ACKNOWLEDGEMENTS

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Much gratitude is also extended to the Bank of Uganda and in particular the FinScope Secretariat for efficiently organizing meetings and coordinating activities.

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DR SARAH SSEWANYANA
EXECUTIVE DIRECTOR, ECONOMIC POLICY RESEARCH CENTRE
November 2013
Introduction

Uganda’s Vision 2040 highlights the lack of access to finance as one of the barriers affecting the competitiveness of the economy. There is limited access to credit and most individuals and firms access credit from informal sources. One of the reasons for the limited access to credit is the low level of incomes and consequently domestic savings which affects ability by institutions to offer long term finance. As such, the government intends to increase gross national savings from the current level of 14.5% to about 35% of GDP by 2040, as a means to accelerate structural transformation.

Uganda has made significant progress in improving the welfare of its citizens. During the past 10 years, the incidence of income poverty has declined from 38% in 2002/3 to 22% (preliminary estimate) in 2013. On the other hand, GDP growth has averaged over 5% during the same period while the agricultural sector has performed dismally—with annual growth rates averaging less than 3% during 2002/3-2012/13. Overtime, Uganda’s financial sector has continued to record positive changes such as in the level of financial development, increased competition and improved efficiency in the financial system. There have also been deliberate efforts by government to strengthen financial inclusion in Uganda since 2001.

With these advances in the financial sector, it is important that an assessment is done to explore the extent to which such developments have translated into improved financial access to the adult population. As such, regular nationally representative FinScope surveys have been carried out in Uganda and other African countries to provide a basis for monitoring progress—in terms of demand, access and use of financial products/services.

FinScope Surveys

To date, FinScope surveys have been carried out in 18 African countries including Uganda. FinScope III survey for Uganda follows two previous surveys—FinScope I and II surveys carried out in 2006 and 2009 respectively. Like the previous FinScope I and II, FinScope III gathered detailed demographic information for the adult population (individuals aged 16 years and above), socioeconomic characteristics and use and non-use of financial services.

Particular information collected included: financial and risk management strategies; financial discipline and knowledge; attitudes and perceptions of, as well as preference for, financial service providers; usage and attitude to mobile money technology; rural and agriculture issues; remittances; and asset accumulation patterns. Unlike earlier FinScope surveys, FinScope III included a specific section on mobile money as well as additional questions to reflect the new changes in the financial landscape.

Sampling

FinScope III survey was based on a two-stage stratified random sampling design. In the first stage the selection was based on a region and by a stratum (urban/ rural). In each stratum, the primary sampling unit was the enumeration area (EA) and was selected systematically using the probability proportional to size mechanism within each stratum.

A total of 4,032 households were selected using the 2012 Uganda Population and Housing Census Mapping Frame. The households were selected using simple random sampling. Thereafter, one adult person (aged 16 years and above) from a list of all adults in a selected household was chosen using KISH grid method.
The actual sampled households with complete information were 3,401 from 501 EAs translating into a completion rate of 84% and response rate of 85 percent. The sample for the FinScope III was designed to provide financial indicator estimates for the country as a whole and for urban and rural areas separately; and for the five regions including Kampala.

**Classification of financial institution**

The analysis considers four major categories of financial service usage:

- **Formal banks regulated by the Central Bank – Tier 1-3**: This category includes financial institutions that are directly supervised and regulated by the Central Bank. They include: commercial banks, credit institutions and Microfinance Deposit taking institutions (MDIs);
- **Non-bank formal financial institutions**: e.g. Savings and Credit Cooperative Organisations (SACCOs) and other microfinance institutions (MFIs), insurance companies and the non-banking financial institutions like foreign exchange bureau, money transfer services like Western Union, and cell phone money services;
- **Informal**: e.g. money lenders, Rotating, Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), Village Savings and Lending Associations (VSLAs), Non-governmental Organisations (NGOs), investment clubs, saving clubs, services by employers and other village groups like burial societies and welfare funds.
- **Financially excluded**: i.e. persons who do not use either the formal banks, non-bank formal or informal institutions. Products and services under financially excluded include saving in a secret place, shops or friends/relatives; borrowing from friends or family members; or money transfers using individuals.
BACKGROUND CHARACTERISTICS

Population

- The total adult population was estimated at 16.7 million persons, with nearly 48% of the adult population being males.
- At least, 23% of the sampled adults were below 25 years and 40% of the adult population were within the middle age between 25 – 39 years.

