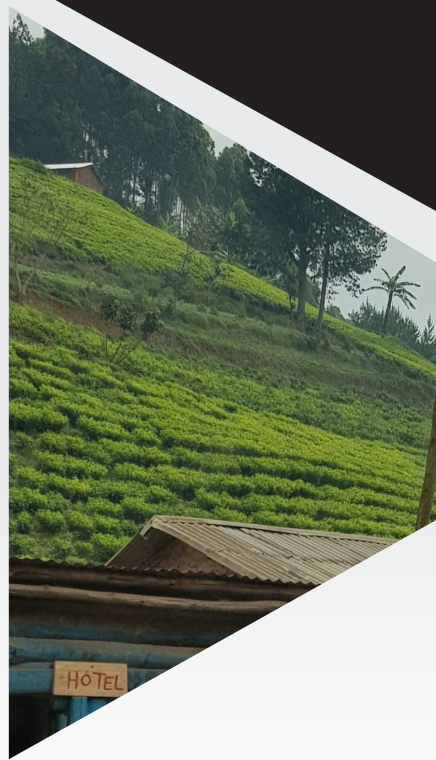




FinScope

— U G A N D A —



Topline Findings Report

June 2018







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Steering committee members:

1. Association of Microfinance Institutions of Uganda
2. Bank of Uganda
3. Capital Markets Authority of Uganda
4. Development Partners
5. Insurance Regulatory Authority of Uganda
6. Ministry of Finance, Planning and Economic Development (Macroeconomic Policy and Financial Services Departments)
7. Private Sector Foundation of Uganda
8. Uganda Bankers Association
9. Uganda Bureau of Statistics
10. Uganda Communications Commission
11. Uganda Cooperative Alliance
12. Uganda Cooperative Savings and Credit Union
13. Uganda Insurers' Association





ABBREVIATIONS

BoU – Bank of Uganda

DFID – United Kingdom Department for International Development

EAs – Enumeration Areas

FSDU/FSD Uganda – Financial Sector Deepening Uganda

FSP(s) – Financial Service Providers

MDIs – Microfinance Deposit Taking Institutions

MFIs – Microfinance Institutions

ROSCAs – Rotating Savings and Credit Associations

SACCOs - Savings and Credit Cooperatives Organisations

UBoS – Uganda Bureau of Statistics

VSLA – Village Savings and Credit Association.

WB – World Bank

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DEFINITIONS

Adult population – individuals 16 years or older

Active usage – refers to having used a financial service in the 30 day period prior to the FinScope survey (with or without ownership)

Credit service/loan – money is provided upfront by a lender and repayment is expected to be done by the borrower in the future and according to agreed upon repayment terms

Financially excluded - individuals who do not have or use financial services (either formal or informal)

Financially included – individuals who have or use financial services (either formal or informal or both)

Formal financial inclusion – refers to the proportion of adults who have or use financial services provided by a formal financial service provider

Formal financial service providers – financial service providers who are regulated or supervised i.e. including commercial banks, microfinance institutions (including deposit taking institutions), savings and credit cooperatives (SACCOs), credit institutions, cooperatives, mobile money service providers, insurance service providers, pension funds, capital markets, forex bureaus and money transfer institutions such as Western Union and MoneyGram

Formal financial services – financial services provided by formal financial service providers

Informal financial inclusion – refers to the proportion of adults who use financial services provided by an informal financial service provider

Informal financial service providers – financial service providers who are not regulated or supervised such as savings groups, Village Savings and Loan Associations (VSLAs), rotating savings and credit associations (ROSCAs), community-based money lenders and burial societies; family/friends are not regarded as informal service providers

Informal financial services – financial services provided by an institution/individual which is not regulated or supervised

Insurance service – provides the user with a means to put aside money with the objective of receiving financial protection or reimbursement when losses occur

Payment service – provides the user with a means to move money from one wallet to another (this can be from person to person, person to business, business to person, person to government, government to person, business to government and government to business)

Saving service – provides the user with a means to put aside money for safe keeping

Uptake – refers to having/or using a financial service – i.e. opening an account with a service provider or using someone else's account

Usage – refers to having used a financial service in the 12 month period prior to the FinScope survey (with or without ownership)



1. INTRODUCTION

The Ugandan economy has grown significantly over the past decade but high levels of financial exclusion in rural areas diminish potential economic prospects. One reason for the low levels of formal financial inclusion is the high cost of providing financial services, particularly in the rural areas and among the poorer segments of the population. Furthermore, serving poorer communities generally results in lower revenue for financial service providers given that poor households have limited investment opportunities and small transaction amounts. This often means that microfinance institutions and the banks lack the incentives, information, and sometimes the ability to mitigate perceived risks of operating beyond urban markets or with low-income clients.

In response to a lack of information regarding the need for financial services, the FinScope survey was developed by FinMark Trust¹. This survey was designed to determine how individuals 16 years or older (i.e. adults) manage their money, the extent to which they use financial services to do so, and to monitor the changes in levels of financial inclusion over time. To facilitate higher levels of financial inclusion, it also provides insights into the drivers of uptake and usage of

financial services amongst different segments of the adult population, as well as insights into factors inhibiting or limiting uptake and usage of financial services within the different population segments. As the FinScope survey identifies and describes financial service needs as well as the gaps in financial service provision, it is of value to both policymakers and private service providers; who wish to develop policy aimed at promoting financial inclusion and improving the functioning of financial markets, as well as private service providers in the design of strategies to deliver financial services to customers.

The first FinScope Survey in Uganda was conducted in Uganda in 2007. The second survey, allowing assessment of changes in the market, was conducted in 2009 whilst the third FinScope Uganda survey was conducted in 2013. The FinScope Survey findings are crucial for stakeholders in Uganda's financial sector because it establishes credible benchmarks and indicators of financial inclusion and capability as well as insights into obstacles to financial sector growth. FinScope also informs policy reform and innovation in service development and delivery, thereby enhancing financial inclusion.

1 FinMark Trust is an independent trust, whose purpose is "Making financial markets work for the poor" by promoting financial inclusion and regional financial integration.



