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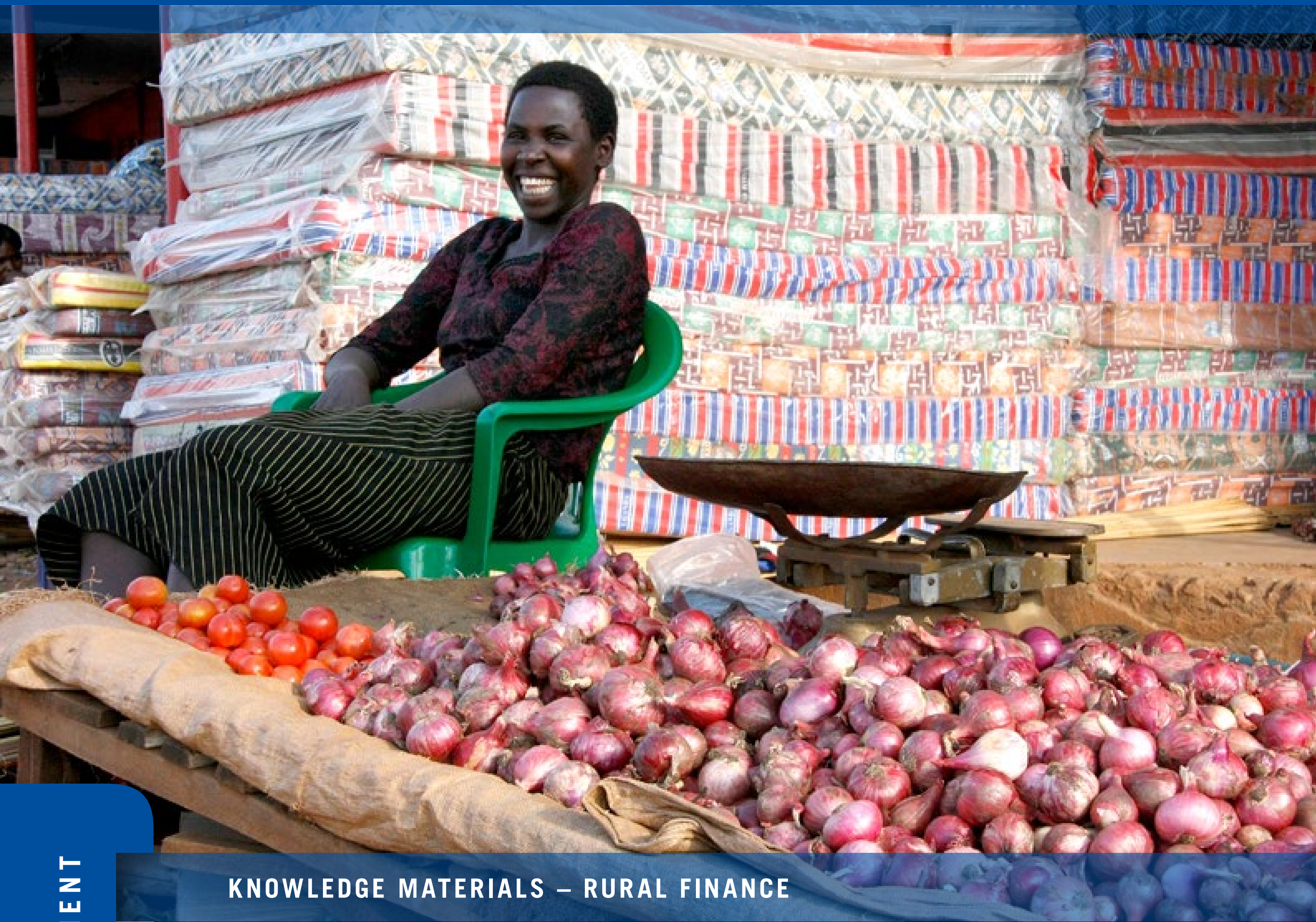

RURAL EMPLOYMENT

KNOWLEDGE MATERIALS – RURAL FINANCE

# Agricultural finance and the youth

## Prospects for financial inclusion in Uganda

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## Prospects for financial inclusion in Uganda

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Cover page: A young market stall holder in northern Uganda.

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# Acronyms

| | |
|---|---|
| ACF | Agricultural Credit Facility |
| AMFIU | Association of Microfinance Institutions of Uganda |
| ASCA | Accumulated Savings and Credit Association |
| BoU | [Central] Bank of Uganda |
| CGIAR | Consultative Group for International Agricultural Research |
| CSCGs | Community Savings and Credit Groups |
| DFCU | Development Finance Company of Uganda Bank |
| DFD | Development Finance Department |
| DFI | Development Finance Institution |
| DFS | Digital Financial Services |
| EBU | Equity Bank Uganda |
| ELA | Empowerment and Livelihood for Adolescents Programme |
| ESP | Social Policies and Rural Institutions Division of FAO |
| FGD | Focus Group Discussion |
| FI | Financial Institution |
| FSP | Financial Services Provider |
| FTB | Finance Trust Bank |
| GoU | Government of Uganda |
| ICA | FAO's Integrated Country Approach for boosting decent jobs for youth in the agri-food system |
| ICTs | Information and communications technologies |
| IFAD | International Fund for Agricultural Development |
| MAAIF | Ministry of Agriculture, Animal Industry and Fisheries of Uganda |
| MDI | Microfinance Deposit-Taking Institution |
| MFI | Microfinance Institution |
| MMOs | Mobile Money Operators |
| MNOs | Mobile Network Operators |
| MoFPED | Ministry of Finance, Planning and Economic Development |
| MSC | Microfinance Support Center |
| MSMEs | Micro, Small and Medium-sized Enterprises |
| NAADS | National Agricultural Advisory Services |
| NFIS | National Financial Inclusion Strategy |
| NMB | National Microfinance Bank, Tanzania |
| NSYEA | National Strategy for Youth Employment in Agriculture |
| OB | Opportunity Bank |
| OTC | Over-the-counter |
| PBU | PostBank Uganda |
| PMA | Plan for the Modernization of Agriculture |

| | |
|---|---|
| PROFIRA | Project for Financial Inclusion in Rural Areas |
| ROSCA | Rotating Savings and Credit Association |
| SACCOs | Savings and Credit Cooperative Organizations |
| SHG | Self-Help Group |
| SIMPRS | Security Interest in Movable Property Registry System |
| SMEs | Small and Medium-sized Enterprises |
| UAIS | Uganda Agricultural Insurance Scheme |
| UCA | Uganda Cooperative Alliance |
| UCSCU | Uganda Cooperative Savings and Credit Union |
| UDB | Uganda Development Bank |
| UNCDF | United Nations Capital Development Fund |
| VFU | VisionFund Uganda |
| VSLA | Village Savings and Loan Association |
| YIGs | Youth Interest Groups |
| YLP | Youth Livelihood Programme |
| YVCF | Youth Venture Capital Fund |

# Introduction

The aim of this study is to provide a comprehensive assessment of the current state of financial inclusion of the rural youth in Uganda, with a specific focus on their engagement in the agricultural sector and the financial services that are available to them to pursue their business ventures in this area. The study seeks to illustrate and bring to light the core constraints and opportunities associated with the provision of tailored financial services to young agricultural entrepreneurs in the country, while showcasing the essential role that key support actors (such as the Government, Central Bank, international development institutions, NGOs, foundations and many others) can play in fostering the provision and uptake of such services.

The study employs a methodological approach that blends extensive desk research with extensive data gathering at field level (both quantitative and qualitative) carried out through surveys and interviews with key stakeholders in Uganda's agricultural and financial sectors. The study is meant to support FAO's interventions in the country in the domains of **financial inclusion and decent employment opportunities for the rural youth,** with a specific view to enabling partnerships with relevant financial institutions and apex-level organizations capable and willing to support the development of a range of youth-tailored financial products and other complementary activities.

**The study is divided into five Sections:**

### Section 1

This section provides an overview of the legal and policy frameworks (past and present) regulating the activity of formal financial services providers (FSPs) in agricultural markets and in relation to young clients. It provides a brief historical overview of the most significant initiatives, reforms, programmes and campaigns carried out by the Government of Uganda to foster agricultural development and youth financial inclusion, together with the most notable results and constraints encountered.

### Section 2

This section analyzes to a high degree of detail the current data available on the depth and quality of the financial inclusion of rural and agricultural actors in Uganda, with a particular focus on the financial inclusion of the rural youth. The section analyzes aspects such as the degree and quality of access to credit, savings, insurance and digital financial services in rural areas, while providing a comprehensive overview of the core constraints that are currently limiting the expansion of financial inclusion among young rural entrepreneurs.

### Section 3

This section provides an overview of the current state and structure of Uganda's overall financial system, with a specific focus on a selected number of financial service providers (such as commercial banks and microfinance institutions) currently providing services to rural and agricultural actors (with a particular focus on youth-sensitive provision). It also provides an overview of key public and public/private institutions that are tasked with supporting the growth of agricultural finance and financial inclusion in the country.

### Section 4

This section provides specific highlights and relevant data derived from the analysis of a series of surveys, interviews and focus group discussions carried out by the authors in Uganda in 2017, with the support of FAO's Uganda Country Office. The scope of this part is to undertake an in-depth analysis of the features, strengths and opportunities associated with youth-inclusive financial provision in the country. This is achieved by underlining specific challenges and recommendations linked to both the demand side of financial access (the young rural entrepreneurs themselves), and the supply (the formal, semi-formal and informal financial actors providing services to the rural youth).

### Section 5

This section provides a series of final conclusions, as well as a number of useful recommendations for policymakers, apex institutions and financial service providers that wish to implement solutions to overcome the current challenges associated with the provision of finance to young entrepreneurs in rural Uganda.

**Among Uganda's young adults, more than 58 percent of the financially excluded are women.**

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# 1 Review and analysis of the major policy frameworks which govern the rural and agricultural finance market

## Key information from this section

The policy frameworks that govern the rural and agricultural finance market in Uganda are quite advanced and conductive to youth inclusion. The [Central] Bank of Uganda (BoU) has made a significant effort to foster financial inclusion in the country via policy means – with a particular focus on agricultural entrepreneurs and the rural youth – through a series of policy measures such as the Financial Consumer Protection Guidelines, the National Financial Inclusion Strategy, the National Strategy for Financial Literacy, and the Mobile Money Guidelines. Similarly, existing policy frameworks for agricultural development, such as the 2015–2020 Agriculture Sector Strategic Plan, have prioritized the access to agricultural finance services and identified the youth as a priority target group.

In 2017, the Ministry of Agriculture, Animal Industry and Fisheries adopted a dedicated National Strategy for Youth Employment in Agriculture (NSYEA), with a specific strategy dedicated to Increasing rural access to agricultural finance. Yet the introduction of a legal/regulatory exemption amendment that allows young people aged 15–17 to open savings accounts in their own right remains a major issue to address.

A major trend to consider is also the expansion of mobile money in Uganda, which began in 2009, and which has generated a significant impact on the levels of financial inclusion and outreach in the country, especially in rural areas.

In terms of initiatives in place, the Government of Uganda has also attempted to directly promote youth access to agricultural finance through initiatives such as the 2012 Youth Venture Capital Fund (YVCF) and the 2013 Youth Livelihood Programme (YLP). While both programmes have shown mixed results and still represent only a limited response to the traditional constraints to youth financial inclusion, they have introduced interesting innovations with significant potential for further scalability.

## 1.1 Overview of FSP regulation in the country: the four-tier system

In the past decade, the financial infrastructure of Uganda has grown exponentially. As of 2017, the total number of formal financial institutions (FIs) in the country comprised 25 commercial banks, 4 microfinance deposit-taking institutions (MDIs), and 3 credit institutions. With regard to Tier 4 institutions (see below), although the last official census was carried out in 2007, anecdotal evidence shows that the country hosts around 300 non-deposit taking microfinance institutions (MFIs), 4 000 registered Savings and Credit Cooperative Organizations (SACCOs, of which 75 percent are dormant or inactive) and more than 70 000 self-help groups (SHGs) (EPRC, 2019).

As dictated by the financial regulatory framework of the country, all these institutions are categorized according to a **four-tier system**, described below:

| Tier | Institution | Key information |
|---|---|---|
| Tier 1 | Commercial Banks | Tier 1 institutions are legally allowed to offer a complete range of financial services (checking, savings, as well as time deposit accounts for individuals and institutions). Commercial banks are also allowed to buy and sell foreign exchange, issue letters of credit and to provide loans to depositors and non-depositors. |
| Tier 2 | Credit Institutions | Tier 2 institutions are authorized to take deposits and establish savings accounts, although they cannot provide checking accounts or trade in foreign currency. Credit institutions are also allowed to provide collateralized and non-collateralized loans to savings and non-savings customers. |
| Tier 3 | Microfinance Deposit-Taking Institutions (MDIs) | These microfinance institutions are authorized to take in customer deposits and establish savings accounts, as well as provide loans to savings and non-savings costumers. On the other hand, MDIs cannot establish checking accounts or trade in foreign currency. |
| Tier 4 | Non-Deposit-Taking Financial Institutions | This tier comprises institutions that are authorized to offer collateralized or non-collateralized loans to their clients but cannot take in customer deposits or establish savings accounts. Types of financial entities that fall in this category include MFIs, credit-only NGOs and SACCOs.<br>In 2016, these institutions started being regulated by the **Tier 4 Microfinance Institutions Act and Moneylenders**, approved by the Ugandan Parliament to protect the savings of depositors, to limit predatory lending practices and to build confidence in the system with a view to promoting financial inclusion.<br>This tier is the only one among the four that is not regulated by the [Central] Bank of Uganda (BoU): the legislation places large and medium-sized SACCOs and all non-deposit taking MFIs under the supervision of the newly established **Uganda Microfinance Regulatory Authority**. |

In general, the larger and more sustainable microfinance service providers – the regulated MDIs (Tier 3) and larger MFIs (Tier 4) – offer a relatively broad range of financial services. These institutions, overall, are also fiercely competing against each other, especially in urban areas. While institutions in Tier 1 to 3 are primarily concentrated in urban areas, they are expanding into rural areas where Tier 4 institutions have historically had a stronger outreach. A few banks are downscaling their operations to reach lower-income clients as some MFIs scale up and diversify their portfolio. Section 2 of this study provides a more focused look at several commercial banks, MDIs and MFIs currently shifting their strategy to more accurately target lower-income clients in rural areas.

## 1.2 Finance-related State interventions for agricultural development in the country

Uganda has a complex history regarding State interventions aimed at fostering the development of the agricultural sector through financial means. It is possible to define three key policy areas related to such interventions, from an historical perspective, which are described below:

### Establishment of public financial institutions

The experience of the Government of Uganda (GoU) regarding the establishment of public financial institutions has been similar to that of other Sub-Saharan African countries. Throughout the 1980s, loans were provided to farmers at subsidized interest rates, mainly through public sector banks (such as the Uganda Commercial Bank and the Cooperative Bank), although some of these lending schemes were directly financed by the BoU. According to the BoU, about 20 percent of all commercial bank lending in the 1980s was allocated to farming entities such as the Coffee Marketing Board. These policies, in general, did not work: the credit offered to farmers and cooperatives to modernize of their farming activities was not cheap, and this led to these actors being unable to repay their loans. By the 1990s, both the Uganda Commercial Bank and the Cooperative Bank had been rendered bankrupt by non-performing loans.

### Set up of lending schemes

Targeted credit schemes have been implemented in Uganda since the mid-1980s. Through the Development Finance Department (DFD) of the BoU, the GoU managed several credit programmes over the years which supported investment projects in various sectors, including agriculture and agro-industry, such as the Linkage Banking Program under the Africa Regional Agricultural Credit Association. In 2006/07, the DFD and all its activities were transferred to the Uganda Development Bank (see Section 3.1.8 in this regard). Despite these efforts, the agricultural sector has not been substantially transformed over the past decade, with the agricultural value-added per worker remaining quite low (according to the 2017 World Bank's World Development Indicators).

### Tax exemptions and subsidies

Governmental support to the agriculture sector in the 2005–2015 period has also included tax exemptions and subsidies. These fiscal incentives have included tax exemptions on income earned by financial institutions lending to agriculture (introduced in 2006) and on new rural agro-processing investments, as well as zero rating for VAT on most agricultural inputs and services. However, according to the BoU, and as reflected in the 2015 Agricultural Finance Year Book: "these tax incentives did not result in any significant gains to farmers in the form of either reduced input prices, or an increase in lending to the agriculture sector. Instead they benefited mostly the banks and importers while denying government revenues". As a consequence, starting from 2014, the GoU set out to abrogate many of these measures (Bank of Uganda, 2015).

## 1.3 The Bank of Uganda's efforts to promote sustainable financial inclusion

In recent years, the BoU has implemented several complementary initiatives as part of a comprehensive agenda aimed at fostering responsible financial inclusion in the country. In 2013, it designed and implemented a **National Financial Inclusion Strategy (NFIS)**, based on four pillars: i) Financial literacy; ii) Financial consumer protection; iii) Financial innovation (including agent banking and mobile phone-based services); and iv) Financial services data and measurement.

This Strategy was again renewed in 2017 with a **new five-year strategic plan** (until 2022), whose overarching goal was to reduce the financial exclusion level in the country from **15 to 5 percent by 2022**. The new strategy foresees a host of measures to tackle the issue of financial inclusion in the country, from adopting a national policy on insurance, to liberalizing the pension sector, to strengthening rural financial intermediaries through more sophisticated regulation. The strategy focuses on three priority areas: women; young people above the age of 15; and the rural population. Among the activities to address the specific gaps they face, the strategy suggests the following measures (among others):

- **The introduction of a legal/regulatory exemption amendment that allows young people aged 15–17 to open savings accounts in their own right.**
- **The enhancement of the IT infrastructure and access channels (handsets, branches, points of service) in rural areas.**
- **The establishment of agriculture-specific lines of credit and the improvement of the oversight of existing credit facilities, such as the Agricultural Credit Facility (see Section 3.6.1), as well as warehouse receipt systems and storage facilities.**
- **The promotion of the utilization and uptake of the Uganda Agriculture Insurance Scheme (see Section 3.7.3).**

- **The establishment of a centralized registry for movable collateral to allow for these types of guarantees to be used as security for loans.**

- **Strengthening the capacity and systems of SACCOs and MFIs to help women, rural communities and other relevant actors access and use affordable financial services. Strengthening SACCOs' capacities in terms of governance, strategic development and financial solidity is viewed as a fundamental step towards achieving the Strategy's goals, as these institutions are considered critical channels for the delivery of financial services to rural areas (Bank of Uganda, 2017).**

In 2011 the BoU, with funding from GIZ (the German national development agency), commissioned a study to map the current state of financial literacy and financial consumer protection across Uganda, with the aim of developing a strategic framework that could strengthen these two core aspects of financial inclusion at a national level. Based on this study, the BoU issued in the same year the Financial Consumer Protection Guidelines for regulated financial institutions, which specified their obligations towards clients and mandated the implementation of complaints handling systems. BoU staff was trained accordingly on monitoring compliance with the guidelines, and over 100 staff of regulated financial institutions have been trained.

### The Bank of Uganda and the Maya Declaration

It is important to underline that most of the policy reforms illustrated in this section came about after a series of commitments pledged by the Bank of Uganda under the framework of the 2011 Maya Declaration. This is a set of principles and broad commitments directed towards developing – at national level- comprehensive statements of financial inclusion policies and enabling environments for financial inclusion, signed so far by 108 countries around the world.

Several commitments initially set forward by the BoU under the Declaration have seen -over the years- a practical translation in a series of concrete policy reforms related to, among others: strengthening financial literacy, facilitating agent banking, promoting the digital financial inclusion of the unbanked, setting guidelines for financial consumer protection, and regulating the Tier 4 financial sector (Bank of Uganda, 2016).

The BoU also designed a **National Strategy for Financial Literacy** in 2013, and it is currently coordinating its implementation. This strategy aims to achieve five main objectives: 1) Improve clients' ability to manage personal finances; 2) Equip people with the ability to protect themselves against fraud; 3) Promote more high-quality initiatives to strengthen financial literacy; 4) Use resources efficiently to strengthen financial literacy; and 5) Improve coordination and knowledge sharing around financial literacy. The campaign's core messages include avoiding fraudulent schemes and unnecessary debt, understanding the cost of borrowing, increasing knowledge on where and how to save, as well as learning how to evaluate the safety of deposits. The Strategy has also a specific focus on youth capacity building, as it aims to develop school curricula on financial literacy at all levels of education (primary, secondary and tertiary), as well as community-based curricula for young people out of school (Bank of Uganda, 2013; UNCDF, 2016).

In 2013, the BoU also issued a series of dedicated **Mobile Money Guidelines**, in an effort to provide clarity on mobile money regulation for customers, mobile money operators (MMOs), agents and other parties, as well as to improve financial consumers' protection and financial inclusion in this domain. Despite these efforts, the policy and regulatory framework on mobile money services in the country remains quite weak to this day. Dedicated measures for strengthening it have been included in the NFIS 2017–2022, and include the provision of a regulatory framework that promotes innovation (i.e. a sandbox for experimentation), as well as the development and implementation of a process to ensure that interest earned on mobile money escrow accounts can be used to benefit the development of the country's digital infrastructure.

Another extremely important development in financial inclusion policy came in 2016 when the GoU approved the **Financial Inclusion Act Amendment Bill**, which allowed for the introduction – in the commercial banking sector – of a series of financial innovations that have important implications in terms of increased outreach and inclusion of rural actors:

## Agent banking

This innovation allows banks to secure the services of a network of third parties (i.e. agents) to commercialize their offer of financial services outside of the traditional provision of bank tellers, ATMs and banking branches. Agent banking is a fundamental tool in increasing commercial banks' outreach in financially underserved rural areas, as it allows institutions to overcome one of the most critical barriers: the high costs associated with the implementation and maintenance of a network of brick-and-mortar banking branches in remote regions. By leveraging a network of frontier agents, commercial banks can reach a wide number of rural dwellers who would have previously lacked the (considerable) time and resources required to travel to the nearest banking branch to open an account or ask for a loan.

Following the Amendment Bill, the real growth of agent banking in Uganda actually began in July 2017 after the BoU implemented a regulatory framework for this type of third-party banking. As of 2019, according to the EPRC, 6 339 agents have been licensed in the country. Although still a far cry from the number of agents registered in neighboring countries such as Kenya (61 000 agents), there is ample scope for growth of this type of banking in the country.

One of the main goals of the BoU when regulating agent banking was to level the playing field between commercial banks and mobile money operators, as the latter could benefit from a considerably more advanced (and flexible) policy environment regulating the selection and use of mobile money agents. Section 3.6 focuses more in depth on the implications of the expansion of agent banking in the country (Bold, 2016).

## Islamic finance[1]

Allowing commercial banks to develop and offer Sharia-compliant financial products was presented as a potential game-changer for Uganda's financial sector in 2016, considering the untapped market opportunity constituted by the financially underserved Ugandan Muslim population (11 percent of the total population, or 4.8 million people). This was intended to get Uganda up to par with neighboring countries such as Tanzania and Kenya, where several commercial banks have been offering Sharia-compliant financial services for a number of years.

Nevertheless, the Amendment Bill did not in fact translate into an expansion of Islamic banking in Uganda, as it did not regulate the actual provision of these services or the relative licensing of financial institutions. As of mid-2019, the country is waiting for the implementation of a regulatory framework for Islamic banking, as well as the institution of a central Sharia Advisory Board (to be housed in the BoU) with the authority to settle litigation in this domain.

## Deposit Protection Fund

The Amendment Bill provided for the merging of two existing national Protection Funds (one protecting depositors in commercial banks, the other for depositors in deposit-taking MFIs) into one single agency with its own board and management, with autonomy from the BoU. This agency, the Deposit Protection Fund, runs a **deposit insurance scheme** which protects customers' deposits in case of default of their financial institution, with the overall goal of enhancing public trust in the safety and stability of the Ugandan financial sector. It is financed by premiums paid by the financial institutions themselves, with a total market value (as of 2017) of UGX 465 billion (USD 126 million).[2]

## Bancassurance

Allowing bancassurance arrangements[3] through the Amendment Bill has proven to be a boon to the insurance sector in Uganda: whereby before 2016 the growth of the sector was a mere 5 percent per year, this rose to 18 percent following the introduction of the reform. As of October 2017, 17 commercial banks had been authorized by the Insurance Regulatory Authority to operate as bancassurance agents. Nevertheless, formal insurance provision in the country is still very low: as of 2018, only 1 percent of Ugandans (0.5 million) owned some sort of formal insurance policy (mostly health insurance). There are many reasons for this, including the scarce awareness and general mistrust of this financial product among the general population.

