

# Matched savings and loans for youth in rural Uganda

## 1. DEVELOPMENT RELEVANCE

### Economic and poverty context

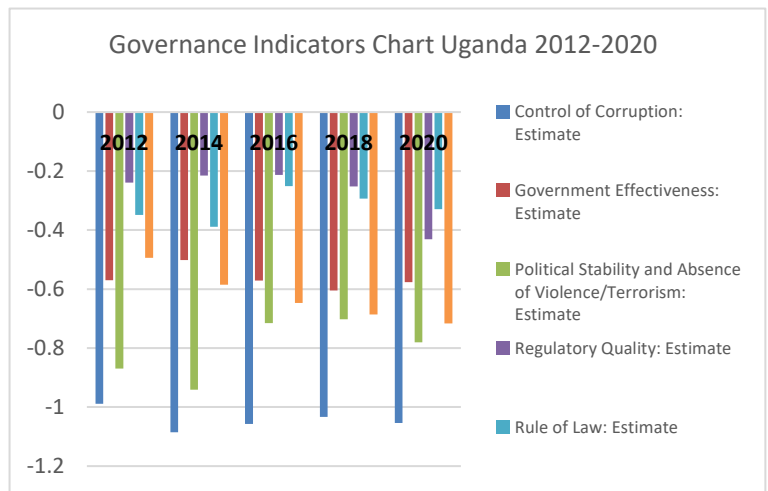
Uganda's economy and poverty rates were negatively affected by the Covid-19 pandemic. The economy has rebounded strongly since the mobility restrictions were lifted in October 2021. With lower consumption growth due to reduced remittances, limited credit, and job losses, poverty increased from 27.5 to 32.7% after the first lockdown in 2020. Compared to the strong performance in the 2000s, recent economic growth has slowed considerably. With reduced reform momentum, a less supportive external environment, and other exogenous shocks like droughts, growth since 2011 has barely surpassed the high population growth rate of 3%. As a result, in the five years prior to the Covid-19 crisis, per capita real GDP growth halved to 1.1% on average per year. The World Bank states that economic growth in Uganda depends on maintaining macroeconomic stability; better support for the vulnerable, farmers, and small enterprises; increasing uptake of digital technologies; and the effective use of public resources.

Table 1: Population and economic indicators	
Population in million (2022)	48.4
GDP growth (2021)	3.4%
Inflation (2020)	3.8%
Trade balance (% of GDP) (2021)	-10.6%
Foreign direct investment (net) (% of GDP) (2020)	2.3%
Net ODA received (% of GNI) (2020)	8.3%
Remittances received (% of GDP) (2020)	2.8%
Economic Freedom Index <sup>ii</sup> (Rank among 186 countries) (2022 down from 106 in 2021)	127
Poverty indicators	
GDP per capita (USD) (2021)	858.1
Gini Index (0= equality 100= inequality) (2019)	42.7
International poverty rate (2019; at 1.90 USD/day)	41%
National poverty rate (2019)	20.3%

### Financial sector context

Opportunity Bank Uganda Limited (OBUL) is regulated by the Bank of Uganda, which also designed the National Financial Inclusion Strategy (NFIS, 2017-2022). This strategy aims to reduce the financial exclusion levels from 15 to 5%. The strategy lists 'youth' a priority group, and outlines the regulatory barriers to their financial inclusion:

- Legal and regulatory restrictions dampen the financial inclusion of youth. Most young people lack proper identification documents required to register for an account, which creates barriers to accessing financial services.
- Limited interoperability, infrastructure and technology for penetration of services in the rural areas.



Several government interventions could support youth in agriculture in Uganda. For example, the Five Year National Strategy for Youth Employment in Agriculture and the Youth Venture Capital Fund both focus on youth entrepreneurship and job creation. As it scales, there are several regulatory opportunities that OBUL could further leverage to develop the youth market, including the Chattels Security Registry, the permitted use of agents and mobile banking, and opening youth information centres for agricultural development.

