

# Loans, savings, and digital cash transfer products for refugee populations in Uganda by Opportunity Bank Uganda Ltd. (OBUL)

## 1. DEVELOPMENT RELEVANCE

### Economic and poverty context

Uganda hosts over 1.5 million<sup>1</sup> refugees, the largest of any African country and the third-largest hosting nation in the world. The number increased rapidly in the last few years, as in 2016, there were less than 500,000 refugees in Uganda<sup>2</sup>. The largest populations of refugees in Uganda are from South Sudan and the Democratic Republic of Congo.

Nakivale Refugee Settlement hosts just under 160,000 refugees (50% women; 21% youth) and Kiryandongo Refugee Settlement hosts over 76,500 refugees (52% women; 29% youth). The Ugandan Government has one of the most progressive attitudes to refugees, providing them with a plot of land for housing and household agriculture. Refugees are also able to work.

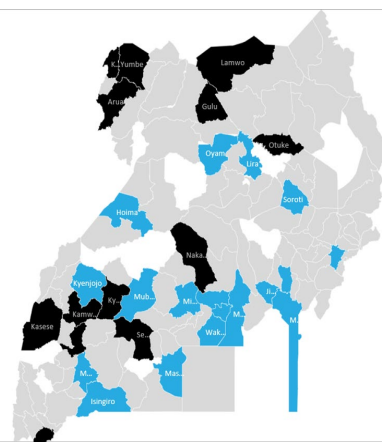
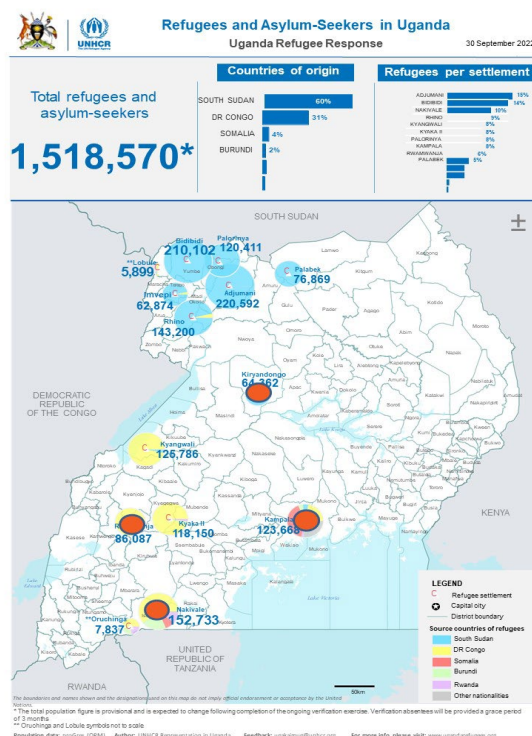
*Please note that the settlement map opposite shows the sites of work for this project (Nakivale and Rwamwanja) and subsequent expansion by OIUK/OBUL to urban refugees (Kampala) and Rwamwanja (orange circles)*

### Financial sector context

The financial sector in Uganda was affected by COVID-19 and the particularly long lockdowns in Uganda. The economy is still recovering. Despite this, in October 2021, OBUL was able to open the first Tier 1 bank branch in Nakivale Refugee Settlement and has broken even in its first year of operation. At one point, the Nakivale branch was one of only two branches still disbursing loans. Portfolio at Risk has remained favourable for refugee loan products compared to other loan products in the portfolio.

### 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 224,526 USH Millions (CHF 57 Millions), forecasted to increase to 458,036 USH Millions (CHF 117 Millions) by 2025. The bank was hit hard during the pandemic. Loan growth took a dip during the COVID-19 crisis as the impact on businesses performance and household incomes inhibited new lending because of increased credit risk. Non-performing loans increased caused by credit clients who were not able to repay their loan. This led to the poor performance of the bank in terms of profitability. However, the bank is now recovering as the country returns to normality. OBUL is focused on serving the micro and small segments which is dominated by the underserved clients. Micro loans make up 75% of the portfolio and 5% of deposits. OBUL gives priority to women, youth, persons with disabilities, rural communities and refugees.