[1] Islamic finance is a type of finance that follows the principles of the Sharia (the legal system derived from the religious precepts of Islam). An important element in Sharia-compliant finance is the explicit prohibition against the acceptance of interests on money loans (riba, or usury). The parties involved must all share the risks and rewards involved in their business transactions, avoiding undue speculation or exploitation of one of the parties.

[2] Note that the USD–UGX exchange rate is set at the rate as of 31 December 2018, i.e. USD 1 = UGX 3 713.35

[3] "Bancassurance" is an arrangement between an insurance company and a commercial bank, whereby the company can use the bank as a distribution channels to sell its policies to the bank customers. This allows the insurance company to expand its client base by leveraging the agent network of the bank, while the intermediary (the bank) earns a fee on the commission and can bundle its own financial products with the insurance policy. The bank agents are also supported and advised by the insurance company in the policy sale process.

## 1.4 Focus on relevant policy frameworks for agricultural development

Over the past two decades, different iterations of national policy frameworks have attempted to promote effective rural and agricultural development in Uganda, by focusing on improving the levels and quality of financial inclusion for lower-income people. The most notable among these were the Prosperity for All Programme (in 2007) and the National Development Plan (in 2010, renewed for a second iteration in 2015). For the specific case of the agricultural sector, a holistic developmental framework was implemented by the GoU in 2001: the **Plan for the Modernization of Agriculture**. Moreover, a **National Agricultural Policy** was introduced in 2013, operationalized through a five-year **Agriculture Sector Plan** (from 2015 to 2020). These policy initiatives are described here more in detail:

### Plan for the Modernization of Agriculture (PMA)

The Plan for the Modernization of Agriculture (PMA) is a national development framework which sets out the strategic vision and principles upon which interventions can be developed to address poverty eradication through the transformation of the agricultural sector. Before the introduction of the PMA in 2001, there was no existing comprehensive policy framework in place to guide the development of the agricultural sector, with interventions in this domain being quite fragmented and scattered.

A multi-dimensional approach towards poverty reduction for rural households – mainly dependent on agriculture – stood at the core of the PMA. The Plan aimed to carry out parallel interventions across seven core dimensions: 1) Research and technology development; 2) National agricultural advisory services; 3) **Provision of rural financial services**; 4) Agro-processing and marketing; 5) Education on agricultural best practices; 6) Strengthening of physical infrastructure; and 7) Improved management of sustainable natural resources. Despite these premises, the GoU and several development partners provided financial and institutional support mostly to the first two among these pillars; as a result, the implementation of the other five pillars was considerably slower and less effective (Oxford Policy Management, 2005).

### 2013 National Agriculture Policy

The 2013 National Agriculture Policy aims to provide guidance to all actors in the agricultural sector that wish to "increase agricultural incomes, reduce poverty, improved household food and nutrition security, create employment and stimulate overall economic growth". The policy has six operational objectives,[4] and specifically foresees "[the promotion of] financial services to enable farmers to access agricultural inputs, services, and equipment along the value chain". The Policy plays an important role in Uganda in providing the necessary framework upon which strategies and plans to develop the agricultural sector can be designed.

### 2015–2020 Agriculture Sector Strategic Plan

The 2015–2020 Agriculture Sector Strategic Plan seeks to increase household incomes and food security through: (i) increased productivity through sustainable intensification; (ii) increased access to markets and value addition through improved safety standards and quality assurance across crops, livestock and fisheries sectors; and (iii) by creating a suitable environment for investment in agriculture and strengthening institutions in the agricultural sector. It has a specific focus on fostering the shift from subsistence to commercial agriculture in the country, with the objective of creating additional employment opportunities (especially for young people and women), increasing household incomes and strengthening food security.

[4] The six objectives of the National Agricultural Policy are the following: 1) Ensure household and national food and nutrition security for all Ugandans; 2) Increase incomes of farming households from crops, livestock, fisheries and all other agriculture related activities; 3) Promote specialization in strategic, profitable and viable enterprises and value addition through agro-zoning; 4) Promote domestic, regional and international trade in agricultural products; 5) Ensure sustainable use and management of agricultural resources; and 6) Develop human resources for agricultural development.

Another extremely interesting initiative introduced in 2017 by the Ministry of Agriculture – with the support of FAO and a multi-stakeholder technical group – is the five-year **National Strategy for Youth Employment in Agriculture (NSYEA)**. The goal of the NSYEA is to support young people employed in all segment of agricultural value chains, investing in their growth and education, while unlocking the specific constraints that limit the start-up and expansion of their agricultural enterprises. The strategy focuses on five intervention areas:

1) **Strengthen the legal and institutional framework for youth employment in agriculture;**

2) **Support youth-oriented agricultural extension services;**

3) **Improve youth education and learning, for example by creating national information centers that will serve as innovation hubs. This also implies working with national public and private actors to foster the inclusion of young people aged 15 to 17, who due to regulative limitations have been excluded from most programmes dedicated to agricultural sector development;**

4) **Support youth entrepreneurship in agriculture, for example by setting up a Youth in Agriculture Fund that assists rural youth in accessing affordable financing, trainings, land and equipment required to start up new businesses;**

5) **Adapt to, and mitigate, agribusiness risks and uncertainties.**

The NSYEA is expected to cost the GoU UGX 52.9 billion shillings (USD 14.2 million) over five years, although at this stage it remains largely unfunded. A particularly notable initiative of the NSYEA is the piloting in 2017 of the **Youth Champions Initiative**, implemented by the Ministry of Agriculture with support from FAO. This initiative has led to the selection and award of 25 "Youth Champions" (i.e. young adults in rural areas who have developed cutting-edge innovations in agricultural value chains), who are meant to act as role models in their communities to inspire other young people through the success of their enterprise. A further replication of the initiative in 2020 is currently being evaluated at the time this publication is being drafted.

In terms of future policy reforms, the Ministry of Finance, Planning and Economic Development (MoFPED) is in the process (at the time this publication is being drafted) of designing an **Agricultural Finance Policy** to promote access to agricultural finance products and services for all value chain actors, with a view to addressing the current challenges affecting financial provision to the sector. The policy is expected to strengthen the collaboration between private and public players, driving a wide number of initiatives to transform agriculture in the country. It is due to be submitted to the cabinet before the end of the 2019.

## 1.5 Focus on relevant initiatives to foster youth-focused financial access and employment

To overcome the issue of low financial inclusion among young entrepreneurs, the GoU has supported a series of initiatives throughout the years which specifically sought to strengthen youth financial access. The most relevant ones among these are the 2012 **Youth Venture Capital Fund (YVCF)** and the 2013 **Youth Livelihood Programme (YLP)**.

### 1.5.1 The Youth Venture Capital Fund (YVCF)

Within the frame of the YVCF, in 2012 the GoU partnered with three formal FIs (DFCU Bank, Stanbic Bank and Centenary Bank) to **provide subsidized credit to young entrepreneurs** at a 11 percent interest rate (lower than the market average, at that time, of 23 percent), on a revolving basis. The Fund was explicitly meant to **support the growth** of viable and sustainable micro, small and medium-sized enterprises (MSMEs) managed by young rural entrepreneurs. The initial resource allocation to the Fund was of UGX 25 billion (USD 6.8 million), half of which was provided by the GoU, while the other half was provided by the partner commercial banks.

Since May 2017, a number of changes have taken place in the YVCF. Only one bank (Centenary Bank) has been left to run the Fund, as DFCU and Stanbic Bank were excluded from the Fund


Bean trader in a market in Kampala.

by the GoU on account of their failure to disburse funds to young people. The oversight of the YVCF shifted from the Ministry of Finance, Planning and Economic Development to the Ministry of Gender, Labour and Social Development.

The criteria to access the subsidized credit provided by the Fund are the following:

- **Age range between 18 to 30 years old (the maximum age was reduced from 35 in 2017);**
- **The loan purpose must be for working capital (maximum loan term 24 months) or capital investment (48 months) associated with an already established business;**
- **The loan amount can be up to UGX 5 million (USD 1 362) for an individual and up to UGX 25 million (USD 6 800) for a group or company;**
- **The interest rate is set at a 11 percent per annum (on a declining balance basis);**
- **In terms of collateral, each borrower must provide two personal guarantors who are existing clients of Centenary Bank and have a good credit history. The applicant must also obtain letters of recommendation from the local municipality;**
- **The borrower must provide evidence he or she has invested at least 10 percent of the loan requested;**
- **The sectors which are eligible for finance include: trade, manufacturing, agro-processing, primary agriculture, fisheries, livestock, health, transport, education, tourism, construction and service contractors.**

Since its inception, the YVCF has had mixed results in providing finance to its target group. A main constraint to its effectiveness has been the **stringent requirements** that were set to access credit through the YVCF, which could not be satisfied by most young rural entrepreneurs. As a result, the YVCF in general did not support the **start-up of new enterprises**. Furthermore, owing to a widespread yet incorrect perception on the part of young entrepreneurs that the YVCF's money represented in fact free money from the GoU, the non-repayment rate of those loans that were actually disbursed was quite high (UNCDF, 2016). An evaluation of the YVCF's results found that there had been some measurable, positive impact on **overall business expansion** in rural areas, but no significant effects on jobs creation for young people (Ahaibwe and Kasirye, 2015).

### 1.5.2 The Youth Livelihood Programme (YLP)

As the YVCF did not realize all of its intended objectives, a new flagship programme called the **Youth Livelihood Programme (YLP)** was launched in 2013 by the GoU. The YLP, under the responsibility of the Ministry of Gender, Labour and Social Development, sought to provide to unemployed young people (aged 18–30) in all 112 districts of Uganda with: affordable start-up credit without collateral to establish income-generating activities;[5] marketable vocational skills and tools for self-employment and job creation; and entrepreneurship and life skills training. The YLP was granted an initial allocation of USD 71 million over a five-year period. It was later raised to USD 83 million, fully funded by the GoU.

[5] This credit is free of charge if returned within the first 12 months. Otherwise, the interest charged is 5 percent per year. Maximum loan term is three years.

The YLP targets several categories of young people: educated or uneducated, rural or urban, dropouts from school and training institutions at any level, as well as unemployed graduates from tertiary institutions. It is not intended, however, for those who are still in school or studying. Commercial agriculture has been one of the YLP's major areas of focus; more than 40 percent of the 15 262 youth projects supported so far by the Programme were in either agriculture, agro-industry or agro-forestry.

The YLP was conceived as a demand-driven programme for the youth community, implemented with guidance from the GoU and the local administrations. In order to receive financial support from the YLP, young people have to unite in **Youth Interest Groups (YIGs)** – expressly established to act as the recipients of the funding – whose minimum size is five people (a third of whom have to be women). Successful YIGs can receive up to UGX 25 million in loans (USD 6 800), although only half of this amount can be accessed on the first round of credit provision. Similarly to the YVCF, the YLP's credit scheme works **on a revolving basis**: as the youth groups pay back the money they received, the funds are pooled once again to allow other groups to be funded.

Once a group is selected, the local government is expected to train the young people in the group to manage their business properly. This function is critical to the success of the initiative because of the minimal business experience that most of these groups start with. Such trainings have been so far standardized into a series of two-day workshops, where each YIG receives capacity building on financial management, bookkeeping, group dynamics and procurement.

In 2019, the impact of the YLP was evaluated by the International Initiative for Impact Evaluation (Bukenya et al., 2019). The findings of the evaluation have shown positive effects of the Programme on different socio-economic outcomes: employment, access to finance, assets, lifestyle and behavioural change. Although the evaluation did provide some ground for optimism on the effectiveness of the Programme, it also highlighted a **series of challenges** that have to be tackled in order to improve its results:

- **Poor youth usually tend to divert the received funds towards health and education, instead of using them to start up a business;**
- **Most young people prefer to invest in as business ventures which they perceive will earn them fast money (such as buying a motorcycle to carry out deliveries), and do not require a prior acquisition of technical skills. While such endeavors might indeed be easier to set up, they also face strong competition, as the general population engages considerably in similar ventures;**
- **Qualitative evidence from the evaluation shows that those implementing the project focused the majority of their efforts on the disbursement and recovery of the funds, while downplaying the component dedicated to supporting young people in the development of their businesses. As evidence from the YLP shows, the capacity building component is as crucial for business development as the actual provision of credit.**

As of May 2019, the YLP had achieved the following results:

- **More than 20 000 projects funded, for a total disbursement of UGX 160 billion (USD 43 million);**
- **A total number of 241 799 young people engaged by the programme (of which 46 percent women and 54 percent men);**
- **The average loan disbursement was equal to UGX 7.9 million (USD 2 150);**
- **273 projects have already completed their repayment, while 20 of them were refinanced;**
- **As of May 2019, UGX 29 billion (USD 7.8 million) in outstanding credit was still overdue. Leading causes for non-repayment were: natural calamities (e.g. droughts, pests and diseases); business-related challenges; and intra-group dynamics.**

## 1.6 Focus on the structure of the digital financial services market

The expansion of mobile money in Uganda, which began in 2009, has had a very significant impact on the levels of financial inclusion and outreach in the country, especially in rural areas. Uganda is now seen as one of the most promising markets in Sub-Saharan Africa for digital financial services (DFS), with several banks, mobile network operators (MNOs) and aggregators forming strategic partnerships to remain competitive in a rapidly evolving business environment.[6] As will be further seen in Section 3.7, mobile money has in recent years become the core enabler of financial inclusion in the country. As illustrated by the GSMA (2019a), as of mid-2018 there were more than 22 million registered mobile money users in the country, compared with 5 million traditional account holders with commercial banks. The total value of transactions via mobile money platforms in the country reached UGX 73.1 trillion (USD 17.4 billion) in 2018, which is more than half of Uganda's GDP, with 1.3 trillion transactions throughout the year and an estimated 200 000 jobs directly created by the mobile money industry. The mobile money market has evolved well beyond the provision of basic remittance services and airtime top-ups, towards a more sophisticated offer of financial products that include credit, savings, insurance and G2P (government-to-person) services (Bank of Uganda, 2018).

The DFS industry in Uganda is an **operator-centric business model**, in which the MNOs are the dominant stakeholders. As of December 2015, six MNOs in the country were offering mobile money services: MTN, Airtel, Uganda Telecom, Africell, M-Cash and EzeeMoney. The MNOs that offer digital financial services are regulated by the **Uganda Communications Commission**. Although a comprehensive DFS regulatory framework still hasn't been properly introduced by the GoU, the BoU requires all DFS providers to partner with "licensed" financial institutions to market their financial services and to hold the funds of DFS clients in escrow accounts. Furthermore, given the increasing risk of frauds for consumers, the BoU has developed a strict consumer policy that all DFS providers must adhere to.

There has also been an increase of non-MNO payment solution providers or aggregators that have developed technology platforms to support DFS; they partner with MNOs, financial institutions and donor partners to offer information services and DFS. As banks have a limited role in the DFS ecosystem, there is no strong business case for them to serve the low-income segment. The operator-centric business model limits interoperability **as banks are locked out of the market**.

### The 2014 National ICT Policy

In terms of relevant policy reforms in the digital domain, it is worth mentioning the 2014 National ICT Policy, as it represents the GoU's push towards increasing access to – and use of – digital services in the country, turning Uganda into a knowledge society by 2025. This policy aims to accelerate the deployment of digital infrastructure and services in the country, by acting on four core action areas:

1) Expanding ICT infrastructure and its integration in the country;
2) Fostering the utilization of ICT services by the GoU, the private sector, non-profit organizations and the wider community;
3) Enhancing research and innovation in ICT products, applications and services
4) Improve ICT governance and its regulatory environment.

The National ICT Policy is also the core enabler of the **2017 Digital Uganda Campaign**, which the GoU launched in 2019 in an effort to empower people through ICT-based services (GSMA, 2019a).

[6] It has to be underlined that many of these (mostly bilateral) partnerships have proved to be quite inefficient and risky for all parties involved, leading to the current scenario that sees a high number of different and fragmented payments systems coexisting in the same market.

The GoU recently (July 2018) introduced a 1 percent tax on all mobile money deposits, withdrawals, payments and transfers, taxing both the transaction fee and the transaction value.[7] This was done in an attempt to meet public fiscal targets for the 2018–2019 period. This measure made transactions considerably more expensive for a wide number of customers. As a result, the value of mobile-enabled P2P (person-to-person) transactions declined by almost 50 percent within two months of the introduction of the tax, while 100 000 mobile agents saw their profits decrease by 35 to 40 percent (and 30 000 left the market altogether). Although the GoU has since then tried to mitigate the impact of the tax, by lowering it to 0.5 percent of the transaction value of withdrawals only, the measure still results in very punitive effects on the mobile money market as a whole (GMSA, 2019b).

[7] Notably, a similar attempt had been made in 2013 (amended in 2014), which had brought substantial tax revenues without impacting considerably the demand; in that case, though, only the transaction fees had been taxed.

A man selling tomatoes at Freedom Market in Kalerwe, a Kampala suburb.

# 2 Data overview: agricultural finance and youth financial inclusion

## Key information from this section

Agriculture is the backbone of Uganda's economy. The agricultural sector contributes to more than 24 percent of the country's GDP and over 78 percent of the exports and employs 65 percent of its labour force. Smallholders (with an average farm size of 2.5 hectares or less) represent 85 percent of the total farming community, the majority of which are engaged in subsistence agriculture. The majority (78 percent) of the total population is under 30 years of age, being one of the youngest populations in the world, of which 79 percent resides in rural areas. The youth unemployment rate is significantly higher (38 percent) than the total unemployment rate (10 percent), and 80 percent of young adults that are primarily engaged in subsistence agriculture are underemployed. There is evidence that youth engagement in agriculture is declining steadily. Farming is not perceived as an appealing profession among young adults in Uganda, probably owing to traditional views of farming as subsistence based, labour intensive and not capable of providing a decent living. This scenario has led many young adults to relocate from rural to urban areas, with as many as 45 percent of internal migrants being young adults.

Despite the importance of agriculture in Uganda, the agricultural sector attracts less financing from the formal sector than other areas such as industry and services. Nevertheless, the share of agricultural credit has grown from 6.7 percent in 2011 to 12.8 percent in 2018, and has been provided by commercial banks, allocated to large-scale agribusiness, largely eschewing smallholders. Driving factors for this increase include a rise in the number of FIs, a more tailored offer of financial services to the agricultural sector, an increase in the size of cultivated area and a rise in demand for exported agricultural products, and the impact of the increase in public budget allocation, the establishment of the ACF and increased support from UDB and MSC.

The majority (77 percent) of young adults are financially included (61 percent have access to formal financial services and 16 percent use only informal services), while 23 percent remain financially excluded. The majority of the financially excluded young adult population resides in rural areas (83 percent) and is mainly female (58 percent).

Limited access to credit is a main constraint towards doing business in Uganda. This is exacerbated in the case of the agricultural sector, reducing in particular the availability of longer-term capital for agricultural investment. In this sense, only 6 percent of small-scale agribusinesses have access to a line of credit. Focusing on young adults specifically, the vast majority of these actors borrow informally (i.e. from non-specialized financial service providers, such as other value chain actors). Constraints to accessing services for young entrepreneurs include the excessive cost of financial services (lending rates are set at 23.5 percent as of 2016, as opposed to the regional range of 13–16 percent) and strict collateral requirements.

On the other hand, constraints to accessing savings services for young entrepreneurs are linked – among other factors – to the compulsory age set by the law to open and manage an account (18 years); the identity requirements to open an account with a formal FI; and the weak commercial bank physical network in the country, particularly in rural areas. The choice of informal saving modalities among young adults depends on how rapidly money can be accessed, with the most common saving mechanism used being self-help groups, followed by mobile money accounts and simply keeping the money at home.

Digital financial inclusion plays a critical role in the Ugandan context. Growth in mobile money account ownership is a key driver of financial inclusion in the country, and youth access to financial services has been driven mainly by mobile money services.

## 2.1 Brief overview of the agricultural sector

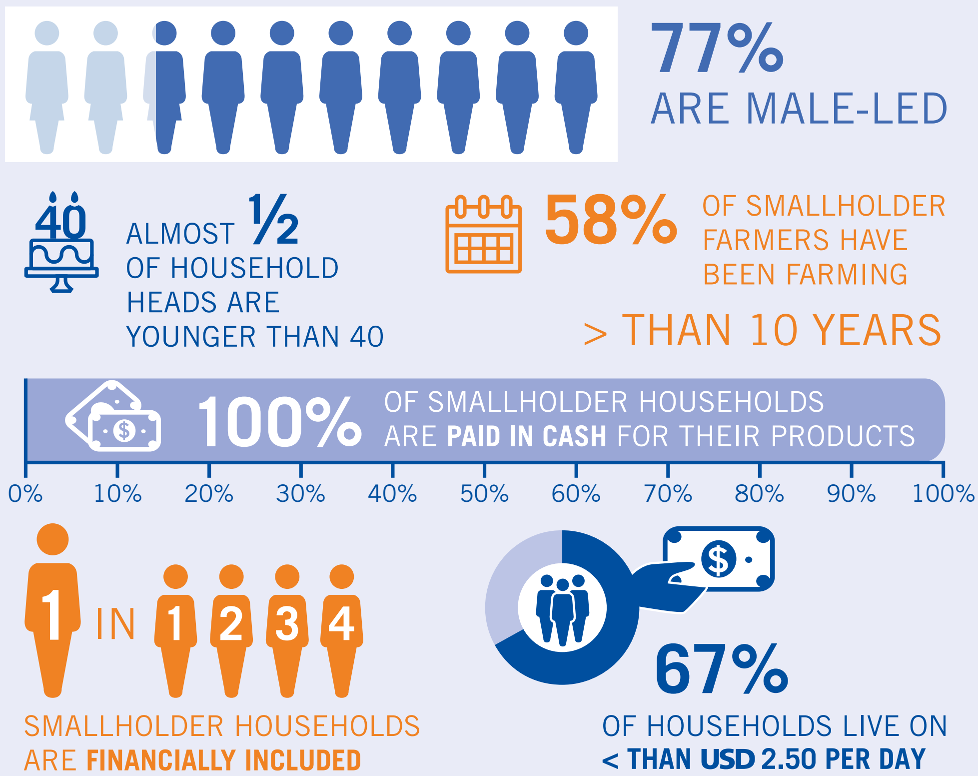

Overall, 83 percent of Ugandans are based in rural areas, with agriculture being the backbone of the country's economy. The agricultural sector contributes more than 24 percent of the country's GDP and over 78 percent of the country's exports. Major food crops in Uganda include cassava, maize, millet and potatoes, while the major cash crops are coffee, cotton, tea and tobacco. While 80 percent of Uganda's land is arable, only 35 percent is actually cultivated. It is also interesting to note that the agricultural sector has grown quite slowly in the past five years: while the overall population has grown by 3.3 percent per annum, the country's agricultural output has only grown by 2 percent (compared with the 5 percent registered in several other East African countries) (World Bank, 2018).

The agricultural sector employs 65 percent of Uganda's labour force, a percentage that is slightly smaller when considering only the youth category (60 percent). Women contribute more than 75 percent of total farm labour and more than 90 percent of all farm-level primary processing operations (EPRC, 2019). The majority of farming is small-scale, extremely labour-intensive and highly dependent on rainfall. The hand hoe is the main production tool, while only 10 percent of farmers employ animal traction and 1.2 percent use tractors (World Bank, 2018).

Agriculture in Uganda is dominated by smallholder farmers (with an average farm size of 2.5 hectares), as these represent 85 percent of the total farming community (while only 3 percent is composed of large-scale agribusinesses). Among the overall smallholder population, 66 percent is engaged in subsistence agriculture. Maize and beans are the most common cultivated crops, followed by groundnuts, sweet potato and cassava. Few smallholders grow cash crops, mainly coffee and sugar cane. The majority of farming is labour-intensive and carried out with traditional tools. Family labour is used by 75 percent of households.

As can be seen from the 2017 data provided by CGAP in **FIGURE 1**, 77 percent of smallholder households in Uganda are male-led, with almost half of household heads being younger than 40, and 20 percent being younger than 30. Only 25 percent of smallholder families are considered financially included, with 67 percent of households living with less than USD 2.50 per day.

