MAKING VILLAGE SAVINGS AND LOAN SCHEME RESPONSIVE TO YOUTH AGRIBUSINESS

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A Best Practice Brief

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Summary

Uganda's young population face a rising youth unemployment rates. As many rural youth join the agribusiness employment pathways, they are faced with limited access to business finance. Formal banks hardly want to transact with youth given their weak bankability. As a result, many organizations are turning to youth-led village savings and loan Association (VSLA). Yet, without a clear agribusiness focus, VSLA is equally unsupportive of youth agribusiness. However, this best practice brief shows through the EU-funded YEEP project that VSLA can be customized into a strategic agribusiness finance that ensure that youth have timely access to reliable funding to meet the varying financial needs in the production cycle. This practice can be upscaled as AFARD did to reduce donor dependence and build sustainable self-financing mechanism for youth to start and grow their businesses.

Youth employment in Uganda and West Nile Region

Uganda's population has reached 37 million people and it is growing at 3.2% per annum. More than 78 per cent of this population are below the age of 30. Youth (aged 18-30 years) constitute 18 per cent of this population and over 60 per cent of them are unemployed. as more than 30% are illiterate and 70 per cent are seeking employment (UNFPA, 2013). While 800,000 people annually enter the labour market, the net job creation is a minimal 10 per cent MoES, WB, BTC Uganda, 2011). At the current population growth rate and public-private sector absorption capacity, it is even estimated that it will take one generation before majority of the labour force has a non-farm salary job (Fox & Sohnesen, 2012). This situation is not any different in West Nile region with about 3.0 million people (50% are youth and more than 750,000 are refugees from Southern Sudan). Once critical gap for youth to enter the world of work through self-employment is lack of access to finance (Youth Map, 2015).

Youth and Financial Inclusion

According to the FINSCOPE 2013 study, only 12% of youth reported having stable and monthly income and only 45% saved occasionally (averaging UGX 220,299 for Uganda and UGX 172,305 for northern region). The study further revealed a stack disparity saved and took credit. s this status below. While generally there is more reliance on informal financial institutions countrywide, exclusions are marked. Among young people aged 18-24 years, many are either not saving or accessing credit and insurance services. While 32% save at home/secret places, 4% take credit from family/friends (which 40% use credit for daily expenses and emergencies) and 31% use insurance services (30% from informal sources. However, much of the savings in northern Uganda where used for meeting basic needs (83%), emergencies (55%), education of children/siblings (29%), and buying cattle (23%). Except for buying land (3%), few youth used their savings for agricultural inputs (16%). Likewise, loans were used for starting/expanding businesses (8%), daily expenses (11%) and emergencies (11%).

Table 1: Main sources of savings and credit used by youth 18-30 years (%)

	Uganda	Northern region
Top 3 places where youth saved		
Home/secret place & Family/friends	57	67
Informal savings groups	30	41
Buying animals and other assets	20	25
Top 3 places where youth took credits		
Village savings and loan associations	50	59
Savings and Credit Cooperative	21	9
others	13	26

Youth Economic Empowerment Project (YEEP)

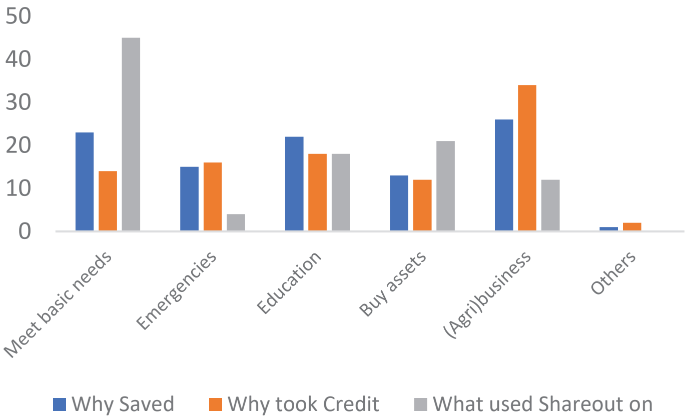
To address this youth unemployment and access to finance challenges, the European Union provided a 3-year co-funding to the Agency For Accelerated Regional Developement (AFARD) and Center for Governance and Economic Development (CEGED) to implement the Youth Economic Empowerment Project (YEEP) so as to contribute to youth inclusive economic growth and poverty reduction in West Nile region of Uganda through sustainable and gainful employment opportunities.

