2014
CHANGE THAT MATTERS: LEARNING FROM OUR PARTNERSHIPS

The MasterCard Foundation

FOR MORE INFORMATION

The MasterCard Foundation
2 St. Clair Avenue East, Suite 301
Toronto, Ontario, Canada M4T 2T5

mastercardfdn.org
416 214 2857

2014
CHANGE THAT MATTERS:
LEARNING FROM OUR PARTNERSHIPS

The MasterCard Foundation


adidas
Carlsberg

CONTENTS

PRESIDENT'S MESSAGE

The art of philanthropy is to spur new ways of solving old problems. Perhaps one of the oldest and most enduring challenges is that of poverty. Why are some generations trapped in it? How might they break those cycles? At The MasterCard Foundation, we believe that what we are learning can inform others tackling the same questions. It is in this spirit that we have developed this report: *Change that Matters: Learning from our Partnerships.*

Our Foundation's vision is a world where all people have opportunities to learn and prosper. We believe in the potential of every individual. Hence, our initiatives aim to enable people living in poverty to activate their own agency and change their circumstances. Our resources are concentrated on the African continent where we see powerful trends converging; rapid economic growth, stronger governance, progressive policies to address basic needs, improving infrastructure, and greater access to mobile technology. A growing youth population, one who will become the world's largest workforce in 2040, will emerge in the midst of this promise.

Our approach to philanthropy is a work in progress. In some cases we are creating a new field, such as charting new pathways for young people to find work. In others, we are re-imagining how financial access will serve the rural poor and connect them to markets. Throughout, we must be nimble and inventive, while remaining accountable to our stakeholders.

Our programs are designed to be long-term and large in scale. As a result, they offer a tremendous opportunity to learn how change occurs. We are documenting impact within households and communities and the institutions that serve them. Beyond the collection of data, we want to elevate the voices of real people – young people, women, farmers, entrepreneurs – to allow their wisdom to be at the centre of our efforts.

Change that Matters is, in some ways, an experiment. As we reviewed evaluations, research, and the hundreds of publications generated by our programs, our findings revealed important insights that are taking us in surprising new directions. We wanted to synthesize our key lessons and share them with others in a manner that is accessible, practical and, hopefully, engaging.

In so doing, we hope to spark new questions and ideas about the age-old challenge of improving the human condition.

Reeta Roy
President and CEO

The MasterCard Foundation

EXPANDING FINANCIAL ACCESS FOR THE UNBANKED

KEY TAKEAWAYS

- Savings groups help build assets
- Mobile technology reaches the excluded
- New models are emerging for reaching smallholder farmers

In Sub-Saharan Africa, where only 25 percent have access to formal financial services, people living in poverty often face tremendous challenges managing their households.[1] The cash flow of poor people varies on a day-to-day basis leading to instability and unpredictability in terms of when they can buy food, purchase other necessary goods or put aside money for education and other needs. Unplanned events such as food shortages, the failure of a crop, social pressures or singular events such as weddings or funerals disproportionately affect low-income families. Without access to formal financial services, poor families must rely on age-old informal mechanisms such as family and friends, savings groups, pawnbrokers, moneylenders, and "money under the mattress." While these offerings help the poor to cope, they can be unreliable and expensive.[2]

Financial inclusion is technically about ensuring that people living in poverty are able to access and use financial services. But it is not an end in itself – it is really about helping people so they have more control over their destinies. There are many challenges to financial inclusion, particularly in Sub-Saharan Africa where a predominantly rural population relies on subsistence agriculture for their livelihoods. Poor people in these areas live with limited access to financial services, especially compared to their urban counterparts.

In recent years, an ecosystem of private sector markets, microfinance institutions, and NGO-led facilitators has emerged to address these issues. The main problem to be solved is how to reach poor people in a way that is both sustainable for institutions and cost-effective for clients.

Two approaches have helped.
One: the idea of combining informal financial mechanisms and formal services.
Two: rapid advances in the spread and use of mobile technology, which have brought costs down for financial institutions and eliminated other barriers such as distance between clients, local branches, and other access points.

In context, our work has come at an important time for the sector, and it has yielded some valuable insights about future directions the Foundation could take.

Financial Inclusion at The MasterCard Foundation

We have committed $332 million to partners across multi-year projects exploring how financial inclusion can aid in the cause of economic empowerment.

Our Financial Inclusion programs focus on people that aren't being reached by the marketplace. Our portfolio has emerged during a time of tremendous change. Technology, particularly mobile technology, is helping redefine what is possible for those who live in poverty, by breaking down barriers of cost and access and enabling the development of new products and services.

We look at the needs of those living in poverty and explore approaches that might help serve their immediate financial needs, while building up their ability to be served by services that will ultimately help improve their livelihoods.

In the coming years, we will continue looking for efficient and effective ways to work and we will focus on where we can have the greatest impact. Specifically, we will expand our work in rural and remote areas and with young people. From our current and future portfolio, we will explore traditional and emerging approaches, technologies, and products that will best meet the needs of clients. We will also test new institutional models, looking at the institutions that are needed to meet the needs of Sub-Saharan Africa. We will also seek to better document the impact access to financial services is having on people living in poverty.

The Role of Informal Savings Groups

For rural households in Sub-Saharan Africa, the promise of financial inclusion has remained out of reach due to stubborn barriers of cost and distance. When families manage their money, they've had to rely on a complex array of techniques (such as saving in safe spots in the home) and services (such as high-interest village moneylenders) to ensure they have enough to meet their daily needs. Traditionally, those working in this area have envisioned that a formal financial service provider will offer a better set of options, and, as a result, the strategies deployed have focused on helping people take their cash from the mattress to the bank. In rural areas, however, the client's perspective can illustrate that it's not always a simple proposition.

Informal savings groups provide poor people in remote, rural areas with a safe place to build up small amounts of money with other participants so they can grow a fund from which small, flexible loans can be taken. These groups, many of which are centuries old, have operated in areas that formal financial institutions and microfinance programs often can't reach because of high costs. They have served the needs of particularly vulnerable populations, such as women and young people.

"The projects we've been supporting have made us rethink how we transition people into formal services," says Ann Miles, Director of Financial Inclusion at the Foundation. "When clients find first-step options that work for them, we want to find ways to work with that. In rural areas, you can walk for miles without seeing a bank or ATM, and the money needed to take a bus into town might cost clients more than any interest in their deposit account. We think it's important to promote informal savings groups because they are addressing a real need in rural communities in a responsible way."