**FIGURE 1 Breakdown of smallholder households' profile (2017)**



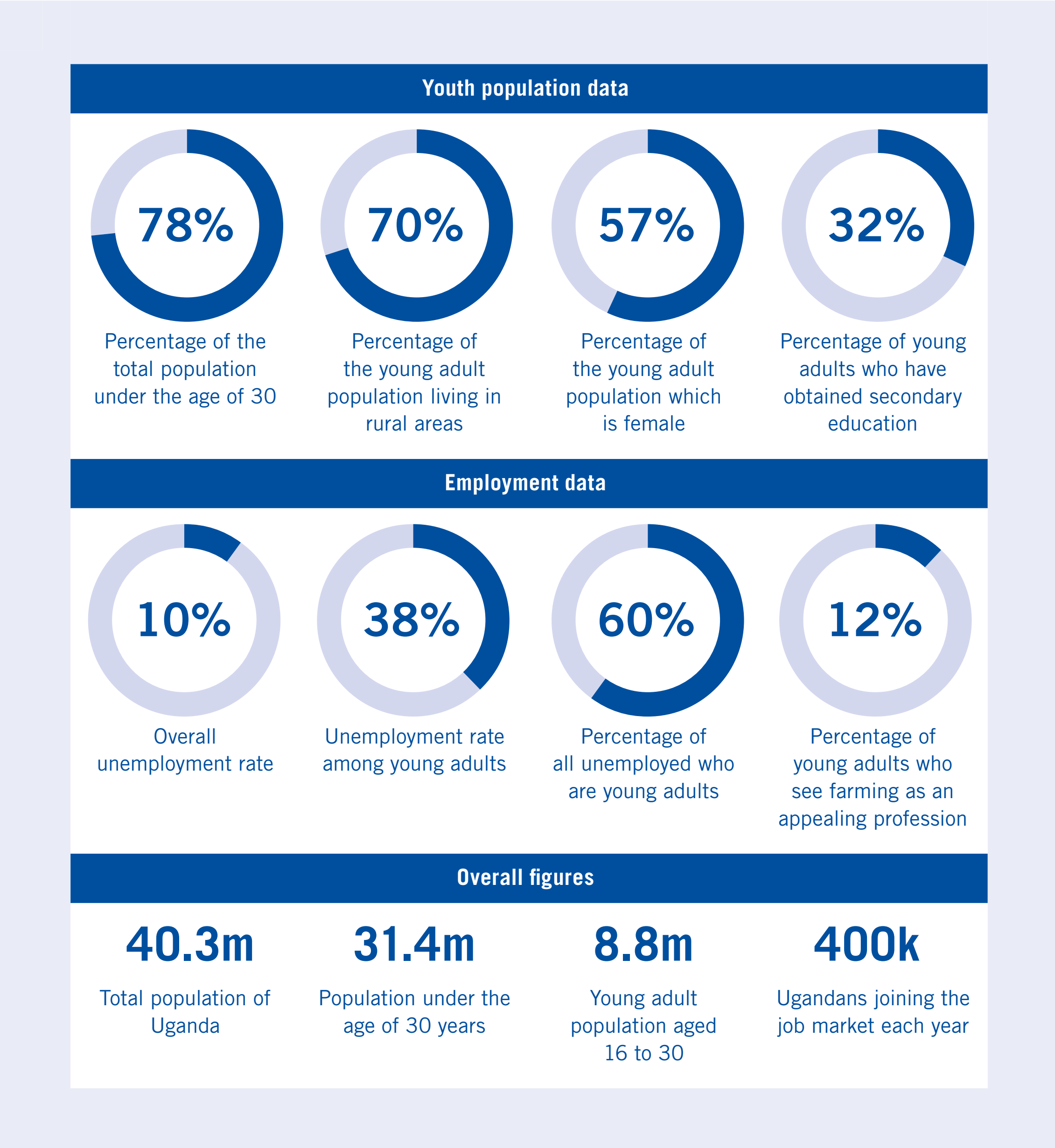

Source: CGAP (2017)

Among the overall smallholder population, **37 percent owns between 1 and 5 hectares of land**, mostly under customary law or through a leasehold agreement. In this sense, it has to be underlined that the land tenure system in Uganda is quite complex and largely undocumented; issues related to this domain have proven to be a critical bottleneck to the country's rural development in general, and financial inclusion in particular. There are four basic land tenure regimes coexisting in Uganda, as identified by the Land Act of 1998, which present widely different implications in terms of land users' rights, as well as tenure security:

| Land tenure regime | Key information |
|---|---|
| Customary | This is the most common tenure modality in Uganda – encompassing more than 60 percent of all land – in which land is usually owned by a community. It is **regulated according to different sets of specific customary regulations** that vary across indigenous communities. Land use under this modality is usually controlled by elders, clan heads, or similar groups. |
| Leasehold | In this system, the landowner (often, in practice, government bodies) **leases the land to the tenant for a specific period of time** in exchange for a premium and an annual rent, or a specific set of services. In practice, this system is not a safe one for the tenant, especially as quite often there are no formal contracts to sanction these kinds of agreements; as a result terms and conditions can be modified quite suddenly, while eviction is also a possibility. |
| Freehold | This modality is governed by the Registration of Titles Act, with the **landholder holding the land in perpetuity and having full powers of ownership over it**. Only Ugandan citizens can own land under this modality. **Customary-held land can be converted to freehold** by registering with the relevant district land office, which provides the owner with a certified land title; |
| Mailo | This land tenure system, which is also governed by the Registration of Titles Act, was established by the British colonial government in 1900, and is mainly present in Central Uganda (Buganda). It is a **customary form of freehold tenure** (although quite different from the one described in the previous paragraph) that is essentially feudal in character. Mailo owners rent their land to long-term tenants, who **do not have full ownership rights and face restrictions to land use**. The owners, on their part, have to respect the rights of the lawful or bonafide occupants of the land, and have a limited scope of action against them.[8] |

[8] While an in-depth analysis of the mailo land tenure system goes beyond the scope of this study, it is important to underline that the complexity of this system can give rise to quite a number of issues, mainly because it creates a form of dual ownership on the same piece of land.

## 2.2 Key data on youth in Uganda




Uganda has one of the youngest populations in the world: 78 percent of its total population of 40.3 million is under 30 years of age (31.4 million people), while the median age of the overall population is 16 years. The young adult population (i.e. aged 16 to 30) is 8.8 million, of which **70 percent resides** in rural areas, while 57 percent is female (FSD Uganda, 2018). Uganda has also one of the highest birth rates in the Sub-Saharan Africa region (41.7 births per 1 000 people), and one of the fastest population growth rates (3.3 percent) (World Bank, 2018).

Education levels among young adults are quite high, with 32 percent having obtained secondary education and 7 percent tertiary education. Around a quarter of young adults do not have their own sources of income, relying instead on others to pay expenses, while the rest rely mainly on informal sources of income (FSD Uganda, 2018).

While the unemployment rate in Uganda is 9.8 percent, it is substantially higher in the case of young adults: 37.8 percent. In fact, 60 percent of all unemployed in Uganda are young adults. Furthermore, 80 percent of young adults who are primarily engaged in subsistence agriculture are underemployed, and there is evidence that youth engagement in agriculture is declining quite steadily, in favor of seeking employment within the industrial and services sectors. In fact, as more than **400 000 Ugandans every year join the job market**, there are worries that the industrial and services sectors – while growing at a fast pace – might not be able to absorb all of this young labour force (FAO, 2017).

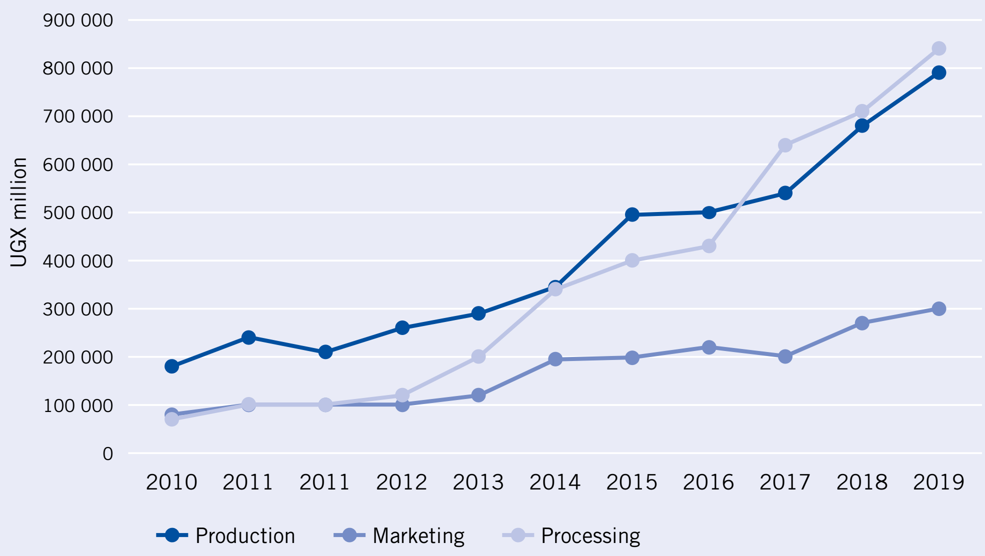
According to a survey carried out by the Aga Khan University (2015) among young adults in Uganda, **only 12 percent of respondents see farming as an appealing profession**, while far more wish to go into business (48 percent) or engineering, law or medicine (24 percent). Interest in farming was most prominent among the 31–35 years' category. Overall, this scarce perception of the business potential that could be leveraged by agricultural ventures is due to the traditional views on farming in Uganda: subsistence-based, labour-intensive and barely capable of providing a decent living.

This scenario has led many young adults to relocate from rural to urban areas, attracted by the possibility of making a quick and steady income with petty trade and activities in service sectors. In fact, **45 percent of internal migrants in Uganda are young adults** who have moved from rural to urban areas, especially Kampala. That is why in recent years the Government of Uganda (GoU) and several development organizations, including FAO, have begun focusing their efforts on re-engaging young adults in the agricultural sector (for example through the NSYEA initiative, detailed in Section 1.4), by showing them the untapped potential that could be leveraged in this domain, in terms of business growth, revenues and employment opportunities (FAO, 2017).

## 2.3 Engagement of the formal financial sector in agriculture

According to data from the BoU, the share of total credit allocated the agricultural sector by formal financial institutions has been on the rise since 2010, with the majority of this increase being channelled into the production and processing segments of agricultural value chains (see **FIGURE 2**). **The share of agricultural credit has grown from 6.7 percent in 2011 to 12.8 percent in 2018**, which in nominal terms represents a growth from UGX 518.9 billion to 1 858 billion (USD 140 to 506 million). Nevertheless, it has to be remarked that the agricultural sector still attracts considerably less financing from the formal financial sector compared with other areas of the economy, such as industry (36 percent share of total credit) and services (52 percent) (EPRC, 2019).

**FIGURE 2** **Agricultural lending on the part of formal financial institutions, by value chain segment (in millions of UGX)**



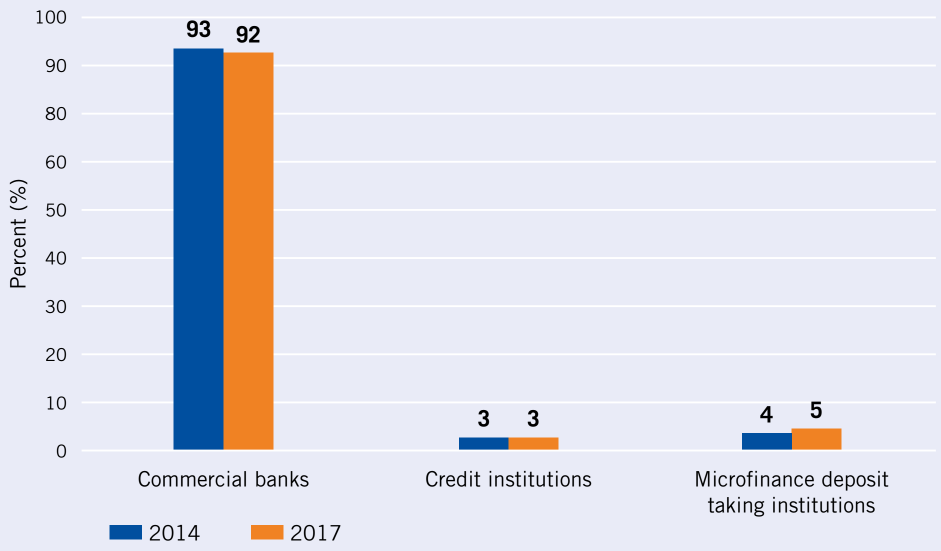

Source: Bank of Uganda

Multiple sources point out to different driving factors that have contributed to this rise in total formal financing to agriculture (World Bank, 2018; EPRC, 2019). These factors include, among others:

- **A rise in the number of FIs lending to the agricultural sector;**
- **A more varied and tailored offer of financial services for the agricultural sector, with several FIs developing customized financial products allocated to different value chain segments;**
- **An increase in public budget allocation to agriculture, from UGX 381.3 billion in 2013 to 1 trillion in 2019 (USD 103 million to 272 million);**
- **The establishment of the Agricultural Credit Facility on the part of the BoU (at the end of 2017, the ACF's outstanding portfolio amounted to approximately 3.7 percent of the total credit portfolio in agriculture);**
- **Increased support to agriculture from public financial entities such as the Uganda Development Bank and the Microfinance Support Center, through risk sharing mechanisms and dedicated lines of credit;**
- **An increase in the size of total cultivated area;**
- **A rise in demand for exported agricultural products with high added value, which required substantial credit to be met and sustained.**

As can be seen from **FIGURE 3**, **the majority of formal credit to the agricultural sector has been provided by commercial banks** (93 percent as of 2017), with almost no change registered in this regard between 2014 and 2017. The bulk of this credit was allocated to large-scale agribusinesses while largely eschewing smallholders, despite these representing 85 percent of the total farming community.

**FIGURE 3 Formal agricultural lending by category of FI**




Source: EPRC, 2019

In terms of the **overall growth of the formal financial sector**, **TABLE 1** shows the rise in the numbers of formal FIs in the 2007–2018 period, taking into consideration the first three tiers of FIs in the system (commercial banks, credit institutions and MDIs). Note that Tier 4 institutions (Village Savings and Loan Associations (VSLAs), SACCOs) are excluded from these tables, as the last official census for Tier 4 institutions was carried out in 2007.

**TABLE 1 Growth in the number of formal FIs (Tiers 1 to 3)**

| Year | Tier 1 | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|
| **2007** | 14 | 5 | 4 | 23 |
| **2008** | 20 | 5 | 4 | 29 |
| **2009** | 21 | 4 | 3 | 28 |
| **2010** | 22 | 3 | 3 | 28 |
| **2011** | 23 | 3 | 4 | 30 |
| **2012** | 24 | 3 | 4 | 31 |
| **2013** | 26 | 3 | 3 | 32 |
| **2014** | 25 | 4 | 4 | 33 |
| **2015** | 25 | 4 | 4 | 33 |
| **2016** | 24 | 4 | 5 | 33 |
| **2017** | 24 | 4 | 5 | 33 |
| **2018** | 24 | 4 | 5 | 33 |

Source: EPRC, 2019

## 2.4 Focus on existing levels of financial inclusion for rural youth

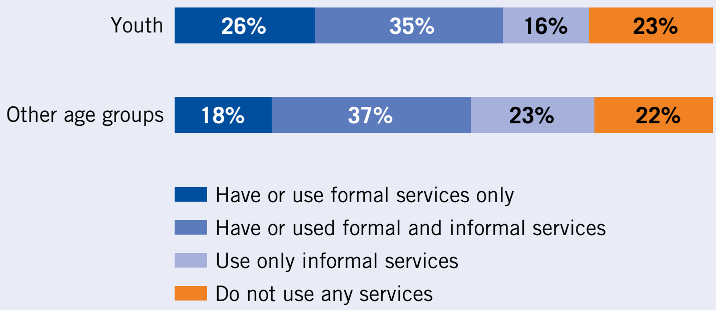
As shown by the latest FinScope survey available (see **FIGURE 4**), the majority of young adults in Uganda are financially included (77 percent, or 6.7 million), with 61 percent having access to formal financial services. On the other hand, **2.2 million young Ugandans (23 percent) remain financially excluded**, while 1.4 million (16 percent) rely solely on informal financial services. While the percentage of financially excluded young adults is almost the same when compared with other age groups, young adults have overall greater access to formal financial services (61 percent and 55 percent respectively).[9]

Of the entire young adult population that is currently financially excluded, **the majority (83 percent) resides in rural areas** and is mainly (58 percent) female. Furthermore, financially excluded young adults are in general less educated: only 19 percent of them have completed secondary education, compared with 36 percent of the financially included.

According to the FinScope data (see **FIGURE 5**), the main driver of financial inclusion has largely been **mobile money services**, whose usage is slightly more common amongst young adults than in the other age groups (59 percent against 53 percent). All other brick-and-mortar financial providers (such as commercial banks) play a considerably minor role, in comparison, in providing services to young adults. It is therefore easy to see then how

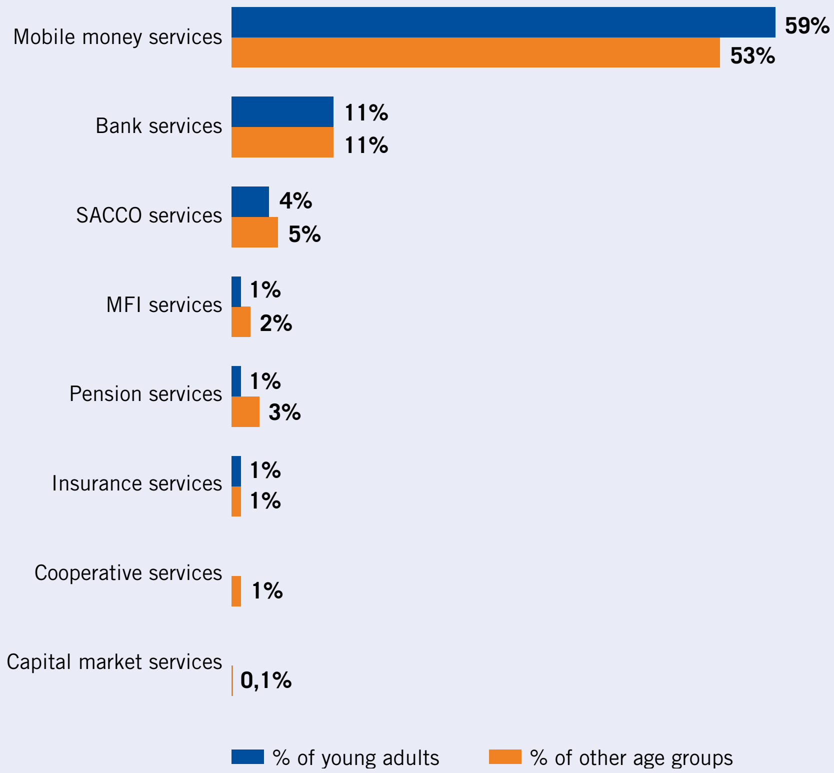
[9] For a more refined and granular look at the levels of financial inclusion in Uganda, please refer to Annex 1, which presents a breakdown of the evolution of several financial inclusion indicators – over the 2011–2017 period – provided by the World Bank's Global Findex database.

**FIGURE 4 Young adults' access to financial services vs. other age groups**




Source: FSD Uganda, 2018

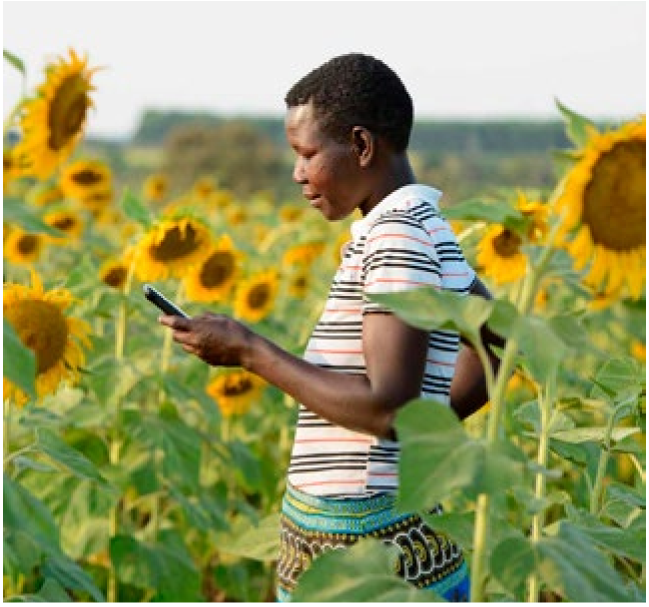
**FIGURE 5 Young adults' access to financial services vs. other age groups**




Source: FSD Uganda, 2018

ownership of a mobile phone represents a core enabling factor for financial inclusion. To reinforce this conclusion, FinScope data shows that **only 14 percent of young adults who are currently financially excluded own a mobile phone**, and only 3 percent have access to the internet.

According to FinScope data, young adults in Uganda borrow and save money for two main purposes: either to help with regular expenses (38 percent of respondents); or to cope with unexpected expenses (24 percent of respondents). **Very few (8–9 percent) save or borrow to invest in farming activities**.



©UNCDF/Martin Jumba

Seed oil farmer in her field.

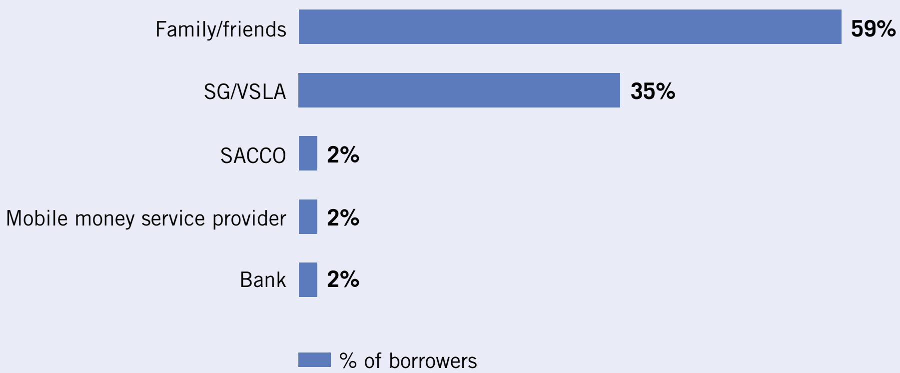
## 2.5 Constraints to accessing credit for young entrepreneurs

According to the findings of a 2013 World Bank survey, limited access to credit has been highlighted as the main constraint towards doing business in Uganda. **Only 6.3 percent of small-scale agribusinesses have access to a line of credit**, compared, for example, with 44.1 percent in Kenya.

In the specific case of the agricultural sector, the supply of credit is even weaker than in other sectors of the economy, owing to a variety of well-known constraints: the high level of fragmentation of the demand for credit (i.e. smallholders with low and irregular income); weak supportive regulation for alternative financial products that could be suited for agriculture (such as leasing); low levels of financial literacy among farmers; weak rural infrastructure; high covariant risk in the sector (such as from droughts and flooding); and a lack of brick-and-mortar banking facilities in rural areas. All of these constraints **strongly limit the availability of longer-term capital for agricultural investment**, which could be used for example for machinery or infrastructure (World Bank, 2018).

Focusing on young adults specifically, FinScope data tells us that **the vast majority of these actors borrow informally** through family and friends (59 percent), as well as through SHGs or VSLAs (35 percent) (see **FIGURE 6**). Despite the relatively high levels of digital financial inclusion among this age category, very few young adults use mobile money services to access credit (FSD Uganda, 2018).