### Financial sector partner(s)

OBUL is a commercial bank licensed and regulated by the Central Bank of Uganda. It has a network of 24 branches and ATM points nationwide. As of October 2020, its total assets were worth UGX 224,526 million, forecasted to increase to UGX 458,036 million by 2025. The bank was hit hard during the pandemic. Loan growth took a dip due to the Covid-19 crisis' impact on business performance and household incomes,



Result	Notes
<p><b>Income:</b> 84.5% respondents reported increased income (OI survey).</p> <p>Of these, 51% earned above the national average of UGX 200,000 (£44), up from 31% at baseline (TAMTF survey).</p>	<p>44% attributed this to new or expanded business, and 36% to the good agricultural season.</p> <p>Results from control group showed little change, highlighting that income in participating groups improved significantly despite the pandemic.</p> <p>A majority of the respondents attributed this increase to their involvement in the YEC.</p>
<p><b>Diet changes:</b> 85% reported an improvement (OI survey).</p>	<p>Assumption that higher income leads to improved diets.</p>
<p><b>Business training:</b> 88% agreed that the training improved their business (OI Survey).</p>	<p>Over 1,000 new businesses were set up.</p>
<p><b>Loan recipients reporting positive impact:</b> 63% (OI survey) of loan recipients.</p>	<p>Those who reported negative impact, usually cited it was due to difficulty in repaying the loan.</p>
<p><b>% reporting increased savings after opening OBUL group loan account:</b> 85% (OI survey)</p>	
<p><b>Ability to access cash in emergency</b> improved from 36% to 54% (OI survey)</p>	<p>Those borrowing from bank to source money increased from 29% to 47%.</p>
<p><b>95% reported improved life compared to one year ago</b> (OI survey)</p>	
<p>93% had <b>increased confidence about the future</b> (OI survey)</p>	

In terms of gender, whilst growth in the numbers of women taking loans has been slow (a trend across all OBUL branches), young female clients at the Mityana branch have been growing in numbers (from 60 in 2019 to 352 in 2021). Women are also saving more than male clients. In 2021, 352 women saved UGX 75 million while 464 men saved only UGX 44 million.

**Tuliko Senda Youth Development Club** is one of the youth groups benefitting from this programme. As a result of the business training the group members received, they spotted a gap in the local market and established a coffee trading business, increasing their profits from UGX 850,000 in 2019 to UGX 1.3 million in 2021.

Whereas due to previous bad experiences many of the youth lacked trust in banks, the financial literacy training provided by OBUL has increased their confidence in using financial services, particularly in account opening and making bank transactions. The group has opened a formal bank account and is now content that their money is safe. Having learnt the importance of savings, they have increased their savings from UGX 1.05 million to UGX 1.96 million. The group attributes this to having set a clear savings goal. There is still some uncertainty amongst the youth about taking out a formal loan with the bank, however, OBUL’s designated Youth Loan Officer is on hand to offer advice and answer any questions that the group may have.



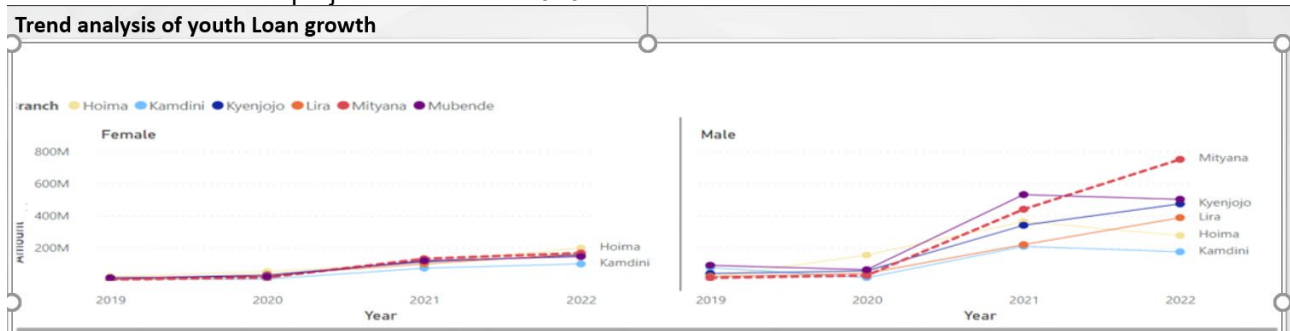
**Sylvia Nagawa** started benefiting from the YEC in March 2021 when she received a loan amount of US\$ 450 after attending a youth group product sensitisation organised by OBUL at the Kinoni Youth Group. The loan provided her with capital to purchase agri-inputs and pay for labour. Her first loan helped her expand her coffee garden from 3 to 5 acres and maize from 2 to 4 acres. On her second cycle, Sylvia received a loan amounting to US\$ 550 to partly to invest more in her farm and also construct a family home. With the support of her husband, Sylvia has been able to start a tailoring business using the profits she made from her farm. This has helped her diversify her sources of income. Recently, Sylvia managed to secure another US\$ 550 loan to acquire agriculture inputs for the growing needs of her agri-business. YEC notably brought much needed change in Nagawa’s life, enabling her to expand her agri-business, build a home and send her five children to school.