Education attainment

- Nearly 40% of the adult population had attained some primary education.
- The adults in urban areas were more likely to have completed secondary education and above compared to their counterparts in rural areas.
- Nearly 48% of Kampala adults had completed secondary education and above, a share well above the national average of 15%.

Wealth status and income sources

- Nationally, 19% of the adult population were classified to be in the lowest wealth quintile. Northern region had the highest share in the lowest quintile (43%) followed by Eastern region (23%). In Kampala, 92% of the adult population was in the top wealth quintile compared to only 5 percent in Northern region.
- Agriculture was the most important source of employment and income. Nearly 64% of the adult population in rural areas and 23% in urban areas reported farming as the household’s most important source of income.
- About 13% of adult Ugandans reported having wage employment with one out of every four residents in urban areas citing wage employment as the main source of household income.
- Majority of the adult population (64%) earned less than UShs 500,000 in a year.
KEY FINDINGS

Financial Landscape

Overall usage of financial services

Overall there has been a remarkable improvement in financial inclusion in Uganda from 70% in 2009 to 85% in 2013.

- The share of the adult population accessing formal institutions (banked and non-bank formal) increased by almost two fold from 28% in 2009 to 54% in 2013. The growth was driven by the increase in the non-bank formal from 20% in 2009 to 52% in 2013.

Overall usage of financial services, 2009 and 2013, %

Financial access strand, 2009 and 2013, %

- Overall usage of informal financial products and services increased by 14 percentage points from 60% in 2009 to 74% in 2013.
- The population of financially excluded adults in Uganda reduced from 4.3 million (30% of adults in 2009) to 2.6 million (15% of adults in 2013).

Financial access strand

- The share of adults using non-bank formal financial services increased from 7% in 2009 to 34% by 2013. The strong growth in use of non-bank financial services is attributed majorly by use of mobile money transfer services.
- Due to proximity to financial institutions, residents of urban areas were more than twice likely to use formal banking institutions than rural residents (36% compared to 17%).
- In rural areas, use of informal service providers predominated (35%) followed by non-bank formal institutions at 32%.
- Females were more likely to report using informal financial services than males (34% compared to 27%).
Who were financially excluded?

- The population of financially excluded adults in Uganda reduced from 4.3 million (30% of adults in 2009) to 2.6 million (15% of adults in 2013).
- Geographically, the proportion of adults excluded from financial services ranges from 3% in Kampala to 24% in Northern Uganda.
- In 2013, women were equally likely as men to be excluded from financial services and as such the gender gap in financial exclusion that existed in 2009 had been eliminated by 2013.
- It was mainly the youth and older persons that were more likely to be financially excluded. However, the youth (aged 18-24 years) were more likely to use non-bank financial services than any other age category.

Who operates a bank account

- In 2013, 20% of the adult population (about 3.4 million persons) operated an account.
with a financial institution. The corresponding rate in 2009 was 18% (2.5 million persons).

- The number of adults having accounts with SACCOs increased by about five fold—from 128,000 in 2009 to 622,000 by 2013.

- Geographically, the share of adults operating an account varied from 9% in Northern region to 42% among adults resident in Kampala.

- Adults resident in urban areas, those who were male, those in paid employment and those with higher education had a higher likelihood to operate an account with a financial institution.

- The adults in the wealthiest quintile were about six times as likely to operate an account with a formal banking institution compared to those in the poorest quintile (42% compared to 7%).

- In 2013, some 13.6 million adults in Uganda—did not have an account with a regulated financial institution.