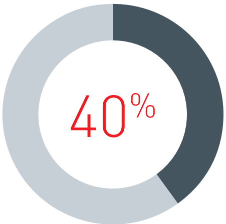
While savings groups are accessible, they can have some critical limitations. They typically don't provide opportunities for individuals to build long-term savings. Moreover, other potentially beneficial services, such as insurance, credit or bill-paying services can't be provided within these structures. This is where formal financial service providers may be able to step in.

One striking example of the potential for such "linkage" efforts was a program we implemented in partnership with CARE International in Rwanda on the Sustainable Access to Financial Services for Investment (SAFI) project, which began in 2008. The idea behind SAFI was to build a market of organized groups that would develop people's financial capabilities, while demonstrating to financial institutions that people in these groups could save regularly and repay their loans. In Rwanda, CARE engaged local NGOs to help organize savings groups, focusing particularly on vulnerable audiences.

"These savings groups are safe environments for poor people – many of whom don't have much experience with formal institutions – to build their understanding about how financial services work," says Lauren Hendricks, Executive Director of CARE's Access Africa initiative. "This project was important because it was the first time that this link between informal groups and financial institutions had been done at scale."

These savings groups are safe environments for poor people to build their understanding about how financial services work.

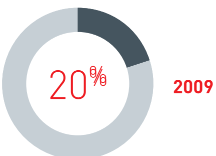
Lauren Hendricks, Executive Director
CARE's Access Africa initiative

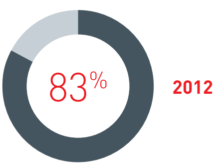


Individuals participating in savings groups saw significant improvements. The average savings balance rose from US$6 in 2009 to $16 in 2012, and, perhaps more importantly, the average amount of money invested in an income-generating activity rose from US$6 to $26. People participating in the program reported other benefits as well. For example, roughly **40 percent reported better access to health care and improved food security.**[3]

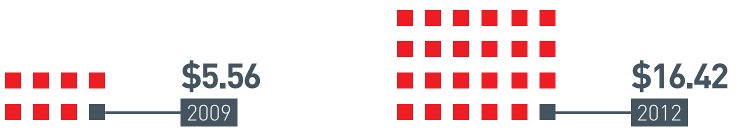
Reported better access to health care and improved food security

ACCESS TO FINANCIAL SERVICES AND INCOME GENERATING ACTIVITIES

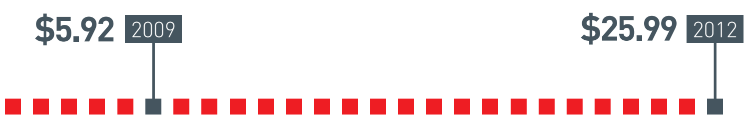




Have accessed a loan in the last 12 months

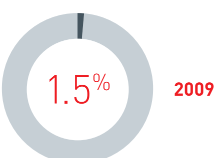


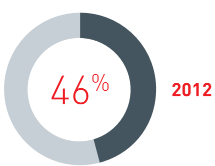
Average savings group balance per group member



Average amount of money invested in income-generating activities per group member

LINKAGES TO FORMAL FINANCIAL INSTITUTIONS





Have benefitted from **savings services** with formal financial institutions (individually or through a group)

Designing Savings Products for Clients

These improved outcomes made clients more attractive to financial service providers, but even after that link to formal institutions was made, there were still barriers to overcome. While nearly 18 percent said they benefitted from that connection,[4] it was important to understand why those who didn't report a benefit felt the way they did.

Working with CARE, we listened to the experiences of people who accessed a formally-offered savings product. In focus group discussions with people living in rural households, families told us about the factors that influence their savings needs. For many – particularly households working in rural, agricultural settings – incomes are dependent on the season. Even where clients know the benefits of saving, they may be unable to avoid dipping into the money they have made during harvests to support other businesses they have set up for other parts of the year. In some cases, clients might not understand the value of an interest-earning savings account and might therefore not be motivated to keep money in one. Some savings products did not fit clients' needs, and as a result, they were not helpful in achieving client financial goals. The takeaway, which we now espouse with our financial service provider partners, is that savings products must, at their core, be designed with a deep understanding of the people who are intended to use them – otherwise they either will not be used or will not be used in a way that helps them achieve their goals.

These insights have contributed to the industry's understanding of what it needs to explore in the next generation of savings products and how putting clients at the centre will be extremely important when designing new products and services.

Branchless Banking

The rapid spread of mobile technology on the continent has had significant implications for the work of financial inclusion. Many are taking advantage of new technologies enabled by mobile to conduct banking activities without physical branches, or sometimes even a formal institution. In addition to banking done via mobile handsets, clients in some areas have access to solar-powered, point-of-sale terminals, mobile vans, portable kiosks or even door-to-door banking services. This new generation of banking agents, often small businesses in rural areas, work with banks or mobile network operators as points of contact with clients. Sub-Saharan Africa is where a significant portion of the innovations in mobile banking are taking root. In fact, 50 percent of the world's 1.25 million mobile money accounts are in Sub-Saharan Africa.[5]

Early evidence indicates that branchless banking contributes to client welfare by delivering more flexible, accessible, and diverse financial services at a lower cost. We're supporting and learning from organizations such as Opportunity International, FINCA, and the International Finance Corporation that are expanding delivery channels to lower the fixed costs of taking services to the poor.

Despite great promise, there is still work to be done on the branchless banking solution. One issue is how much clients actually use a branchless service once they sign up for it. While mobile technology does improve access, it hasn't yet improved usage of these services.

GSMA, a Foundation partner, has been doing market research to understand why. They've found that regulatory roadblocks, connectivity lapses, certain mobile phone charges, and other factors can limit users from effectively incorporating these products into their daily lives.

"The time it takes to go from signing up for an account to using it is hugely important," says Mark Wensley, a Program Manager at the Foundation. "If it took three weeks before you could check your email after signing up for a new email service, you probably wouldn't use it. The more you can give immediate access with mobile banking service, the more clients will use it actively."

> The more you can give immediate access with mobile banking service, the more clients will use it actively.
>
> Mark Wensley, Program Manager
> The MasterCard Foundation

Indeed, while new technology is driving real transformation in the financial inclusion space, something like a mobile phone money application is still just a tool. The key is to understand the clients' situation and the different factors in their lives. This is the focus of our work with the Consultative Group to Assist the Poor (CGAP), which is researching how clients are using branchless banking services.