**FIGURE 6 Main lending modalities used by young adults**

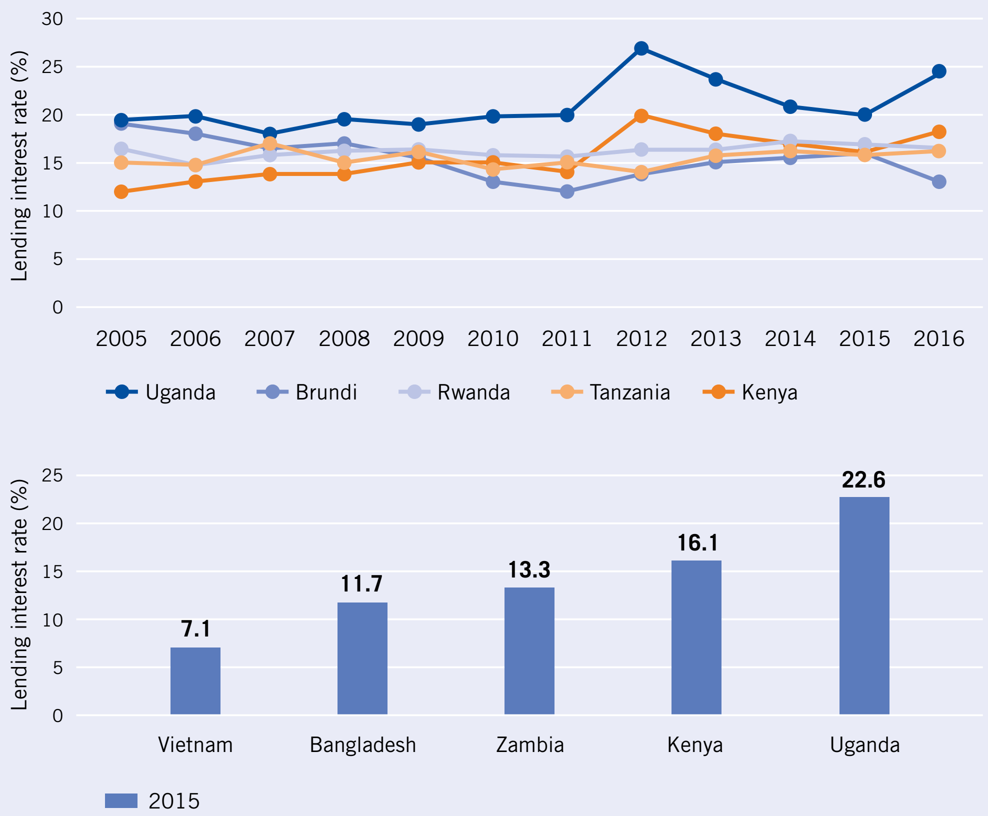



Source: FSD Uganda, 2018

In the 2018 FinScope survey, almost a third of financially excluded young adults pointed to the **excessive cost of financial services** as the most important barrier to inclusion. These findings are in line with the results of an analysis carried out by of the World Bank (2017), which compared Uganda's lending rates with those of its regional neighbors (see **FIGURE 7**). Uganda's lending rates are extremely high, having been in excess of 20 percent since 2011, and set at 23.5 percent as of 2016. This is considerably higher than the regional range of 13–16 percent.

Various factors contribute to these high interest rates, including: high overheads for formal FIs; lack of skilled staff; information asymmetry and high cost to carry out due diligence on clients (for banks that target low-income clients, especially); high associated risk; and a lack of competition in the market that could drive rates down.

**FIGURE 7 Uganda's lending rates compared with regional neighbors**




Source: World Bank, 2017

Another key constraint to credit access is collateral. **Conventional collateral is scarcely available in Uganda**, especially in the form of legally registered land (an issue complicated by the complex, four-tiered land tenure system present in the country). As pointed out by the World Bank (2017), only 20 percent of Uganda's land is properly registered, most of which is mailo land that cannot be used as collateral, as the bank would be unable to liquidate it.[10]

It is also important to underline that the **value of collateral** demanded by commercial banks for credit is particularly high, owing to the issues related to the lack of land tenure security and weak contract enforcement. A 2013 World Bank enterprise survey showed that Ugandan banks required collateral for a value up to **160 percent of the value of the loan**, while 87 percent of total loans to enterprises required some sort of collateral (World Bank, 2013 and 2018). On top of this,

[10] Please refer to section 2.1 for a brief analysis of the Ugandan land tenure system.

the inability to use **movable property** as collateral further constrains access to credit. The lack of a unified legal framework for secured transactions in the country also implies the lack of functional equivalents to security interests in movable assets.

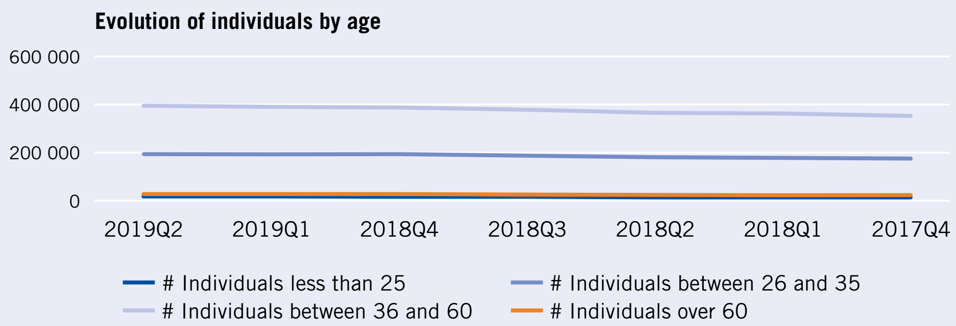
Thanks to the information provided by Compuscan, a private credit bureau and information services provider, it is also possible to analyze in a more granular manner the age breakdown of Ugandans who have an outstanding loan with a formal financial institution belonging to Tiers 1, 2 and 3 (i.e. excluding Tier 4 entities such as SACCOs and non-deposit taking MFIs). The data in **FIGURE 8** presents the age breakdown of borrowers for every trimester from Q4 of 2017 to Q2 of 2019.

As can be seen from the Figure, overall there has been a moderate positive shift in the number of borrowers under 25 years of age in the period under consideration, slightly superior to the average increase among the other age ranges. Nevertheless, it is also possible to appreciate how young people under 25 remain by far the smallest category – in absolute numbers – among those holding an outstanding loan with a formal FI, with individuals aged between 36 and 60 holding the lion's share.

Out of 633 217 individuals with outstanding loans at a formal financial institution as of Q2 2019, only 3 percent were under 25 years and 31 percent were between 25–35 years. The same two categories of individual accounted only for 1 percent and 17 percent of the total outstanding loans. Meanwhile those aged over 35 (20 percent of total Ugandan population) account for 66 percent of total borrowers, holding 72 percent of the outstanding balance.

**FIGURE 8** **Age breakdown of Ugandans with an outstanding loan in Tier 1, 2 and 3 FIs (from Q4 2017 to Q2 2019)**

| | Q2 2019 | | Q1 2019 | | Q4 2018 | | Q3 2018 | | Q2 2018 | | Q1 2018 | | Q4 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Count | Δ Quarter | Count | Δ Quarter | Count | Δ Quarter | Count | Δ Quarter | Count | Δ Quarter | Count | Δ Quarter | Count | Δ Quarter |
| **# Individuals less than 25** | 18 344 | 1% | 18 122 | -2% | 18 539 | 6% | 17 464 | 7% | 16 246 | 4% | 15 564 | 3% | 15 134 | -9% |
| **# Individuals between 26 and 35** | 193 653 | 1% | 192 522 | 0% | 193 233 | 3% | 186 849 | 4% | 179 760 | 1% | 177 227 | 1% | 174 951 | -7% |
| **# Individuals between 36 and 60** | 395 254 | 1% | 390 547 | 1% | 388 402 | 3% | 378 690 | 3% | 367 717 | 1% | 363 226 | 3% | 353 114 | -4% |
| **# Individuals over 60** | 25 966 | 2% | 25 573 | 3% | 24 945 | 3% | 24 201 | 5% | 22 989 | 3% | 22 277 | 6% | 20 943 | -6% |




Source: provided to the authors by Compuscan

**FIGURE 9** expands on the previous data by providing a gender breakdown of borrowers with an outstanding loan as of Q2 2019.[11] As can be seen from the Figure, male borrowers are substantially more numerous than female ones in every age range (overall, 69 percent of borrowers are men and 31 percent are women); in particular, there are 2.5 times more male than female borrowers among young people under the age of 25. This also extends accordingly to the number of outstanding loans and total balance for each age range. Notably, however, no particular differences in the percentage (i.e. the column "[%]") of individuals or loans among different age ranges are registered between men and women.

**FIGURE 9 Gender breakdown of Ugandans with an outstanding loan in Tier 1, 2 and 3 FIs (in Q2 2019)**

| | | # Individuals | | | # Loans | | | Σ Balance (mill. UGX) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Gender | Age | Count | (%) | Δ Quarter | Count | (%) | Δ Quarter | Sum | (%) | Δ Quarter |
| **Male** | Less than 25 | 13 105 | 3 | 2% | 15 838 | 3 | 2% | 70 251 | 2 | 137% |
| | Between 26 and 35 | 131 711 | 30 | 1% | 164 417 | 30 | -1% | 734 795 | 16 | 3% |
| | Between 36 and 60 | 272 796 | 62 | 1% | 344 138 | 63 | 0% | 3 419 391 | 76 | -21% |
| | Over 60 | 19 470 | 4 | 2% | 24 757 | 5 | 0% | 294 883 | 7 | -5% |
| | Missing | 0 | 0 | 0% | 0 | 0 | 0% | 0 | 0 | 0% |
| | **Total** | **437 082** | **100** | **1%** | **549 150** | **100** | **0%** | **4 519 321** | **100** | **-16%** |
| **Female** | Less than 25 | 5 239 | 3 | 0% | 6 112 | 2 | -2% | 11 770 | 1 | 9% |
| | Between 26 and 35 | 61 942 | 32 | 1% | 75 692 | 31 | 0% | 278 672 | 21 | 2% |
| | Between 36 and 60 | 122 458 | 62 | 1% | 154 900 | 63 | 0% | 956 775 | 72 | 1% |
| | Over 60 | 6 496 | 3 | 1% | 8 414 | 3 | 0% | 78 296 | 6 | 7% |
| | Missing | 0 | 0 | 0% | 0 | 0 | 0% | 0 | 0 | 0% |
| | **Total** | **196 135** | **100** | **1%** | **245 118** | **100** | **0%** | **1 325 514** | **100** | **2%** |

Source: provided to the authors by Compuscan

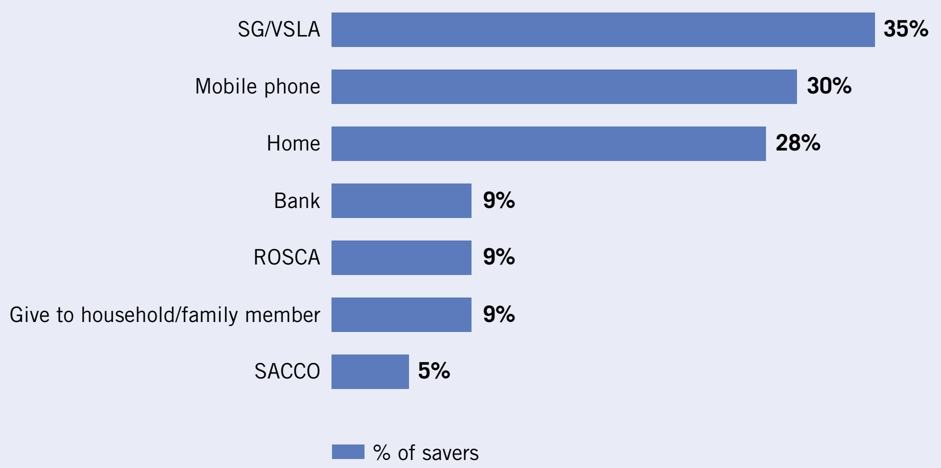
[11] Note that the "Individuals" column shows the number of people with an outstanding loan, as well as the relative share of the total and the percentage variation from the previous quarter; the "Loans" column shows the total number of loans (i.e. an individual could have more than one loan at the same time); and the "Balance" column shows the total balance in millions of UGX.

## 2.6 Constraints to accessing savings for young entrepreneurs

A core barrier to fostering formal savings among young people is the **compulsory age** set by the law to open and manage an account, which is 18. Access to **proof of identity documentation** is also another major constraint to fostering savings: according to FinScope data, only 58 percent of financially excluded young adults would own one of the forms of I.D. required to open an account with a formal FI (such as a birth certificate or proof of residence).

With regard to the most common savings mechanism used by young adults, only mobile savings wallets stand out as a commonly used (30 percent of savers) form of formal service (see **FIGURE 10**). The two other most used modalities of savings (SHGs and keeping the money at home) are informal in nature. As already underlined in Section 2.4, savings behavior among young people is mainly driven by the need to smooth cash flows and cope with regular – as well as unexpected – expenses. Hence, **their choice of saving modality is critically dependent on how rapidly their money can be accessed** (FSD Uganda, 2018).

**FIGURE 10 Common savings modalities among young adults**




Source: FSD Uganda, 2018

A major factor behind the relatively low level of formal savings – apart from those enabled by mobile technology – is the **weakness of the commercial banks' physical network** in the country, particularly in rural areas. As reported by the World Bank (2018), the cost for commercial banks to open and maintain brick-and-mortar branches in rural areas is quite prohibitive, especially when considering the low volume of transactions that these areas would generate. The IMF reports that, as of 2014, Uganda had **2.9 branches per 100 000 adults**, which is a significantly lower ratio than those registered in neighboring countries such as Kenya (5.4) or Rwanda (6.1).

That is why the GoU – in an effort to overcome this issue and foster the delivery of banking services in underserved rural areas – amended the 2004 Financial Institutions Act in 2016 to regulate the provision of **agent banking** for commercial banks (see Section 1.3 for more information on this). One of the main goals of this Amendment Bill was to level the playing field between commercial banks and mobile money operators in rural financial provision, as the latter could already benefit from a considerably more advanced (and flexible) policy environment that regulated the selection and use of mobile money agents.

Agricultural extension worker showing young adults how to prepare sack gardens.

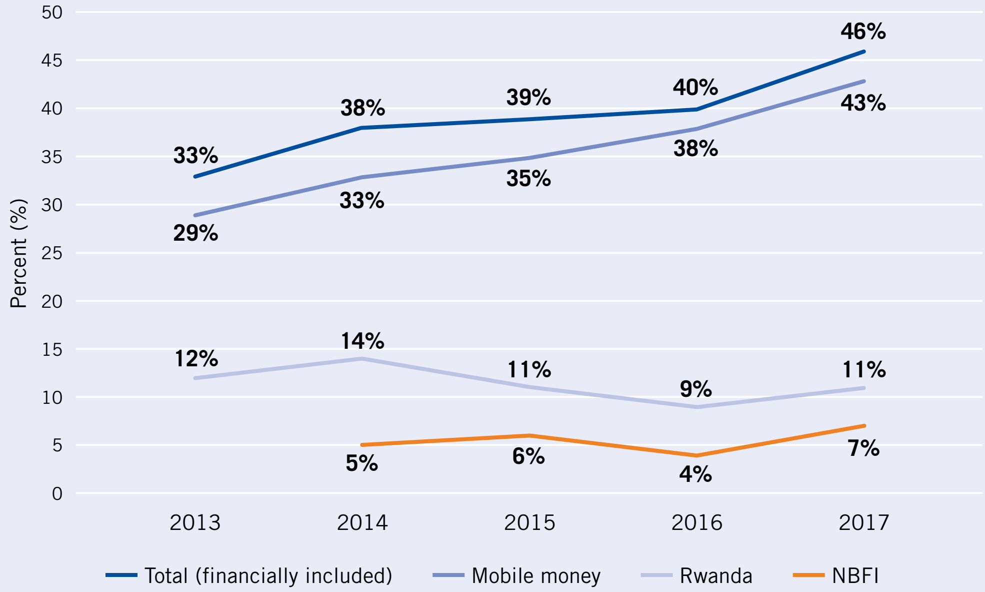
Nevertheless, **agent banking still faces a number of constraints** that limit its expansion and impact, especially in rural areas. These include: 1) a lengthy agent approval process (six weeks, compared with the two day required to register a mobile money agent); 2) stringent KYC ('know your customer') requirements that result in high costs for doing business; 3) a poor transport and telecom network infrastructure, which limits expansion the expansion of agent banking in several areas; 4) low levels of financial literacy and awareness among rural dwellers, which restricts demand and uptake for agent banking services; 5) different pricing models for agent commissions among commercial banks, which brings agents to give precedence to a restricted amount of banks when intermediating service provision (EPRC, 2019).

## 2.7 Focus on digital financial inclusion

From a macro-level perspective, in terms of the diffusion of mobile money Uganda ranks high among developing countries, both with respect to the proportion of the value of mobile transactions to GDP, as well as to the number of registered accounts. **As of 2017, 43 percent of Ugandans owned a mobile money account**. This rate of usage is significantly higher than in many other developing countries, even compared with those in which the mobile money market is already well established.

As can be seen from data provided by Intermedia (see **FIGURE 11**), in 2017 the percentage of Ugandan adults who had a **registered mobile money account** had increased to 43 percent, from 29 percent in 2013. Growth in mobile money account ownership is a key driver of financial inclusion, although it has unfolded in Uganda at a more gradual pace compared with neighbors such as Kenya and Tanzania. Furthermore, 19 percent of Ugandans as of 2017 accessed mobile money services **over-the-counter (OTC)**, i.e. without registering for their own account, but by having an agent perform a transaction on their behalf. As of 2017, OTC users were predominantly rural (72 percent of total users) and younger than 35 (66 percent), which reflects a series of issues, such as low levels of mobile ownership and scarce digital literacy. OTC use has almost doubled since 2014, when only 10 percent of Ugandans used these types of services (Intermedia and BM&G Foundation, 2018).

**FIGURE 11 Growth in mobile account ownership (2013–2017)**
(Shown: percentage of Ugandan adults for each year)




Source: Intermedia and B&MG Foundation, 2018

Overall, this high rate of mobile money usage is the result of a number of factors, including the relatively low rate of access to the traditional (i.e. non-digital) banking system, a considerable willingness on the part of customers to adapt to new technologies, and the pressing need in the economy for payment systems that can enable transactions. With that being said, a core constraint to the continued expansion of mobile money in the country remains low mobile penetration, especially among poor people: according to InterMedia data, while 78 percent of adults that live above the USD 2.50/day poverty line own at least one phone, **only 37 percent of those living under the poverty line own one**. Other constraints to access include language and educational barriers, with a large share of users having a poor command of English (or being illiterate). Furthermore, only 45 percent of users are actually able to send SMS with a reasonable level of ease (World Bank, 2017).

**Focusing specifically on the agricultural sector**, CGAP (2017) data shows us that 69 percent of smallholder households own at least one mobile phone, while 73 percent have used mobile money at least once. Most smallholders only use mobile phones to carry out voice calls, while few yet seem to use it to carry out financial transactions or run their business. Only 21 percent of smallholder farmers have a registered account with a mobile money provider, which they use mostly to send and receive money.

Despite these low ownership numbers, most smallholders (87 percent) are aware of what mobile money is, viewing the ability to save money, as well as to transfer it, as the two most useful benefits of having a registered mobile money account. When asked why they never used mobile money services, 43 percent of smallholders in the CGAP (2017) survey answered that they did not have enough money to make a transaction with a mobile service, while 13 percent said that they did not know how to open an account.

### The experience of UNCDF in digitizing bulk payments in Ugandan agriculture

Since 2014, the United Nations' Capital Development Capital Fund (UNCDF) has been carrying forward a remarkable programme of work in Uganda related to digital financial innovation in agriculture, which notably includes promoting the digitization of bulk payments to farmers. This implies enabling the provision of mobile payments from large-scale aggregators and processors to a wide network of fragmented rural producers, in collaboration with selected MNOs and FIs. While challenging (and costly) to implement, the advantages that can be derived from this innovation are many: faster repayments for farmers; increased security, as they do not need to travel to the nearest banking branch to collect their payments; increased farmer and trader loyalty; improved financial accountability and transparency; and several more.

Through its Mobile Money for the Poor Program, UNCDF has supported the digitization of payments along five value chains (coffee, dairy, tea, maize and oil seeds), paving the way for increased smallholder farmers' financial inclusion, while at the same time generating notable benefits for all segments of the value chains, as well as for the partner FIs and MNOs. More than 34 000 farmers have benefitted from the programme during its course.




Withdrawing money from a mobile money account at a kiosk in Kampala.

With regard to the **digital financial inclusion of young people**, FinScope data tells us that 47 percent of young adults have a digital payment account. Among this group, almost half of young adults use a digital system for remittances; 31 percent use one to pay for goods and services; 7 percent use one to pay bills. Another element to underline from the FinScope survey relates to the **age-related difference in the openness to the adoption** of new technologies: while 76 percent of younger adults declared that they would be open to embracing new digital technologies, only 59 percent of older adults said the same (FSD Uganda, 2018). Finally, Intermedia data for the year 2017 shows that those under 35 years old represented **the highest share of unregistered users of digital financial services** (66 percent), i.e. those who make use of digital financial services "over the counter" and through an external agent (Intermedia and B&MG Foundation, 2018).

**Olivia Nankindu, 27, surveys the fruits of her labor in the waning afternoon sunlight on her farm near Kyotera, Central Region.**

# 3 Mapping of major financial service providers

## Key information from this section

The liberalization of Uganda's financial sector through a series of market-oriented policy reforms throughout the 1990s, coupled with the rapid development of ICTs over the last ten years, has led to considerable growth in Uganda's financial system. The country's banking and financial sector has been growing in size and sophistication, transitioning from a highly regulated financial system – composed of a small number of banks with interest rates and credit limits controlled by the GoU – to a total of 25 commercial banks and more than 300 non-bank financial institutions.

This section provides an overview of the key actors in the Ugandan financial sector, with a specific focus on those financial institutions that are engaged in agricultural finance and youth-oriented provision:

Tier 1 institutions are commercial banks legally allowed to offer a complete range of financial services. The institutions of this kind presented in this Section include the Development Finance Company of Uganda, Finance Trust Bank, Equity Bank Uganda, Centenary Bank and Stanbic Bank.

Tier 2 institutions are credit institutions authorized to take deposits and establish savings accounts, as well as provide collateralized and non-collateralized loans. They are not, on the other hand, allowed to provide checking accounts or trade in foreign currency. Presented in this Section are PostBank Uganda, Opportunity Bank and BRAC Uganda.

Tier 3 institutions are Microfinance Deposit-Taking Institutions (MDIs) authorized to take in customer deposits, establish savings accounts and provide loans, but not allowed to establish checking accounts or trade in foreign currency. Presented in this Section are FINCA Uganda, Pride Microfinance and UGAFODE.

Tier 4 institutions are non-deposit taking financial institutions, which are authorized to offer collateralized or non-collateralized loans to their clients but not to take in customer deposits or establish savings accounts. This category is composed of a range of different institutions (SACCOs, SHGs, community savings and credit groups, non-deposit-taking and community-based MFIs) that present a varying degree of informality in their structure and operations. All of these institutions – regulated by the 2016 Tier 4 Act – are very active players in the rural areas of Uganda.

This tier is the only one among the four that is not regulated by the BoU, as SACCOs and non-deposit taking MFIs fall under the supervision of the newly established Uganda Microfinance Regulatory Authority (UMRA). The three apex bodies for the Tier 4 sector are the Association of Microfinance Institutions of Uganda (AMFIU), the Uganda Cooperative Savings and Credit Union (USCU) and the Uganda Cooperative Alliance (UCA).

Other relevant actors presented in this Section include publicly owned finance facilities engaged in agricultural financing and private sector support, namely the Agricultural Credit Facility (ACF), the Uganda Development Bank (UDB) and the Microfinance Support Centre (MSC). Furthermore, two relevant public-private initiatives are described: the Uganda Agricultural Insurance Scheme (UAIS) established by the GoU in 2016; and the Yield Uganda Investment Fund, which is an impact investment fund launched in 2017 to catalyse investments in agricultural value chains.

The following section aims to provide an overview of the main actors in the Ugandan financial services. In particular, it will focus on – and analyze – a number of different FSPs that are specifically engaged in the provision of finance to young rural entrepreneurs and agricultural value chains. To gain an initial understanding of the size and outreach of the Ugandan financial sector, please refer to **FIGURE 12**, which provides an overview of the composition of the sector, with the institutions being categorized according to the specific categories of services they offer (please refer back to Section 1.1 for a recap of the four-tier system that regulates formal FSPs in the country).

**FIGURE 12** **Overview of the composition of the Ugandan financial sector (as of 2017)**

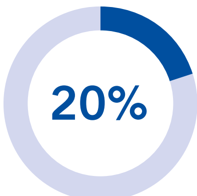

| SAVING | CREDIT | MOBILE MONEY | PAYMENTS | INSURANCE |
|---|---|---|---|---|
| 25 Banks<br>4 Credit Institutions<br>5 Microfinance Depository Institutions<br>1 900 SACCOs<br>1 Public Pension Fund, 1 Social Security Fund<br>60 Private Retirement Benefit Schemes<br>Regulators: BoU, UMRA, URBRA | 25 Banks<br>4 Credit Institutions<br>5 Microfinance Depository Institutions<br>1 900 SACCOs<br>70 MFIs<br>200 Moneylenders<br>Regulators: BoU, UMRA | 7 Mobile Money Service Providers<br>Regulators: BoU and UCC | 25 Banks<br>4 Credit Institutions<br>5 Microfinance Depository Instit.<br>Regulator: BoU | 22 Non-Life Insurance companies<br>7 Life Insurance Companies<br>Regulator: IRA |

Source: World Bank, 2017

## 3.1 Overview of the banking sector (Tier 1, 2, 3 and public banks)

Throughout the 1990s, a series of market-oriented policy reforms set the stage for the liberalization of Uganda's financial sector, which led the country to experience considerable economic growth over the past two decades. Furthermore, rapid developments in the market for information and communications technologies (ICTs) over the past ten years also drove this expansion. Before the liberalization began, in 1988, Uganda's financial system was highly regulated, composed of only a small number of banks which were serving a restricted amount of the population, with interest rates and credit limits closely controlled by the GoU. The reforms that have been implemented since then were intended to foster efficiency and to facilitate the emergence of more varied types of FIs, which could provide a greater range of financial services to a larger share of the population (World Bank, 2017).