To attain the envisaged results, YEEP among other approaches used the VSLA model as the entry and growth points for youth to identify like-minded partners, develop savings culture, access business credit, and pursue annual personal development plans. Through the project, 125 VSLAs with 2,500 youth members (67% females) were formed and registered with sub county local governments in Zombo, Pakwach, and Arua. Of this total, 1,551 youth engaged in agribusiness of horticulture and local poultry while the remaining 883 and 66 went into non-fam vocational trades and formal employment.

The VSLA Challenges

On the commencement of the project AFARD and CEGED reviewed the typical use of VSLA loans given the pointers from the FINSCOPE study that youth hardly used loans for agribusiness. The shocking result is shown below.

Table 1: Main sources of savings and credit used by youth 18-30 years



Source: AFARD Internal VSLA assessment, 2016

understandably many competing needs to address from basic needs to emergencies. These needs outpace that of starting or expanding an (agri)business. In addition, VSLA was found to be riddle with two main challenges that hampers agribusiness growth. First, members savings alone generates small portfolio to ensure access to all members to adequate and timely loans to meet their same-time agribusiness demand for inputs. Second, because VSLAs are not linked to formal banks they have limited products and no insurance therefore loss incurred fall squarely in the entrepreneur. These gaps compel many youth to use local inputs that hardly increase their production and productivity necessary for higher income and exit out of poverty.

The Agro-input Savings Innovations

In light of the gaps above, the project innovated the Agro-input savings. This ledger was introduced specifically to enable members save for their agribusiness inputs. A youth engaged in farming as a business was trained on how to plan and cost the enterprise. Looking 6-months ahead, s/he will weekly save a portion of the fund required to invest in the agribusiness. This fund would not be loaned out as the "normal savings." It can only be withdrawn by the owner to meet the farm needs – renting land, hiring labour, hiring animal traction or tractor, buying improved inputs, etc. Table 2 below shows how the innovation grew over the 3-year period in YEEP project alone. The good result has also witnessed AFARD upscaling the approach in all its current 10 projects in West Nile region.

Table 2: VSLA performance, 2017-19

	2017	2018	2019	Total
Normal Savings	118,914,700	259,286,550	139,601,800	517,803,050
Agro in-put	8,186,400	17,803,500	13,770,500	39,760,400
Social fund	15,281,700	31,083,400	25,451,600	71,816,700
Fines	1,983,550	4,890,650	2,505,860	9,380,060
Total	**144,366,350**	**313,064,100**	**181,329,760**	**638,760,210**
Per Capita	**120,305**	**125,226**	**72,532**	**255,504**

NB: 2019 savings is for only 5 months.

Field Feedback on Agro-input Savings

Discussions with youth during monitoring visits, annual assessments, and final evaluation revealed that agro-input savings has facilitated the youth to:

1. Reduce competition for loans from limited savings portfolio that often ended in conflict. This also means improved group cohesion.
2. Increase timely access to funds for on-farm production hence the adoption of improved use of agronomic practices e.g., improved seeds and planting materials, better tools.
3. Increase in land acreage given the availability of funds to rent land and hire labour, oxen or tractors.
4. Secure their future farm planning. Unlike in the past when any failure in a season meant one had to start afresh, agro-input fund buffers the seasonal risks with ready investment fund.
5. Start planning their farm businesses because of the need to know "how much will I spend and how much to I need to save," echoed one youth.
6. Reduce dependence on donor funding. With one-off provision of start-up kit and the bad weather experienced in 2016-2018, the fund reinforced self-reliance and financial sustainability.

Conclusion

Inadequate agricultural financing from formal financial institutions has been a major challenge of youth inclusion in agribusiness in Uganda. However, as the brief highlights, creative financial product development can ensure that you have local access to the funds they need to grow their enterprises.

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