*Branch network map. Please note the areas in blue are current coverage and the areas in black denote planned areas where service centres, lending areas and new branches will be established in 2023.*

<sup>1</sup> <https://data.unhcr.org/en/country/uga>

<sup>2</sup> <https://data.unhcr.org/en/country/uga>

FINCA Uganda was also part of the project initially, serving Kiryandongo refugee settlement. FINCA is also a commercial bank regulated by the Central bank of Uganda. FINCA Uganda has been operating since 1992 and has 28 branches across the country.

## 2. INTERVENTION APPROACH

### Capacity building needs

Refugees are considered a risky population for financial institutions to lend to due to the transient nature of their presence in the country, plus their lack of capital and appropriate documentation. As such, the intervention enabled PHB Development to provide technical support to both OBUL and FINCA to develop financial products specific to the needs of refugees, with the ultimate aim of serving the refugee population being seen as business as usual.

### Main activity areas (goals, targets, resources & time frame) and outputs

Human-Centred Design (HCD) workshops were held in the settlements to better understand the financial access needs of refugees. The HCD workshops, alongside fortnightly financial diaries, provided the project with insight into the money attitudes and behaviours that refugees have and the challenges they face in accessing formal finance. Based on the findings, OBUL and FINCA were able to develop new products to better meet the needs of refugees, including savings accounts plus group and individual loans. The new products take into account that the paperwork refugees have is different to that of hosts, that they have little or no collateral, and that the interest rate needs to be lower. Since the start of the project in 2019 to October 2022, OBUL alone had opened 5,542 individual accounts and disbursed 1,398 loans.

Financial Inclusion Officers were recruited from the local community to deliver financial literacy training to groups, and also to increase visibility of the FSPs and provide a link between them and the community. In October 2021, OBUL opened a branch in Nakivale, further increasing its visibility in the community.

## 3. RESULTS ACHIEVED AND NOT ACHIEVED

### Client level

This intervention was part of a broader project to involving both OBUL and FINCA to promote financial inclusion for refugees. The project was scaled down when UKAID funding was withdrawn so that Opportunity International UK (OIUK) was just working with OBUL in Nakivale. However, FINCA has continued to work with refugees and Kiryandongo and report their reach.

Regarding the new savings account that enables refugees to open accounts with different paperwork than what is available to nationals, a total of 6,717 accounts have been opened (against a target of 1,620). This is based on OBUL opening 5,542 individual accounts and 318 group accounts, and FINCA opening 766 individual accounts and 91 VSAL/SACCO accounts. The savings volume across both FSPs is UGX 19,711,168,202 (over \$5m). The presence of an OBUL branch in Nakivale Refugee Settlement has increased visibility of OBUL and has increased footfall through the branch. It has also helped to establish trust in the community as potential clients see OBUL as being serious about serving refugee populations.

Regarding the loans disbursed, a total of 1,512 loans have been disbursed (against a target of 1,215). OBUL has disbursed 1,398 loans to date and FINCA has disbursed 114 (100 individual loans and 14 VSLA/SACCO loans). These loans recognise that refugee clients have little or no collateral and have a lower interest rate; however, they also have a shorter repayment period than many other OBUL loans. There are many more clients wanting loans than are actually receiving them. This is partly due to the bank requiring a loan guarantee in order to lend to refugees, as this provides the bank with some reassurance that any default in payment is largely covered by the loan guarantee fund, and thereby helps to mitigate the risk of lending to what is seen as a risky population. When the loan guarantee reaches capacity the bank is less likely to lend. OBUL is in the process of applying for a substantial loan guarantee fund.