"What we need to accept is that cash is ubiquitous and trusted, and that people living in poverty already have a myriad of strategies to manage their money using cash," says Claudia McKay, Financial Sector Specialist. "Mobile and branchless products need to prove that they provide people with a tangible benefit beyond what cash can offer, say, increased security, or access to really beneficial financial services, such as insurance."

In addition to learning about client needs, we have gained useful insights on the financial service provider side as well. Bringing costs down remains an overarching imperative; however, we have more clarity now in terms of upfront investment costs needed to build out such services, the transaction volumes required to recoup investments, and other considerations such as security and financial service provider training.

> Mobile and branchless products need to prove that they provide people a tangible benefit beyond what cash can offer.
>
> Claudia McKay
> Financial Sector Specialist

The Role of Smallholder Farmers

More than seven out of 10 Africans rely on agriculture for their livelihoods. Smallholder farmers are clients who generally live at a subsistence level and who live far from financial access. It's a largely underserved population and the more we looked at these types of clients, the more we realized how important they are.

Globally, smallholder farmers remain largely unbanked. Current estimates show that smallholder farmers represent a financing market worth some $450 billion. Today, only two percent of that demand is met.[6] Financial markets have not yet developed products that help rural households finance their farming and manage their risk sustainably. With crop failure, long lead times to market, the costs of expansion into rural markets, and high rates of default, financing agriculture can be risky for financial institutions. The agriculture sector has traditionally been financed by government, leaving the financial sector with limited understanding about agriculture as a whole.

We've learned about other systemic problems that compound the risks for financial providers. Many farmers often don't see farming as a business and therefore aren't seeking credit. In addition, farming productivity isn't improving as much as it needs to, in part because farmers don't have the insurance, savings or credit they need to invest in improving the yields of their crops. "That's how you manage risk," says Ruth Dueck-Mbeba, a Program Manager at the Foundation. "You make sure you have market demand and by increasing productivity you'll be able to access credit in a way that helps you better invest in your enterprises."

Further complicating the picture is the agribusiness value chain, which is fragmented and unpredictable. Access to affordable and good quality seeds, fertilizers, and tools is limited, meaning smallholder farmers lack the means to improve their farm operations. Business development services for farmers and other businesses along the agriculture value chain are undeveloped. "When we talk about agriculture as a business, we mean it in two senses," says Alemayehu Konde Koira, a Program Manager at the Foundation. "From the farmer's perspective, it means approaching their farm as a business. From the value chain perspective of the agriculture sector, it means bringing more private sector investment."

All these challenges – high risk, low demand, productivity lags, fragmented value chains, the gap between farming as subsistence, and farming as a business – add up to a persistent question: are there agricultural financing programs that work? Three of our partners have affirmed that there are indeed approaches that can have an impact.

In Malawi, Ghana, Mozambique, Uganda, and Rwanda, Opportunity International conducted a four-year project, which the Foundation co-funded with the Bill and Melinda Gates Foundation. The project was to extend a full range of financial services to rural areas, including loans to smallholder farmers, as a way to improve farm productivity and alleviate rural poverty. It was a bold experiment, and the results were promising. Client farmers, who used fertilizer on their land, achieved results in terms of crop production, and were more likely to hire farm labour and purchase animals than farmers in the control group. Ultimately, client households were more likely to improve their poverty status during the four years of the program than households that did not participate in the program.[7]

> When we talk about agriculture as a business, we mean it in two senses. From the farmer's perspective, it means approaching their farm as a business. From the value chain perspective of the agriculture sector, it means bringing more private sector investment.
>
> Alemayehu Konde Koira, Program Manager
> The MasterCard Foundation

The program showed farm-customized credit products that account for a farmer's unique cash flow requirements can make a meaningful difference to the life of a smallholder farmer. This requires that financial institutions understand the current realities smallholders face, and the key aspects of a professional agriculture business. When does a farmer have money and when does he/she need it? How much land does a farmer have access to? What are the growing cycles for the crop, and how will this affect a farmer's money management needs? How does a farmer effectively rotate crops to ensure the land remains productive? When will a farmer be able to repay loans and access capital if he/she feels ready to expand?

"The key challenge for smallholder farmers in poverty is that they tend to lose a lot of money in times of scarcity. If they need money, they'll sell their crops for a lower rate than they should. They'll get advances from traders that don't reflect the value of their crops, or they'll pay an exorbitant rate getting a loan from a village moneylender," says Opportunity International's Head of Agriculture, John Magnay. "A small loan can go a long way to helping break this cycle, provided it is affordable for the client."

A key ingredient in the Opportunity International recipe is the understanding that financial service providers are just one piece of the puzzle. Other key stakeholders, including farmers groups, extension service providers, input suppliers, and output markets, are also essential in ensuring success in agricultural lending. Because agricultural finance can be so complex and unstable, the loan products had to be carefully tailored to local conditions, while implementers also foster critical value chain partnerships for agricultural advisory services.

"Without extension services and market facilitation, smallholder farmers have to bear the weight of making every single decision – what to plant, how to plant, who to sell to, when to sell – and that's an enormous burden. We also know that people in rural areas have seen lots of agricultural consultants come and then go," adds John Magnay. "My hope is that we are able use agricultural finance as a way of sustainably paying for those services to rural households. This means that we'll get out of the old traps where we bring a bucket and spade to a community and then take it away when the donor money runs out."

Another key learning about supporting smallholder farmers is the value of holistic approaches – combining financial products with other services that support farming productivity – and have a noticeable impact. One example of this approach is BRAC Uganda, one of the Foundation's earliest and largest partners. Their programs help clients improve their farming yields and increase their income through a "microfinance multiplied" approach. They've shown how the combination of credit, high-yield seeds, fertilizers, livestock services, and training can be an effective model for increasing productivity and lifting smallholder farmers out of poverty. A March 2011 study[8] demonstrated a 27 percent increase in yields among BRAC's customers because farmers were able to use credit to buy better seeds.

Another example of effective agricultural finance is our partnership with One Acre Fund. Based in Kenya, it is poised to become one of Africa's largest networks of smallholder farmers. They provide financial services and training for farmers – mostly women – who farm on one-acre plots of land using a model that enables the poorest households to double their income in a year.[9] One Acre Fund provides credit in the form of high-yielding seed and improved fertilizer, along with training, support, and post-harvest assistance. What's most promising is that One Acre Fund can also measure positive results in the successful repayments of their loans. Since 2006, they have reached 137,000 rural farmers, and by the end of 2012, 97 percent of their members had repaid what they had borrowed.[10] Our project with One Acre Fund will help them significantly expand their model, and together we will be assessing how we can improve as they achieve greater outreach.

