScope Consumer Survey for Cambodia (2015), Lao PDR (2014), and Myanmar (2013)

# 05

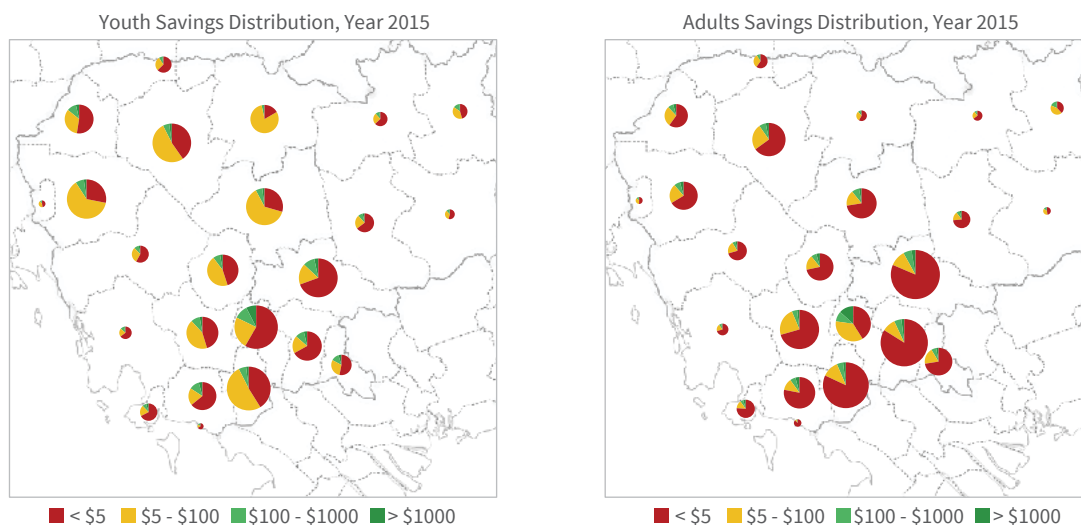
## YOUTH GAP IN FINANCIAL SERVICE USE IN CAMBODIA

High levels of access to finance do not necessarily imply strong financial service usage. Nearly 22 percent of depositors in Cambodia, 30 percent in Lao PDR, and 38 percent in Myanmar are reported as inactive<sup>24</sup> (Findex, 2017) and borrower exit rates<sup>25</sup> of FSPs vary between 28 percent and 39 percent per annum (UNCDF, 2018). High rates of inactive or passive savings accounts<sup>26</sup> and high borrower exit reduces the potential impact that financial services can have on inclusive growth and the economic empowerment of under-served segments such as women and youth.

Therefore, the UNCDF and UN Pulse Lab Jakarta (2018) conducted a Big Data study on financial service usage examining the savings and loan mobilisation of around 2.3 million customers from four leading Cambodian FSPs<sup>27</sup>, covering over half of Cambodia’s microfinance depositors

and borrowers for the period 2010 to 2015. As depicted by the red slices in Figure 11: Proportion of Cambodian Youth and Adults by their Formal Savings (%), 2015, savings mobilization in Cambodia remains a significant problem, with 70 percent of depositors not mobilizing savings beyond US\$5. Savings mobilization remains a challenge, especially in rural areas outside Phnom Penh, where the rate of low-value passive savings accounts is about 29 percent higher than the capital city. Savings mobilization also varies by gender, with women being more likely to have passive accounts with a savings balance below \$5 (70 percent) compared to men (55 percent). Interestingly, as demonstrated in Figure 12 by the larger yellow slices in the left chart; youth have significantly better savings account usage compared to the overall population.