Uganda's banking and financial sectors have therefore been growing in size and sophistication in recent years, reaching, as of 2017, a total of **25 commercial banks** (84 percent of which are at least partially foreign-owned), and more than **300 non-bank financial institutions** (see




Percentage of Ugandans with deposits in the formal banking sector

**31.4m**

Number of commercial banks in Uganda

**8.8m**

Number of non-bank financial institutions in Uganda

FIGURE 12). **Only 20 percent of Ugandans have deposits in the formal banking sector**, with the rest of the population relying on cash transactions or alternative forms of financial provision.

In the past decade or so, the Ugandan banking sector has also undergone a process of **gradual de-concentration**, which began in 2007 with the expiration of a national ban on new bank licenses. Following that, the number of commercial banks rose from 14 in 2007 to 25 in 2017, while still holding considerable potential for further growth in the next years. Nevertheless, competition has generally not taken the form of price competition. Banks have instead competed for customers by opening new branches: the number of branches is nowadays **six times the level of the early 2000s** (World Bank, 2017).

**Selected institutions from Tiers 1, 2 and 3**

**Tier 1: Commercial banks engaged in the agri-finance sector**
- Development Finance Company of Uganda
- Finance Trust Bank
- Equity Bank Uganda
- Centenary Bank
- Stanbic Bank

**Tier 2: Credit institutions engaged in the agri-finance sector**
- PostBank Uganda
- Opportunity Bank
- BRAC Uganda

**Tier 3: Microfinance deposit-taking institutions engaged in the agri-finance sector**
- FINCA Uganda
- Pride Microfinance
- UGAFODE

## 3.2 Tier 1: Commercial banks engaged in the agri-finance sector

### 3.2.1 Development Finance Company of Uganda

The Development Finance Company of Uganda Bank Limited (DFCU) is the second largest bank in the country, with total assets of USD 975 million and a strong presence in the SME sector. The bank was originally founded by the British Commonwealth Development Corporation (CDC) and the Government of Uganda (GoU), to support long-term development projects whose financing needs and risk did not appeal to the then existing commercial lending institutions. In 2017, DFCU took over Crane Bank, which had fallen under the statutory management of the BoU because of its critical undercapitalization (see Section 3.3.7). Nowadays the DFCU has a network of 68 branches in Uganda, and more than 600 employees.

In 2013, Rabobank Foundation[12] acquired a 27.5 percent stake in DFCU, which led to DFCU to design a new growth strategy aimed at turning the institution into the **leading player in the Ugandan agri-finance sector** by 2018. At the end of 2017, the Rabobank Foundation and DFCU jointly created the **Agricultural Development Center (ADC)**, a capacity building platform aimed at providing long-term coaching and accompaniment to farmers' cooperatives to strengthen their creditworthiness and appeal in the eyes of the private financial sector. This initiative is inspired by a successful similar experience that Rabobank Foundation had in Tanzania with the National Microfinance Bank (NMB) Foundation.

[12] The Rabobank Foundation is part of the Rabobank Group, a Dutch provider of financial services that operates on cooperative principles in over 40 countries. In developing countries, the Foundation focuses on micro-finance and related support for producer-based agricultural cooperatives and agribusinesses. At present, the Rural Finance Team is collaborating with Rabobank Foundation in Uganda, Tanzania and Ethiopia.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## 3.2.2 Finance Trust Bank

Finance Trust Bank (FTB) is a Tier 1 commercial bank, registered as such in 2013. It was originally instituted as an NGO in 1984, under the name Uganda Women's Finance and Credit Trust Limited, with the core objective of providing financial services to vulnerable and disadvantaged women, especially in rural areas. Nowadays, the bank offers a broad range of financial products to its clients, including credit, savings, insurance, money transfers and utility bills collection. As of 2016, FTB was managing over 470 000 deposit accounts, while the bank's total client deposits amounted to USD 21.1 million. In that same year, FTB also registered 28 424 outstanding loans, with a total loan portfolio of USD 26.8 million. Total bank assets at that time were about USD 44.9 million, with shareholders' equity of USD 9.5 million. As of 2017, FTB was operating a network of 36 Branches, with 70 percent of these located in rural areas.

In terms of its clients in the agricultural sector, FTB offers a range of four different loan products, each focused on a different segment of agricultural value chains. These products are the Agro-Production, Agro-Processing, Agro-Marketing and Agro-Investment Loans. Overall, these financial products share similar features: they can be delivered on either an individual or group basis, with flexible repayment periods, and loan amounts based on business requirements and availability of conventional collateral. Individual borrowers must be 18 years old, and must have been permanent residents in the area where the loan is sought for at least one year. Group loans have to comprise 15 to 30 borrowers, while the main savings account for the loan has to be hosted at the FTB itself.

FTB has been a partner of the YouthStart Programme of the United Nations Capital Development Fund (UNCDF) since 2012, together with FINCA Uganda.[13] The bank offers a range of youth-tailored savings products (such as the Trust Youth Savers Account) for young people up to 24 years of age. It also provides a financial literacy curriculum to young clients, developed with the support of Reach Global.

## 3.2.3 Equity Bank Uganda

Equity Bank Uganda (EBU) is a commercial bank founded in 2008, when Equity Group Holdings (a financial services conglomerate with headquarters in Kenya and subsidiaries in six countries of the African Great Lakes Region) purchased the MFI Uganda Microfinance Limited. As of 2018, EBU's total assets amounted to UGX 1.1 trillion (USD 146.3 million), with a client base of 673 709 people and almost 800 employees. It also held a network of 38 banking branches and 2 672 banking agents. The agricultural credit portfolio of the institution amounts to UGX 143 billion (USD 38.9 million), which represents more than 20 percent of its total credit portfolio of UGX 700 billion (USD 190 million).

Since September 2018, EBU Uganda has been offering two tailored credit products specifically designed for agribusinesses, which differ according to the size of the enterprise they are allocated to: the Agrimicro Loan for small enterprises, whose loan amounts go from UGX 100 000 to 30 million (USD 27 to 8 100); and the Agribusiness Loan for medium and large businesses, which can range from UGX 30 million to 20 billion (USD 8 100 to 5.4 million). These two dedicated loans are meant to finance enterprises in the grain, dairy, poultry, horticulture and aquaculture value chains.

[13] Finance Trust Bank and FINCA Uganda partnered with UNCDF in 2010 to design, test and pilot youth-specific savings products, as well as strengthening financial education among young people (aged 12–25), as part of the YouthStart Programme. As of 2016, over 54 000 young people had been reached with the partners' offer of savings products, while 96 000 had received financial literacy trainings (UNCDF, 2016).

### 3.2.4 Centenary Bank

Centenary Bank is a commercial bank founded in 1983, primarily involved in the promotion of development through loans to rural farmers, processors of agricultural produce, small traders, small manufacturers, importers and exporters. The Bank holds a significant portion of its portfolio in the microfinance arena, as the provision of microfinance to individuals and businesses with limited means represents a core aspect of its mission. As of 2018, the bank's assets amounted to UGX 3.1 trillion (USD 834 million). The Bank had almost 2 800 employees, with a network of 73 banking branches and 179 ATMs.

The agricultural loan portfolio of Centenary has grown from UGX 40 billion in 2013 to UGX 226 billion in 2017 (USD 10.8 million to 61.4 million), representing approximately 17 percent of its total loan portfolio of UGX 1.3 trillion (USD 353 million). The default rate for the bank's agricultural portfolio is quite low, at 3.5 percent. The bank lends mainly to five value chains: coffee, maize, sunflower, dairy cattle and beef cattle.

Centenary Bank offers a range of flexible **Agricultural Loans**, designed to finance agricultural business activities in the entire value chain, which includes crop production, processing and marketing, animal production (diary, poultry and piggery projects), beekeeping and fish farming. The loan period and repayment plan is dependent on the nature, seasonality and overall dynamics of the activity being financed. The minimum amount lent is UGX 100 000 (USD 27), while the maximum (for large-scale small and medium-sized enterprises (SMEs)) is UGX 3 billion (USD 810 000). Accepted collateral for the loans is either titled or unregistered land, housing property, as well as moveable assets such as livestock, business equipment and agricultural tools. Overall, the agricultural loan book of the institution represents 19 percent of the total credit portfolio of the institution, and it can boast a low default rate of 3.5 percent.

Furthermore, Centenary Bank has a developed specific product aimed at young entrepreneurs: the **Cente Youth Loan**. This is a short- to medium-term loan product designed for financing business expansion, and it targets Ugandan young people aged between 18 and 30 years. It finances businesses in a variety of sectors, including agriculture. It offers loans to both individuals and businesses, for a maximum loan period of four years when financing business development, and two years for working capital investment. Both its repayment and grace periods are flexible and tailored on the specific needs of the business financed.

From 2010 to 2014, AgriFin[14] and Centenary Bank entered a **strategic partnership** whose objective was to support the bank's strategy of increasing its engagement in the agricultural sector in Uganda. As a result of this collaboration, a joint project was developed that focused primarily on three areas: establishing an agricultural finance department in the bank to lead the strategic growth of agricultural loan portfolio; enhancing the bank's capacity to deliver services to rural clients by developing and expanding alternative channels; and developing staff skills to enable them to serve agricultural clients more effectively.

As part of the project, Centenary Bank developed and expanded alternative delivery channels that helped to expand its outreach into rural areas. The bank implemented five new subsidiary branches with the aim to strengthen its presence in rural regions, which allowed it to provide a wide range of financial services to a larger number of rural clients. In order to extend its outreach even further, the bank also developed an e-banking service that enabled clients to make loan payments, generate account information, and carry out internal money transfers via their mobiles.

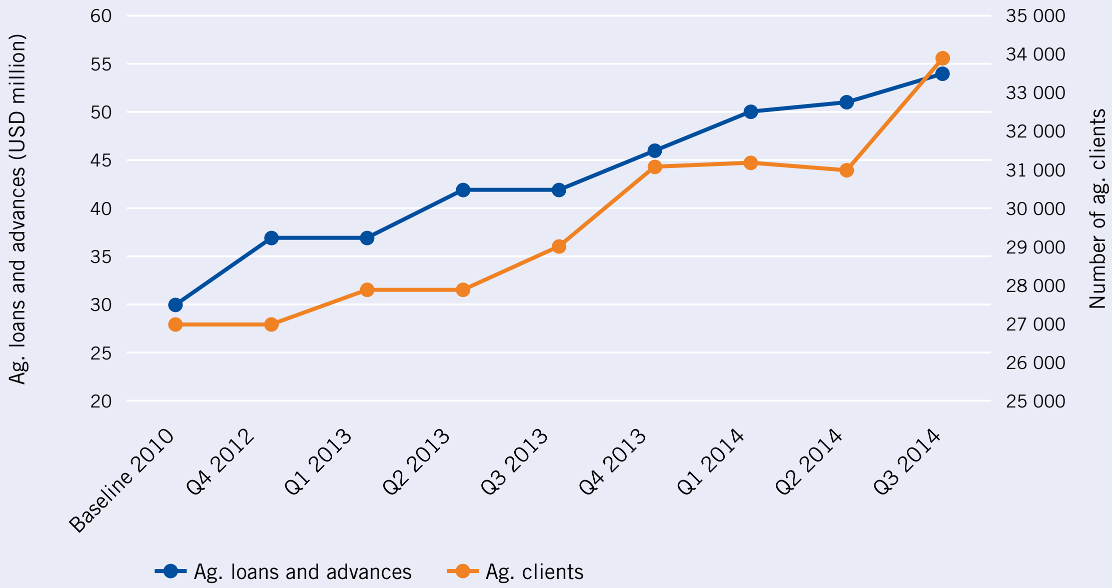
The project also included the development of a credit scoring system for agricultural SMEs and micro loans which allowed the bank to gauge loan risk in a more efficient manner, thus elevating the quality and solidity of its the agricultural loan portfolio. Through the project, two credit-scoring tools were developed: one was created to assess exclusively micro agricultural loans, while the other was targeted towards larger commercial clients.

[14] AgriFin is a special initiative of the World Bank that seeks to increase access to financial services for farmers and agribusinesses. It focuses on activities that promote knowledge sharing and networking among financial institutions globally.

These tools are based on pre-defined parameters, assisting loan officers in properly assessing the agricultural clients' risk and assigning a correct credit score that can guide decisions on loan approval and pricing (World Bank and AgriFin, 2015).

The project was a considerable success, as can be evinced from **FIGURE 13**, which illustrates the growth of Centenary Bank's credit portfolio in agriculture and total number of clients over the 2012–2014 period.

**FIGURE 13 Growth in Centenary Bank's total credit to agriculture and number of clients (2012–2014)**




Source: World Bank and AgriFin (2015)

### 3.2.5 Stanbic Bank

Stanbic Bank Uganda, which is part of the Standard Bank Group, is the largest commercial bank in the country in terms of assets, which amounted to approximately UGX 5.4 trillion as of the end of 2018 (USD 1.4 billion). During 2018, the bank provided to the agricultural sector a total amount of UGX 360 billion (USD 97 million) in loans, letters of credit, overdrafts and other financial products, which is by far the largest provision of finance to agriculture within the commercial banking sector of Uganda. The share of agricultural credit constitutes approximately a third of the total loan portfolio of the institution. The bank mainly deals with high-end players in the agricultural sector: large-scale agribusinesses, agro-processors, aggregators and exporters and it manages a network of 78 branches across the country. In terms of financial risk mitigation measures, Stanbic adheres to the National Deposit Insurance Scheme of the BoU, as well as the BoU´s Agricultural Credit Facility.

Recently, Stanbic Bank has begun piloting **value chain financing arrangements** for smallholder farmers (mainly young adults) in the maize, barley and palm oil value chains, in an attempt to stabilize the supply of agricultural products for their large-scale downstream clients (e.g. exporters and aggregators). Furthermore, the bank is also planning to establish its own fintech company in-house, in order to expand its offer of digital financial services.

## 3.3 Tier 2: Credit institutions engaged in the agri-finance sector

### 3.3.1 PostBank Uganda

PostBank Uganda (PBU) is a non-bank credit institution that is wholly owned by the GoU, and whose activities are supervised by the BoU. It focuses on delivering demand-driven products and services to low-income clients. As of 2018, its total assets amounted to UGX 397 billion (USD 106 million), with a customer base of over 1 million people. It has a network of 32 fixed banking branches and 17 mobile money units.

PBU supports the agricultural sector with a complete set of credit products (i.e. input finance, working capital, assets and post-harvest handling finance). Currently, PBU serves approximately 6 000 clients with its agricultural lending products, of which 70 percent of are smallholder farmers. The share of agricultural credit provided by PBU (UGX 50 billion, or USD 13.5 million) represents 20 percent of its total loan portfolio. The institution plans to keep growing in the sector at a rapid pace, developing new and tailored products for women and young people. PBU also offers three specific financial products for young people: a savings account for out-of-school youth who seek financial empowerment and development; an account for students with interest-free deposits; and a VSLA-based group loan for young people.

### 3.3.2 Opportunity Bank

Since its foundation in 1995, Opportunity Bank has established an active presence in rural areas, supporting farmers and their productive activities. At the end of 2018, the total assets of the bank equaled UGX 132 billion (USD 35 million). The agricultural loan portfolio of the institution is equal to UGX 23 billion (USD 6 million), and it has tripled its volume since 2016, when it stood at UGX 8 billion. The share of agricultural credit represents 25 percent of the total loan portfolio of the institution. The institution´s business model targets mainly smallholder farmers, which represent over 80 percent of the client base, through a range of agricultural loan products, for individuals, groups and enterprises. Out of the 7 000 smallholders reached by the institution, 3 percent are 18 to 24 years old, while 27 percent are in the 25–35 age range.

### 3.3.3 BRAC Uganda

BRAC Uganda is a former microfinance institution, founded in 2006 as a subsidiary organization of the the Stichting BRAC International Foundation, registered in the Netherlands. It received its Tier 2 license to operate as a credit institution from the BoU in March 2019. BRAC provides financing mainly to small entrepreneurs, with a specific focus on rural women and young people. BRAC mainly adopts a group lending methodology for its credit, and also offers micro-insurance products. As of 2019 BRAC was offering a range of microfinance services to more than 380 000 members (of which 97 percent were women and 75 percent were based in rural areas), through 163 satellite offices and 32 branches in 84 districts of the country. The total assets of the institution in 2019 amounted to UGX 243 billion (USD 65 million).

BRAC Uganda has managed to serve young clients quite extensively by adopting a **solidarity group approach**, which is the core credit methodology used by the bank. More than half of BRAC's clients are below 35 years of age, while 13 percent are between 15 and 24 years.

BRAC Uganda has been implementing the Empowerment and Livelihood for Adolescents (ELA) Programme since 2008. This is a graduation programme that aims to empower young women (aged 16 to 24) through a combination of "social" capacity building (that includes health education, life skills, vocational training, family planning, financial literacy) and credit to foster small-time entrepreneurship. As of 2018, 50 000 young women had been trained by BRAC in the framework of the ELA Programme, grouped in more than 1 300 "ELA Clubs" along 37 districts of Uganda (BRAC Uganda, 2016).

At the end of 2018, over 13 000 young women were active borrowers with the bank in the frame of the ELA Programme, with average loans of UGX 503 605 (USD 137). The ELA loan book amounted to UGX 7 billion (USD 1.9 million), which represented 4 percent of BRAC's total portfolio, while holding a non-performing loan ratio of less than 4 percent.

## 3.4 Tier 3: Microfinance Deposit-Taking Institutions (MDIs) engaged in the agri-finance sector

### 3.4.1 FINCA Uganda

FINCA Uganda is a microfinance deposit-taking institution (MDI), registered as such in 2004. It is a subsidiary and member organization of FINCA International, a non-profit microfinance organization based in the United States. FINCA provides financial services to Uganda's lowest-income entrepreneurs, with the aim of creating jobs, building assets and improving their standard of living. As a Tier 3 financial institution, FINCA is not authorized to deal in foreign exchange or issue checking accounts. The institution has a network of 27 branches in the country, with a staff of 550 employees. As of 2018, the institution's asset base was USD 40.6 million, with shareholders' equity of USD 11.5 million and total deposits of USD 22.4 million.

FINCA offers **tailored agricultural loans**, which can be accessed by both individuals and groups of up to five farmers. These loans target investments dedicated to increase production capacity, value added of agricultural outputs and promotion of sustainable agricultural incomes, both for crop production and livestock. Eligible farmers have to meet a number of conditions, including: age range (18–70 years); minimum farming experience (two years); access to a buyer contract; an account with FINCA Uganda; an acceptable form of collateral; and a certificate of registration from the district (for farmers' groups). Loans can amount to up to USD 16 800, with a repayment period of up to three years, and a repayment plan tailored on the specific production cycle. In terms of youth-tailored financing, FINCA Uganda has been a partner of **UNCDF's YouthStart Programme** since 2010, together with FinTrust Bank (see Section 2.2.2). As part of this Programme, it has developed and offered the SmartStart account product for young people aged 12–24, which is free of charge and provides a 4 percent interest rate per annum. Notably, the required opening balance to start the account was reduced from UGX 5 000 to 3 000 (USD 2.10 to 0.84), after market research carried out by FINCA showed that this lower amount would have managed to attract a substantially larger audience of young clients. FINCA also provides complementary financial education to SmartStart account holders, as well as a free ATM card once they turn 18.

### 3.4.2 Pride Microfinance

Pride Microfinance Ltd. is an MDI founded in 1995 that provides innovative financial solutions to the economically vulnerable. It is a member of the Association of Microfinance Institutions in Uganda (AMFIU). As of 2018, Pride had a customer base of almost 550 000 people and 766 staff, with total assets equaling USD 75 million, and had 542 000 active savers and almost 84 000 borrowers. As of the end of 2018, the institution's portfolio included UGX 23 billion (USD 6.2 million) in agricultural credit, which amounted to 15 percent of the total credit portfolio of UGX 149 billion (USD 40.5 million).

Pride offers individual loans for the agricultural sector. Eligible farmers have to meet a number of conditions, including: minimum age (above 18); a savings account held with the bank; securities (covering at least 1.5 times the loan amount); and farming experience (a minimum of one year). Loans range from USD 30 to 8 400; the repayment period is up to 24 months and allows for a grace period adapted to the production cycle. Additionally, Pride also offers a micro-leasing product, the **Mortgage and Asset Financing Loan**, to purchase productive assets like land, vehicles, equipment. The objective of this product is to minimize the risks of diversion of loan funds on the part of the farmer into non-productive assets.

Pride is currently working to further develop its agricultural lending activity with an ambitious expansion plan that employs mobile lending solutions, capacity building for farmers regarding improved agricultural practices, and a youth-centered credit program.

### 3.4.3 UGAFODE

UGAFODE Microfinance Ltd. has been working to promote access to finance among rural populations since 1994, when it started its activities as an NGO. It is currently a fully licensed MDI, with total assets worth UGX 49 billion (USD 13 million) and a network of 16 branches. As of 2019, half of its total portfolio of UGX 38 billion (USD 10.3 million) was devoted to the agricultural sector (production, processing and marketing). Currently, its portfolio counts 7 877 clients with outstanding loans in the agricultural sector, of which 74 percent are under 35 years of age. The MDI also plans to enhance its youth-focused portfolio with a new no-collateral loan which is currently under development.

## 3.5 Overview of the state of the Tier 4 financial sector

Tier 4 institutions are regulated by the 2016 Tier 4 Act, which sought to bring order to a fragmented constellation of different kinds of institutions that hold varying degrees of informality, all of which are particularly **active providers of financial services in the rural areas** of Uganda. The Tier 4 Act regulates SACCOs, SHGs, community savings and credit groups (CSCGs), as well as non-deposit-taking and community-based MFIs.

**Tier 4-related institutions**

- Uganda Cooperative Savings and Credit Union
- VisionFund Uganda
- Association of Microfinance Institutions of Uganda

SACCOs play a vital role in Uganda's financial system, especially in rural areas. They offer mainly basic financial services, such as individual and committed savings account, as well as personal loans. Some more advanced SACCOs also offer tailored loan products, either sector- or purpose-specific, such as for agriculture, school fees, or house improvement. It is not uncommon for rural SACCOs to have more than 70 percent of their lending portfolio allocated to the agricultural sector.

Under to the Tier 4 Act, SACCOs are registered with the Ministry of Trade, Industry and Cooperatives, and regulated by either the Ministry or the Uganda Microfinance Regulatory Authority (UMRA), depending on their age and maturity (EPRC, 2019).

As of 2019, there were more than 1 000 active SACCOs in the country (4 000 if counting also those dormant or stagnant), which served an estimated total amount of 1 million clients. Several common issues affect a large number of these institutions: poor governance and management; embezzlement of members' resources; poor accounting and financial reporting; and political interference. Given the complexity of the SACCO scenario in

**Focus on PROFIRA**

The Project for Financial Inclusion in Rural Areas (PROFIRA) was launched in 2013 as a partnership between the International Fund for Agricultural Development (IFAD) and the GoU, in an effort to strengthen SACCOs and CSCGs in the country. IFAD provided a loan of USD 29 million and a grant of USD 1 million to support the project, while the GoU contributed USD 4.9 million. The development objective of this seven-year project is to sustainably increase access to and use of financial services by the rural poor population, with a focus on outreach, sustainability and poverty alleviation. It aims to achieve this by acting on three core areas:

1) Fostering SACCOs' capacity and sustainability, training them in a variety of finance-related areas such as credit and default management, financial management, strategic planning, financial literacy, business development, and others. The ultimate objective is to strengthen 500 SACCOs by 2022;

1) Fostering the creation of CSCGs, as well as strengthen existing ones. As of 2018, 7 609 CSCGs had been established by the project, with total membership of 218 927 people (of which 75 percent were women and 34 percent youth). The objective is to aid the creation of a minimum of 18 000 CSCGs by 2022 (MFPED, 2019);

2) Providing policy and institutional support for the creation of an enabling environment for the SACCO movement in the country (IFAD, 2018). In fact, PROFIRA played a strong role in supporting the approval of the Tier 4 Act, as well as the establishment the UMRA.

the country, UMRA is expected to face significant challenges – in the near future – in regulating such a fragmented constellation of actors. In terms of the total capitalization of the SACCO movement in Uganda, the most recent data is relatively old, as it dates back to 2013. The Uganda Cooperative Savings and Credit Union (UCSCU, the national apex organization for SACCOs) estimates that for the 1 707 SACCOs on which data was available in 2013: the combined total membership was 913 572 people; the combined total value of their deposits stood at USD 39 million; the combined total value of their share capital stood at USD 33.7 million; and the combined total value of their loan portfolio stood at USD 70 million (World Bank, 2017).