EXPANDING FINANCIAL ACCESS FOR YOUNG PEOPLE

KEY TAKEAWAYS

- There is demand among young people for access to savings
- Young people have a diverse range of needs from their financial services

As we noted earlier, Sub-Saharan Africa's rapid economic growth will require that its young people participate. In its early years, the Foundation seeded a portfolio of projects aimed at exploring the importance of access to financial services for young people living in poverty. These decisions were informed by a belief that the ability to access and use financial services is an important component in helping young people transition into adulthood, and a potentially powerful tool in improving their life trajectories.

Traditionally, there have been few efforts in the financial inclusion field that specifically target young people. Work has tended to focus on the adults in a household, assuming that the needs of young people in the same household are similar to those of the adults. While there is a correlation between rates of financial inclusion between young people and their parents, the Foundation's investments in youth financial services are based on the hypothesis that young people need specialized support – education, awareness, confidence, and tailored products – to successfully become financially included. "The hypothesis," says Ann Miles, the Foundation's Director of Financial Inclusion, "is that if you can introduce good financial behaviours to a young person, the possibility that they'll have better financial behaviours over time will be improved. Someone recently made the analogy to reading, indicating that it's easier to learn when you're young than when you're old."

Proving our hypothesis is a complex challenge. First, we need to explore how to foster greater access to financial services for youth. Once access is in place, we can then understand the impact and potential benefit of the activity. Our portfolio is beginning to yield insights about the first steps around access and in the coming years it will contribute significantly to conversations around the difference financial services can make in improving young people's livelihoods.

Do Young People Want Financial Services?

Demand is an important component of all financial inclusion interventions. Perhaps the most important question to answer is whether there is demand among young people for financial services. The answer coming from the early days of this portfolio has been a resounding and encouraging "yes." YouthSave, a five-year consortium project with Save the Children, the Center for Social Development, the New America Foundation, and CGAP, is developing and testing the impact of offering young people aged 12-18 formal savings accounts in Colombia, Ghana, Kenya, and Nepal. Market research conducted among 2,500 young people in these countries showed that contrary to adult perceptions, it is common for young people to be managing money from the age of 12, using informal savings mechanisms that are independent of their parents. Many young people expressed a willingness to pay a reasonable cost for a formal service that would allow them to safely accumulate small deposits better.[11]

Despite this need, the context in which young people will use financial services to explicitly improve their lives needs to be better understood. For many, it's a matter of whether a branch or service is available or convenient. For others, they are intimidated, just as many adults are, by the notion of interacting with a formal financial institution. For those that do get in the door, ensuring those accounts are actively used is the final, and often most difficult challenge.

Through our YouthSave partnership, we are exploring whether these barriers can be broken down by specifically designing more youth-friendly products. This is about more than just marketing. While we have documented the psychological barriers that can prevent positive savings behaviours among young people, we've also identified particular mechanisms to help overcome these barriers. Behavioural economists call it "the last mile" problem in building such capabilities. Even when the desire, ability, and opportunity are in place, sound behaviours often don't follow because of various psychological barriers and biases. "Nudges," such as text messages and bank statements, and peer encouragement strategies, such as financial clubs, may help prompt positive behaviours.

Policy Barriers and Enablers

Beyond tactical approaches, it is important to recognize that young people in Sub-Saharan Africa face significant regulatory barriers to using financial services. Laws in many countries that were intended to protect youth often make it harder for them to save through formal institutions. In many countries, for example, young people face a minimum age requirement of either 16 or 18 years of age to open an account on their own. This deters those who don't want a parent or guardian to know about their finances or to access them without their consent. Contracting laws and "Know Your Customer" regulations may also bar low-income youth without birth certificates from opening accounts. According to a 2008 report of the UN Development Program's Commission on Legal Empowerment of the Poor, 70 percent of children in the world's least developed countries do not have birth certificates or registration documents, leading some to call on African countries to explore alternative identification systems such as India's use of biometric data (e.g. finger prints or iris scans).[12]

However, it is not all bad news for young people wishing to save. Some public policies enable and even encourage savings behaviour and asset building among youth. Governments can support interventions, such as incentives, defaults, reminders, and commitment devices, which, at different life stages, can provide youth with access to and ability to regularly use savings services.

Searching for the Business Case

The review of our past work on youth financial services also focused on learning about how to build a business case for financial service providers to develop products and services for young clients. In addition to the policy challenges mentioned above, the cash flows of young people tend to be small and highly variable, making it difficult for providers to earn a profit from these customers through savings products alone. It also costs more to acquire young customers, requires greater investments in client education, and holds less potential for "cross-selling" more profitable products such as credit or insurance. If financial service providers can't turn a profit, then youth financial inclusion interventions will need to be led by public sector subsidies.

For microfinance institutions, the motivation to serve youth will have more to do with long-term growth strategies that consider the lifetime value of a customer rather than their aspirations for short-term gains. This makes sense. A youth savings product doesn't promise to attract substantial account balances, but it might help acquire a new long-standing customer. Banks participating in the YouthSave Initiative confirmed they're taking this long view as a result of their participation in the program. "Look at banks with market dominance in countries like Canada," says Ruth Dueck-Mbeba. "They put ATMs in every college with the hope that young people will be loyal customers as they get older."

Among providers who are motivated to reach out to disadvantaged young people as potential customers – whether because they are convinced of the business case, receiving subsidies, or motivated by corporate social responsibility goals – we have seen a need for specialized education, marketing, and service approaches.