**Figure 12:** Proportion of Cambodian Youth and Adults by their Formal Savings (%), 2015

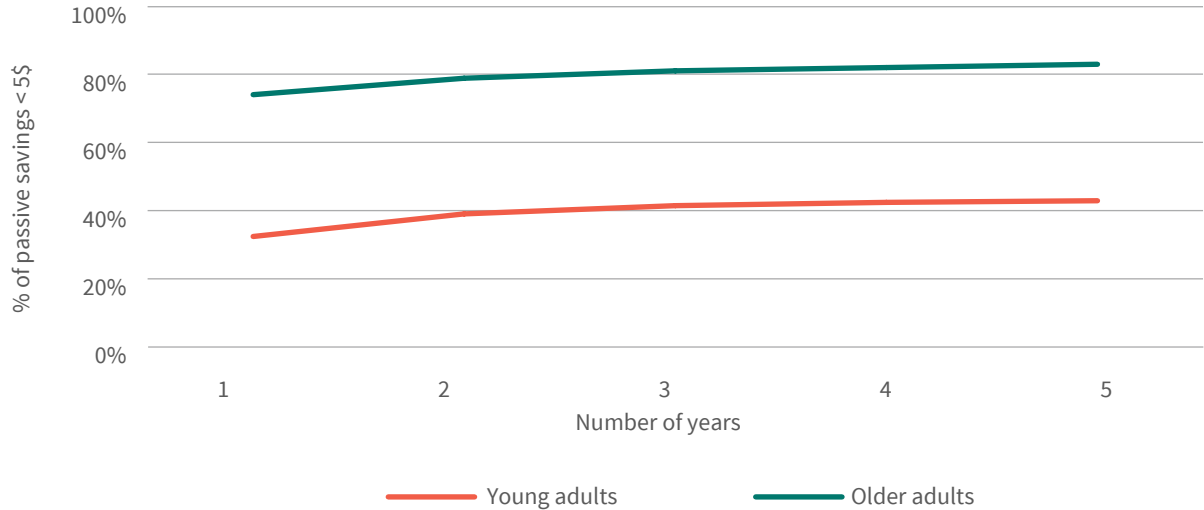


Source: UNCDF and UN Pulse Lab Jakarta, 2018

\* The pie charts show the distribution in terms of number depositors with passive (<\$5), small (\$5-100), medium (\$100-\$1000) and large total savings balances (1000\$). The larger the pie the more depositors there were in this province.



**Figure 13:** Rate of passive savings accounts among young and older customers, 2010-2015



Source: UNCDF and UN Pulse Lab Jakarta, 2018

When mapping passive savings account from the year of opening the savings account (year 0) to the year when the account becomes inactive, we see that youth are 37 percent less likely to have passive accounts than older adults (>25 years) (Figure 13), meaning young depositors are more active savers than older depositors. It is important to start the mobilization of savings immediately in the first year and ideally directly after opening an account, because this is when the savings accounts are especially at risk of becoming dormant. Young people may hold lower average savings balances (\$382 compared with savings of \$597 for older adults), but they were

more active savers. Moreover, the gender gap in savings is virtually absent, with young women having higher savings balances than young men (\$177 on average) and similar rates of account use. These findings contradict the popular belief that youth save less or do not save at all.

On the borrowing side, customers generally tend to have a short-term relationship with their lenders; 39 percent of the borrowers exited the microloan programme after the first year, and 78 percent of borrowers exited the loan scheme within three years. Among the group loan customers, exit rates are almost similar

**Figure 14:** Exit rates among Young and Older Borrowers (%)



Source: UNCDF and UN Pulse Lab Jakarta, 2018

between young and older people (Figure 14), but among individual loan customers, young people have 7 percent lower exit rates compared with older customers (Figure 14), implying they are more loyal individual loan borrowers. Higher retention rates among young borrowers translate into lower operational expenses for FSPs as customer due diligence costs for follow-up loan cycles are almost negligible compared with first loans to new borrowers. Despite this, most financial service providers offer only small

loans to young people whom they may perceive as being 'risky' borrowers, when in fact FSPs might benefit by extending larger individual loans to young customers. As youth generally have lower confidence in their business skills (GERA, 2017), FSPs should collaborate with business development service providers to provide financial literacy and business trainings to young entrepreneurs to reduce credit default risk and support entrepreneurs to create successful and sustainable businesses.<sup>28</sup>

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24 Defined as an account having no withdrawals or deposits in the past one year.

25 Defined as customers who have previously borrowed from the bank but who have subsequently stopped borrowing.

26

27 AMK, AMRET, Sathapana, and Vision Fund.

28 Studies have demonstrated that start-up loans combined with financial literacy and business training resulted in better customer retention (see i.e. Gravesteyn, 2014).