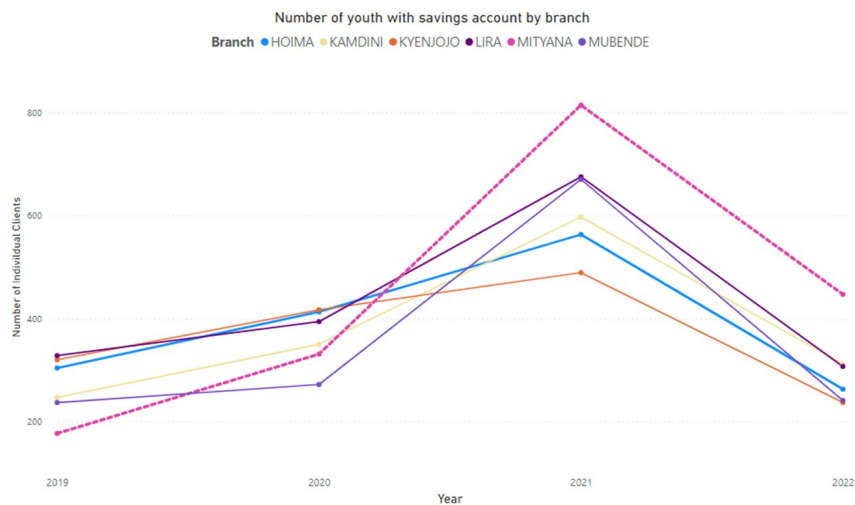
**Financial sector partner-level**

by August 2022, 5,352 youth were saving with OBUL (4,457 members from 144 groups and 895 individuals), the total loan beneficiaries were 538 (342 borrowers from 10 groups and 196 individuals) and the total loan portfolio was US\$ 129,611.11. OBUL has analysed the growth of the youth portfolio in savings and loans at the Mityana branch (where the project was implemented) and compared it to other bank branches to gauge the impact of the products, project activities and the business case for serving the rural youth market.

**Loans:** The loan portfolio quality is healthy (PAR one day at 3.64%, PAR30 at 2.13% and NPL at 0.05%). The Mityana branch is now the leading branch in terms of the youth loan portfolio (up from CHF 3,684 in 2019 to CHF 191,466 for males in 2022). This is because of the steep growth in the number of young male clients served since the project launched in 2020.



**Savings:** The Mityana branch is now the lead branch in terms of the number of individual youth holding savings accounts (up from 177 accounts in 2019 to 895 in 2022, while the other branches have 700 each). The deposit amount remains lower than other branches but is growing steadily. The number of group accounts is growing and has brought Mityana to parity with other branches. During a monitoring visit in May 2022, Owen Amanyana (OBUL CEO) and Amos Bonna (OBUL Head of Business) confirmed that this has proved the business case for investing in serving youth clients.