- Furthermore, only about 12 in 1000 adults in Uganda with accounts had a loan with a

### Adults operating an account with financial institutions in 2009 and 2013, %

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial bank</td>
<td>74</td>
<td>50</td>
</tr>
<tr>
<td>MFIs</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Credit institutions</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>SACCOs</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>MFIs</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>11</td>
<td>1</td>
</tr>
</tbody>
</table>

- Females (52%) were more likely to report lack of income as a barrier to lack of bank account compared to their male counterparts (43%).

- Regionally, more adults in Eastern region (62%) cited income as constraint for not having a bank account followed by Northern region (48%).

- About one in five adults without a bank account reported the cost of operating an account as the key reason for exclusion.

- About 13% cited long distances from the bank – implying the proximity to the banks was not as pressing as other constraints.

- At least 8% of the unbanked reported “not understanding how it works” as the key reason for not having an account.

### Non-account-holders reporting barrier as a reason for not having an account (%)

<table>
<thead>
<tr>
<th>Barriers to operating a bank account</th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not have income</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Costs of operating an account</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Do not understand how it works</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Do not have a Job</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Distance from the bank</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

### Savings and Investments

### Savings and investments strand

- The share of the adult population engaged in saving increased from 42% in 2006 to 54% in 2009 and more recently to 68% in 2013.

- The share of adults savers doing so through only formal channels remained unchanged during 2009 and 2013—at about 25%.

- Saving with formal banks remained low at about 19 percent, nationally.
Knowledge and Practice of Saving

What is understood by “Saving”?

Putting money in a special place/account for the money to be safe was the most cited consideration of what appears to be savings (41%) followed by money being put in an activity/somewhere to earn profits/returns (35%).

How the adults saved

The most cited saving behaviour was putting money in a special place or account for the money to be safe (48% – representing 8.1 million adults) followed by investing an activity or somewhere so that it can yield profits or returns (42% – representing about 7 million adults).

In 2013, nearly 5 million adult Ugandans had never saved or invested before.

Females mainly saved by putting money in a special place or account compared to male counterparts who largely put money in an activity that can yield profits.

The adults with no formal education (45%) mainly saved by putting money in a special place or account.
Those in paid employment were more likely to save with formal institutions relative to their counterparts in self-employment. This could be partly explained by the fact that it is a requirement from the employers to have a bank account through which the salaries were paid.

**Reasons for saving**

- While 68% of the adult population indicated some form of saving/investing (formal/informal), most of the savings were earmarked for consumption.
- The most cited reasons for saving included: provision for basic needs (67%) followed by emergencies (41%), education (33%) and livestock/poultry (22%).
- Broadly, the incidence of saving for emergencies reduced from 58% in 2009 to 41% in 2013.

**Mechanisms used to save**

- The most cited mechanisms for savings is at home (51%), followed by VSLA/ROSCA (29%) and buying of animals/other assets (18%).
- Saving using formal channels increased with wealth status and education levels.

**Planning for retirement/old age**

- Nearly 43% of the adult population (representing 6.7 million adults) were doing nothing regarding retirement/old age planning.
- Among those that reported to be doing
something about retirement, the majority cited educating their education (23%), investment in livestock (19%) and financial investment and/or saving (15%), in that order of popularity.

- Only a very small share reported contributing to NSSF or other pension funds.

### Planning for retirement / old age, %

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educated children</td>
<td>23</td>
</tr>
<tr>
<td>Invest in livestock</td>
<td>19</td>
</tr>
<tr>
<td>Financial investments and/savings</td>
<td>15</td>
</tr>
<tr>
<td>Rent out houses</td>
<td>5</td>
</tr>
<tr>
<td>Public service pension</td>
<td>1</td>
</tr>
<tr>
<td>Contribute to NSSF</td>
<td>1</td>
</tr>
<tr>
<td>Life insurance</td>
<td>0</td>
</tr>
<tr>
<td>Contribute to another pension fund</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
</tr>
<tr>
<td>Nothing</td>
<td>43</td>
</tr>
</tbody>
</table>

### Credit and Borrowing

- The share of the adults that used credit declined from 44% in 2009 to 35% in 2013 (from 6.3 million to 5.9 million adults, respectively).
- While the use of formal institutions (formal bank and non-bank formal) increased from 5% in 2009 to 12% in 2013, there was a marked decline in accessing credit informal institutions from 34% to 23% respectively.
- The share of adults not accessing credit (i.e excluded) increased from 55% in 2009 to 65% in 2013.

