Which Financial Inclusion Mechanisms Have Triggered Youth Self-Employment Opportunities In West Nile, Uganda?

A Policy Brief

Youth Entrepreneurship through Enterprise and Skills Development (YES) Project

Summary

The high unemployment rate is driving a number of Ugandan youth into self-employment. However, access to finance remains one of their major stumbling blocks to enterprise start-up and growth. Financial products and services from formal financial institutions are hardly responsive to the needs of youth. Requirements for collateral, high interest rates, and lack of previous banking or credit history have only served to perpetuate youth financial exclusion. Likewise, access to finance from government programmes face challenges of bank induced conditions as well as politicized selection of projects. In return majority of youth in West Nile (96.5%) rely on own savings, family/ friends and informal loans to start-up, operate and grow their enterprises. To address this gap, the Youth Entrepreneurship through Enterprise and Skills Development (YES) Project implementation supported youth in West Nile, Uganda to form their member-owned and member-managed Village Savings and Loan Associations (VSLA) where youth set their own rules and regulations suitable for their business interests. Evidence from the field shows that progressively many youth turned to their VSLA to capitalize their enterprises. It is therefore critical that youth-led VSLA are linked to formal financial institutions for access to better quality and diversified financial products and services.

Youth unemployment in Uganda

Uganda has a very young population. About 80% of the people are 30 years and below. Yet, the Uganda Bureau of Statistics (UBOS) Statistical Abstract 2013 shows that 26% of youth are underemployed and 11% are unemployed. Overall, 74% of youth are employed in informal sector that is largely operated at home (33%) and with family labour (50%) and if any (UBOS, 2014). Worrying is that while 800,000 people annually enter the labour market (of these 393,000 are new job seekers), only 10% are absorbed (MoES, 2011). Female youth are twice as likely to be unemployed compared to male youth. At the current high population and labour force growth rates (3.2% and 3.4% per annum respectively), it is estimated to take one generation before majority of the labour force has a non-farm waged salary job (Fox and Sohnesen, 2012).

Youth in self-employment in West Nile

The West Nile region is equally affected by youth unemployment. In the region, youth (15-30 years) constitute 49% of the 2.6 million people. The June 2015 baseline survey conducted YES project found out that most youth were self-employed (88.2%) especially in agriculture, although only few of them had any training in good agricultural practices (15%) and agribusiness (8%). Their primary sources of income for enterprise start-ups are from own savings (77%) and family/friends (16%). Hardly do they get formal loans (1%) and government/NGO support (2%). As a result, most of the self-employment enterprises earned dismal average monthly incomes (UGX 139,739) and wages (UGX 41,737). No doubt, few had productive assets (e.g., only 55% had land, and 40% had livestock) and 71% were extremely poor (living under US $ 1.25 per person per day).

That jobs are the key driver of economic growth, secure livelihoods, and self-worth, unemployment therefore creates not only lost development opportunity for the nation. It also increases “waithood” as youth remain dependants on their parents and promotes “youthscapes” that are informal actions such as illicit trade in fuel, drugs, and gambling, among others (Honwana, 2013).

To address their unemployment, youth prefer self-employment. Yet, access to finance remain their stumbling block to start and grow own-account enterprises.

Youth access to financial services

Table 1: Financial inclusion of Ugandan youth, 2013

Financial institutions	Population 16 years and over who use different financial institutions (%)		
	Uganda	**Rural areas**	**Northern region**
Formal banks	20	17	15
Non-bank formal	34	32	19
Informal	31	35	43
Excluded	15	17	24

Source: EPRC 2015

Although the Government of Uganda is currently developing a “National Financial Inclusion Strategy” (GIZ/BoU, 2009), financial inclusion of youth in formal financial institution is very low. The 2013 FINSCOPE III survey revealed that only 20% of youth aged 18- 24 years deal with formal financial institutions. Many youth (80%), especially in rural areas and northern Uganda, prefer non-formal institutions (see table 1 above).