2. FinScope UGANDA 2018 OBJECTIVES

The 2018 survey has three main objectives:

- To track overall trends in financial inclusion to provide information on how the landscape of inclusion has changed since 2007, including benchmarking these trends with countries within the region
- To provide insights that could be utilized both at policy and market levels to further deepen financial inclusion
- To describe the financial service needs of the adult population (i.e. individuals 16 years or older) in Uganda.

FSD Uganda and financial sector stakeholders will use the findings to support development and delivery of financial services to lower income households, and to assist in the development of an enabling environment within which these services can be delivered.

3. FinScope UGANDA 2018 IMPLEMENTATION ARRANGEMENTS

FSD Uganda commissioned the 2018 FinScope survey. After an open tender, Ipsos Uganda was selected to conduct fieldwork and data collection. Yakini Development Consulting was selected to provide technical assistance during survey implementation, analyse data and develop the FinScope reports. The Uganda Bureau of Statistics (UBoS) drew the sample as well as validated the weighted data from this study, making it representative of the Ugandan adult population.



4. SAMPLING FACTS AND STATISTICS

A three-stage stratified sampling approach was used to arrive at a representative sample of individuals aged 16 years and older:

- During the first stage of sampling, geographic representation was ensured. A sample of 320 enumeration² areas (EAs) were selected using a probability proportional to size (PPS)³ approach ensuring national, regional and urban-rural representativeness. EA sampling was conducted by UBoS.
- During the second stage of sampling, 10 households were selected at random from a comprehensive list of households in the EA. The lists of households for each of the sampled EAs were compiled by Ipsos enumerators prior to conducting fieldwork in the EA (listing). During the listing process enumerators moved through the whole EA (clearly demarcated on EA maps provided by UBoS) compiling a list of every structure and every household.
- During the third stage of sampling one adult (i.e. an individual 16 years or older) was selected at random from each of the selected households to be interviewed.

The sampling approach ensures that results from the survey can be disaggregated by region and location setting (i.e. rural or urban) as well as by demographic attributes such as sex, socioeconomic classification and main income generating activity⁴

Targeted EAs: 320 EAs

Achieved EAs: 316 EAs

Targeted Sample: 3 200 Respondents

Achieved Sample: 3 002 Respondents (94% response rate)

After weighting, the FinScope data represents an adult population of 18.6 million; the FinScope 2013 survey data represented an adult population of 16.6 million

2 An EA constitutes an area allocated to a single enumerator during census enumeration.

3 With the PPS sampling approach, the probability of selection for a sampling unit (in this case the EA) is directly proportional to a size measure (in this case the population residing in the EA).

4 Main income generating activity, for this survey, refers to the activity the individual engages in to get money and relies most on to cover day-to-day financial needs; an individual who does not engage in any activity to get money is referred to as a dependent (such an individual depends on others for money or to cover their expenses)



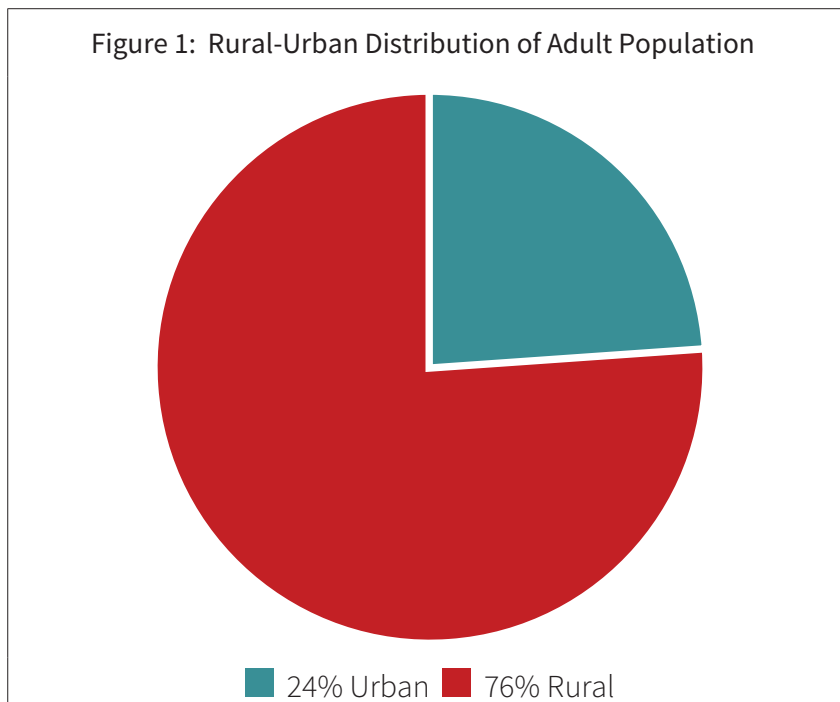
5. FinScope UGANDA 2018 FINDINGS

It is the objective of this report to give an overview of the key findings of the FinScope Uganda 2018 survey. These findings will be complemented by four thematic reports covering specific areas such as:

- Banking
- Insurance
- Informal financial inclusion
- Financial inclusion among women and youth

5.1 Geographic Distribution

The FinScope 2018 findings (which are consistent with findings from other national surveys) indicate that 76% (14.1 million) of the adult population of Uganda reside in rural areas.