### Credit and borrowing strand

- The share of adults that accessed credit only through formal bank institutions remained almost unchanged - marginally increasing from 5% in 2009 to 6% in 2013.
- By gender, a higher proportion of males (7%) accessed credit from formal banks compared to only 5% of females in 2013.
- Access to credit from formal banks increased faster among adults in urban areas compared to their counterparts in rural areas – more notable the rural/urban gap seem to have increased since 2009 by 4 percentage points.
- The higher the educational attainment, the greater the prospects for obtaining credit from banks. For example, persons with an O-level education or above were about six times more likely to receive credit from banks compared to their counterparts with no formal education in 2013.
- Paid employees were more likely to obtain credit from formal bank institutions (8%) compared to their counterparts in other employment status.

### Barriers to saving/investment

- The most cited reasons for not saving or investing were; the lack of adequate information on saving (47%) and lack of money to invest (44%).
Regionally, the share of adults in Eastern region that accessed credit from formal institutions declined from 10% in 2009 to 6% in 2013. Western region also recorded the largest increase in shares accessing credit from formal institutions—from 5% in 2009 to 14% in 2013.

- The share of adults that accessed credit through only non-bank formal institutions increased by 5 percentage points—from 2% to 7% from 2009 and 2013 respectively.
- Partly due to presence of SACCOs, rural adults were more likely to access credit through non-bank formal institutions compared to their counterparts in urban areas.
- Western region lead in terms of access to credit from non-bank formal financial institutions with 7% of the people accessing credit from this particular source compared to 5% for Central region and only 2% for Northern region.

The share of adults that accessed credit from informal institutions reduced—from 27% in 2009 to 20% in 2013. Regardless of socio-economic grouping, exclusion increased between 2009 and 2013 with a widening gender gap. The level of exclusion noted for credit and borrowing strand was well above that of the saving/investment strand.

### Overall credit usage, %

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>35</td>
<td>44</td>
</tr>
<tr>
<td>Formal</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Informal</td>
<td>23</td>
<td>34</td>
</tr>
<tr>
<td>Friends</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Unservd</td>
<td>65</td>
<td>55</td>
</tr>
</tbody>
</table>

### Credit and borrowing strand by gender and location, %

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>65</td>
<td>55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>65</td>
<td>57</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>62</td>
<td>54</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>68</td>
<td>55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>55</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>55</td>
<td>55</td>
</tr>
</tbody>
</table>
The largest share of the adult population accessed credit in form of goods and money (24%). This was followed by goods only (17%) and money only (14%).

Adults in paid employment borrowed more in form of goods and money (34%) compared to 24% for the self-employed and only 13% for the unemployed.

Western region had the highest proportion of its people accessing credit in form of money and goods (38%).

### Why adults borrowed?

- Majority of the people borrowed for consumption purposes. The most cited reason for borrowing was financing education for children (20%) followed by emergencies such as illness (15%). In third position was the need to meet daily expenses (14%).
- One in every ten borrowers borrowed for agriculture production. Females were less likely to borrow for agriculture than males (8% compared to 12%).
- Residents of Northern region were more likely to borrow for agricultural production (14%) compared to Western region (12%), Central region (9%) and Eastern region (7%).
- The biggest proportion of the adults that borrowed to finance agriculture production allocated resources to purchase of inputs (54%), followed by hiring farm labour (29%).
- Other uses of agriculture credit include purchase of livestock (15%); purchase of agricultural land (8%); and purchase of farm equipment (6%).