Diverse Needs Among Diverse Young People

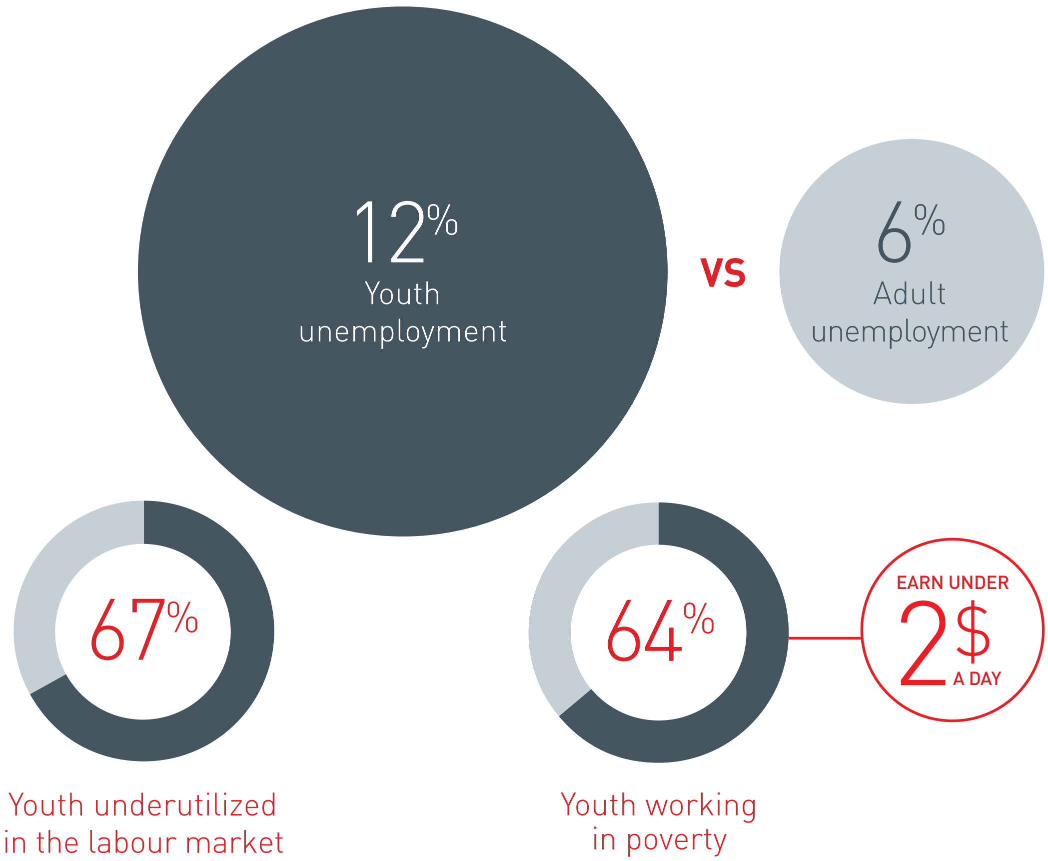
While many financial service providers might think of youth as a segment, we believe it is a category unto itself. Working in collaboration with the Boston Consulting Group, we explored how client segmentation can help us better understand what the diverse youth population of Sub-Saharan Africa might need, and how best to reach them.

The different needs of young people suggest that distinct, segment-tailored approaches are required. The most vulnerable youth, typically in rural areas and often unreached by formal institutions, may require more than financial services – they may benefit from holistic programs that help them build both healthy financial behaviours and the ability to generate income through a job or enterprise. Helping young people develop their confidence, assets, and the ability to invest in themselves could, in turn, make them more eligible for savings and loan products.

INCREASING ECONOMIC OPPORTUNITIES FOR YOUTH

KEY TAKEAWAYS

- Market-relevant skills, mentorship, and financial services help young people participate in the economy
- Sectors with growth potential for young people (such as agriculture) are key
- Youth unemployment and underemployment must be tackled with careful coordination between non-profit, private, and public sectors



When the Foundation began to design the Youth Learning program, we made a strategic commitment to address two distinct challenges: the need to equip disadvantaged young people with the necessary skills that would make them more employable; and the need to connect these young people to jobs.

Despite recent economic gains in Sub-Saharan Africa, its young people continue to face a variety of challenges as they enter their working years. These issues are distinct and depend on a variety of factors, including their gender, whether or not they live in rural, urban or peri-urban settings, their level of education, and their level of poverty. According to the International Labour Office's (ILO) Global Employment Trends Report (produced in partnership with the Foundation in 2013), the region's youth unemployment rate (11.8 percent) is double that of adults (5.9 percent). Among those in some form of employment, most (64 percent) work in poverty, making under US$2 a day. Beyond unemployment or poor wages, the extent of the currently untapped potential is eye-opening.[13] A recent ILO study of eight countries in Sub-Saharan Africa found that 67 percent of young people surveyed are underutilized in the labour market, meaning they can't go to school, can't find a job, or are working in irregular, poor-quality, or low-wage jobs where there are no opportunities for training.[14]

In addition, many young people find that their work experiences and skills are not appropriately matched to the needs of prospective employers. Self-employment among young people fluctuates and is unstable. Public policies regarding youth employment tend to be poorly coordinated and are not focused on job creation. Most daunting of all, formal job growth is simply not keeping pace with the growing labour force.

Youth Learning Programming and The MasterCard Foundation

The MasterCard Foundation focuses on young people in their adolescent and early adulthood years. This is a crucial stage of life when a young person's trajectory is determined when he/she gains the skills, attitudes, and access to economic opportunities that sets him/her up for successful adulthood. Our programming centres on Sub-Saharan Africa, where almost 600 million people under the age of 25 now live.

We are building knowledge about:

- How to enable more young people to complete high quality secondary education and successfully transition either to tertiary education or the workforce.
- How to connect young people who are out of school and out of work to jobs or opportunities to build their own businesses.

This means that for many young people, their first employment experience will be in the informal economy, which can often lead to hazardous and exploitative types of work that leaves them vulnerable. This results in non-contracted, non-salaried work through the private sector, which in Africa is dominated by small, micro-enterprises (entities with low capital and productivity). The other form of work is within family-owned businesses. We often see this in the agricultural sector, in which many young people begin their lives by assisting their families in the maintenance of a household, usually at a subsistence level.

Our learning in this space has presented a sobering reality check. Because of the chronic shortage of jobs in the formal economy across Sub-Saharan Africa, young people need both the individual skills and an enabling environment to successfully shift from subsistence living to more entrepreneurial and sustainable forms of income-generation.

The Foundation plans to continue providing young people with comprehensive training, education, and holistic support based on market needs, especially priority sectors where real opportunities for income-generation are most likely to exist. We will expand and test employment and entrepreneurship models in key growth sectors such as agriculture and construction, and convene and collaborate with other donors, NGOs, government, and private sector actors (i.e. employers and financial service providers).

Our strategy to promote economic opportunities for youth is a carefully-constructed approach based on several years of work, partnerships with 18 organizations, and investments totalling more than $175 million. What we've learned from these projects is helping to shape a more cohesive vision of how to best serve the needs of young people in Sub-Saharan Africa.