5.2 Demographics and Capacities: What does the adult population look like?

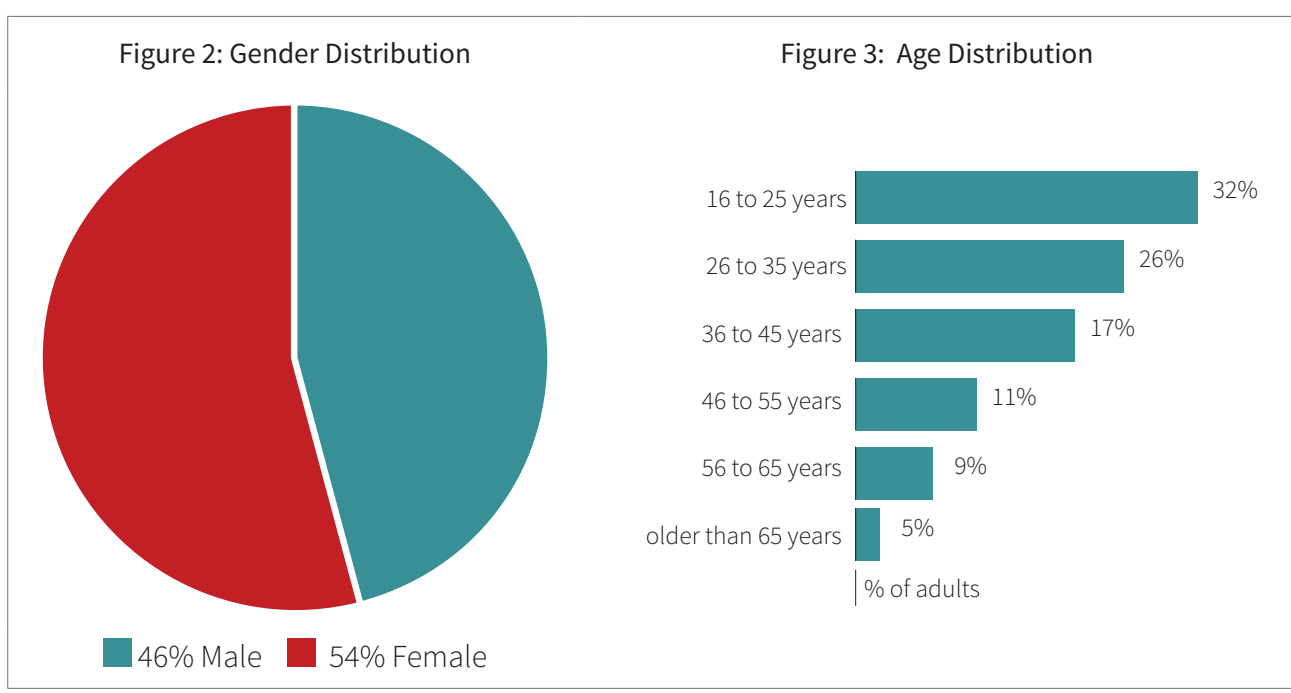
For any business, and financial service providers alike, customer profiling is essential for product planning and positioning. Marketing and communication strategies can only be successful if they are based on an understanding of the customer. If financial service providers (FSPs) want to design and position their products and services to appeal to consumers, it is essential for them to understand customers and their needs.

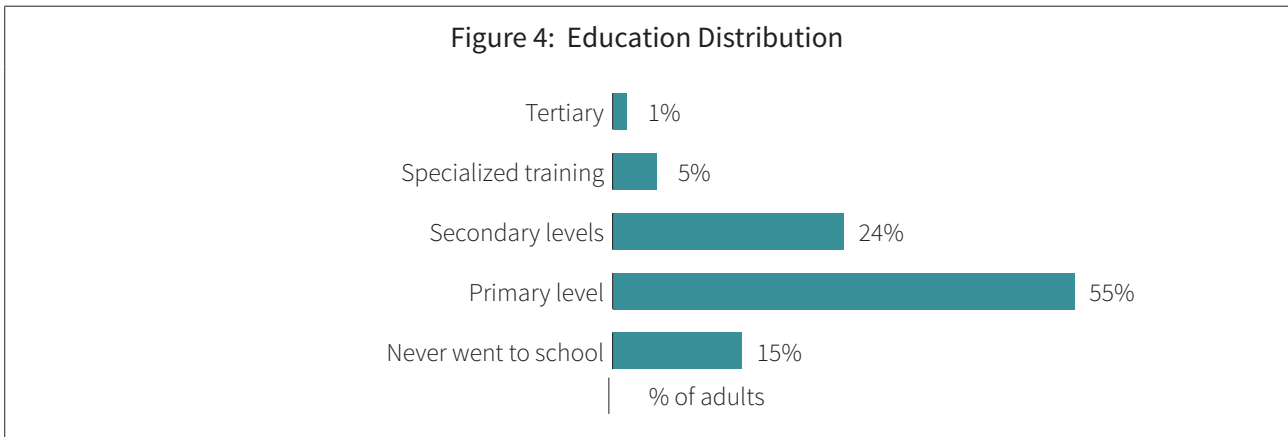
This section of the report highlights key characteristics and capacities of Ugandan adults that FSPs should consider in the design and market for their services. Key demographic characteristics of respondents analysed include gender, age, education levels achieved and sources of financial advice. Other factors

analysed included financial capability, sources of money, home ownership, digital connectivity and social capital.

The FinScope 2018 findings summarised in Figures 2 to 4 indicate that:

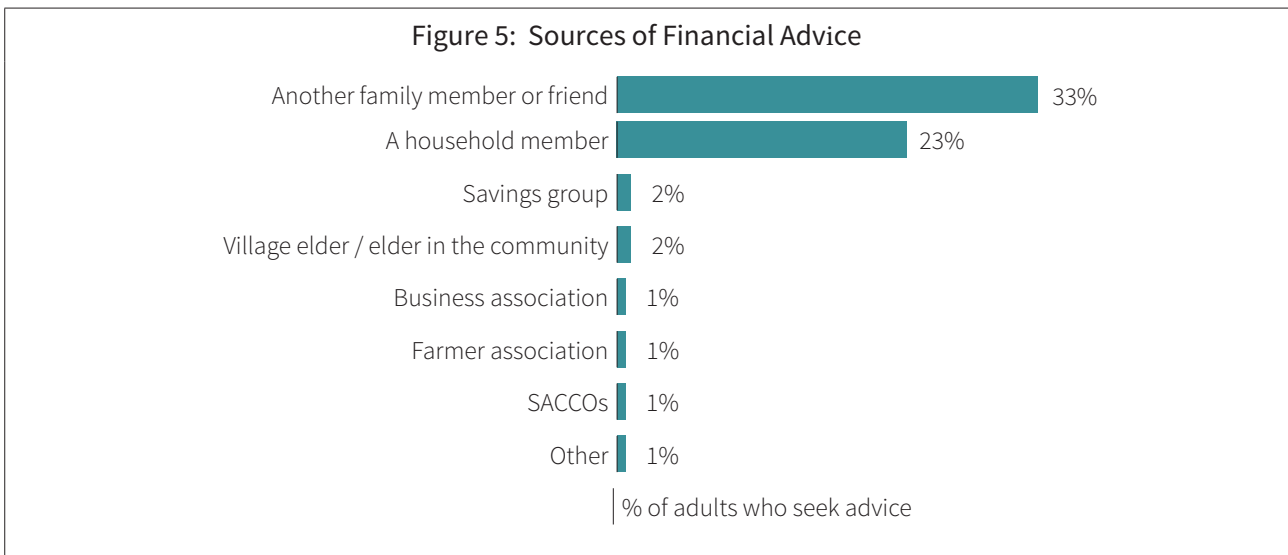
- The adult population is skewed towards females (54% or 10 million)
- 58% (10.9 million) of the adult population are 35 years or younger
- 70% (13 million) of adults have not achieved secondary levels of education