# 06

## FINTECH AND DIGITAL FINANCE SOLUTIONS TO IMPROVE YOUTH'S FINANCIAL INCLUSION AND CAPABILITY

Fintechs have the potential to offer affordable financial products and services to un- and underbanked customers and are disrupting the way traditional banking has taken place, especially in Asia. More specifically, fintechs are offering financial services driven by non-traditional data and being increasingly incorporated into social media and Application Programming Interface (API) platforms with which the youth and MSME market are operationally familiar, fintechs are contributing towards financial inclusion and inclusive growth. While the technological necessities are now readily available in most markets, it lies with local service providers as well as regulators to create an enabling environment for digital finance. Most fintech companies operate in core markets such as Singapore, Malaysia, China, India and Hong Kong, China (SAR), but are increasingly moving into emerging economies in Asia including Myanmar, Cambodia and Lao PDR. The following solutions could offer easier and more affordable financing solutions to youth-owned/operated MSMEs that can be applied in Asia's developing nations.

### FOR FINANCIAL SERVICE PROVIDERS

#### Alternative Credit Scoring for young entrepreneurs lacking credit history:

One of the key ways in which fintechs are increasing financial inclusion is by changing the way customers have their credit worthiness scored. As mentioned, the Big Data approach is being applied to improve customer screening, product selection and risk management for young entrepreneurs. Such scoring solutions use multiple data sources, including bank and non-bank data and information from credit bureaux, and supplement this with information generated

through mobile phones, IP addresses, ATM points, Facebook accounts and various other publicly and privately available information. Some fintechs also augment conventional loan applications with 'subjective' information derived from clients' self-assessments on entrepreneurial skills to reduce default risks (EMFP, 2015), while others use interactive chatbots to perform psycholinguistic analyses. Alternative credit scoring can reduce lending risk by accurately scoring youth's talent and entrepreneurial capability, and also reduce collateral requirements and the need for prior usage of formal financial services, in turn increasing the potential of youth entrepreneurs to access formal credit, and thus establishing youth entrepreneurs within the formal financial system.<sup>29</sup>

#### Mobile Wallets and Digital Banking focusing on Millennials:

For the majority of youth, digital financial services are likely to be their first contact with the banking sector and in this respect, LienVietPostBank (LVPB) developed the Vi Viet e-Wallet in partnership with UNCDF. It provides a simple and convenient savings wallet via a smartphone app to access a wide variety of financial products, including low-cost savings accounts, overdraft loans, bill payments and micro-loans. The LVPB started the marketing of its product initially at universities as well as through the Viet Nam Women's Union which generated a distribution channel specifically for youth and women. Despite having started as recently as 2016, 2.2 million people have already received access to the e-wallet.

In a similar way, insurance providers are using high rates of phone penetration among youth

to reach uninsured customers, with phone technology being used to register and pay for services.<sup>30</sup> FSPs are also experimenting with sending personalized and local language messages to mobile phones and social media to people with dormant savings accounts in Southeast Asia to improve savings mobilisation.<sup>31</sup>

**Business Funding Platforms:** Crowd funding, P2P and venture capital financiers open new channels of available funding for young entrepreneurs, away from traditional financial institutions and/or locally sourced informal credit, and fintechs have a key role in the facilitating of this shift. Peer-to-peer lending platforms directly connect MSMEs looking for finance with a crowd of investors, thus creating an avenue for mutually beneficial partnerships for growth. Such platforms undertake due diligence on each business listed on the platform and facilitates the finance agreement between the business and investors, charging a percentage of the amount loaned as a fee, in addition to having a bidding system that allows the MSME to choose the lowest interest rate offered by potential investors.<sup>32</sup> Other fintech firms also combine peer-to-peer platforms and digitization of invoice financing, this represents another means by which cash-poor MSMEs can access the capital they need to grow.<sup>33</sup> Another model, as demonstrated by four large Thai Banks, is that of incubation programmes. These foster innovative start-up businesses by offering blended finance and mentoring programmes at different stages of entrepreneurship.