### 3.5.1 Focus on the Uganda Cooperative Savings and Credit Union

The Uganda Cooperative Savings and Credit Union (UCSCU) is the national apex organization for SACCOs in Uganda. It was established in 1972, with the objective of fostering the SACCO movement across the country and encouraging savings and credit mobilization as a source of investment capital for rural areas. The SACCO movement elects the Board of Directors of UCSCU, composed of 5 members, who then hire a general manager to run the institution. A Supervisory Committee is also elected to act as an internal audit committee, overseeing the operations of both the Board and management (AMFIU, 2018).

## 3.6 Microfinance Institutions (MFIs) engaged in the agri-finance sector

### 3.6.1 VisionFund Uganda

VisionFund Uganda (VFU) is a leading microfinance institution established as a subsidiary of VisionFund International, a global microfinance institution operating in Africa, Asia, Latin America and the Middle East/Eastern Europe. VFU has a strong focus on rural and agricultural financial provision, aiming specifically to improve the lives of children by providing low-income entrepreneurs with sustainable and integrated financial services that enhance their potential. VFU began its activities in 1997, and nowadays has grown to serve 42 700 active borrowers, with a network of 13 branches and 8 field offices. As of December 2016, total net assets of the MFI amounted to USD 4.5 million.

Vision Fund Uganda offers loans for working capital for agricultural activities. Eligible farmers can be individuals or groups (ranging from 5 to 20), and require evidence of having carried out the agricultural activity for at least six months, ownership of land or proof of being the tenant, and securities (land titles, sales agreements or moveable assets like cows, goats, sheep, household property or business equipment and tools) among other requisites. Loans range from USD 28 to 2 800 for individual farmers, and more for groups. The repayment period can be up to a maximum of 12 months, repayable through equal instalments, the amount of which depends on the projected cash flow of the agricultural activity.

### 3.6.2 Focus on the Association of Microfinance Institutions of Uganda

The Association of Microfinance Institutions of Uganda (AMFIU) is an apex institution founded in 1996, with the duty to serve as an advocacy platform for Ugandan MFIs to express their common voice. Along with the UCSCU and the Uganda Cooperative Alliance (UCA), AMFIU is **one of the three apex bodies for the sector**. As of 2019, AMFIU had 99 ordinary members (financial institutions of all tiers with linkages to the microfinance business), and 25 associate members (non-financial institutions and individuals supporting microfinance development in the country). The member financial institutions together represent 75 percent of the total microfinance clients in the market (see **TABLE 2**). A seven-member Board of Directors governs AMFIU, with its activities being managed from a secretariat based in Kampala.

AMFIU supports activities for its members related to research, advocacy, capacity building, dissemination events, knowledge sharing and financial literacy. It also has a strong focus on fostering agricultural finance in the microfinance sector, by training MFI staff and carrying out research work on relevant case studies on successful agricultural finance experiences. AMFIU is also a member of the Access to Finance Innovation Community (under the AgroProFocus Network in Uganda), which “engages in innovative information dissemination activities geared towards increasing access to finance in agricultural value chains with a strong focus on SMEs, producer organizations and individual farmer entrepreneurs” (AMFIU, 2015).

**TABLE 2 Overview of the microfinance sector and AMFIU's presence in the sector**

| | Microfinance sector | AMFIU members |
|---|---|---|
| **Number of legally registered MFIs** | 806 | 133 |
| **Number of persons benefitting from MFI service** (members, borrowers or depositors) | 4.6 million (estimate) | 3.1 million |
| **Market penetration rate** (for total population) | 27.8% of population (16+) have access to formal financial institutions *(as of 2013)* | |

| | |
|---|---|
| **Membership ratio** (Number of members vs. number of MFIs eligible for membership) | 12.5% |
| **Member coverage** (Number of member clients vs. total number of clients in the market) | 75% (self reported) |

Source: SEEP, 2013

## 3.7 Other relevant actors

### 3.7.1 Focus on the Bank of Uganda and the Agricultural Credit Facility

The BoU is one of the most widely respected institutions of its kind in the Sub-Saharan region, due to the considerable results it has achieved in recent years in opening up markets, stabilizing the currency and keeping inflation low in the country. In recent years, the BoU began assuming a considerably stricter supervision of the commercial banking sector, to assist in its recovery from a serious banking crisis that took place at the end of the 1990s. In 2010, the BoU promulgated the Financial Institutions Instrument No. 43, which required all commercial banks to raise their capital from a minimum of USD 4 million to 25 million, with all banks complying (some by attracting Tier 1 equity capital). Total bank assets grew from USD 5.6 billion in June 2014 to USD 5.9 billion at the end of June 2015, an annual asset growth rate of 5.3 percent.

**Other relevant actors**

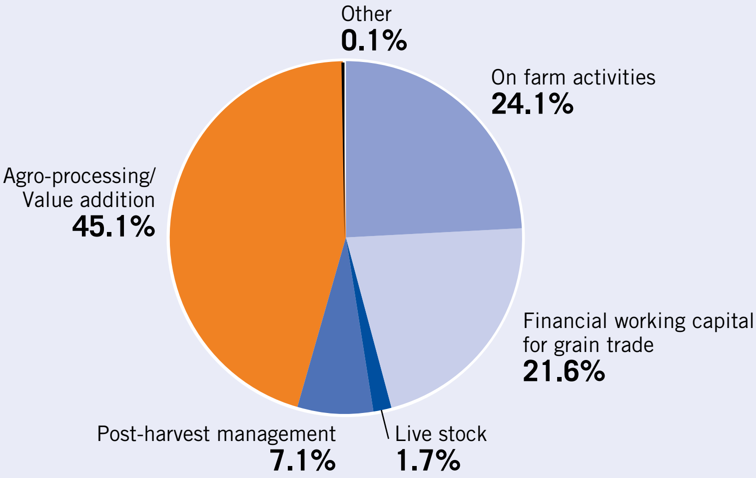
- Bank of Uganda and the Agricultural Credit Facility
- Uganda Development Bank
- Microfinance Support Center
- Agricultural Investment Scheme
- Yield Uganda Investment Fund

In 2009, the BoU established the **Agricultural Credit Facility (ACF)**, a long-term funding facility that provides interest-free loans to participating financial institutions,[15] which subsequently on-lend to agricultural producers and processors at very favorable terms (12 to 15 percent, with a minimum loan amount of UGX 10 million). These ACF recipients are usually small- and medium-sized value chain actors that would normally be constrained from obtaining medium- and long-term credit for agricultural investment from formal sources. The types of loans which are eligible to benefit from the ACF's refinancing activity include those for the acquisition of agricultural machinery, post-harvest handling equipment, storage facilities and any other related agri-production and processing equipment. After a financial institution that has adhered to the ACF has disbursed the whole loan amount to the borrower (the farmer/processor), it can apply to the BoU to obtain a 50 percent reimbursement on the loan. The primary collateral security for the ACF is the machinery and equipment financed, as well as any other marketable securities provided by the borrower, if required.

[15] Note that, at the time this study is being drafted (2019), the GoU was discussing the opportunity of transferring the use and access of the ACF from the commercial banking sector to the Uganda Development Bank (see Section 3.7.2).

As of March 2019, the ACF had disbursed UGX 331.5 billion (USD 93 million) to 525 projects across Uganda, with 64.2 percent already repaid by the participating financial institutions. **FIGURE 14** shows the allocation of ACF funding across different segments of the agricultural value chain.[16] (EPRC, 2019). Despite these good results, it has to be underlined that the performance of the ACF has seen considerable ups and downs throughout its ten years of existence, with the main critical point being that of under-utilization of the allocated funds during specific phases (EPRC, 2019).

**FIGURE 14 Activities funded under the ACF as of March 2019**




Source: EPRC, 2019

As pointed out in the Agricultural Finance Yearbook of 2019, several challenges still constrain the effectiveness of the ACF, which are not only due to implementation flaws, but also to an overall lack of public support facilities for the agricultural sector in the country (EPRC, 2019). These challenges include:

- ***Lack of an effective marketing channel for the facility,*** **as the GoU does not provide information or advisory services on the benefits and conditions of eligibility of the ACF. This results in a large amount of potential beneficiaries not being aware of the existence of the facility;**
- ***Tier 4 financial providers are barred from participating in the facility,*** **as only BoU-regulated institution are allowed. This is a particularly critical constraint, given the proximity that such providers have to the core end users of the ACF;**
- ***Lack of a price stabilization mechanism for agricultural commodities in the country,*** **which represents a huge disincentive towards lending for participating financial institutions;**
- **The establishment of the Agricultural Credit Facility on the part of the BoU (at the end of 2017, the ACF's outstanding portfolio amounted to approximately 3.7 percent of the total credit portfolio in agriculture);**

[16] Unfortunately, at the time this study is being drafted, there is no data available regarding the composition of the ACF's recipients (for example in terms of age, gender, value chain or repayment status), nor has any impact evaluation yet been carried out to measure the additional financial and economic value generated by the facility.

- *The ACF's pricing structure,* which implies a subsidized interest rate and a minimum facility fee of 0.5 percent of the total loan amount. The current conditions do not incentivize the participating financial institutions to widely promote the facility among their clientele;

- *A double (and lengthy) appraisal system in place,* both on the side of the facility and the participating financial institution;

- *The ACF does not accept alternative collateral options to provide credit,* such as warehouse receipts or registered chattels. Given that one of the core barriers to credit access for the small agribusinesses which would require the services of the ACF is precisely the lack of traditional collateral, such fixed assets or titled land, this represents a particularly critical point;

- *Lack of an enabling legal framework for the ACF.* The ACF would require a regulatory framework suited to guarantee-type activities, which would include granting the facility the power to write off loans;

- *Poor procurement planning and execution,* affecting the timing required to acquire the machinery and equipment financed by the ACF. This leads to the ACF's funding being tied to investments for longer than anticipated, which results in less agricultural finance projects being financed and a higher risk of non-repayment;

- *Poor record-keeping on the part of financed entrepreneurs,* which makes it considerably more challenging for the participating financial institutions to appraise the creditworthiness of the applicant and justify the provision of credit.



Young woman selling her products in Masaka, Buganda Region.

A recent assessment carried out by the World Bank (2019) on the state of agricultural finance in the country suggests a number of adjustments that could be applied to the ACF's procedures to strengthen its outreach:

- Review the 12 percent interest rate ceiling to allow the participating financial institutions to recover operational costs;

- Remove the guarantee arrangement in case of default;

- Create a special credit window to provide smaller loans to farmers and SMEs (while expanding the participation of financial institutions to include Tier 4 entities).

### 3.7.2 Focus on the Uganda Development Bank

The Uganda Development Bank (UDB) is a development finance institution (DFI) owned by the GoU, founded in 1972. The main objective of UDB is to promote and finance development in various sectors of the economy, **with a particular emphasis on agriculture**. UDB's services include short-, medium- and long-term loans, equity investments, trade finance loans and bank guarantees. As of 2018, UDB reported total assets amounting to UGX 370 billion (USD 100 million) and a total loan portfolio of UGX 276 billion (USD 74 million). More than 40 percent of the UDB's loan portfolio in 2018 was employed in the agri-production and agri-processing sectors. The Bank, through its credit facilities, supported the creation of over 40 000 jobs, of which 43 percent went to young people.

The UDB has dedicated lines of credit at concessional terms reserved for both large-scale commercial and smallholder farmers. Smallholder farmers are supported through organized farmer groups and cooperatives. The unique feature of loans to cooperatives and farmer groups is the season-based repayment schedule, with bullet payments (principal and interest paid in a lump sum) expected towards the end of the season, when the harvest comes in. The loans are secured primarily by firm off-taker (sales) agreements/ contracts, though additional security may be required, depending on the circumstances.

The UDB's strategy for growth is in synergy with Uganda's National Development Plan, with the bank working together with several international partners, including the Kuwait Fund, the African Export-Import Bank and the Islamic Development Bank.

### 3.7.3 Focus on the Microfinance Support Center

The Microfinance Support Center (MSC) is a governmental agency that acts as a financial services company, first established in 2001. Its mandate is to manage micro-credit funds and provide business development services to microfinance institutions. The agency acts as a wholesaler lender for MFIs and SACCOs, while also providing direct credit to SMEs.

As in the case of the other two governmental lending institutions (the ACF and UDB), the loans issued by the MSC have lower interest rates than those provided by commercial entities. These range from 9 percent to 17 percent, depending on the credit product. Currently the MSC markets the following products: agricultural loans, commercial loans, teacher's loans, group loans, agro-input loans, micro-lease loans, asset financing and Islamic microfinance loans.

As of June 2018, the MSC had disbursed UGX 64.46 billion (USD 17 million) and had an outstanding loan portfolio of UGX 95 billion (USD 25.4 million) as of 30 June 2018. Notably, its PAR (Portfolio-at-Risk) rate was 14 percent, higher than the set threshold of 10 percent, which appears to imply some challenges in the recovery of the funds disbursed.

### 3.7.4 Focus on the Agricultural Insurance Scheme

In 2016, the GoU established a public-private partnership with the Uganda Insurers' Association to set up the **Uganda Agricultural Insurance Scheme (UAIS)**, which is planned to last over the 2016–2022 period. The UAIS has two main objectives: 1) supporting farmers to access cheaper agri-insurance coverage by providing a public subsidy to the policy premium; and 2) increasing the strength of farmers' credit profiles through insurance coverage, so that they can access credit more easily from formal FIs. It was granted an initial capitalization of UGX 5 billion for the first financial year (USD 1.35 million), and its initial growth has been quite rapid: more than 67 000 policies were sold in its first 18 months of existence. The Uganda Insurers' Association manages the Scheme through the **Agro Consortium** (a coalition of ten non-life insurance companies), while the Ministry of Finance provides oversight to its implementation.

The Scheme offers two main categories of insurance products: 1) multi-peril insurance for crops, livestock and aquaculture against a wide variety of hazards (e.g. drought, floods); and 2) weather-based index insurance for crop and livestock. The premium to be paid by the farmers to benefit from the coverage ranges around 2 to 6 percent of the total crop/livestock value insured, to be paid to the Agro Consortium. The GoU subsidizes this basic premium by 50 percent in the case of small-scale farmers, and by 30 percent for large agribusinesses. In the specific case of a number of sub-regions that are particularly prone to disaster risk (namely Isingiro, Kasese, Mt. Elgon, Karamoia, Teso and West Nile), this public subsidy rises up to 80 percent (EPRC, 2019).

### 3.7.5 Focus on the Yield Uganda Investment Fund

The Yield Uganda Investment Fund is an impact investment fund, launched in 2017 as a public-private collaboration, which seeks to catalyze investments in Uganda's agricultural value chains. It is the result of a collaboration between the European Union, the International Fund for Agricultural Development (IFAD) and Uganda's National Social Security Fund. It is managed by the agricultural investment firm Pearl Capital Partners. The Fund, which has attracted so far an overall capitalization of USD 20 million, seeks to support small and medium-sized agribusinesses that show clear competitive advantages in the market and outstanding management, providing them with financing as well as business development support services (e.g. in corporate governance, budgeting, auditing, tax compliance, adoption of international quality standards). Its overall objective is to generate a long-term positive impact on the livelihoods of 10 000 rural households in the country, as well as to improve market access for more than 26 000 farmers.

**For young adults, the weak perception of the business potential that could be leveraged by agricultural ventures is due to the traditional views on farming in Uganda: subsistence-based, labour-intensive, and barely capable of providing a decent living.**

# 4 Focus on the FAO survey on youth financial access

## Key information from this section

In 2017, FAO carried out an extensive field survey with stakeholders from the supply and demand side of the Ugandan youth finance sector, with the aim of compiling insightful data on the quality and extent of financial access for young rural entrepreneurs. From the supply side, 72 financial institutions were surveyed (23 formal, 13 semi-formal and 36 informal) through face-to-face interviews using a structured questionnaire directed at loan officers. Furthermore, 13 meso- and apex-level support institutions engaged in youth-oriented support programmes were surveyed though interviews with key staff members. From the demand side, 40 focus group discussions were held with representative groups of young rural entrepreneurs.

The results of the surveys of local FIs assessed the various types of financial services provided by these institutions (loans and savings being the most common), as well as the requirements demanded by the FIs to provide financial services (citing suitable collateral, group membership, and having a stable income source the main requirements). The results show that 65 percent of the institutions interviewed provided agricultural loans to their clients (mainly for production and processing), and 54 percent provided financial services to young people. The reasons provided by young entrepreneurs for seeking formal credit were mainly to expand their business, for educational goals, and for agriculture specific investments.

The surveys also enquired about the FIs' perceptions of the main challenges faced by young people when trying to access and use formal financial services, and which solutions they viewed as most promising to increase access and usage of financial services among this age group. The following were flagged by the interviewed institutions as critical constraints to the access and use of financial services on the part of young entrepreneurs: lack of information on available financial products; distance to the closest FI branch; delays in service delivery; high charges; and lack of conventional collateral.

The three solutions most commonly suggested by formal FIs to close the youth financial access gap were: providing youth-focused public subsidies to encourage financial inclusion; bundling tailored training with the offer of the specific financial products (e.g. financial literacy, business management); and, overall, reducing interest rates on youth-focused products.

Notably, the survey results also show that only 40 percent of the interviewed FIs believed that the provision of incentives to young people could result in an increase in access to and utilization of financial services on their part, which appears to underline the bias that these institutions share regarding the potential of young entrepreneurs as financial clients.

The results of the surveys from the demand side – involving a number of selected representative groups of young entrepreneurs – enquired about their perceptions of the main factors constraining their access to financial services and products. The following key challenges emerged during the Focus Groups Discussions: an inability to meet traditional collateral requirements; high interest rates and rigid repayment conditions; lack of business capacity as required by financial institution; a bias against using formal financial services owing to negative past experiences among the community; poor banking infrastructure and limited branch network; high perceived risks in agriculture that discourage loan application; and an overall perceived lack of knowledge and expertise in agriculture among FIs.

## 4.1 Features and description of the field survey

This section presents the results of an extensive field survey carried out by FAO in Uganda in late 2017, which was aimed at gathering data on the quality and extent of financial access for young entrepreneurs. It targeted stakeholders from the supply side of financial provision, namely financial institutions and meso/apex-level support institutions, as well as those from the side of the demand, namely representative groups of young entrepreneurs.

Overall, Section 4 is divided in three parts. Firstly, it provides a detailed description of the target institutions interviewed from the supply and demand side of financial service provision, as well as a description of the methodology used to gather the data. Secondly, it shows the results obtained through the questionnaires and surveys carried out with each of the three target groups. Thirdly, it provides a series of conclusions and recommendations on the suggested way forward based on the analysis of the results. Annex 2 at the end of this document provides the full list of target institutions interviewed.

**TABLE 3** provides a comprehensive description of the field survey, specifying the type and number of institutions interviewed from both the supply and demand side, as well as the methodology used to gather the data. The survey was undertaken by a team of eleven data gatherers, comprised of graduate students and research assistants with extensive experience in field data collection, with two to three team members attending each region to collect both quantitative and qualitative data.

**TABLE 3 Description of the field survey**

| | Institutions interviewed and sample | Methodology for data gathering |
|---|---|---|
| **Supply side** | **72 financial institutions** were interviewed: 23 formal (banks), 13 semi-formal (microfinance institutions) and 36 informal financial institutions (VSLAs and informal moneylenders) | Face-to-face interviews with loan officers using a structured questionnaire |
| | **13 meso- and apex-level support institutions** were interviewed, which include: public organizations serving young people, NGOs, civil society organizations, government agencies and donors. | Interviews with key staff from the institution |
| **Demand side** | **40 focus group discussions** (4–6 per district) with youth representative groups were carried out. | Discussions with focus groups, guided by a checklist |

## 4.2 Description of the institutions surveyed

### 4.2.1 Institutions surveyed on the supply side of financial provision

As part of the survey, two categories of stakeholders were interviewed from the supply side: 1) FIs which provide financial services and products to young clients; and 2) meso/apex-level institutions supporting young entrepreneurs (by indirectly enhancing financial access and/or training their capacities).

A total of 72 financial institutions were interviewed. Among these, 36 were informal financial institutions (50 percent of the total), 23 were formal financial institutions (banks, MDIs) (32 percent of the total) and 13 were semi-formal financial institutions (MFIs, registered SACCOs) (19 percent of the total). The selected financial institutions were interviewed through face-to-face interviews, using a structured questionnaire which was completed by the FIs' credit officers to determine the nature and type of financial services that were provided by the institution to young entrepreneurs.

Aside from formal FIs, the survey also interviewed a number of relevant meso/apex-level institutions, which are defined (within this study) as representative bodies that either provide different forms of capacity building to young entrepreneurs or that indirectly finance those FIs that provide credit to young entrepreneurs. These institutions included non-governmental organizations (NGOs), civil society organizations, government agencies, international development agencies and donors. Interviews were carried out with these actors to assess the nature of the youth-related services they offered, the criteria the used in extending these services to young people, the modalities by which these services were delivered, as well as the challenges they encountered in doing so.[17]

### 4.2.2 Institutions surveyed on the demand side of financial provision

The collective views of youth representative groups were captured through a series of **focus group discussions (FGDs)**. In order to achieve a more realistic and varied degree of representation using the FGD methodology, a regional disaggregation was carried out to capture the geographical differences in access and utilization of financial services on the part of these young entrepreneurs, as well as the context-specific constraints they faced. In total, **eight districts were covered with the FGDs**: Iganga and Kumi districts (Eastern Region), Gulu and Lira districts (Northern Region), Kampala and Mukono districts (Central Region) and Masaka and Mbarara districts (Western Region). Four to six FGDs were conducted by the survey team in each district, and an overall total of 40 FGDs were held in these regions.

The FGDs were guided by a checklist of different questions, which tried to capture relevant information on the young entrepreneurs' access to and use of financial services, with a specific focus on agriculture-related financial provision. To analyze the results of the FGDs, young people were disaggregated by age (14–17 and 18–30 age categories), gender (male and female), location (urban and rural) and level of education.

## 4.3 Results and conclusions of the field survey: the supply side

The results and conclusions obtained by the field survey on the side of the supply of financial services can be classified into two categories according to the stakeholders that were interviewed: namely **the financial institutions** that provide direct financial services and products to young people, and **the meso/apex-level support institutions** relevant to young entrepreneurs belonging to different age categories.

[17] Please refer to Section 4.3.10 for more details on these meso- and apex-level institutions. Furthermore, Annex 1 at the end of this document provides the full list of institutions interviewed, a review of the services they offer to young people, as well as the details of the representatives interviewed from each institution. Annex 2 provides the template of the questionnaire used to collect data among these organizations.

### 4.3.1 Results and conclusions of the survey to financial institutions

This section focuses on the results of the face-to-face interviews conducted with credit and loan officers from different kinds of FIs, through a structured questionnaire. **TABLE 4** below provides a summary of the characteristics of the FIs interviewed, specifying the nature of the institution, its location and the number of branches it has.

