

Authors

Pooja Wagh
Program Manager, Financial Capability

Beniamino Savonitto
International Finance Corporation

Researchers

Dean Karlan
Northwestern University

Leigh Linden
University of Texas

Julian Jamison
University of Exeter

Jonathan Zinman
Dartmouth College

How Can Children and Youth Become Financially Capable Adults?

Uganda has one of the highest primary school drop-out rates in the world. Though the country abolished most primary school fees in 1997, a recent UNICEF report found that 81% of parents cited financial constraints as the reason why their children dropped out of school. In a new [op-ed](#) in Uganda's Daily Monitor, Oliver Schmidt points out:

Many Ugandans say education takes the number one spot in their expenses...Our qualitative fieldwork revealed that a large proportion of microfinance loans are used to pay for education, even if those loans are by name for business or agriculture.

Schmidt goes on to summarize the promising impacts of a pilot program through which primary school children were offered school-based savings accounts to help them save for education-related expenditures. A [rigorous evaluation](#) conducted by Innovations for Poverty Action (IPA) in Uganda found that a savings account that nudged children to set money aside for school supplies successfully encouraged students to save more. When the account was offered in combination with a parent outreach program, students were more likely to invest their savings in school supplies, uniforms, and education services such as tutoring, and had higher test scores.

The promising impacts of this school-based savings program show that access to a simple savings account combined with a gentle nudge toward saving and responsible spending can be effective in improving the financial capability, and ultimately the welfare, of poor families in developing countries. Accordingly, access to savings for youth has long been on the

agendas of organizations from [Aflatoun](#) and [Save the Children](#) to [UNCDF](#) and [Women's World Banking](#). The importance of providing savings vehicles for young people – and building a business case for such vehicles – echoed throughout the agenda at this year's [Global Youth Economic Opportunities Summit](#), where these organizations and a multitude of others championed the idea of providing well-designed savings accounts to promote youth financial capability.

In a parallel – and possibly complementary – effort, governments and NGOs worldwide are focusing on programs that aim to develop youth financial capability through financial education. The theory behind such programs is simple: by learning financial concepts from an early age, children will become financially capable adults who take optimal, welfare-enhancing financial decisions. An [evaluation of a large-scale financial education program for Brazilian secondary-school students](#) demonstrated that a well-designed curriculum can, in fact, significantly improve the financial knowledge and savings behavior of youth.

So what is the best way to mold youth into financially capable adults? Should financial capability programs for youth combine education and savings tools, or is it enough to just offer savings?

Another [IPA study in Uganda](#) is testing this question among 16- to 28-year-olds by comparing the impacts of a group savings product, a financial education program, and a combination of the two on the participants' savings behavior. After one year, participants reported similar increases in total savings and earned income regardless of whether they received a savings account, financial education, or both, suggesting that there may be no added benefit to offering education and savings tools in combination, at least in the short run.

Unfortunately, this short-run evidence cannot provide a definitive answer on how best to turn youth into financially capable adults. We need longer-term results. This is why IPA, with support from the Citi Foundation, plans to conduct a long-term follow-up with the participants of this study next year. Gathering evidence on the impact of financial education and savings accounts on savings behavior nearly five years after the initial program was offered will give us important clues about whether impacts of financial capability programs can persist in the long term, and help us understand whether these strategies are best offered individually or in combination. Our findings will be critical in helping to define the direction of youth financial capability policy and practice.

You can learn more about IPA's work evaluating financial capability-enhancing interventions for children and youth [here](#).

Beniamino Savonitto is an Initiative Director and Pooja Wagh is an Initiative Coordinator with IPA's [Global Financial Inclusion Initiative](#).

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