***Selfie bulletins:* To borrow or not to borrow, that is the question**

How do our ex-researchers in Uganda deal with their finances?

As many of you will be aware, the Ugandan researchers who participated in L-IFT's FEDU (Financial and Energy Diaries) or YLD (Youth Livelihood Diaries) are reporting every week about their finances since August 2017. This data collection we call "self-diaries" because there is no interviewer, they simply answer all the questions directly on their own smart-phone.

Selfie bulletins

To share the findings from the self-diaries with you, we started a new series named "selfie bulletins". As a first item in this series, we describe what we learned from 24 researchers about loans.

Loan findings

Out of 24 respondents, 14 say "Yes" to the question "Do you ever take loans?", while 10 say they do not ever take loans. Of those 10 people who don't ever take loans, 8 say "I avoid loans", 4 say "I fear debt" and 4 say "I don't want to take a loan". Only 3 reported either "I cannot get a loan" (2 people) or "I don't have stable income" (1 person).

Of those who take loans, the following features about loans are most important (in this order):

- To receive the loan money fast
- To get low interest rate
- Suitable payment schedule

Then, of equal importance was:

- To receive the loan close by
- To have high probability for another loan later

Overall, most of the respondents considered it "very unlikely" they would borrow from formal sources. The sources they expected to borrow from were (in that order):

- Friends (50% said "very likely")
- Savings group

Other options were:

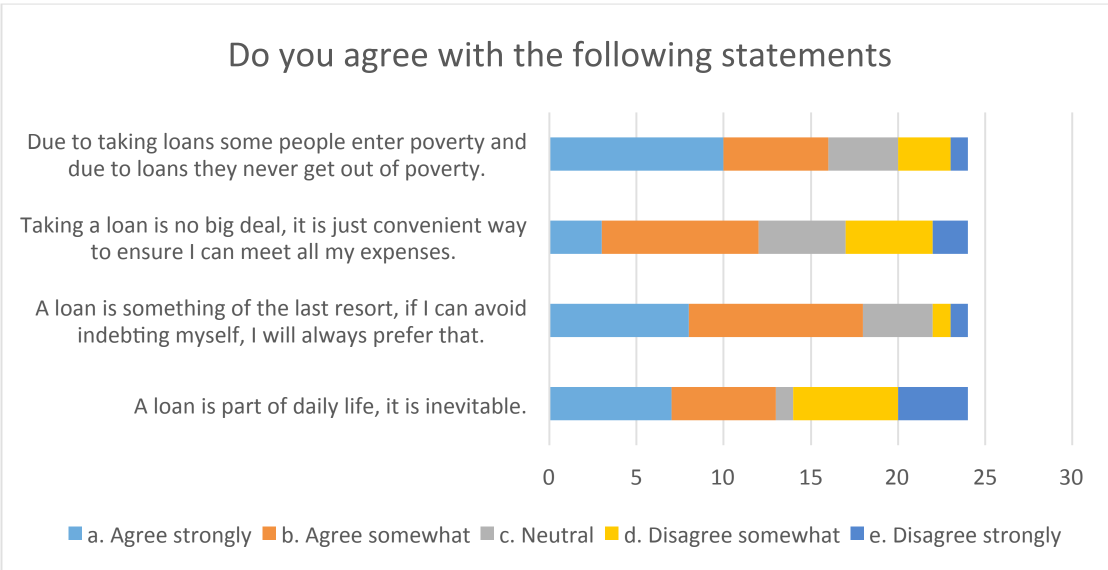
- Buy-now-pay-later (buying large items on credit)
- Local store
- Employer

Interestingly enough, "family" "SACCO" and "neighbor" are each mentioned by three people only. Many publications on financial access mention "family and friends" as one category for a loan source. L-IFT earlier discovered that in reality few people in Uganda borrow from family and friends are common as a source of loans. Hence we decided to split these into two separate categories.

Out of all the 24 respondents, all of them entrepreneurial, active youth, only four reported to actually have a loan at present. Two had a loan from "mobile money", one reported a loan from "MoKash" and one from “friends”. N.B. the “mobile money” loan is a surprise, because mobile money cannot lend as it is a telecom company, not a financial service provider.

When the whole group (24 respondents) was asked what a reasonable interest rate for a one-month loan would be, the most common answer (8 respondents out of 24) said “1% or 1,000 UGX for 100,000 UGX loan for a month). On the other hand, six out of 24 (25%) said that 10% was a reasonable interest rate for a one-month loan. Therefore, the majority (18 out of 24 respondents) considers the MoKash interest rate not to be reasonable.

Then we asked the respondents to what extent they agreed with the following statements:



The two statements related to the risks and dire consequences of taking loans, were mostly met with approval. Three-quarters (18 out of 24 respondents) agreed with “A loan is something of the last resort, if I can avoid indebting myself, I will always prefer that.” Two-thirds (16 out of 24 respondents) agreed with “Due to taking loans some people enter poverty and due to loans they never get out of poverty”. So based on these two statements, one would conclude that our ex-researchers are strongly loan averse. However, the two statements suggesting that loans are normal and inevitable also passed muster with respectively 12 and 13 out of 24. In conclusion, while loans are something to be avoided, they are also part of daily life and considered convenient by some.

What are we learning from these findings?

First of all, a pattern appears that is very comparable to the overall Youth Livelihood Diaries pattern: young people seldom access loans, overall they try to avoid loans and the few who access loans, have small short-term loans. While there were no cases of loans from banks or microfinance, there were loans from the new digital services (3 out of 4 loans were MoKash or mobile wallet loans).

Once again, the finding that people are highly likely to take loans from friends is reconfirmed. Taking loans from friends is followed by taking loans from shops (either for large items or for groceries). Bothering family, neighbours and the like for money is much less likely. When borrowing from friends, interest payment may not be expected. Instead, it is often expected that you give a loan to that friend when the friend needs one.

What does this mean to financial service providers?

Our findings confirm once again that very few people have access to loans from financial service providers. These self-diaries respondents are relatively educated people who have a good financial literacy and access to information. Through their work for L-IFT they know about how financial service providers work, they have an understanding about loan application processes and which institutions are serving which customers. Nevertheless, formal lenders do on the whole not reach them. As we have discovered earlier, these young people are comfortable with digital finance options and indeed, the few loans they accessed were mostly digital. These young people will be the middle class of Uganda in 10 years' time. If they cannot access bank or microfinance loans now and instead use digital finance loans, will they still become clients of banks and MFIs later on?

Maybe banks and MFIs should carefully consider their future and decide whether they want to serve the market of tomorrow. Better get the clients when still young.