### Main reasons for accessing agricultural credit in 2013, %

- Buy agricultural land: 8%
- Agricultural inputs: 54%
- Buy livestock: 15%
- Farm equipment: 6%
- Farm labour: 29%

### How much adults borrowed?

- The largest proportion of borrowers (73%) took up small loans that did not exceed Ushs 500,000.
- Only 14% of borrowers indicated receiving loans in the range of shs 500,000 and shs
1,000,000 while those in excess of one million were only 13 percent.

- Borrowers in urban areas were more than two times likely to access loans of more than UShs 1 million and above compared to their counterparts in rural areas (24% compared to 11%).
- Male borrowers were almost two times more likely to report taking a loan in excess of UShs 1 million (18%), compared to their female counterparts (8%).

Perceptions on whether access to financial institutions improved since 2009, retrospectively %

Understanding of the terms and conditions of loan/credit in 2013, %

- Among those obtaining credit, a substantial proportion did not read the terms and conditions (16%).
- Nearly all the adult borrowers indicated that they understood the terms and condition before taking a loan.
The largest proportion of adults agreed that it was easier to borrow from VSLAS (53%) in 2013 than 2009 followed by SAC-COs (27%), ROSCAs (21%), in that order.

The likelihood of cited non-improvement in accessing formal financial services was more prevalent for formal banking institutions (Bank, credit institutions, MDI) compared to non-bank formal institutions.

Since 2006, illness in the family has been the most prevalent risk phenomenon affecting 58% of the adult population in 2006 and 39% in 2009.

At least one in every five adults in 2013 was affected by death of a family member.

Droughts as well as crop/livestock disease were also very prevalent affecting 26% and 15% of Ugandans, respectively.

Risk Management and Insurance

Risk profile

The most common form of risk affecting household welfare was illness of family members, which affected 48% of the adult population.

The largest proportion of adults indicated fearing debts (31%) as the main reason for not accessing credit. The fear was reported more among females (34%) than males (27%).

The high cost of loans was the second most frequently cited reason for not accessing credit (14%) followed by lack of security (13%).

Usage of Insurance

Only 2% of the adult population (representing an estimated 349,000 adults) reported using formal insurance products compared to 43% (7.5 million persons) who use informal insurance products.

The proportion of males taking up at least one formal insurance product was nearly five times that of females.

Uptake of formal insurance increased with educational attainment, and wealth quintile status.

Use of informal insurance products/services was a rural phenomenon, more prevalent among middle aged adults, with a regional dimension.

Preference for informal insurance products/services over formal ones was because: Easier to join (48%), cannot afford formal insurance (15%), and never heard about formal insurance (11%).
Risk management profile

- Most cited strategies included: borrowing from friends/family (18%), seeking for donations (18%) and sale of assets (15%)
- The incidence of borrowing from friends/family, seeking for donations, and reduced consumptions as risk management strategies reduced with wealth quintile status.
- Self-employed were more likely to reduce consumption (15%) compared to their counterparts in paid employment (12%).

Barriers to formal insurance

- Some 11% of the adult population had never heard about any formal insurance product while a sizeable 18% simply preferred informal groups.
- The most cited barriers to use of formal insurance was that persons “do not know about insurance and how it works” (55%).

Barriers to formal insurance services, %

<table>
<thead>
<tr>
<th>Reason</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not know how it works</td>
<td>55</td>
</tr>
<tr>
<td>Cannot afford</td>
<td>50</td>
</tr>
<tr>
<td>Lack of knowledge on how it works</td>
<td>17</td>
</tr>
<tr>
<td>Never thought about it</td>
<td>17</td>
</tr>
<tr>
<td>Does not know where to buy</td>
<td>10</td>
</tr>
<tr>
<td>Do not want it</td>
<td>6</td>
</tr>
</tbody>
</table>

- One in two individuals without formal insurance indicated that formal insurance was expensive and many people cannot afford it (50%)
- A large proportion reported that they did not know how to go about buying insurance (17%) while others never thought about it (17%).
- Only a small share of adults without insurance reported not knowing where to buy insurance (10%).