Digital cash transfers were tested as a pilot and OBUL continues to look for partnership opportunities to role this out on a large scale. 205 digital cash transfers were achieved (against a target of 6,000). However, OBUL was able to take the learnings from the pilot, in terms of the skills and capacity needed to roll out digital cash payments, and use them in the urban refugee space. Through a partnership with Makasi Foundation (a

refugee-led organisation), OBUL delivered 400 cash payments to urban refugees. Over a four-month period, OBUL will reach 1,600 urban refugees with cash payments.

More than 12,453 people received financial literacy training, as it continues to provide a strong link between the community and the FSPs.

The ATM has proved very popular at the OBUL branch, providing easy access to cash for refugees, beyond just OBUL clients. More than 1,390 ATM cards were issued and 19,632 ATM transactions were performed during the project's duration. Processing of remittances and currency exchange services have also proved popular services delivered by the branch, as 1,979 remittances activities and 752 Forex transactions were recorded at OBUL branches.

Despite not achieving the target on digital cash transfers, the project has exceeded all other targets and OBUL has now firmly established itself within the community. Informal feedback from clients demonstrates that they are extremely happy by OBUL's presence and by OBUL's commitment to the community. For example, they have noted that OBUL is active within the settlement, has gained the trust of key stakeholders (such as OPM and UNHCR), and they make it easy for refugees to access formal finance and they are trusted.

The learnings from the project, in terms of how to roll out financial inclusion for refugees, have also enabled scale up in other areas. For example, OIUK and OBUL have been able to run a pilot with urban refugees in Kampala. To date, 1,706 urban refugees have been trained in financial literacy, 572 accounts have been opened and 59 loans have been disbursed. It has also built the foundation for a new project working with refugee youth which will enable OBUL to expand to another settlement.

#### Meet the clients:

**The Family Savings Group** was formed in 209 and has grown from 12 to 30 members. They have undergone financial literacy training from OBUL and have a group savings account (and a number of individuals have opened accounts and some have taken out a loan). They plan to take out a group loan – they have secured an office space for the group to operate from and hope to become a bank agent for OBUL in the future in order to better serve the community.



**Rose** is one of their members who has taken out her own loan. She got a loan of UGX 1.4m from OBUL in order to expand her retail business. She has a small bar in her shop so people can buy drinks and use it as a location for socialising. She plans to apply for another loan to buy a pool table for the bar, which will encourage more people to use it and will increase her income.

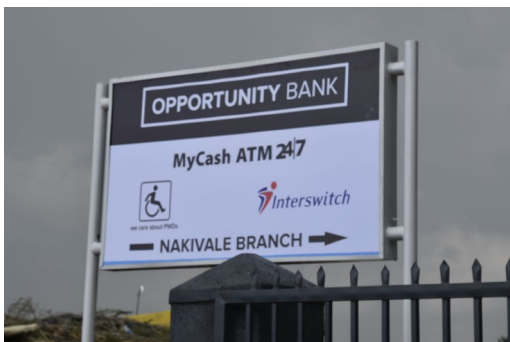


#### **Financial Sector Partner/s level**

When the refugee project first started, one of its core aims was to provide the business case for the FSPs to serve refugees as part of their business as usual. In the cases of both OBUL and FINCA, this has been successful, although there is still some work to do when it comes to lending and the need for loan guarantees. Early in the project, FINCA re-modelled its service centre in Bweyale to better serve refugees in Kiryandongo. In October 2021, OBUL opened its branch in







Nakivale, better positioning it to serve its clients and the wider community (who can make use of the ATM, remittance services and currency exchange bureau).

The branch quickly became one of OBUL's best performing. Taking learnings from another OIUK project in Uganda, aimed at promoting financial inclusion for people with a disability, the branch has been made accessible for people with disability.

Its presence has also helped to cement relationships with key stakeholders like the Office for the Prime Minister (OPM) and UNHCR, as it demonstrates OBUL's commitment to working in the settlement and puts them in a good position for any expansion. For example, OPM is already keen to see OBUL expand to Rwamwanja Refugee Settlement as part a new project focusing on refugee youth.