Budgeting

Less than half of Ugandan adults (47%; 8.8 million) keep track of the money they receive and spend. Ugandan adults are also less likely to seek financial advice (mainly because they don't see the need) and those who do so (56%; 10.3 million of adults), mainly turn to household members and family or friends for advice (Figure 5).



Main Income Sources for Ugandan Adults, 2018

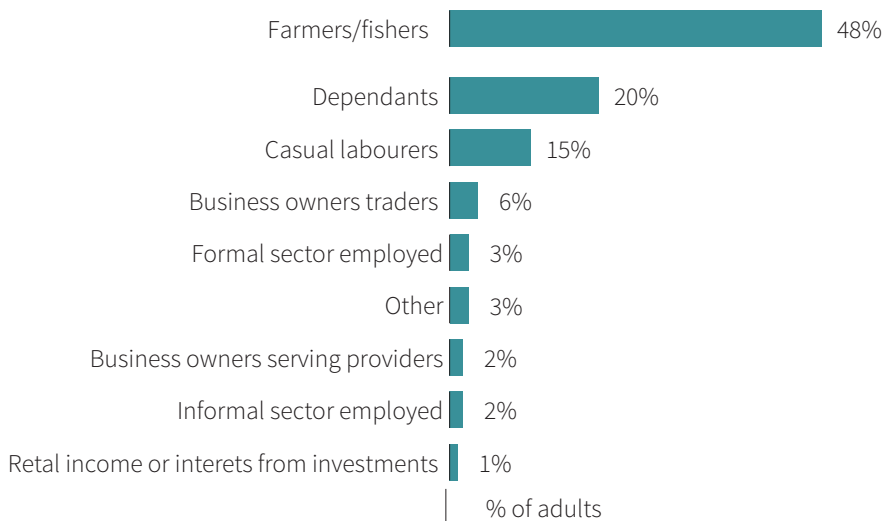
The FinScope 2018 findings summarised in Figure 6 reveal that:

- Almost half (48%; 8.8 million) of the adult population rely mainly on farming activities for money to cover their expenses
- 20% of adults (3.6 million) do not generate money of their own – they either get money from someone else to cover their expenses or someone else is responsible for covering their expenses
- 3% of adults are employed in the formal sector (0.6 million)





Figure 6: Main Source of Money



Home Ownership

Figure 7: Individual Ownership of Home/Residential plot

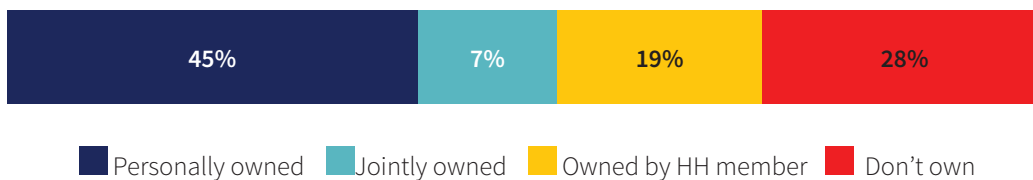
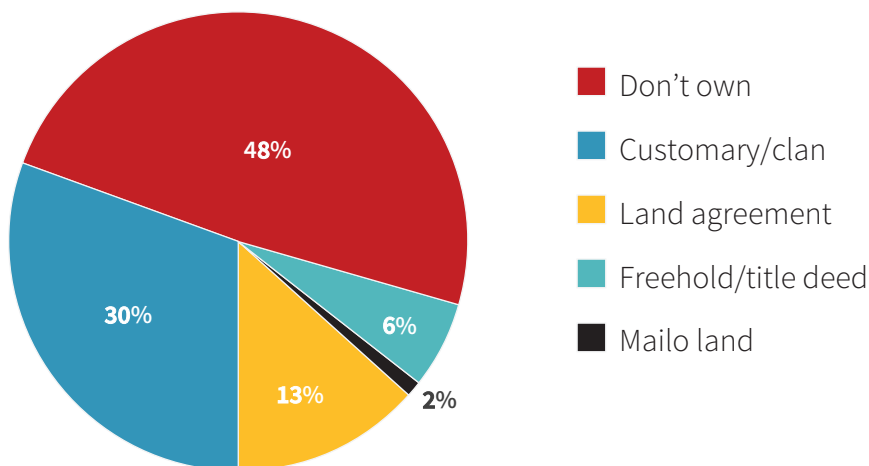


Figure 8: Type of Land Ownership



Although 52% of Ugandan adults indicate that they own their homes or their residential plots, only 6% of adults (12% of owners) have title deeds (Figures 7 and 8).



Digital Connectivity

In recent years financial service providers have realized how important digital connectivity is for enhancing efforts to extend their services to more customers.