**TABLE 4 Characteristics of respondents and financial institutions**

| Category | Frequency (n=72) | Share of total |
|---|---|---|
| **Location of financial institution** | | |
| Rural | 23 | 31.9% |
| Urban | 49 | 68.0% |
| **Type of financial institution** | | |
| Formal | 23 | 31.9% |
| Semi-formal | 13 | 18.0% |
| Informal | 36 | 50.0% |
| **Number of branches** | | |
| 0 | 11 | 15.2% |
| 1–5 | 45 | 62.5% |
| 6+ | 16 | 22.2% |

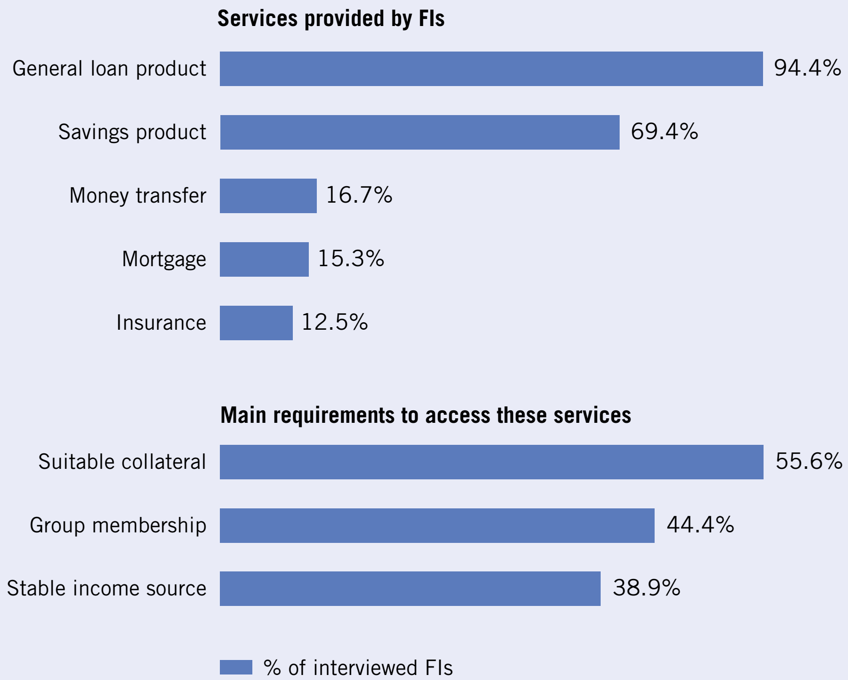
Source: the authors from field survey data

The results show an urban predominance among the institutions interviewed, as only 32 percent of these organizations were located in rural areas. Furthermore, only 32 percent of the FIs were formal in nature, while the remaining 68 percent were either semi-formal or informal entities. The **average number of branches** for the 23 FIs located in rural areas was six, with a minimum of one branch and a maximum of 40 branches. Similarly, among the 49 urban-based financial institutions, the average was seven branches, with a minimum of one branch and a maximum of 39 branches.

**FIGURE 15**[18] below shows the various types of financial services provided by the FIs interviewed as part of the survey, as well as the most common kinds of requirements demanded by such FIs to provide these services. According to the results of the survey, loans (94 percent) and savings (69 percent) products were the most common financial services provided by the interviewed FIs. Conventional collateral (such fixed assets, housing, land titles) was the most common requirement demanded by the interviewed FIs (55 percent of all institutions), followed by the applicant having to be part of a member-based organization (44 percent), and having a stable income source (39 percent).

[18] Please note that the total sum of all percentages is not 100 percent, as the questionnaire involved multiple choice questions.

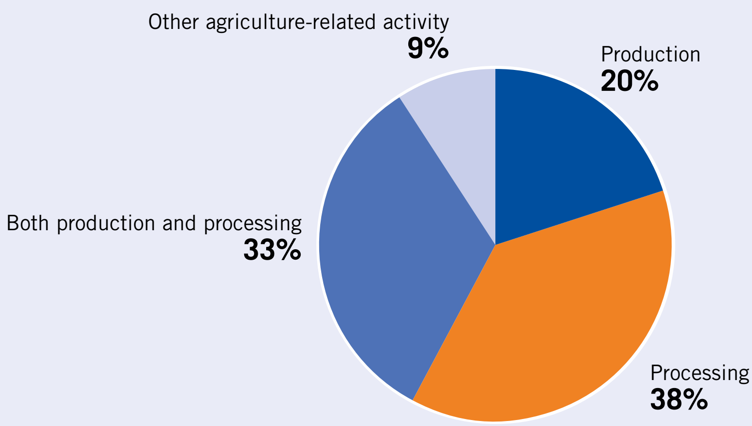
**FIGURE 15** **Financial services offered to the general population, and requirements to access them**




Source: the authors, from field survey data

The survey also aimed to assess which loan products offered by the interviewed FIs were specifically allocated to finance agricultural activities (whether related to production, processing, or other value chain segments). The survey shows that 65 percent of the financial institutions interviewed were providing specific loans for agricultural activities to their clients. **FIGURE 16** provides additional information on the specific agricultural activity financed by these loans. It shows that about 38 percent of the agricultural loans were used for to finance processing activities, while 33 percent were used in both processing and production.

**FIGURE 16** **Nature of agricultural activity financed by loan** (value by sub-sector)



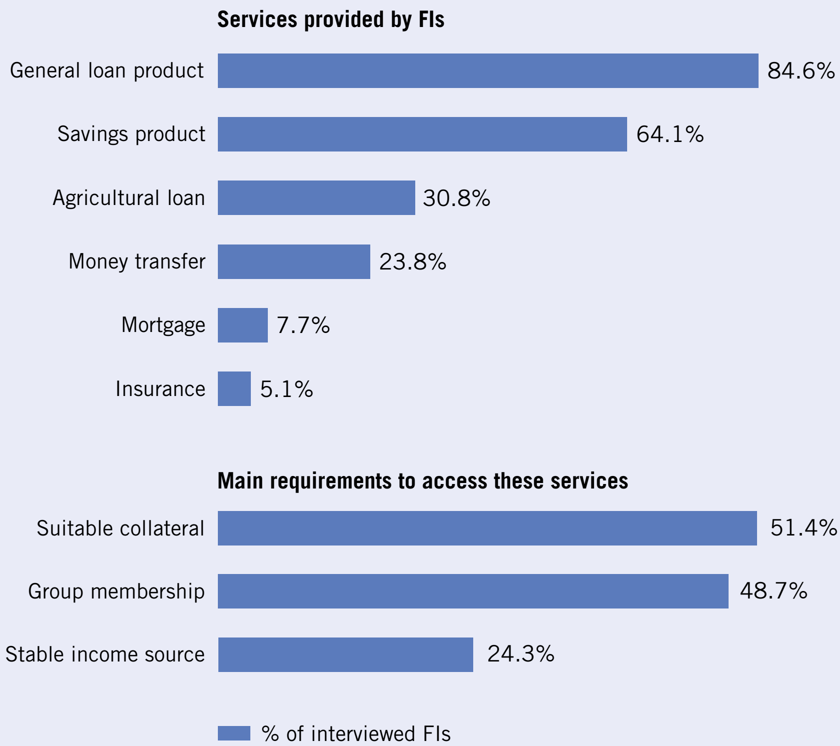

Source: the authors, from field survey data



### 4.3.2 Use of financial services and loan destinations among young entrepreneurs

More than half of the financial institutions interviewed (54 percent) stated **that they did in fact provide financial services** to young entrepreneurs. **FIGURE 17**[19] below shows the specific nature of such services, and the requirements demanded by FIs to access them.

**FIGURE 17 Financial services offered to young entrepreneurs, and requirements to access them**

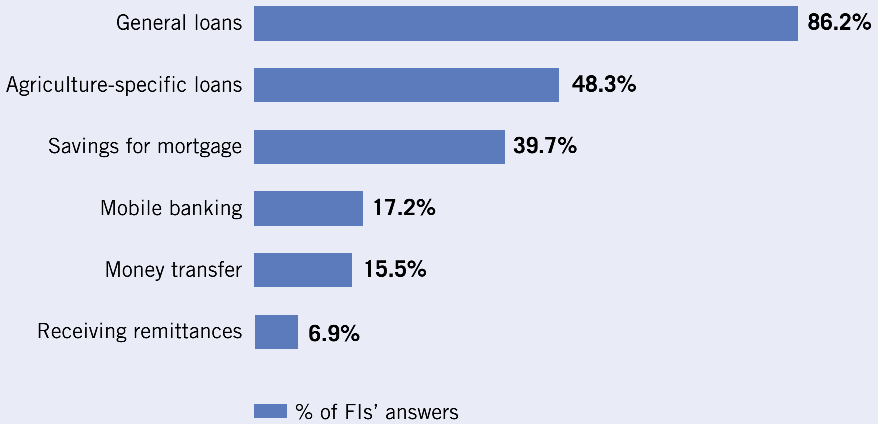



Source: the authors, from field survey data

[19] Please note that the total sum of all percentages is not 100 percent, as the questionnaire involved multiple choice questions.

The survey enquired about the nature and type of financial services most commonly utilized by young entrepreneurs in Uganda. The results are compiled in **FIGURE 18**: about 86 percent of the financial institutions interviewed stated that general loans were the most utilized financial service by young entrepreneurs, with agriculture-specific loans coming second place at 48.3 percent.

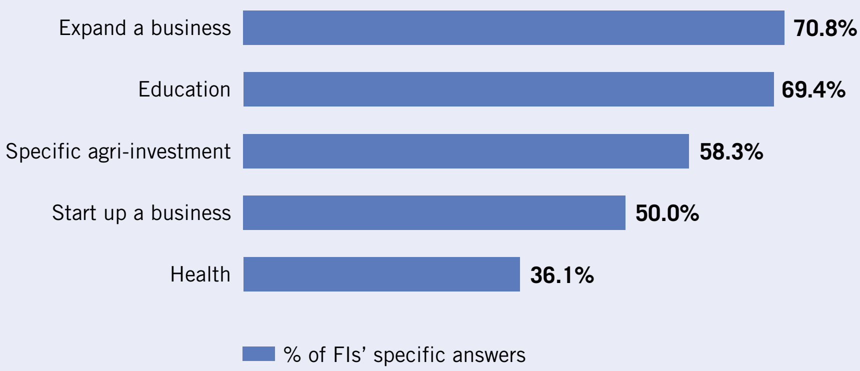
**FIGURE 18 Most utilized financial services on the part of young entrepreneurs**




Source: the authors, from field survey data

The survey also explored the reasons young people provided to FIs for seeking credit, ranging from starting and expanding a business, to carrying out investments in agriculture, to pursuing an education, as well as health reasons. **FIGURE 19** shows that about 71 percent of the interviewed FIs stated that young people sought credit from them to expand their business, while 69 percent stated that they needed it for educational goals. Furthermore, about 58 percent of the FIs stated that young people sought credit for agriculture-specific investments.

**FIGURE 19 Reasons for borrowing among young people**[20]

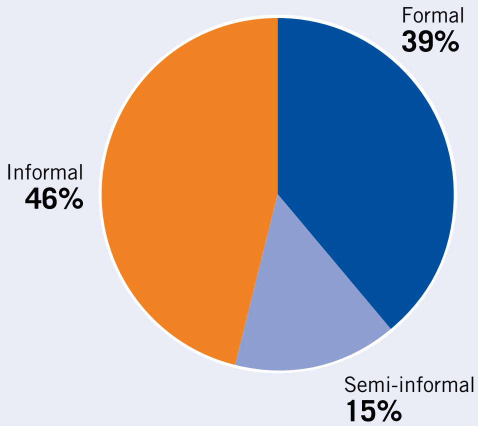



Source: the authors, from field survey data

[20] Please note that the total sum of all percentages is not 100 percent, as the questionnaire involved multiple choice questions.

According to the study findings, more than 60 percent of young rural entrepreneurs obtain their loans from semi-formal and informal sources, rather than from the formal financial sector. These sources include informal moneylenders, family and friends, VSLAs and SACCOs, among others (see **FIGURE 20**).

**FIGURE 20** Main sources of credit for young entrepreneurs

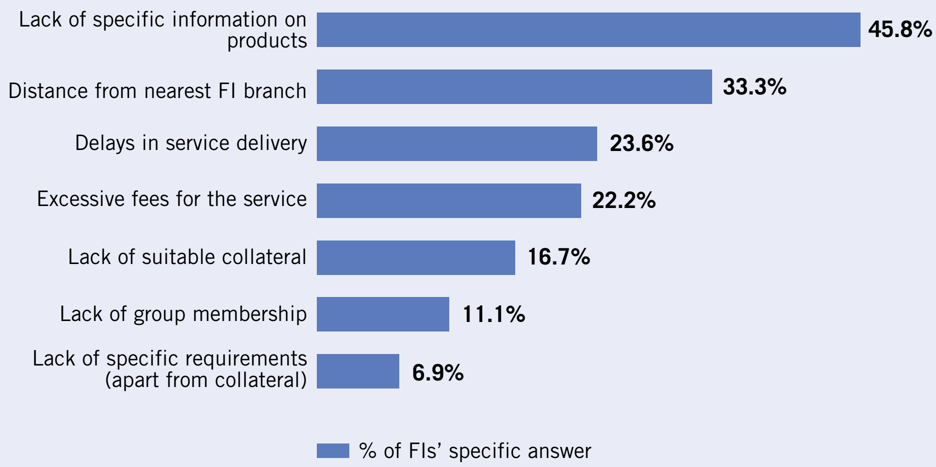



Source: the authors, from field survey data

### 4.3.3 FIs' perceptions of constraints and solutions to youth financial access

The survey asked FIs to provide their opinions on the main challenges faced by young people **when trying to access and use formal financial services**. The constraints mentioned included the lack of information on available financial products, the distance to the closest FI branch, delays in service delivery, high charges, lack of collateral and inability to satisfy the FI's requirements for credit. **FIGURE 18** shows that the most predominant constraint, according to 46 percent of the FIs interviewed, is a widespread lack of information on the part of young entrepreneurs about the different financial products offered by the FIs.

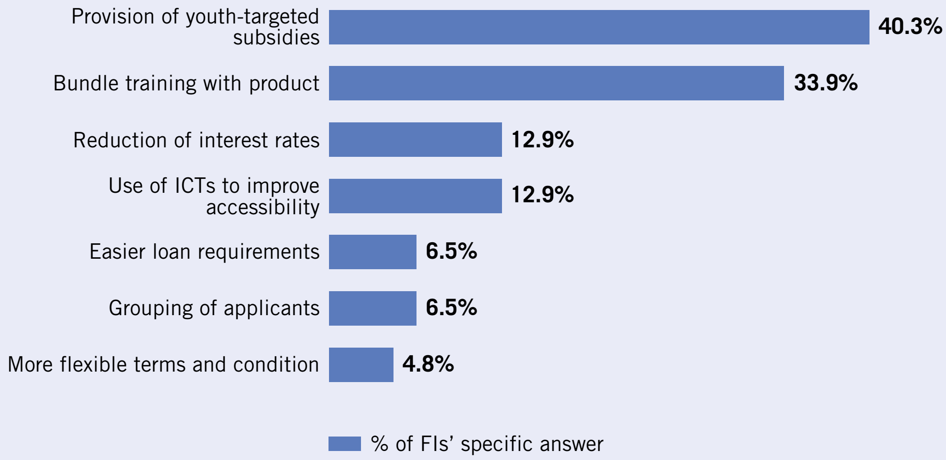
**FIGURE 21** FIs' perceptions of constraints to the access and use of financial services by youth




Source: the authors, from field survey data

As part of the survey, the FIs were also asked which solutions they viewed as having the greatest potential to increase access to and usage of financial services amongst young people, with the results being compiled in **FIGURE 22**. The three most widely shared solutions were: providing youth-focused public subsidies to encourage financial inclusion; bundling tailored training together with the specific financial products (e.g. financial literacy, business management); and, overall, reducing interest rates on youth-focused products. Notably, the survey results also show that **only 40 percent of the interviewed FIs** believed that the provision of incentives to young people could increase access to and utilization of financial services, which appears to underline the bias these institutions share regarding the potential of young entrepreneurs as financial clients.

**FIGURE 22 FIs' suggestions to improve access to and use of financial services among young people**




Source: the authors, from field survey data

### 4.3.4 Results of the interviews to the meso/apex-level support institutions

As part of the survey, thirteen face-to-face interviews were carried out with meso/apex-level support institutions engaged in youth-supporting programs (both finance-related and otherwise) in the country. The full list of meso/apex-level support institutions interviewed is provided in Annex 1. Additional details on these stakeholders can be found in Annex 2, such as a review of the services they offer to young people, the position and contact details of the person interviewed, as well as the complete template for the questionnaire.

According to the survey results, most of the meso/apex-level institutions interviewed were providing a number of non-financial services to young entrepreneurs, which included vocational trainings for both on-farm and off-farm skills, civic engagement programmes, as well as establishing linkages to formal financial institutions. The trainings provided encompassed different aspects such as financial literacy, improved entrepreneurship, VSLAs' creation and improved farming practices. Some meso/apex-level institutions also directly offered funding and financing to young entrepreneurs, for example in the form of micro-credit and grant support for the creation of income-generating ideas and projects, as well as scholarships for different trainings.

The most frequently employed delivery modality of such services was through the use of field staff and community-based monitors, which brought services directly to young people in their places of work and living, to encourage higher participation.

Market women in Lira, Northern Region.

Cash was often directly delivered through partnerships with institutions such as Youth Alive, Kilimo Trust or Making Sense International. Other common modalities of delivery included project committees, local leaders and savings clubs.

The meso/apex-level institutions were also asked about their perceptions of the challenges faced when delivering services to young people, both in rural and urban areas. The main challenges presented were the following:

- **A preference among young people for pursuing quick-return investments with a high risk profile;**
- **A false expectation on the part of young people that credit would be delivered quickly by financial institutions;**
- **Lack of commitment and ownership of the loan received;**
- **Poor savings and investment culture.**

Other challenges mentioned were related to low levels of literacy among youth (leading to high costs to extending financial services to young people), lack of collateral, lack of start-up capital and lack of opportunities to enter the value chain.

## 4.4 Results and conclusions of the field survey: the demand side

A series of FGDs was carried out with several representative groups of young entrepreneurs in order to gain a qualitative understanding of their perceptions of the current opportunities and constraints associated with accessing financial services – both formal and informal – for their personal and professional needs. The results from the FGDs show that young entrepreneurs are in general aware of the overall ensemble of financial providers that are active in their respective regions, which include commercial banks, MFIs, SACCOs and community-based associations such as VSLAs. The majority of these entrepreneurs also appear to be cognizant of the specific financial services they can access, such as loans, savings, insurance, as well as the specific procedures which they would have to fulfil to access these services. Notably, these survey results appear to be in contrast with the perceptions held among FIs that young entrepreneurs lack sufficient information regarding the nature and features of the financial services they offer[21] (see Section 4.3.6).

The youth groups were also asked, during the FGDs, to specify the main factors constraining their access to financial services and products. These are presented below:

[21] A possible explanation for this, however, might be that the young people interviewed for these FGDs state that they think they are aware of the offers of financial services available to them, while in fact they are not.

### Inability to meet traditional collateral requirements

Most financial institutions in Uganda require conventional forms of collateral as a guarantee for loan provision, as well as the availability of a guarantor or a letter from a trusted person in the community. Young entrepreneurs generally lack these forms of collateral, which impedes their access to any kind of formal financial service.

FIs could potentially envision the use of stored commodities as collateral to extend financial services to young people in rural areas, for example within the frame of a warehouse receipt or inventory credit scheme. Furthermore, alternative forms of collateral such as livestock could also be considered to overcome the lack of conventional types of guarantees on the part of young entrepreneurs. Nevertheless, the FGDs reveal that local FIs currently appear to lack clear and systematic methods to assess and use non-conventional forms of collateral available to farmers.

### High interest rates and rigid repayment conditions

During the FGDs, those interviewed indicated that the high interest rates charged by both formal and non-formal FIs are another core factor constraining their ability to access financial services. The young people stated that on average FIs can charge up to 23 percent interest, depending on their perceived risk level, while informal money lenders can ask for interest of at least 30 percent, with rigid repayment conditions that do not take into consideration the specific agricultural cycles and dynamics linked to the businesses ran by these young entrepreneurs.

### Lack of training skills required by financial institutions

Young entrepreneurs emphasized their need for substantial capacity building which could assist in strengthening their creditworthiness as potential clients in the eyes of formal FIs. These institutions usually require substantial capacity in terms of financial literacy, business management skills, governance, from their potential clients, all of which are capacities that young entrepreneurs often lack, especially in rural areas.

### Bias against using formal financial services due to negative past experiences among the community

The results of the FGDs show that past negative experiences associated with the use of financial services among the community, related to loan defaults and asset confiscations by formal and informal financial providers, have resulted in high levels of bias and suspicion on the part of young entrepreneurs which discourage them from seeking credit for their businesses.

### Poor infrastructure and limited branch network

The insufficient rural branching network of many formal financial providers in rural Uganda has been highlighted during the FGDs as a key constraint for young entrepreneurs seeking to access financing, given the notable costs and risks they face when deciding to travel to the closest bank branch available to apply for financing and other services.

### High level of perceived risk in agriculture discouraging loan applications

The results of the FGDs indicated that many young entrepreneurs view agriculture as an unpredictable and risky business endeavor, for which they lack a range of suitable risk mitigation mechanisms that could protect them against a variety of external shocks (drought, in particular, being underlined as a critical disruptive event). As a result, they feel discouraged about applying for credit, as they fear the possible repercussions on their livelihoods in the case of a shock-induced default.

### Perceived lack of knowledge and expertise in agriculture among FIs

The findings of the FGDs have also highlighted a widespread perception among young people that the local FIs they interact with usually lack the capacity to understand and appraise the agricultural business plans that are proposed to them to attract investment. This implies a lack of capacity in carrying out a proper evaluation of the proposed investment, as well as offering suitable risk mitigation tools. Finally, such lack of expertise ultimately results in local FIs being unable to properly tailor their design and offer of financial services to the specific needs of young entrepreneurs engaged in agricultural value chains.

Young rural entrepreneur Andrew Ono Langoya poses for a photo in the middle of his forest plantation of 16 hectares.

©FAO/Petterik Wiggers

# 5 Conclusions and recommendations

## Recommendations

- Leverage the potential of Youth Savings Groups and solidarity lending.
- Expand the range of available options in terms of digital financial offers.
- Develop new lending approaches that do not exclusively rely on traditional collateral.
- Foster the expansion of agent banking in the country.
- Leverage the expertise on youth-focused provision developed at Ministry level.
- Jointly foster basic education and mobile penetration.
- Eliminate policy barriers to youth access.
- Foster youth-specific financial offer among formal FIs by promoting internal restructuring.
- Tailor and focus the financial offer of formal FIs to the needs of under-18 clients.
- Improve data collection practices in the agricultural finance sector.
- Improve the perception of agriculture among young entrepreneurs.

This section presents a series of conclusions and overall recommendations derived from the data and insights presented so far. These are meant to assist financial institutions and policymakers in fostering the expansion of financial services that are tailored to the needs of young rural entrepreneurs, and the opportunities open to them. These conclusions and recommendations also make the argument for complementary capacity building interventions that can further raise these entrepreneurs' status as creditworthy clients for FIs. Although a wide variety of recommendations can be made, the decision was taken to focus specifically on a number of key enabling elements that currently represent, in the authors' opinion, the most direct and promising channels to foster the financial inclusion of rural youth in Uganda.

### Leverage the potential of Youth Savings Groups and solidarity lending

Youth Savings Groups have proven to be a key element in fostering the financial inclusion of young entrepreneurs. They can be an essential entry point to provide financial services to rural youth and mitigate lending risk by employing a solidarity group approach. At the same time, they can be the first step in a longer-term financial and economic graduation process, tailored around the members of the group itself, which can be supported in various ways by development agencies, public institutions and formal FIs.

In this sense, the GoU has paved the way in showcasing the potential of Youth Savings Groups as key instruments for inclusion by developing its Youth Livelihood Programme around this concept. The YLP approach, based on the provision of a mix of financial and non-financial services (such capacity building, monitoring and mentoring), has shown great potential, despite the various structural and political issues it still faces, and which have been described in Section 1.5.2.

From a broader perspective, a solidarity group approach can be a very effective modality of financial provision that targets young people specifically, as it leverages the social dynamics and connections that are inherent to a group of young borrowers. The experience of BRAC (Section 2.3.4) has shown how a solidarity group approach can translate into considerable results in terms of financial provision outreach to the rural youth: 51 percent of BRAC's 490 000 clients are between 15 and 24 years of age, while 75 percent reside in rural areas.

### Expand the range of available options in terms of digital financial offers

Mobile payments – and digital financial solutions in general – have proven to be by far the most critical entry point to foster the youth-led financial inclusion. As is evident from 2018 FinScope data, youth financial inclusion in the country is driven by mobile money services, with the majority of young people (59 percent, compared with 53 percent of older adults) being formally included precisely thanks to these channels. Digital financial technologies help to bridge the access gap for rural, unbanked young people, while cutting costs and boosting economies of scale for financial service providers. They can also be an effective vehicle for financial education, providing the opportunity for interactive learning experiences and more focused audience targeting (The MasterCard Foundation, 2015).