Barriers to informal insurance

- The barriers were governance, institutional and trust in nature
- Most cited barrier was failure of members to pay their contributions (43%), followed by members pulling out (40%)

Barriers to informal insurance services in 2013, %

<table>
<thead>
<tr>
<th>Reason</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dishonesty by members causing financial loss</td>
<td>29</td>
</tr>
<tr>
<td>Poor administration</td>
<td>22</td>
</tr>
<tr>
<td>Death occurred to members</td>
<td>39</td>
</tr>
<tr>
<td>Members do not pay contributions</td>
<td>43</td>
</tr>
<tr>
<td>Members keep pulling out</td>
<td>40</td>
</tr>
<tr>
<td>Loss of money through theft or fraud from a Committee member</td>
<td>19</td>
</tr>
</tbody>
</table>

Remittances and money transfers

Overall access to remittances & transfers, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>2009</td>
<td>11</td>
<td>22</td>
</tr>
</tbody>
</table>
At least 36% of the adult population sent money while a higher share (45%) reported receiving transfers.

Males were more likely than females to engage in money transfer services with a higher proportion of males sending money than females (41% compared to 31%).

Geographically, the highest proportions of either sending or receiving money was reported in Kampala (about 74%).

Use of money transfer services in 2013, %

- Regarding the financial landscape, the share of the adults that received remittances nearly doubled from 30% in 2009 to 55% by 2013.
- Receiving formal (non-bank) remittances and transfers—increased from 11% to 41% during 2009 and 2013.
- Among those receiving transfers, majority reported receiving funds on a monthly basis (36%) with the least share being weekly remittances (10%).

Regularity of receiving remittances in 2013, %

- Most of the transfer funds received were from within Uganda. At least 41% of adults (7.5 million persons) received money from within Uganda while only about 4% of adults (0.6 million persons) received transfers from across the borders.
- In terms of trends, in 2009, 29% of adults received money from within Uganda (4.1 million persons) while 5% of adults received remittances from outside Uganda (0.7 million person).
- Kampala leads in receiving funds from abroad with at least 14% of adults in the capital that received funds from outside Uganda.
- The most common formal method of receiving funds was by mobile money (30%).
- About 9% of individuals in Kampala who received funds indicated receiving via international money transfer services (Western Union and Money Gram).

- In both rural and urban areas, the transfers were mainly used for home consumption—about 62 percent.
- The second most frequently cited use of transfer funds was child education and this was followed by child care.
- Only a small proportion of respondents invested the transfers received in farming—18% in rural areas and 9% in urban areas.
- Relatively fewer people used the received money for investing in income generating activities like farming (16%) or in businesses (13%).
Mobile Money Services

Since their introduction in 2009, the use of mobile money services has grown and surpassed other forms of non-bank formal financial services.

- The share of registered mobile money users was higher than bank account holders as well as other users of non-bank financial institutions.
- The growth in use of mobile money services could be attributed to the ease, convenience and relatively lower cost (both direct and indirect) of using the services compared to other formal services.
- Nearly 77% of the adults in Uganda had knowledge of mobile money.
- Only 34% of the adult population in Uganda were registered users of the service.
- A large proportion of the users accessed mobile money services through a third party’s account.
Main source of financial information

- The main source of financial information was radio used by 53% of the adult population.
- More females than males receive financial information from friends/relatives (38% compared to 26%).
- Majority of respondents requested for more financial knowledge on savings (65%) followed by investment (48%) and budgeting (31%).
- Only 15% of adults requested for more financial knowledge on opening an account while the corresponding rate for insurance was 12%.

Areas where further information is required, %

- A higher share of the adult population requested for information on savings (65%) compared to 12% on insurance. More adults with no formal education (69%) requested for information on savings compared to their counterparts with ordinary secondary education and above.
Financial literacy

- Overall financial literacy was low in Uganda with a large proportion of adults unable to fully comprehend issues regarding interest rates (49%), discount rates (45%) and money lending (59%).

- Only 60% of respondents stated that the main repercussion of being unable to pay back loans was losing the property which the borrower provided as collateral. This increases with education level and more prevalent in urban areas.

- 30% cited imprisonment and this reduces with education and more prevalent among the youths and senior citizens compared to their middle aged counterparts.