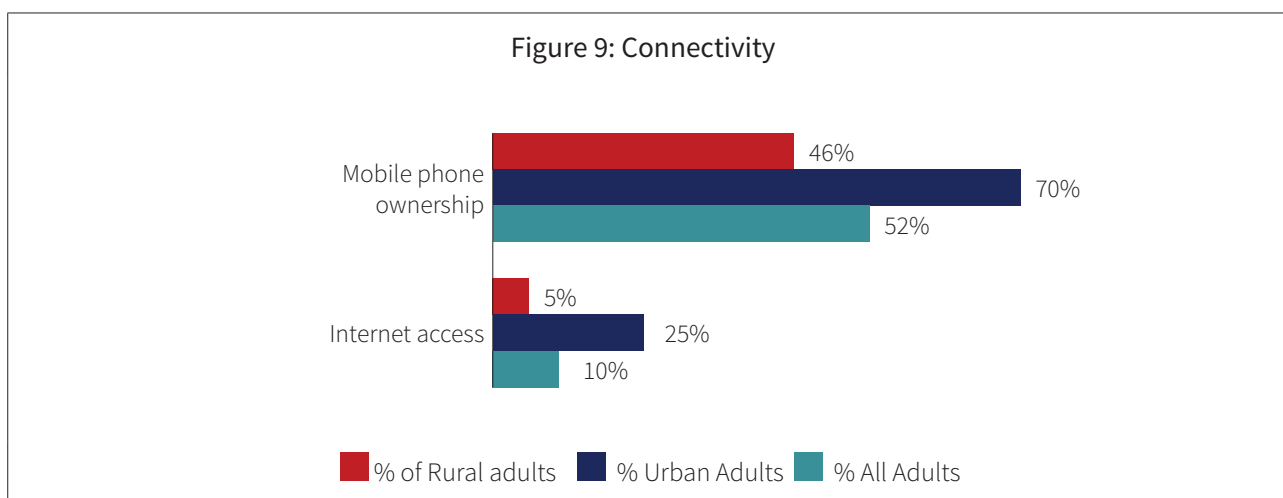
Leveraging digital technology to reach clients that are otherwise difficult and costly to reach has led to a significant increase in financial inclusion in many developing countries.

Thus delivering financial services at affordable costs to low-income segments of the population.

The FinScope Uganda 2018 survey looked at mobile phone ownership as well as access to the internet as indicators of digital connectivity. The findings (summarized in Figure 9) revealed that:

- 52% of adults (9.7 million) have mobile phones
- 10% (1.9 million) have access to the internet

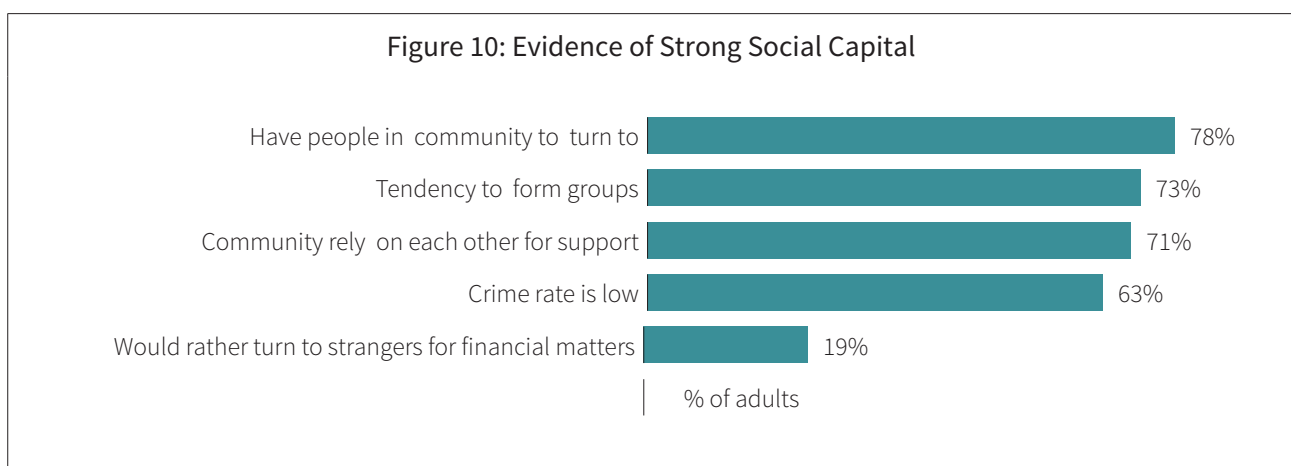
- Male adults are significantly more likely to have mobile phones (58%; 5 million) than female adults (46%; 4.6 million)
- Male adults are more likely to have access to internet (13%; 1.1 million) than female adults (8%; 0.8 million)
- Adults living in rural areas are significantly less likely to have mobile phones and access to internet than adults living in urban areas:
 - ~ Mobile phone ownership – 46% rural-based adults (6.5 million) vs. 70% urban-based adults (3.1 million)
 - ~ Internet access – 5% rural-based adults (0.8 million) vs. 25% urban-based adults (1.1 million)





Social Capital

Social capital refers to the value of social relationships and networks among the people in a community, enabling them to function effectively. FinScope findings suggest that most communities have a strong sense of closeness, typified by trust and social support (Figure 10).



5.3 Financial Strategies Applied by Ugandan Adults

Financial inclusion efforts are aimed at getting individuals to access financial services that are appropriate and effective in improving their lives. For cashflow and risk management, this implies services that will ensure that the day-to-day expenses of individuals are covered and that individuals can still meet unexpected expenses – in the present and future. This section of the report therefore looks at the strategies Ugandan adults apply to manage day-to-day expenses, unexpected expenses as well as the strategies they have in place to deal with life cycle events and future financial security.

Day-to-day Expenses

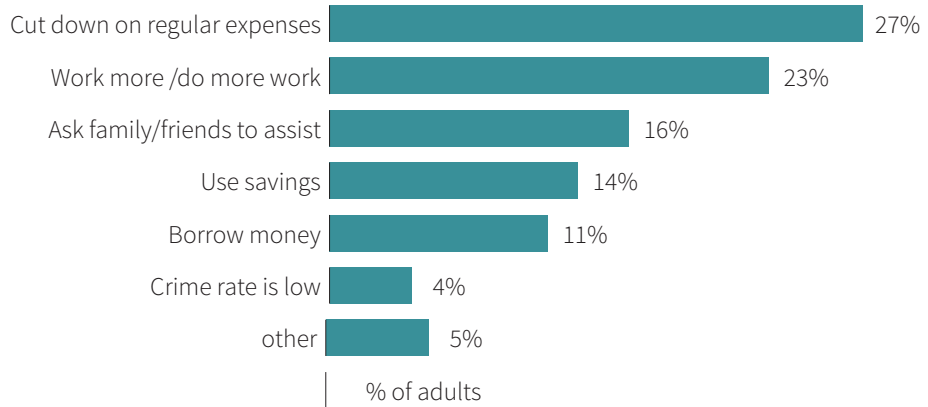
Apart from living expenses such as buying food and clothes, Ugandan adults regard paying school or tuition fees and the accompanying opportunity costs as the highest priority when they have money. This is followed by medical expenses.