**Digital Financial Literacy and Capability:** The increase in availability of financial services to traditionally unserved markets naturally brings with it the challenge of financial literacy in an increasingly digital age. Indeed, many parties have an interest in increasing digital financial literacy, not least fintechs, which have an inherent interest in proper usage of their services. The Center for Financial Inclusion identifies 7 behaviourally-informed practices for effective financial capability interventions, including *teachable moments, learning by doing, nudges, reminders, and default options, heuristics,*

*make it fun, customize it and make it social.*<sup>34</sup> A UNCDF partner based in Myanmar, namely Wave Money, plans to use digital gamification<sup>35</sup> to increase financial literacy amongst women, teaching concepts such as savings, interest and insurance through a fun and interactive app,<sup>36</sup> while financial comparison sites—widely used in markets across the globe—allow for the transparent comparison of various financial products. There are also digital financial literacy education tools directly tailored to children, including mobile wallets and digital piggy banks with an educational aspect for children (such as Ernit and Bankaroo), and Money Tree that delivers on-line movies for children in Cambodia to support children’s financial literacy.

**Advancing youth social enterprise financing:** One business area which is increasingly capturing the attention of youth in South and Southeast Asia is that of the concept of social business (Yunus, 2007) and social entrepreneurship (Nichols 2006:xiv; Lehner 2012).<sup>37</sup> Social enterprises are involved in a diverse set of activities varying from microfinance and fair trade, to agricultural cooperatives and increasingly also fintech solutions, and they all share a commonality to pursue development goals through financially sustainable business models rather than grant-dependant activities. Social entrepreneurship programmes can offer training and funding opportunities that help young entrepreneurs find innovative business solutions to address sustainable development goals. Social businesses increasingly receive funds from impact investment and challenge funds to scale their operations as well as crowd funding and peer-to-peer lending platforms which are expanding the network of young entrepreneurs and opening new avenues of financing businesses (Gravesteyn, 2014).<sup>38</sup> Rather than funding the most profitable business ideas, these funding vehicles take into account the project social returns and innovativeness.

**Offering responsive, tailored youth-oriented products and financial services:** Since 2010, UNCDF has been actively working to increase

youths' financial inclusion. To date, through YouthStart, a regional pilot in Sub-Saharan Africa, UNCDF has granted access to savings accounts to almost 830,000 young people (of which 43 percent are young women and girls), trained almost 792,000 youths in financial education; and provided loans to almost 210,000 young entrepreneurs (54 percent young women). These young clients have accumulated over \$22 million in savings while the outstanding loan portfolio to young entrepreneurs is \$29 million. With a specific emphasis on savings, YouthStart works with FSPs to pilot and roll out sustainable financial and non-financial services tailored to young people. For example, Finance Trust Bank in Uganda proposed a savings account developed specifically for youth and used technology to reach young clients at an early age. The FSP is using digital channels to help adolescent girls in Uganda access financial and nonfinancial services. With a target to reach up to 1,000 adolescent girls, the platform to date is being accessed by over 1,500 adolescent girls within only 3 months of being launched. It currently provides them access to an interactive mobile application in which they can access financial and reproductive health education modules and helps them to set their own savings goals through nudges that remind them to save on a daily basis. The application is linked to their savings account at a partner FSP so that they do not have to go to the branch to make a deposit. In Senegal, the partner FSP developed a loan product for young entrepreneurs that uses savings as collateral to minimize the risks associated with lending to such customers.

In addition, since 2017, UNCDF YouthStart and MM4P programmes have been partnering with MNOs and local partners with expertise in building networks in Senegal to design, test, and manage a micro-franchisor network of kiosks to help young entrepreneurs seize economic opportunities in the digital financial services ecosystem. Micro-franchising is an approach that connects companies (i.e. mobile operators,

technology companies specialized in money transfers, etc.) who are interested in extending their clientele to young entrepreneurs lacking the skills or capital to develop their own businesses. This model targets youth aged 18 – 30, living in peri-urban and rural areas of Senegal and provides them with a new economic opportunity as agents for digital financial services. The programme is also focused on developing youths' entrepreneurial skills through training and mentorship; supporting youth in expanding the types of services and products they offer in order to increase the profitability of their business; scaling up sustainable branchless and mobile financial services that reach the vulnerable communities in rural Senegal; and encouraging young people to contribute to increasing the number of ITC and digital financial services among young people. The programme also triggered dialogue among policymakers on youth financial inclusion. For example, in Rwanda the model to integrate financial and non-financial services for youth has been incorporated into the National Strategy of Financial Education as one worthy of replication and in West Africa, the BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest) has placed youth at the core of their regional financial inclusion strategy.