Consumer protection

- Nearly 11% of the adults reported dissatisfaction with financial service providers.

- When dealing with financial challenges, most adults went to local councils (46%). The relatively higher percentage on LCs could be reflecting the level of usage of informal financial services/products in the financial sector.

- Only about one in three Ugandans (34%) mentioned that they get clear and easy-to-understand information from financial institutions while 42% trust the advertising of financial service providers.
For adults that had ever taken a financial product, nearly 6% were surprised that the product had hidden fees/charges.

**Conclusions and Implications**

- Overall there has been remarkable improvement in financial inclusion in Uganda since 2009; however, this improvement was registered mainly in the non-bank formal sector largely driven by the introduction and growth in mobile money services. If mobile money is excluded—which is largely used for money transfers and not financial intermediary, formal financial inclusion in Uganda remains low when compared with other countries like South Africa, Namibia, Swaziland and Kenya where similar FinScope Surveys have been carried out.

- Financial inclusion through formal banking institutions of the adult population remained unchanged after a four-year period despite an increase in the number of commercial banks and commercial bank branches during this period.

- The low usage of the formal banking products and services impacts heavily on the level of savings mobilised domestically through the financial system, which in turn affects access to credit and investment by the private sector.

- Majority of the adult population were excluded from borrowing from financial institutions which limits prospects of engaging in economic activities resulting into low economic growth, low incomes and unemployment.

- The few Ugandans who borrow do so largely through informal institutions, which by their very nature are too small and less capitalised to support the start-up or expansion of business investments.
that can bring about significant economic growth and development. Furthermore, the majority of those who borrowed from informal institutions did so mainly for consumption purposes and less for investment.

- Access and usage of formal insurance products and services in Uganda remained low. Subsequently, the majority of the adult population resorted to informal ways (with all their limitations) to hedge against risk. Limited use of insurance services negatively retards the growth of business enterprises that are prone to risk and thus inhibits the entrepreneurship potential of the country.

- The level of financial literacy among the adult population also remained low. This was particularly demonstrated when it came to solving simple arithmetic problems involving interest rates and financial numeracy. Low literacy and numeracy levels limit the individuals’ ability to digest financial information and to make informed financial decisions. Lack of knowledge about existing financial products and services was rife among a large proportion of the adult population.

- The information gap also suggests a requirement for financial institutions to increase their outreach of financial information services to the public through the available channels including the media, in addition to customizing important messages to rural areas. Although the majority of Ugandans seem to be satisfied with the services of the financial institutions this does not correlate with the numbers using the formal banks and those with bank accounts.

- Financial institutions need to improve their transparency and fairness in dealing with customers’ complaints—especially by using a language that is conducive to genuine understanding and communication between the client and the service provider. The lack of information is more pronounced for insurance as well as credit and borrowing.

- Although a lot has been done to address the supply side constraints, much more needs to be done differently to spur demand for and access to formal financial services among the adult population. The barriers to financial inclusion were of multidimensional nature though critical if financial inclusion for the entire adult population is to be realised. The self-reported barriers are both demand-side and supply-side related and also cut across different stakeholders in the financial sector. As such addressing only a single barrier might not translate into improved financial inclusion. If the different barriers are to be addressed, there is need for coordination and collaboration among various stakeholders in order to collectively learn and innovate and where possible scale upon proven innovations.

Some key policy actions

- Maintaining macroeconomic stability: The results of FinScope 2013 suggest that
macroeconomic instability has an adverse effect on the utilisation of financial products and services. High inflation adversely affects the demand for credit and the cost of borrowing. It also adversely affects savings as well as investment decisions of households as illustrated in Section 5. There is need to maintain macroeconomic stability at all times in order to accelerate the growth of the financial sector. There is no doubt that the macroeconomic conditions that prevailed between 2009 and 2013 impacted on the demand for formal financial products especially in terms of savings/investments and borrowing.