FinScope findings further indicate that when they experience shortage of money to cover their regular expenses, Ugandans are likely to cut down on their day-to-day expenses, engage in casual labour or rely on their social networks (family/friends) for assistance (Figure 11).





Figure 11: Coping with Running out of Money

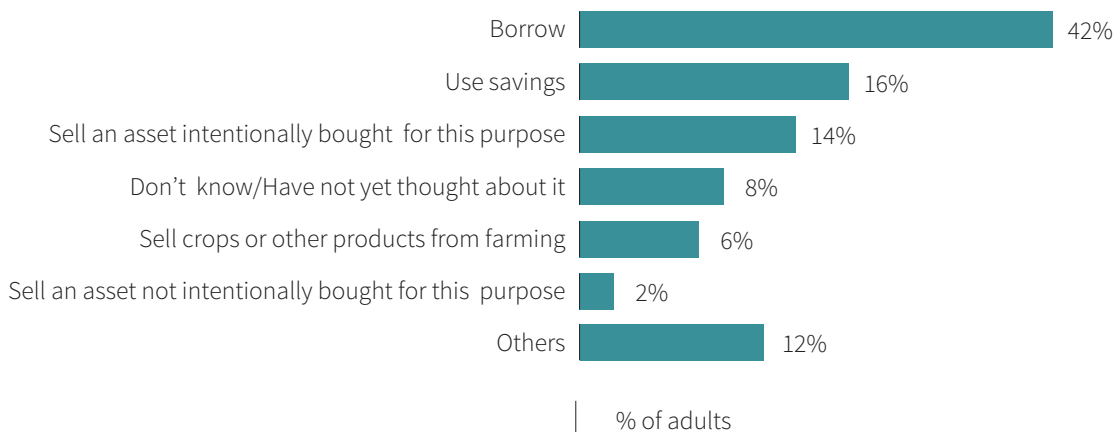


Unexpected Expenses

During the 12-month period prior to the FinScope survey, 37% of adults (6.8 million) experienced unexpected expenses. When faced with unforeseen expenses, Ugandan adults are most likely to borrow to pay for these expenses (Figure 12):

- 42% (7.8 million) of adults will borrow to cover unforeseen expenses
 - ~ Most adults will borrow from family or friends to cover unexpected expenses
 - ~ Those living in rural areas are significantly more likely to borrow from savings groups or savings and credit cooperatives (SACCOs) than their urban counterparts
- Selling an asset to raise income to cover unexpected expenses is a coping mechanism applied mostly by those who live in rural areas. People living in rural areas often keep livestock and/or poultry specifically for this purpose

Figure 12: Main Coping Mechanisms - Unexpected Expenses



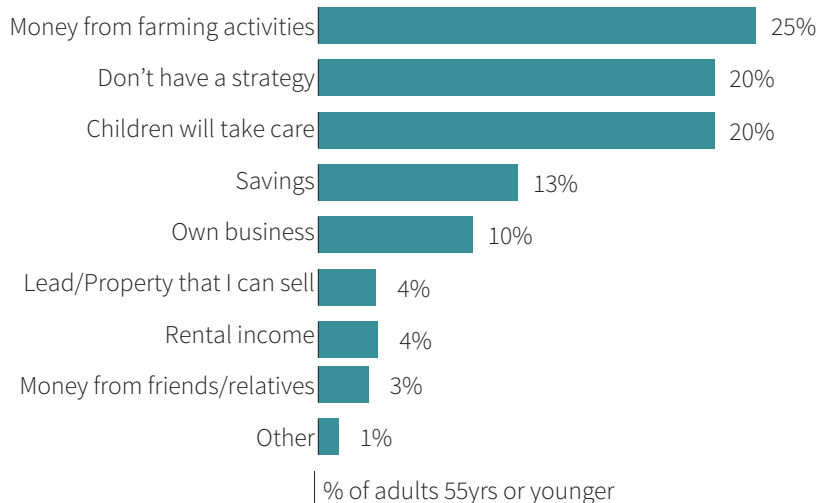


Life Cycle Events and Future Financial Security

Planning for unexpected expenses can be difficult especially for adults who do not have a fixed regular income. Ugandan adults are therefore applying reactive coping mechanisms such as borrowing when adverse events occur. In terms of future financial security, these strategies could be much more proactive. However, FinScope 2018 findings reveal that:

- 72% (13.4 million) of Ugandan adults regard children’s education as the costliest life cycle event. To cope with these costs most adults attempt to save. Saving to cover educational costs is therefore a significant driver of savings behaviour among Ugandans.
- 20% (3.2 million) of Ugandan adults 55 years or younger⁵ have no strategy to ensure financial security at retirement age (Figure 13) whilst 25% (4 million) plan to rely on money from farming activities when they reach retirement age. Another 20% (3.2 million) plan to rely on their children to take care of them.

Figure 13: Strategies To Be Financially Secure In The Future



⁵ Questions regarding strategies to ensure financial security in old age were only administered to adults 55 and younger as older adults were regarded as already having reached “old age”





5.4 Financial Strategies: Investment

Saving and building assets⁶ are easier for those with plenty of disposable income, but when individuals do not have a steady, regular income, investing money is often low on their priority list irrespective of its importance for future financial well-being.