Leveraging technology for facilitating lending to youth in rural areas: 70 percent of the youth in CLM still live in rural areas and are employed in agricultural activities, and have low access to (digital) credit, savings and insurance, but are generally active mobile phone and internet users. Fintech can offer solutions, for example in the use of geotagging of farms for remote monitoring and evaluation and assessing the profitability of farmers based on input and output costs, thus helping financial institutions to shift from asset-based lending towards cash-flow based lending. Mobile banking can also enable young entrepreneurs in rural areas to develop new value-added products and services along the agro-food value chain (OECD, 2017).

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- 29 Examples include Confirmu, Dianrong, Entrepreneurial Finance Lab and Lenddo, to name a few.
  - 30 Examples of such services include BIMA and Stonestep.
  - 31 A leader in this technology is Juntos, which offers a turn-key solution to FSPs and has had success in different markets globally.
  - 32 An example of such a platform is Beehive, which is active in South-East Asia.
  - 33 An example of such a product is Funding Circle.
  - 34 Arnold and Rhyne (2016)
  - 35 Gamification refers to adding elements common to games, such as collecting points, to non-game areas to promote more active participation in the product, in this case financial literacy learning materials.
  - 36 Examples of other organizations with similar models include Kshetriya Gramin Financial Services, which uses a wealth management engine that uses data to create a financial plan for the household, helping customers to make informed financial decisions.
  - 37 Social entrepreneurship resonates with views on sustainable development and advocates double or triple bottom line management which focuses on 'People, Planet, Profit' (Nichols, 2006; Yunus, 2007; Lehner, 2012). One of the early leading Asian examples includes the work of Muhammed Yunus with the Grameen Bank in Bangladesh that supported microfinance as well as food-nutrition activities (Yunus, 2007).
  - 38 Examples of such programmes, which look to inculcate entrepreneurial thinking, business and finance skills among youth, include Youth Social Entrepreneurship (YSE) and the Youth School for Social Entrepreneurs (YSSE).

# 07

## RECOMMENDATIONS FOR IMPROVING YOUTH FINANCIAL INCLUSION FOR POLICYMAKERS AND REGULATORS

In addition to FSP initiatives, policymakers and regulators have a vital role to play in offering proactive regulation and policy that offers youth the best chance of gaining access to suitable financial products. By working closely with FSPs and utilising all available sources of data and information, policymakers and regulators reduce barriers to formal finance.

Set ambitious targets for improving access to financial services among youth and young entrepreneurs under national financial inclusion strategies: Under the Maya Declaration,<sup>39</sup> several Asian countries such as Malaysia, Bangladesh, Bhutan and Nepal have already committed to advance youth financial inclusion in their national financial inclusion strategies.

Collect demand and supply side data on the financing of youth-led micro and small enterprises for evidence-based policy making: This will help policymakers and FSPs to understand the barriers to youth financial inclusion and to design and deliver needs-based financial products and services.

Encourage FSPs to partner with non-financial institutions such as telecom companies,

education institutions and youth-serving organisations to improve youths' financial literacy and awareness of digital banking services: Delivering financial education digitally can improve the outreach of governments in their mission to improve financial inclusion. Furthermore, incorporating financial literacy, basic accounting, and business education into the secondary school curriculum can help to build the financial capabilities of younger people (UNCDF, 2015).

Implement programmes such as those offering Individual Development Accounts (IDA) which can help youth to save for asset building or income-generating activities and provide them with financial literacy skills and business training: The IDA holders must participate in a programme for a period during which they save money for a specific goal. Every dollar saved in an IDA is matched by a participating public or private donor. At the end of the programme the youth can access the savings for a variety of asset building activities, including education and training, and income generating activities.

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39 The Alliance for Financial Inclusion's (AFI) Maya Declaration is the first global and measurable set of commitments by developing and emerging country policymakers to unlock the economic and social potential of the 2.5 billion poorest people through greater financial inclusion.

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