According to the Youth Champion Abraham Arimo, youth is now a core growth area for OBUL and the Board are fully engaged. The 2022-2024 Strategic Plan has a target of achieving 1,200 youth loans with a loan value of UGX 3.3 billion and 5,000 savings accounts for Village Savings and Loans Associations (VSLAs) by the end of 2024. Currently there is no market leader in the youth space, especially for rural youth. This offers enormous potential for OBUL to develop a brand as a financial partner of choice for youth. Additionally, OBUL has agreed to continue to work with HRNS as they scale up the TEAM Up project to an additional 6,000 youth in five new sub-counties in the Mityana Zone. OBUL is actively seeking new partnerships with the government and NGOs working to improve youth livelihoods.



#### 4. LESSONS LEARNT

The project was extended by eight months to account for two Covid-19 lockdowns in Uganda in spring 2020 and 2021. Uganda was subject to strict lockdowns, including a freeze on transport and a ban on public meetings. This affected market research and OBUL's ability to meet with the youth groups. The change in CEO at OBUL in 2020 delayed the product launch without a significant impact on the project itself. The project team moved the final MicroSave evaluation to the end of the project in light of the implementation delays and product redesign. This enabled the team to capture the full impact of the project.

##### Core challenges during implementation:

Challenge	Team response
Lack of trust and confidence in OBUL amongst youth group members meant that it took develop in rural, unbanked areas.	OBUL increased the amount of engagement with client groups in order to address disinformation and mistrust, and to increase product awareness. For example, 300 'high flyers' were trained in July 2022, leading to the disbursal of around 50 loans.
Groups experiencing difficulties in meeting KYC requirements and getting certified leading to delays in account opening in Year 1.	In Year 2, the Youth Champion met with local district leaders early on to ensure smoother and quicker progress towards certification and account opening.
Low uptake of US\$ 100 contribution to group savings due to group dynamics, mistrust of OBUL, and no need of incentive to save.	Budget (funded by OIUK) diverted to reduce interest rates and increase loan uptake.
Slow uptake of loans even though project targets were met.	Reasons for this include youth being afraid of or not being able to meet collateral requirements, lack of understanding of fees, repayment terms not linked to seasons, and lack of incentivised staff at OBUL. To address these challenges, the team increased focus on sensitisation, for instance by training the 300 'high flyers'. A training for OBUL staff is also planned as a follow-up activity.
Relatively short engagement period.	The project worked with a different cohort of groups in each year of the project, thus giving OBUL a relatively short period of time to sensitise the groups, make sure KYC requirements were in place, wait for entrepreneurship and financial literacy training to have an impact and then onboard qualifying groups/clients. Based on learnings from Year 1 of implementation, OBUL knew what to prioritise for Year 2, including advocating with district leaders to efficiently register the groups and conduct financial literacy trainings.

What worked	What can be improved
Hiring the Youth Champion allowed raising awareness within the bank, enabled training of other staff members and created a very effective line of communication.	More training and incentives for the branch staff would have made it easier to increase product uptake.
MicroSave were effective in carrying out market- and client-level research and producing reports and evaluations that were used as a management tool by OBUL in refining products and understanding the rural youth segment.	Ideally, the project duration would have accounted for more time for engagement with the groups to allow businesses to develop and to build trust with the groups.
Piloting the products allowed for feedback-based adjustments, improving account opening and loan uptake in Year 2 of implementation.	More focus on product journey mapping and digitisation would have been very useful had the budget allowed.

**Critical success factors:** The OBUL group and individual savings accounts have incorporated flexible design features that are more suited to young people. The VSLA's are effective entry points for reaching large numbers of rural youth. Reduced interest rates and the presence of a loan guarantee also increased lending.

Youth Savings Groups, through their group structure, can help rural youth build assets and financial capability, and potentially develop long-term savings habits.

Non-financial services, such as financial literacy and business enterprise training, are essential ingredients for building the financial and business capabilities of young people. The link to the TEAM Up project also supported the groups' savings activities and HRNS field officers assisted with communication and liaison with the local government counterparts.

<sup>i</sup> The World Bank Group (2020-2022). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (Sept 2022)

<sup>ii</sup> Heritage Foundation, (2022) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (Sept 2022)