- **Spatial targeting to promote financial inclusion:** From the results it is clear that access to and use of financial products and services were skewed toward the urban population and better developed regions. Northern region registered the highest level of exclusion—partly due to the lingering effects of the civil war. Hence there is need to consolidate government’s efforts to prioritize infrastructure and energy in the region. The private sector should also be encouraged and/or supported to increase its broad-based investment in activities to complement government efforts. There is no doubt that increased connectivity will unlock the barriers to financial inclusion in Uganda. There should also be efforts to sustain the progress made in financial inclusion across the region. This is illustrated by the fact while Eastern region was ahead of the Western region in 2009 regarding access to financial services, by 2013, it had slipped in the regional rankings.

- **Promoting broad-based growth:** While Uganda has been able to meet the MDG goal of halving poverty—from 56 percent in 1992 to 22 percent in 2013 (preliminary estimates)—not everyone has benefited from this growth as demonstrated by increasing income inequalities. It is also evident from the survey findings that the development of the financial sector has not benefited all social-economic groups. There were notable gender gaps, rural/urban gaps, and gaps across educational attainment. There is need to promote broad-based growth policies that will lift the majority of the population from poverty and reduce income inequality. The results have shown that the rich have a higher chance of accessing and using financial products and services than the poor. Therefore, it is anticipated that improvement of incomes of the poor will improve their access to financial services.

- **Promoting broad-based long-term savings and investment to support sustainable growth:** The study reveals that most of the financial services available were of a short-term nature, and therefore suitable for supporting short-term consumption. There is a major gap in the provision of long-term savings mobilisation to support long-term investment efforts. Policies aimed at eradicating slack capacity in long-term savings mobilisation and investment remain critical and paramount.

- **Financial education and information dissemination:** One of the barriers which leads to financial exclusion—especially in the strands of savings/investments, credit, and insurance is lack of knowledge/publicity about these services. This is exacerbated by the low levels literacy and numeracy among the Ugandan population. The results have shown that lack of financial knowledge and information is one of the barriers to the use of financial products and services. This calls for intervention from both the private sec-
tor and government to design programs that will improve financial literacy as well as increase information of the financial products and services. This is especially important for the insurance sector—given the increasing vulnerabilities faced by the adult population. There need for a policy on training in entrepreneurship and financial literacy, which should go hand in hand for sustainability purposes.

- **Technological innovation and utilisation:** There is no doubt that the use of technology led to improvement in access to non-bank formal financial services although this segment is dominated by mobile money transfer services. As such, other strands such as insurance should develop appropriate products—in line with Uganda’s risk profile. The survey has provided evidence which shows that new products like mobile money can improve the access and use of financial services in Uganda. However, the use of mobile phone technology is still limited to only money transfer services. There is therefore need to adopt and extend this technology to the provision of other products and services like savings mobilisation as well as credit extension through mobile money banking, agent banking and micro banking. This will enable the services to reach the population not only in urban areas but also in rural and hard-to-reach areas.

- **Product Differentiation and market segmentation:** From the survey results it is clear that the supply of formal financial services especially insurance is lower than the demand due to lack of access to and the complexity of the services. There is need for financial institutions to creatively introduce products and services and marketing techniques that are better tailored to the needs and development of individuals in view of the population differences in terms of location, age, gender and economic status. For example, insurance products required for the urban population are quite different from those needed in rural due to differences in risks encountered.

- **Legal and Regulatory Framework:** The results also revealed increased access to and usage of SACCOs and other MFIs (Tier 4 institutions). Some of these institutions are dependent on government through the Microfinance Support Centre. On the other hand, the extent of mobilization of savings have been have remained very low since 2005 and as such rely heavily on government. As such sustainability is unlikely to be achieved for institutions that receive public support. This calls for a well-thought through exit strategy. Specifically, the government has to put in place mechanisms that will strengthen the institutional infrastructure of the SACCOs and other MFIs to increase their mobilization of savings and deposits in order to sustainably extend loans to members.

Likewise, the survey results have demonstrated increasing use of ICT in enhancing financial inclusion. This calls for well-coordinated institutional arrangement among the key stakeholders in the financial sector when refining the existing laws and regulations.