Building the Foundational Skills of Young People

On the labour supply side, our work has shown us that young people need more than just technical skills training; they need to develop foundational skills such as the ability to communicate, analyze, solve problems, and adapt to change in order to have a better chance of success. These "soft" skills can be difficult to define, teach, and standardize, however they are critical. Young people need more than the "hard" skills of the traditional workplace. They also need confidence to deal with the challenges of everyday life.

Meredith Lee, a Program Manager at the Foundation, says, "If you talk to employers, they will tell you that they can teach young people how to make something. What they can't teach them is how to effectively communicate and work with others."

Much of our reflection in this space comes as a result of our experiences with the LEARN, EARN AND SAVE projects we started in 2011. These initiatives are looking at the life-skills needs of very different young people. Our three partners involved in this initiative, Fundación Paraguaya, CAP Foundation, and Swisscontact are working with youth in secondary and vocational schools, as well as with those who are out of school and unemployed. Our learning partner for these projects, University of Minnesota, collected rich testimonials from young people who specifically identified the importance of life-skills training and how it significantly impacted their confidence and their ability to confront and overcome obstacles in their lives. We also learned that financial literacy and access to savings are important stepping stones in helping them achieve a better quality of life.

In addition to technical and life-skills training, financial training and support can provide young people with the ability to better plan and invest in their ongoing development and their businesses. We heard this during the mid-term evaluation of our SCALE THE REACH UP! program with Digital Opportunity Trust (DOT) launched in 2010. Approximately 55,000 young people were given the opportunity to access an integrated package of training in ICT skills, life-skills, and enterprise development. While 96 percent of graduates from the project demonstrated a greater understanding of business or job search skills, over 75 percent identified a desire to be linked to financial institutions that could help them save or access credit to start a new business or upgrade their skills.[15]

To help young people make a successful transition into the workforce, we have observed that effective employment programs follow these practices:

- They are informed by local market assessments, which include analysis of relevant growth sectors.
- They engage young people in program development and management.
- They take into consideration the current and planned state of infrastructure.
- They understand the regulatory environment and how it impacts private sector development.
- They incorporate life skills as a key area of skill development.

Youth Engagement in Program Design

In 2012, The MasterCard Foundation established a Youth Think Tank, as part of a wider youth engagement strategy. The Think Tank is one of the many ways the Foundation is able to listen to the voices of young people in Africa. This group of young people would provide insight on issues surrounding our two program areas — Youth Learning and Financial Inclusion — and develop youth-led ideas for our programs and strategies.

To ensure their contributions fed directly into research that was relevant to the Foundation, we asked the Think Tank to address the following question:
How can we increase youth employment (formal, informal, and self-employment) in growth sectors such as agribusiness, green growth, information and communications technology (ICT), and financial services?

We engaged nine young people, ranging in age from 19 to 24, from Ghana, Rwanda, Sierra Leone, Uganda, and Kenya as qualitative researchers. Over a six-month period, they had the opportunity to interview 51 community and business leaders and 119 peers. They then convened on August 3-4, 2012, to share their findings and discuss the implications of their research.

Key takeaways included:

- Young people listed four key obstacles to employment, including limited knowledge of growth sectors, entrepreneurship, and networking; limited access to capital and financial products and services designed for youth; limited awareness of employment programs; and limited youth participation in the decision-making process of youth-serving organizations and programs.
- Throughout the Think Tank's work and interviews, a common adage was often repeated: "Become a job creator rather than a job seeker." Participants identified four levers that could help make that aspiration a reality for young people:
  1. Inspire youth leadership and empowerment;
  2. Allow youth to make meaningful contributions to society;
  3. Emphasize creativity, social engagement, and community-building; and
  4. Improve access to finance/savings and entrepreneurial training.

> Empower youth in leadership. Young people need to be given a voice at decision-making levels so that their entrepreneurial ideas can be supported and encouraged.
>
> Participant Angella Mutamba of Rwanda

- The Think Tank was also asked if existing institutions such as schools, governments, and financial institutions are failing to prepare youth for employment in the growth sectors.

  They identified four problematic areas, including:
  1. Relevance of content and curriculum;
  2. Misdirected career guidance;
  3. Lack of transparency; and
  4. Failure to connect young people with leaders and decision-makers.

> The Think Tank emphasized that there is a real disconnect between the knowledge and skills taught in schools and those required to perform jobs in the current market. The educational system should be designed to help students be attractive in the job market and properly equipped to set up their own businesses.
>
> Participant Eyram Adedze of Ghana

For more information on the process, findings and implications, please see the Foundation's Youth Think Tank Initiative Final Report: mastercardfdn.org/YTT2013

Where are the Economic Opportunities for Young People?

On the labour demand side, the good news for young people is that many African economies are growing. Research conducted on behalf of the Foundation in 13 countries in Sub-Saharan Africa indicates that the highest numbers of entry-level jobs or opportunities for income-generation will be in the construction and agriculture/agribusiness sectors.

Agriculture and agribusiness has loomed large in both our youth employment and financial inclusion work. As a sector, agriculture supports the livelihoods of most people, and its potential for growth is significant. Young people living in rural areas have livelihood opportunities as farmers, employees, and entrepreneurs. Entry-level opportunities go beyond subsistence farming and include various elements of the agribusiness value chain such as input supply, packaging, processing, as well as marketing and distribution. While traditionally, it has been assumed that agriculture has not been an attractive employment option for young people, changing mindsets can have a powerful impact. Our partnership with TechnoServe on the STRYDE (Strengthening Rural Youth Development through Enterprise) program, as one example, has shown that rural youth are interested in working in the agriculture sector, once they have been exposed to modern farming techniques and a business-oriented mindset.

We have also learned about the critical need for job and skills-training programs that are driven by the demands of the market. Training must ensure labour supply is in synch with labour demand.

"There are many examples of well-intentioned work in this space that has gone wrong, such as flooding the market with hair braiders or doing surveys of what youth want to do without aligning it with the labour market," says Rebecca Winthrop, Director of the Center for Universal Education at the Brookings Institution. "We need to be smart and scientific about where the labour market is and create multiple pathways for youth to get in. It hasn't been done systematically enough."