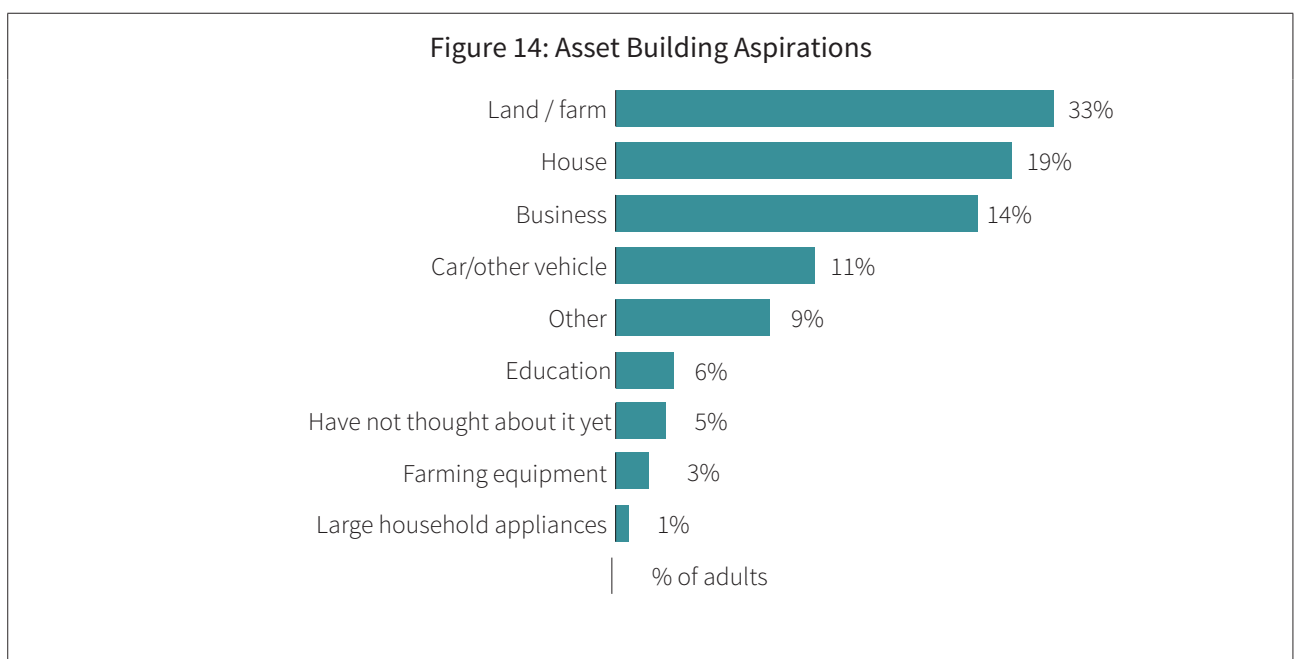
Findings from the FinScope 2018 survey reveal that:

- More than half (54%; 10 million) of Ugandan adults claim to save or put money away with the intention to continue doing so to ensure that the amount increases over time
 - ~ The most significant driver of savings behaviour is to smoothen cashflow – 63% (6.3 million) of savers save to smooth cashflow
- 14% (2.6 million) of adults save to finance the assets they aspire to acquire
- 17% (3.2 million) of adults invest in productivity

Asset Building

FinScope 2018 findings show that:

- One in three adults (33%; 6.2 million) aspire to buy land or a farm (Figure 14)
- Most adults (39%; 7.2 million) do not have a strategy in place (Figure 15) to finance the assets they aspire to have whilst 31% (5.8 million) engage in farming activities to enable them to generate the money they need to finance these assets

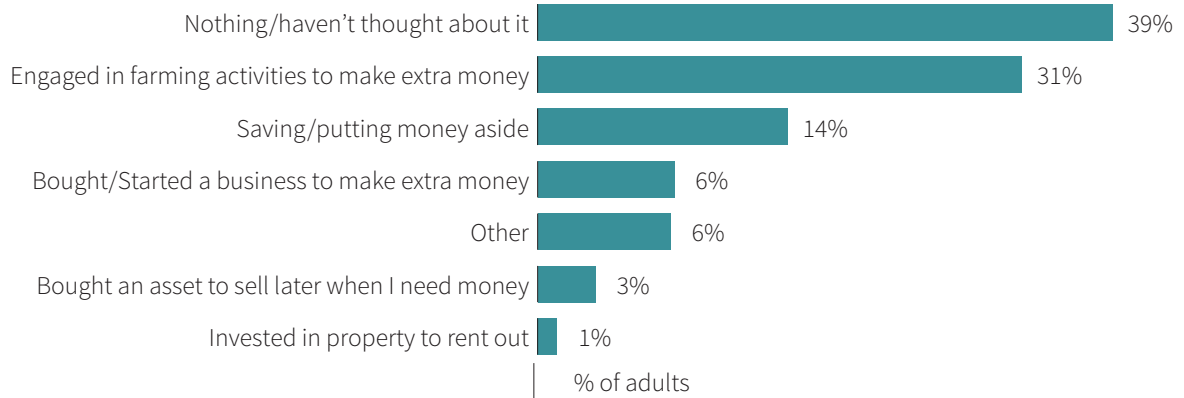


⁶ For the purpose of this report, asset building refers to strategies to increase tangible assets while productive investment refers to saving/investing to increase capacity to generate income.





Figure 15: Financing Tangible Assets



Productive Investment

In terms of productive investment, FinScope 2018 findings reveal that in the 12 months prior to the survey:

- 8% (1.5 million) of Ugandan adults invested in non-agricultural business activities to increase their income whilst 7% (1.3 million) invested in agriculture or fishing activities and 2% (0.4 million) bought property to rent out (Figure 16).
- Adults investing in non-agricultural business or farming/fishing activities were most likely to save or borrow to cover running costs – i.e. inputs such as seeds and fertiliser and/or business stock (Figures 17 and 18).