In October 2022, OIUK's patron, HRH The Princess Royal, Princess Anne, visited Uganda on behalf of OIUK. As part of the trip, she officially opened OBUL's Nakivale branch. This further supported OBUL's position in the settlement as key stakeholders and a number of clients were in attendance. Feedback from OBUL after the visit included that it had increased visibility and trust in the bank and it had helped to strengthen relationships with key partners and stakeholders. The visit by HRH also motivated the branch staff—many have relocated there from other branches and all confirmed that they did not regret making the decision to come to Nakivale. Interestingly, the week after her visit, 120 savings accounts were opened in the branch (prior to the visit, an average of 100 were being opened every month). The clients HRH met with were also very excited by the opportunity and it is helping their groups to mobilise other members and to make an impact in the community.



*Credit for HRH photos: Arete Stories*

#### 4. LESSONS LEARNT

The project has been very successful in making the business case for the FSPs involved to deliver financial products and services to refugees. Using HCD, both OBUL and FINCA have been able to develop financial products specific to the needs of refugees and both continue to roll these out. Financial literacy training provides a key route into the FSPs because the Financial Inclusion Officers, who deliver the training, are recruited from the refugee and host communities themselves, building a level of trust between the bank and the communities.

The intervention has been scaled back from its original design. The project initially had OIUK as the lead partner, with OBUL working in Nakivale, FINCA in Kiryandongo and PHB Development providing technical support around the design of products. Following the withdrawal of UKAID funding, the project was adapted to OIUK just working with OBUL in Nakivale. However, FINCA has been able to build on its original involvement in the project and continues to expand its work with refugees, and both OBUL and FINCA are able to learn from each other.



Covid was a major challenge to the intervention, especially due to the strict lockdowns imposed in Uganda. This limited travel to and from the settlement and put a temporary stop to financial literacy training. The training was able to be reintroduced relatively quickly, albeit with smaller group sizes. The OBUL branch was also constructed as soon as restrictions were lifted with a the construction company was is refugee-led and based in Nakivale. Things returned to normal fairly quickly in terms of project delivery but the Ugandan economy is still facing challenges as it tries to recover from the lengthy lockdowns, and this continues to affect the ability of refugees to become self-reliant.

The project has achieved, and in many cases exceeded, what it set out to do. However, digital cash transfers have been a challenge. The project underestimated the challenges in delivering digital cash transfers and that the FSPs would need to win a contract in order to deliver these. It is now evident that this is something that needs to be led by the FSP and not by the project team. OBUL is working hard to win such contracts but these have no involvement by OIUK. OBUL is also working to roll out its agent network, which has proved more challenging than expected, given that agents need to meet regulation requirements needed by the bank. However, OBUL is now establishing the right partnerships to implement this. It is clear that for future implementation, this should be led by the FSP.

Despite these challenges, the project would not have done anything differently as it has all been a learning process – as it was intended to be. Nakivale is an exceptional test-bed for OIUK and OBUL to trial new interventions. As such, learnings from this project have already enabled new interventions to be tested and scaled up. For example, OBUL has used the model tested in Nakivale to roll out financial inclusion to urban refugees in Kampala, utilising the products developed in the settlement and the same approach to financial literacy training. OIUK has also secured funding from the Dutch Government to focus on job creation for refugee youth. The project will enable OBUL to deepen their intervention in Nakivale and also to expand to Rwamwanja Refugee Settlement. It also brings PHB back into the partnership, plus a new partner, Cohere.

The work in Nakivale in particular has provided a strong basis for OIUK to build its refugee programme. Although it required a lot of ground work in order to build relationships with key stakeholders and to ensure the project was delivering the right intervention, the project is now in a position where it can be built on. It has also helped to develop OBUL's capacity and light their passion for serving refugees. This means OBUL is now in a strong position to be recognised as a key FSP for serving refugees and they are seeking in-country partnerships and funding in response to this.

OIUK would like to thank SCBF for their support on this project. Funding for technical expertise in the design of products and services has been key to the rollout of the project.