The concrete lesson learned about demand-driven programming is that, "Every project should start with a market assessment," says Steve Cumming, a Program Manager at the Foundation. "Such assessments can address critical questions of a youth employment strategy, including: Are there jobs available? How can young people generate income if jobs don't exist? What opportunities do young people see? What specific demand gaps are in the market?"

> We need to be smart and scientific about where the labour market is and create multiple pathways for youth to get in. It hasn't been done systematically enough.
>
> Rebecca Winthrop, Director
> Center for Universal Education
> at the Brookings Institution

Market assessments conducted with Save the Children's Youth in Action program, which is currently rolling out in Burkina Faso, Ethiopia, Egypt, Malawi, and Uganda, found that young people had greater opportunities in off-farm agribusiness activities, such as poultry, than those activities that required access to land. This insight has been critical in designing where training activities should be focused.

Engaging the Private Sector

In regions where more opportunities for jobs exist in the formal sector, we've seen how the worlds of youth development and the private sector are increasingly working together. As Jamie McAuliffe, President and CEO of Education For Employment puts it, "We're finding that companies really do want to be a part of the solution to the problem of youth unemployment. Our challenge is to figure out the incentives that will not only benefit the young people we're hoping to set on a career path, but that are sustainable over the long term because they address company profits and core business concerns."

Our work with job training projects with Harambee and Education For Employment are demonstrating the kinds of approaches that will inform our future practices in private sector engagement, particularly how trainers can better understand employer needs and design appropriate training programs to meet them. "A key challenge," says McAuliffe, "is that businesses at all levels struggle to project their human resource needs. This means that to achieve scale, businesses, business groups, and trade associations will need to coordinate more formally, so that if one employer can't employ as many young people as they thought, there are enough other employers to fill in the gap."

> Educational and training ecosystems need to rethink the meaning of accountability.
>
> Jamie McAuliffe, President and CEO
> Education for Employment

EMPOWERING DISADVANTAGED STUDENTS BEYOND PRIMARY SCHOOL

KEY TAKEAWAYS

- New models are demonstrating how to attract and retain young people in secondary school
- Holistic approaches are empowering leadership potential

In the past decade, developing nations, particularly in Sub-Saharan Africa, have made significant strides in increasing the enrolment of children in primary, secondary, and tertiary education. In Sub-Saharan Africa, the number of children in primary schooling increased by 48 percent between 2000 and 2008, and enrolment in secondary and tertiary education grew by more than 60 percent during the same period.[16] Given the effort involved, the number of graduates remains small, and concerns persist regarding the accessibility of education to marginalized groups, the quality of education, and the relevance of available opportunities. For the developing nations of Sub-Saharan Africa, tomorrow's prospects for economic growth and social development rest in great measure on how well young people are being prepared today. The challenge is not only about increasing access to high quality education and job training. It's also about preparing the next generation for ethical leadership and social transformation – a need that is pressing across the continent.

The Foundation has made significant commitments to ensuring secondary and tertiary education opportunities are available for high-potential young people in the region, and to building support systems to enable their personal success. Our experience, at a secondary level, with Equity Group Foundation's *Wings to Fly* program, and Camfed's girl-centred education program, demonstrates how the combination of tuition support, life-skills training, and mentorship can ensure young people are able to succeed.

Camfed's model for providing young women with education takes a holistic and long-term approach. Girls are provided with comprehensive bursaries to enable them to complete secondary school, and then supported beyond school with entrepreneurship and leadership training, and mentorship offered through Camfed's alumni association, Cama. This combined approach is creating an infrastructure through which young women can realize their ambitions to give back to their communities. The Foundation's initial partnership with Camfed in 2010 helped the organization scale up their model in Ghana and Malawi. Preliminary results from mid-term evaluations have been highly encouraging, as is observed by the high rates of retention in secondary school among Camfed's scholars. In Ghana, for example, 96 percent of young women receiving a Camfed scholarship have continued in their secondary school studies.

Equity Group Foundation, which is implementing the *Wings to Fly* scholarship program in Kenya, is also demonstrating the potential of economically disadvantaged students as they pursue secondary school studies. Equity Group Foundation oversees the facilitation of the transition from primary to secondary education, enrolling children into quality schools, supporting their academic growth and development, mentoring them, and empowering them through exposure to leadership qualities and values. The program is also building an alumni program that will ensure scholars have adequate support after their secondary school studies are complete. At the mid-term evaluation of the program, 99 percent of students receiving scholarships have remained in school.[17]

These programs have already made real progress in reaching large numbers of young people, and have provided students with opportunities they might not have otherwise. The knowledge gained from these programs informed the Foundation's other work in this space, including The MasterCard Foundation Scholars Program.

The MasterCard Foundation Scholars Program Model

The centrepiece of our work on educational access and leadership development is The MasterCard Foundation Scholars Program. The Program aims to expand access to education for academically talented, yet economically disadvantaged young people in developing countries, primarily in Sub-Saharan Africa. It promotes broader social transformation by preparing and empowering a new generation of leaders committed to fostering change and economic progress in their countries or regions of origin. We have committed $500 million to provide educational opportunities for 15,000 young people over the next 10 years.

The Scholars Program provides a holistic education package, consisting of training and support for students at the secondary and tertiary levels. The Program's activities focus on two educational stages – from middle to secondary school and from secondary school to tertiary institutions – while linking students with career opportunities in their home countries and cultivating a social commitment to give back to their communities. There is an intentional emphasis on identifying and supporting students who are committed to staying in or returning to their region of origin to carry out their vision of social transformation.

Finding and Developing Leaders

A key element of the Scholars Program is demonstrating the enormous potential of Africa's young leaders, showing that if provided with the appropriate access and support, they can thrive in quality secondary schools and top-ranked universities. We see a real opportunity to learn from this experience of recruitment, and the Program's learning framework has been structured to specifically address the recruitment process. We will document the kinds of strategies deployed, share best practices across our partner organizations, and highlight those that shed light on reaching more difficult populations, such as young women, or students from rural and remote populations.

It is work that will pay significant dividends for the future of global leadership development. The Foundation's Research, Evaluation and Learning Manager on the Scholars Program team, Barry Burciul, says, "There are students like Paul Kut Kelei – born in Ethiopia, raised in a refugee camp in Kenya, and now a MasterCard Foundation Scholar – who are so talented, and who come from such unlikely backgrounds, that they should compel institutions to want to recruit them and to develop and nurture them."

In addition to looking at the recruitment process, the Foundation will also be analyzing the availability of support services, student integration, Scholars' academic achievement, and their ability to return home. The learning from this education model will help our current and future partner organizations better understand the needs of the Scholars and to develop and implement initiatives in a more cohesive manner.