In agricultural contexts, a notable example is the digitization of bulk payments to farmers, illustrated through UNCDF's experience detailed in Section 3.7 (i.e. enabling the provision of mobile payments from large-scale aggregators and processors to a wide network of fragmented rural farmers). This represents exactly the kind of innovative digital financial solution that holds significant potential to unlock substantial benefits for young agricultural entrepreneurs and further their inclusion, while increasing the appeal of agriculture as a profitable and promising line of business.

From a policymaker's perspective, reforms which aim at connecting the rural youth with digital networks and technologies can translate into considerable results in terms of increased financial inclusion. These include policies that bolster affordable internet access, digital literacy and skills for young people, as well as the development, regulation and transparency of the fintech sector. Another essential enabling factor is national investment in digital infrastructure, from fibre optic broadband and data centers, to mobile networks in rural areas (Nasman, 2017).

### Develop new lending approaches that do not exclusively rely on traditional collateral

As illustrated across multiple sections of the study, young rural entrepreneurs usually lack "conventional" forms of guarantees that are required by formal financial institutions to unlock loans (such as houses, fixed assets and especially land titles), which can significantly impair their ability to access credit. In the Section 4 survey, young entrepreneurs identified their inability to meet traditional collateral requirements, as demanded by formal financial institutions, as a core impediment to credit access. It is essential, therefore, to develop and implement clear and transparent collateral laws, allowing for the use of alternative forms of guarantees, such as warehouse receipts, future harvests, or mortgages on moveable assets (e.g. farm machinery, livestock).[22]

In this sense, a recently approved regulatory framework, the Security Interest in Movable Property Registry System (SIMPRS), housed at the Uganda Registration Services Bureau, allows MSMEs and individuals to use their movable assets as collateral for loans. The fully online Registry enables secured creditors to register their security interests in movable assets, such as livestock, crops, motor vehicles, electronics and furniture, while providing the public with notice of the existence of such security interests to register online movable assets as collateral (livestock, crops, motor vehicles, equipment, furniture, etc.). This new system holds the potential for further expansion in the country, thus supporting greater financial inclusion among Ugandans, as well as increased security for lenders.

### Foster the expansion of agent banking in the country

As illustrated in Section 1.3, the introduction of agent banking by the BoU in July 2017, and its subsequent implementation under the oversight of the Uganda Bankers' Association, allowed

[22] A clear example of this is the is the Uniform Act on Secured Transaction developed by the OHADA (Organization for the Harmonization of Business Law in Africa) and adopted by 17 West and Central African countries, which was amended in 2010 to allow potential borrowers to employ a wide range of alternative guarantee forms to obtain a loan from a financial institution, such as warehouse receipts and moveable assets (Filmer and Fox 2014).

formal FIs to considerably extend their outreach, especially in rural areas. The financial inclusion of the rural youth can benefit considerably from the expansion of such an innovation in the Ugandan financial ecosystem, despite the various challenges that agent banking still faces at the present stage.

To exploit all the potential benefits that can be derived from agent banking, the authors' recommendation for policymakers is to focus on addressing the following critical barriers first: lengthy agent approval processes; stringent KYC requirements; low levels of financial literacy among rural dwellers; and poor connecting infrastructure in rural areas which limits expansion.

### Leverage the expertise on youth-focused provision developed at Ministry level

It is important to remark that, currently, both of the GoU's flagship youth programmes (the YLP and YVCF) are overseen by the Ministry of Gender, Labour and Social Development, which has managed to acquire substantial experience in fostering youth financial inclusion, as well as youth entrepreneurship. The authors believe that the Ministry should engage the formal financial sector (through its relevant apex bodies such as AMFIU and UCSCU) in a shared reflection on the different insights and lessons learnt related to youth-tailored financial provision. The overall aim of this exercise would be to pilot new solutions that can result in a more varied and richer public-private offer of financial services (not just credit-led) for young individuals and youth groups.

The three public entities engaged in agricultural financing, whose experience has been described in Section 3 of this publication (the Uganda Development Bank, the Agricultural Credit Facility and the Microfinance Support Center), could also benefit from the lessons learned by the Ministry of Gender, Labour and Social Development, to set up a range of specific youth-oriented financial interventions (such as a dedicated financing window or line of credit).

### Jointly foster basic education and mobile penetration to further increase digital financial inclusion

As can be seen from the data in Section 3, low levels of education and mobile penetration contribute synergistically to the financial exclusion of the rural, low-income youth, especially in a country where mobile-powered financial access represents the core driver for inclusion. Focusing on strengthening these two elements, for example through public campaigns aimed at training rural youth on basic financial concepts and mobile use, together with some kind of subsidy programme for purchasing a basic phone, could help bridge the current rural inclusion gap by addressing these two very direct obstacles.

### Eliminate policy barriers to youth access

Young entrepreneurs in Uganda are barred from accessing financial services because of a number of specific regulations that impose unnecessary limitations or obstacles. An example of this is the minimum age requirement for opening and managing a bank account without the supervision of a legal guardian, established by local banking laws. Uganda, together with several other Sub-Saharan countries (Benin, Burkina Faso, Congo, Ghana, Senegal and Tanzania) set this minimum age threshold at 18, even though the country has one of the world's youngest populations (16 years at the median). The National Financial Inclusion Strategy identified this factor as a core gap to be addressed, by planning for a regulatory amendment that allows young people aged 15 to 17 to open savings accounts without legal supervision.

Another restriction of this kind is the need for a valid identity document (e.g. birth certificate, proof of residence) to receive a loan or open an account, which can be quite challenging to obtain for rural dwellers (and even more so in the case of young ones). Policy and institutional reforms that aim at removing such regulatory obstacles can have a strong positive impact on financial inclusion levels of the rural youth, while also unlocking and tapping into a sizeable client segment that has been, so far, left considerably unattended.

### Foster youth-specific financial offer among formal FIs by promoting internal restructuring

Formal financial institutions that seek to develop a varied offer of youth-focused financial services should promote the creation of specific divisions and teams within their structures which focus exclusively on the design of such products. This process should be complemented by the adoption of a customer-centric approach that aims to capture the complexity of the youth client category in its entirety – supported by a rigorous client segmentation and value chain analysis – with the overall objective of matching the needs of different age ranges (and geographical locations) of young clients to specific sub-sets of offer. In this sense, the efforts of a number of selected FIs described in Section 3, such as Finance Trust Bank and Centenary Bank, are a good example of these kinds of youth-oriented approaches being enacted. In general, it is essential that FIs develop the ability to break down their client analysis capacity – and their offer of financial services – to a more granular level, thus reaching a point where they can more accurately serve different segments of the young entrepreneur demographic through a more targeted range of services.

Local public entities and development agencies can play a strong role in supporting FIs in this process. Examples of this support include grants for technical assistance and product development, soft loans to pilot new products and risk-sharing mechanisms to support the expansion of such products.

### Tailor and focus the financial offer of formal FIs to the needs of under-18 clients

In line with the previous point, formal FIs should place particular attention on the under-18 client segment of young entrepreneurs (as opposed to the young adult population, aged 16 to 30 years). This specific segment is the one which faces the greatest variety of access constraints among the youth category (e.g. I.D. access, collateral availability, financial education), while holding the greatest amount of untapped potential, derived from its unmet demand for financial services. From a development perspective, the gains that can be derived from fostering the financial autonomy and empowerment of under-18 entrepreneurs are particularly remarkable, given the proven linkages between strengthened financial inclusion and improved education, health, employment and a host of other aspects.

Both the GoU and international development institutions can play an essential role in both fostering awareness in the formal financial sector regarding the financial potential of this client segment, as well as supporting the process of developing tailored financial products and initiatives through subsidies, guarantee coverage, capacity building and other interventions.

### Improve data collection practices in the agricultural finance sector

There is a pressing need for improved data collection practices, as well as more effective data structuring and dissemination, related to financial flows (and demand for financial services) in Ugandan agriculture. Granular data collection is necessary to monitor the progress of the sector, design tailored policies for proper product development, as well as to bridge the information gap between supply and demand flows, especially among young clients. In this sense, it is worth remarking that our survey results, presented in Section 4, have highlighted a clear mismatch between the FIs' and youth clients' perceptions of the main constraints to financial access. Financial institutions require more insightful and timely data regarding the specific features and needs of prospective clients among the youth population engaged in agriculture, while the latter requires more detailed information on the formal offer available.

### Improve the perception of agriculture as a profitable and appealing business among young entrepreneurs

As illustrated in Section 3.2, the majority of young entrepreneurs do not perceive agriculture as an appealing line of business, because of a deep-rooted perception associating these kinds of activities with high effort, low rewards and scarce social prestige. The use of improved agricultural technologies, coupled with increased and more tailored access to investment capital and adequate public support and awareness raising, can help to attract the new generations in engaging the agricultural sector with a renewed (and more entrepreneurial) mindset. There is, overall, a considerable need to modernize and restructure the agricultural sector in order to create substantial value addition across value chain flows, while properly matching the demand for processed food in local and international markets.

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# Annex 1
# Analysis of Global Findex data on financial inclusion in Uganda

An analysis of key financial inclusion indicators is essential to understand the depth and quality of financial inclusion in rural Uganda. The table below presents a range of data from the World Bank's Global Findex[23] database from the years 2011, 2014 and 2017, the analysis of which can be extremely useful in gaining a granular perspective and insights into the development of financial inclusion in the country, across a variety of different indicators.

As can be evinced from the table, in 2014 almost 79 percent of the population in rural areas of Uganda had borrowed money from any source (whether formal or informal), **with this figure decreasing by 13 percent in 2017** (to 66 percent). Only 13.3 percent of the rural population, though, had in fact borrowed from a formal FI (e.g. a bank, credit union, or regulated MFI) in 2017. Furthermore, 68 percent of the rural population in 2017 **had saved money**, but only 12.1 percent had saved it with a formal FI.

In 2014, 22 percent of rural borrowers in Uganda had used **a loan to start, operate, or expand a farm or business**, with this figure decreasing to 13 percent in 2017. On the other hand, 28.8 percent of the rural population in 2017 had used **the savings** they had collected to start, operate, or expand a farm or business.

Finally, the data indicates that in 2017, 46.8 percent of the rural population had **received payments for agricultural products** (a significant decrease from the 69.3 percent value of 2014). While only 4.7 percent had received these payments **in a formal account** at a financial institution, 27.6 percent had received payments through **a mobile phone** (a significant increase from the 12.7 percent value of 2014).

## Global Findex indicators of financial inclusion in Uganda

| Indicator | 2011 | 2014 | 2017 |
|---|---|---|---|
| Borrowed any money in the past year, rural (% age 15+) | *No data* | 78.9 | 66.2 |
| Loan in the past year, rural (% age 15+) | 52.4 | *No data* | *No data* |
| Borrowed from a financial institution, rural (% age 15+) | 8.9 | 15.4 | 13.3 |
| Borrowed from a private informal lender, rural (% age 15+) | 4.7 | 6.3 | *No data* |
| Borrowed from family or friends, rural (% age 15+) | 46.6 | 69.3 | 46.8 |
| Borrowed to start, operate, or expand a farm or business, rural (% age 15+) | *No data* | 22.0 | 13.0 |
| Credit card ownership, rural (% age 15+) | 1.7 | 1.4 | 2.4 |
| Debit card, rural (% age 15+) | 9.7 | 16.8 | 15.9 |
| Mobile account, rural (% age 15+) | *No data* | 34.3 | 50.1 |
| Received payments for agricultural products in the past year, rural (% age 15+) | *No data* | 69.3 | 50.9 |
| Received payments for agricultural products in the past year (% age 15+) | *No data* | 68.6 | 49.8 |
| Received payments for agricultural products: into an account at a financial institution (% recipients, age 15+) | *No data* | 3.2 | 3.8 |
| Received payments for agricultural products: through a mobile phone (% recipients, age 15+) | *No data* | 12.7 | 27.6 |

[23] The World Bank's Global Findex database is the world's most comprehensive dataset on how adults save, borrow, make payments, and manage risk. Launched with funding from the Bill & Melinda Gates Foundation, the database has been published every three years since 2011. The data are collected in partnership with Gallup, Inc., through nationally representative surveys of more than 150 000 adults in over 140 economies.

| Indicator | 2011 | 2014 | 2017 |
|---|---|---|---|
| Saved any money in the past year, rural (% age 15+) | *No data* | 74.5 | 68.0 |
| Saved at a financial institution, rural (% age 15+) | 16.4 | 15.9 | 12.1 |
| Saved to start, operate, or expand a farm or business, rural (% age 15+) | *No data* | 34.0 | 28.8 |
| Mobile phone used to receive money, rural (% age 15+) | 23.3 | *No data* | *No data* |
| Mobile phone used to send money, rural (% age 15+) | 17.8 | *No data* | *No data* |
| Purchased agriculture insurance (% working in agriculture, age 15+) | 9.1 | *No data* | *No data* |

Source: FINDEX, 2011, 2014 and 2017

The FINDEX database also allows disaggregation of some of these indicators between "young adults" (aged 15–24) and "older adults" (aged 25+) categories, although it does not allow further refinement of the analysis by combining this with a urban/rural analysis. The table on the following page compiles the FINDEX data and analyses the differences between the two groups. Analyzing the differences or similarities in key financial inclusion variables between the two age groups, using the available data, can provide us with a range of useful insights into the financial lives of younger and older adults.

As shown in the table, the percentage of older adults **borrowing money from any source** in 2017 (68 percent) is slightly higher than the percentage of young adults doing the same (63 percent). Similarly, the percentage of older adults who **borrowed money from a formal financial institution** (16 percent) is higher than that of the young adults (10 percent). As a logical consequence of the latter, when money is borrowed from friends and family, there is a higher percentage of young adults (48 percent) borrowing from these actors compared with older adults (45 percent)

There are no major differences in the **savings activities** reported by the two age groups: 67 percent of the young adults and 70 percent of the older adults reported saving some money in 2017, although only 10 and 14 percent respectively did so with a formal financial institution.

The analysis of the differences between both groups in terms of **mobile account usage** also provides interesting insights: 50 percent of both young and older adults alike reported using mobile money accounts in 2017, but the rapid growth of the use rate on the part of young adults from 2014 (27 percent) to 2017 is significant, almost doubling over the span of three years.

Regarding the behavior of young and older adults and agricultural activity, FINDEX data shows 31 percent of the young adults made **savings** in order to start, operate, or expand a farm or business, which is slightly more than the figure for older adults (29 percent), while 46 percent of the young adults and 53 percent of the older adults had received payments for agricultural products, according to 2017 data. Lastly, the difference between young adults and older adults related to borrowing to start, operate, or expand a farm or business is not too significant: 10 percent versus 15 percent.

### Global Findex indicators of financial inclusion, segmented by age group (young adults = 15–24 years)

| Indicator | 2011 | 2014 | 2017 |
|---|---|---|---|
| Borrowed any money in the past year (% age 15+) | *No data* | 79.0 | 66.1 |
| Borrowed any money in the past year, rural (% age 15+) | *No data* | 78.9 | 66.2 |
| Borrowed any money in the past year, young adults (% age 15–24) | *No data* | 76.0 | 63.3 |
| Borrowed any money in the past year, older adults (% age 25+) | *No data* | 81.0 | 68.0 |
| Borrowed from a financial institution (% age 15+) | 8.9 | 15.7 | 13.7 |
| Borrowed from a financial institution, rural (% age 15+) | 8.9 | 15.4 | 13.3 |
| Borrowed from a financial institution, young adults (% age 15–24) | 4.9 | 10.0 | 10.0 |
| Borrowed from a financial institution, older adults (% age 25+) | 11.7 | 19.6 | 16.3 |
| Borrowed from family or friends (% age 15+) | 46.5 | 69.4 | 46.5 |
| Borrowed from family or friends, rural (% age 15+) | 46.6 | 69.3 | 46.8 |
| Borrowed from family or friends, young adults (% age 15–24) | 44.8 | 68.6 | 48.3 |
| Borrowed from family or friends, older adults (% age 25+) | 47.8 | 70.0 | 45.3 |
| Borrowed to start, operate, or expand a farm or business (% age 15+) | *No data* | 22.3 | 13.0 |
| Borrowed to start, operate, or expand a farm or business, rural (% age 15+) | *No data* | 22.0 | 13.0 |
| Borrowed to start, operate, or expand a farm or business, young adults (% age 15–24) | *No data* | 19.0 | 9.7 |
| Borrowed to start, operate, or expand a farm or business, older adults (% age 25+) | *No data* | 24.7 | 15.3 |
| Mobile money account (% age 15+) | *No data* | 35.1 | 50.6 |
| Mobile account, rural (% age 15+) | *No data* | 34.3 | 50.1 |
| Mobile money account, young adults (% age 15–24) | *No data* | 26.7 | 50.7 |
| Mobile money account, older adults (% age 25+) | *No data* | 40.8 | 50.5 |
| Received payments for agricultural products in the past year (% age 15+) | *No data* | 68.6 | 49.8 |
| Received payments for agricultural products in the past year, rural (% age 15+) | *No data* | 69.3 | 50.9 |
| Received payments for agricultural products in the past year, young adults (% age 15–24) | *No data* | 58.7 | 45.5 |
| Received payments for agricultural products in the past year, older adults (% age 25+) | *No data* | 75.4 | 52.7 |
| Saved any money in the past year (% age 15+) | *No data* | 75.2 | 68.6 |
| Saved any money in the past year, rural (% age 15+) | *No data* | 74.5 | 68.0 |
| Saved any money in the past year, young adults (% age 15–24) | *No data* | 68.6 | 66.7 |
| Saved any money in the past year, older adults (% age 25+) | *No data* | 79.7 | 69.8 |
| Saved at a financial institution (% age 15+) | 16.3 | 16.8 | 12.7 |
| Saved at a financial institution, rural (% age 15+) | 16.4 | 15.9 | 12.1 |
| Saved at a financial institution, young adults (% age 15–24) | 10.0 | 13.3 | 10.6 |
| Saved at a financial institution, older adults (% age 25+) | 20.8 | 19.0 | 14.1 |
| Saved to start, operate, or expand a farm or business (% age 15+) | *No data* | 34.3 | 29.6 |
| Saved to start, operate, or expand a farm or business, rural (% age 15+) | *No data* | 34.0 | 28.8 |
| Saved to start, operate, or expand a farm or business, young adults (% age 15–24) | *No data* | 31.5 | 30.6 |
| Saved to start, operate, or expand a farm or business, older adults (% age 25+) | *No data* | 36.1 | 28.9 |

Source: FINDEX, 2011, 2014 and 2017

# Annex 2
# Institutions interviewed as part of the FAO survey

## List of Financial Institutions visited during the FAO field survey

| | | |
|---|---|---|
| **ABC Capital Bank** | FINCA | Muko Savers SACCO |
| **Agali-awamu CBS** | Gofralin Fanancial Service Ltd. | Mukono Teachers SACCO |
| **Agum.K.Investment Co. Ltd.** | Gratius Financial Facility | Namalemba Savings Association |
| **Alakara Savings Group** | Housing Finance | Okonyere Kenwa Group |
| **AMEF Savings Group** | K.K Moneylender Association | Orient Bank Ltd. |
| **Bank of Africa** | Kabale Enterprises | Post Bank Ltd. |
| **Bank of Baroda** | Kakaire Financial Services | Premier Credit |
| **Banogole Rescue Team** | Kakoba Movement Youth Group | Riber Ber |
| **Barclays** | Kanyanya Savings and Credit Society Ltd. | Sao-Kampala SACCO |
| **Besana SACCO Ltd.** | Kati Youth Social Ventures | Some Money Uganda Ltd. |
| **Brim Skanco Co. Ltd.** | KCB Bank (U) Ltd | South Buganda Teachers SACCO |
| **Bugadde SACCO** | Kit Lobo Eno | St.Mark Village Savings Group |
| **Busembatya Women's Group** | Koseka Money Lender | Teenage Mothers Foundation |
| **Cac Peyweka** | Kumi Bopapad Motorist Sacco | Together Village Savings |
| **Community Micro-Finance** | Kumi Parents Teachers Association | Tukulakulane Misaali Group |
| **Credit Co-operative** | Majoka Bereau Co.Ltd | Tusimbudde Group |
| **DFCU Bank** | Malongo Intergrated Saving and Credit Association | Uganda Micro Credit Foundation |
| **Ebo Financial Services** | Mbarara Bus Park | Unique United Village Savings Group |
| **Eco Bank** | Mego Lonyo | Waneno Anyim |
| **EFC (Entrepreneurship Financing Centre)** | Micro Finance Zonal Support | Wazalendo SACCO |
| **Equity** | Microfin Ltd. | Yes We Can Village Savings Group |
| **Exim Bank Uganda Ltd** | Money Lender-Mukono | |
| **Express Money Lender** | Mugalu Village Saving Group | |

## List of meso- and apex-level institutions interviewed during the field survey

| Name of Organization | Services offered to youth | Date of visit | Position of interviewee |
|---|---|---|---|
| **Uganda Association of Private Vocational Institutions (UGAPRIVI** | Provides agriculture-based services to young people, capacity development on agribusiness management, as well as assistance to strengthen farmers' applications to governmental programmes and funds such as the Youth Livelihood Fund. | 03/10/2017 | General Manager |
| **WE EFFECT** | Funds organizations that are engaged in youth-supporting initiatives. | 11/10/2017 | Program Coordinator |
| **Uganda Central Co-operative Financial Services Limited (UCCFs)** | Provides trainings to foster financial literacy and entrepreneurial skills; fosters a savings culture in the farming and agribusiness sectors. | 11/10/2017 | Head of Operations |
| **Uganda Xaverian Movement** | Provides life skills and trainings for young people transitioning into adulthood; strengthens communication and entrepreneurial skills. | 12/10/2017 | National Coordinator |
| **Restless Development** | Provides start-up capital and aid kits ("mama kits") to teen mothers; provides training to health workers to specifically support young people; supports the creation of income-generating youth groups. | 10/10/2017 | HR staff |
| **UNICEF** | Provides trainings on life skills; vocational training; community dialogue; school health programmes. | 12/10/2017 | Youth Civil Engagement Program |
| **HEIFER International** | Provides trainings for young people on skills development; vocational training; agribusiness; soft skills; access to VSLAs; and other aspects like sexual education and reproduction | 17/10/2017 | Finance Manager |
| **ZOA** | Enrolls young people in VTIs (Vocational Training Institutes) and in saving groups; provides start-up capital to young people | 11/10/2017 | General Affairs Manager |
| **SILK project Concern World Wide** | Provides vocational trainings and support to young people in the southern Karamoja region to foster both on-farm and off-farm skills. After the trainings, youth groups are supported to run VSLA, while linkages to financial services provided by other organizations are promoted. | 11/10/2017 | Programme Manager |
| **KATI Youth Social Venture** | Provides trainings in the form of innovation camps and business development camps, as well as business mentoring through monitoring and evaluation. Provides micro-credit products in partnership with DFCU and Equity Bank. | 02/10/2017 | Chief Executive Officer |
| **AVSI** | Provides development and humanitarian assistance to programs in education, food security/livelihoods, health and nutrition, social protection, HIV/AIDS, emergency preparedness and response, and disaster risk reduction. | 14/10/2017 | Area Manager |

| Name of Organization | Services offered to youth | Date of visit | Position of interviewee |
|---|---|---|---|
| **CRS** | | 02/10/2017 | Director |
| **CARE International Uganda** | Mobilizes young people (with a focus on women) to form savings and loan associations; provides training on financial education and business skills for agriculture, links groups to formal financial institutions for safety of savings and access to credit taking advantage of group guarantees. | 03/10/2017 | Innovative coordinator, Monitoring, Evaluation and Research |
| **Youth Venture Capital Fund** | Provides loans through Centenary Bank at an interest rate of 15 percent to young people aged between 18 and 30 years, as well as mentorship and capacity building to loan recipients. | 02/10/2017 | Principal Youth Officer |
| **Youth Livelihoods Programme** | Provides skills development and livelihoods support. Skills strengthened include entrepreneurship, as well as business and life skills. Also provides credit for income-generating activities initiated by young entrepreneurs. | 10/10/2017 | Programme Manager |

**Agricultural finance and the youth**

Prospects for financial inclusion in Uganda

The aim of this publication is to provide a comprehensive assessment of the current state of financial inclusion of the rural youth in Uganda, with a specific focus on their engagement in the agricultural sector, as well as the financial services they can access to pursue their business ventures in this area. It seeks to illustrate and bring to light the core constraints and opportunities associated with the provision of tailored financial services to young entrepreneurs in the country, while showcasing the essential role that a host of key support actors (such as the Government, Central Bank, international development institutions, NGOs, foundations and many others) can play in fostering the provision and uptake of such services.

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