The key challenges for youth in accessing financial services include: limited outreach of financial institutions in rural areas where majority of youth reside. Youth also lack collateral to guarantee credit. Banks also charge high fees for opening bank accounts. In addition, youth lack the confidence to go and enquire about financial services. Their irregular income can hardly afford account maintenance fees. Besides, formal banks consider youth a risky cohort because their business ventures are at start-up phase without the necessary collateral, verifiable credit history and steady employment.

Attempts by Government of Uganda (GoU) to promote Savings and Credit Cooperative Organizations (SACCOs) excluded many youth who could hardly afford the lump sum required to buy shares. In addition, GoU drive to establish National Youth Funds such as the Youth Venture Capital Fund (UYVCF) in 2011, the Youth Livelihood Programme (YLP) in 2013, and the Uganda Women Entrepreneurship Programme (UWEP) in 2015 has only dismally tilted access to business finance. These funds either suffer from commercial bank-induced challenges as are noted above, or are skewed towards urban youth, biased against agribusiness, or politicized in beneficiary selection. With limited technical skills support, many beneficiary youth ended with failed projects (Ahaibwe, 2014).

Why youth prefer VSLAs option?

To address the financial access challenge, the Youth Employability through Enterprise and Skills Development (YES Project) that is implemented by SNV, Agency for Accelerated Regional Development (AFARD), and Centre for Governance and Economic Development (CEGED) with funding from the European Union adopted a youth-led Village Savings and Loan Associations (VSLAs) methodology. Through this approach, youth were able to setup member-owned and member-managed savings groups with own rules and regulations regarding savings and credit, meetings, and cohesion.

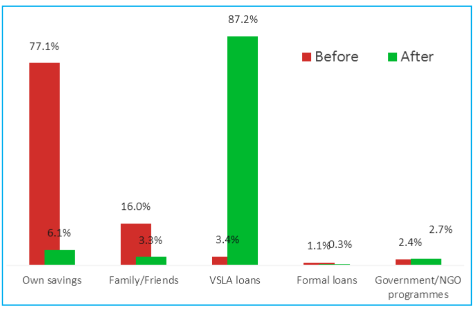

Figure 1: Sources of business capital

Figure 1 above shows that while before the project many youth accessed business finance from own savings (77%) and family/friends (16%), the VSLA approach promoted by YES project provided business loans for 84% of youth. Reliance on own savings and family/friends, declined by 71% and 13% respectively. This high youth preference for VSLAs is because it has less stringent procedures and requirements. During various consultation meetings, youth pointed out that VSLA is less bureaucratic. It hardly takes hours for one to walk home with a loan. VSLA has no travel cost, no waiting time, no complicated forms to fill, and no photos of collaterals to parade in front. Many youth also hinted that they prefer VSLA for the dividends they earn. In the word of one youth, "in VSLA we don't make money for rich fellows in the towns. Our loan generate dividend for us members. During share-out this is topped up onto our savings."

Conclusion and Recommendations

While VSLA provides a more responsive financial inclusion mechanism for youth, its limitations include small loan amounts, short loan periods, extra high interest rates, limited product bundles, and fraud. To trigger the entrepreneurial spirits youth have for self-employment through increased access to affordable and safe finance, it is imperative that the following are implemented:

Digitalized linkage banking built on mobile money services: This will reduce fraud, increase linkages with formal banking systems (using e-wallet systems), enhance members saving history, and widen access to a broad financial product bundle.

Youth-friendly product development: Formal financial institutions should invest in youth friendly financial and non-financial products e.g. start-up loans with flexible terms of repayment.

Customized government funding programmes: Channeling public funds through formal banks should be cautious of bank-induced biases and customized to suit the needs of youth.

Youth awareness creation: Both public and private sector need to invest in creating mass awareness about their available financial products and services that can thrive youth self-employment.

These policy and programmatic options are likely to increase youth savings culture and youth access to funds for enterprise start-ups and expansion that will in turn reduce on youth un(der) employment. The rise in decent jobs will reduce youth poverty.

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