Changing Communities by Helping Young Leaders Give Back

One of the most intriguing questions raised by the Scholars Program report is: **what impact will these young people have once they return and enter the workforce?**

"The developing world is where many of the great challenges of our time are felt most acutely, such as poverty, climate change, infectious disease, and armed conflict," adds Barry Burciul. "Everyone recognizes that it is Africans themselves who will lead the drive for solutions to these challenges. The question is how can we best support them in doing so? How do we equip them with the skills they need to succeed? How do we ensure that Africa's best minds are retained on the continent, where, in fact, so many of them want to be?"

The Scholars Program answers these questions with a number of specific approaches. Building on the preliminary results of our partnerships with Camfed and Equity Group Foundation, we have started to create a strong mentorship and alumni component to ensure students can succeed when their education is complete. During their studies, university Scholars stay connected with African issues and opportunities through significant mentorship, internship, career networking, and cohort-building activities. As they transition out of school, the Program will link them to career opportunities in Africa that make it both viable and desirable to stay in or return to their countries of origin.

When Deepali Khanna, Director of Youth Learning at the Foundation, talks to funders and practitioners about the Scholars Program, the most frequent discussion is about the "brain drain" phenomenon and the most frequent question asked is, " 'How are you so sure they'll go back?' There's no contract or pledge," she says. "Some students voluntarily sign a pledge, which is wonderful. But we recognize this is also our responsibility. We're laying the foundation for a long-term network that sustains motivation and builds the Scholars community to a critical mass so they can share information, exchange experiences, and offer guidance to each other during their studies and long after they graduate from the Program. We think this will be a key motivating factor in fostering continued support and commitment to their homelands."

> We're laying the foundation for a long-term network that sustains motivation and builds the Scholars community to a critical mass.
>
> Deepali Khanna, Director of Youth Learning
> The MasterCard Foundation

Our partnership with EARTH University in Costa Rica shows some of the necessary pieces in the give-back puzzle. EARTH began in 1990, offering a rigorous four-year undergraduate program in agricultural sciences and natural resources management. According to alumni data collected by the university, some 87 percent of graduates have returned to their home countries, and almost all are working in their fields of study. In 2011, our partnership helped them bring in 40 students from the African continent along with another 80 students from around the world. Our mid-term evaluation revealed that, midway through their studies, the intention to return to their communities of origin is still almost universal.[18] As one of the original Scholars Program partners, EARTH has committed to sharing how this intention can be nurtured.

> I feel the emphasis of The MasterCard Foundation Scholars Program on going back and giving back. Implementing various modules to reinforce Scholars' commitment to doing so is how we will develop real leaders.
>
> Victor Jayeola of Nigeria
> MasterCard Foundation Scholar

MasterCard Foundation Scholars have told us that this intention to give back is a key component of the Program. Victor Jayeola of Nigeria is studying Food Science at Michigan State University and puts it this way, "I feel the emphasis of The MasterCard Foundation Scholars Program on going back and giving back. Implementing various modules to reinforce Scholars' commitment to doing so is how we will develop real leaders."

Influencing Institutions about the Potential of Young Leaders

Beyond the impact on individual Scholars, the Program is documenting the Scholars themselves and the type of influence they are having on the institutions where they study. At the university level, where some Scholars have begun their studies, our partners have identified a number of shifts in perspective. For example, they've reported that collaboration among university partners is being enhanced, particularly around curriculum development. Faculty are now highlighting the impact of the Scholars and the effect they are having on the school's overall environment.

FOUNDATION LEARNING SOURCES

This report reflects a review of mid-term and final evaluations conducted with the following partners of The MasterCard Foundation:

Aflatoun
African Leadership Academy
Camfed
Digital Opportunity Trust
Education for Employment Foundation
International Youth Foundation
TechnoServe
YouthBuild
Aga Khan Foundation
BRAC
CARE
Equity Group Foundation
MEDA
Opportunity International
Plan
Save the Children – YouthSave
UNCDF – YouthStart
Water.org
Women's World Banking
EARTH University

In addition, the Foundation has formed learning partnerships with the following organizations:

University of Minnesota:
Learn, Earn and Save Initiative

Mathematica:
The MasterCard Foundation Scholars Program

Talloires Network:
Youth Economic Participation Initiative

APPENDIX

[1] African Development Bank Data

[2] CGAP Strategic Directions FY2014-FY2018, May 2013

[3] Data from End-Term Evaluation of SAFI Project

[4] Data from End-Term Evaluation of SAFI Project

[5] GSMA State of the Industry Report, February 2014

[6] Catalyzing Smallholder Agricultural Finance, Dalberg Associates

[7] Data from Impact Evaluation of Opportunity International's Agricultural Lending Program in Uganda, Malawi, and Ghana, July 20, 2013

[8] Data from Impact Evaluation of BRAC's Agriculture and Livestock Program in Uganda

[9] Center for Effective Global Action, Evaluation of One Acre Fund, 2011-2012

[10] One Acre Fund Project Data

[11] What do Youth Savers Want? Results from Market Research in Four Countries, 2012, Save the Children Federation, Inc.

[12] UNDP Commission on Legal Empowerment of the Poor (2008). Making The Law Work for Everyone

[13] ILO, Global Employment Trends for Youth, 2013

[14] ILO, Regional SWTS Report

[15] Scaling DOT Reach Up! Project, Plan: Net Limited, September 2012

[16] UNESCO, 2011

[17] Data from Mid-term Evaluation of Equity Group Foundation's *Wings to Fly* Program

[18] Data from Mid-term Evaluation of EARTH University

The MasterCard Foundation works with visionary people and organizations to create a world where everyone can learn and prosper. With a particular focus on Sub-Saharan Africa, the region with the largest population of young people in the world, the Foundation is developing innovative youth learning and financial inclusion programs to contribute to the continent's social and economic progress. It was created in 2006 by MasterCard Worldwide when it became a public company and is based in Toronto, Canada. The MasterCard Foundation operates independently and is governed by its own Board of Directors, President and CEO, and Senior Management Team.

The MasterCard Foundation Board of Directors

Fostering meaningful **collaboration** for greater **impact**

The MasterCard Foundation
2 St. Clair Avenue East, Suite 301
Toronto, Ontario, Canada M4T 2T5

mastercardfdn.org
416 214 2857