Figure 16: Types of Productive Investment

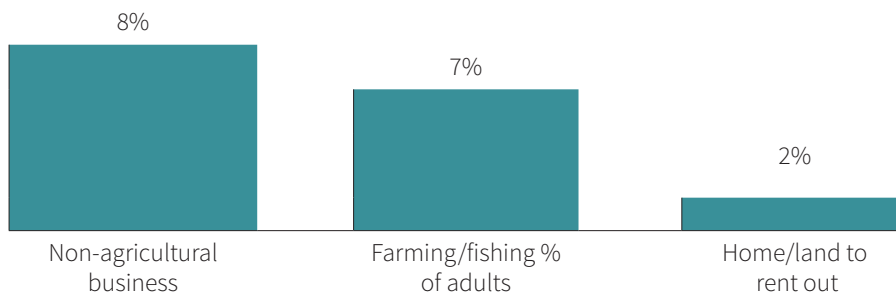




Figure 17: Main Productive Investment Needs: Non-agricultural Business

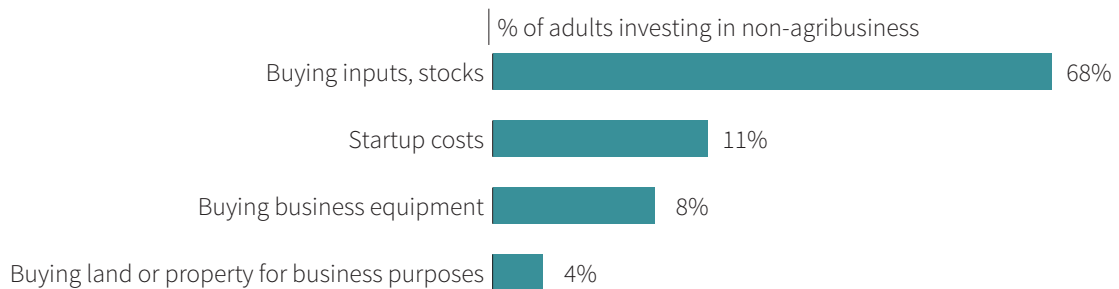
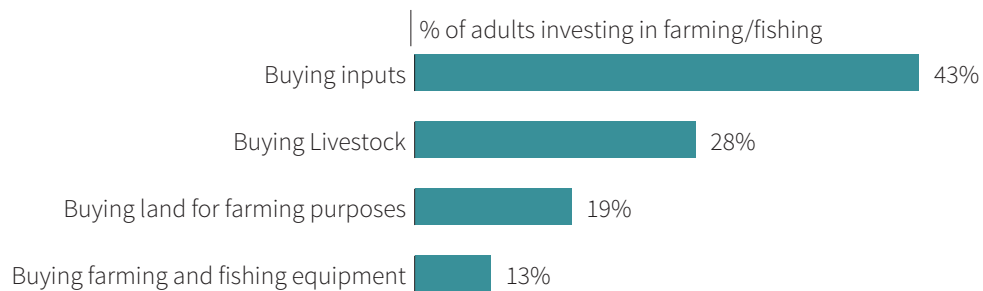


Figure 18: Main Productive Investment Needs: Farming/Fishing



5.5 Meeting Eligibility Requirements

The objective of the Know Your Customer (KYC) guidelines that financial service providers must comply with, is to prevent the illegitimate use of financial services. Related procedures also enable financial service providers to better understand their customers and their transaction patterns. However, how FSPs interpret and how stringently they apply KYC requirements will have a significant impact on financial inclusion.

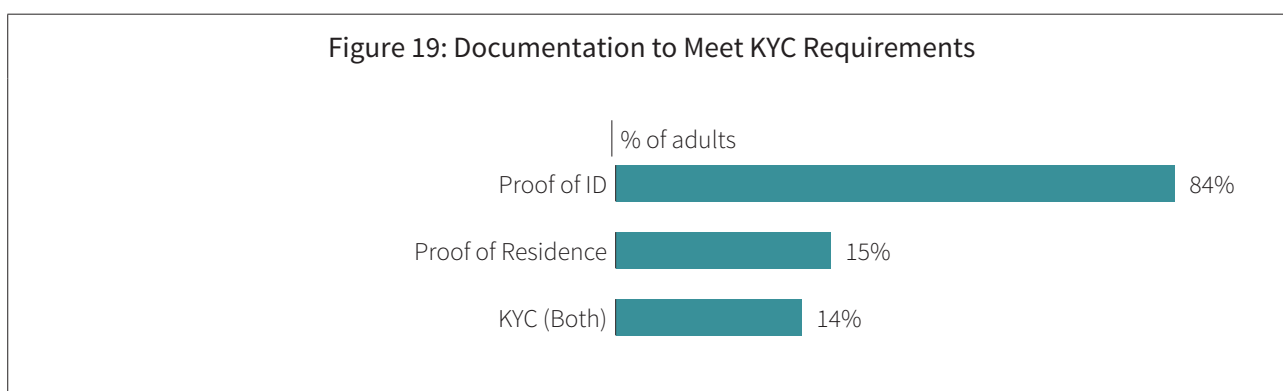
KYC requirements stipulate that potential customers need documentation to prove their identify and proof of residential address. FinScope findings summarised in Figure 19 indicate that:

- 84% (15.6 million) of adult Ugandans have a valid document to prove their identity
 - ~ In this regard there are no significant differences between male and female adults or between urban- and rural-based adults
- 15% (2.9 million) adults have the required documentation that will be accepted as proof of residence⁷
 - ~ Male adults are more likely than females to have proof of residence – 18% (1.6 million) vs. 13% (1.3 million)

⁷ An individual was regarded to have proof of residence if they had one of the following (valid) documents: utility bill, telephone/mobile phone bill, lease or rental agreement (e.g. for vehicle or house), subscription to e.g. satellite TV, title deed



- ~ Urban-based adults are significantly more likely than their rural based counterparts adults to have documentation which will serve as proof of residence – 25% (1.1 million) vs. 13% (1.8 million)
- 14% (2.6 million) of adults have the documentation to prove both identity and residential address
 - ~ Male adults are more likely than females to have proof of both identity and residential address – 17% (1.5 million) vs. 11% (1.1 million)
 - ~ Urban-based adults are significantly more likely than rural based adults to have both proof of identity and residential address – 22% (1 million) vs. 11% (1.6 million)



5.6 Uptake of Financial Services

This section of the report explores the uptake of formal and informal financial services (i.e. savings services, credit services, insurance services and digital payment services) by adult Ugandans.

Saving Services

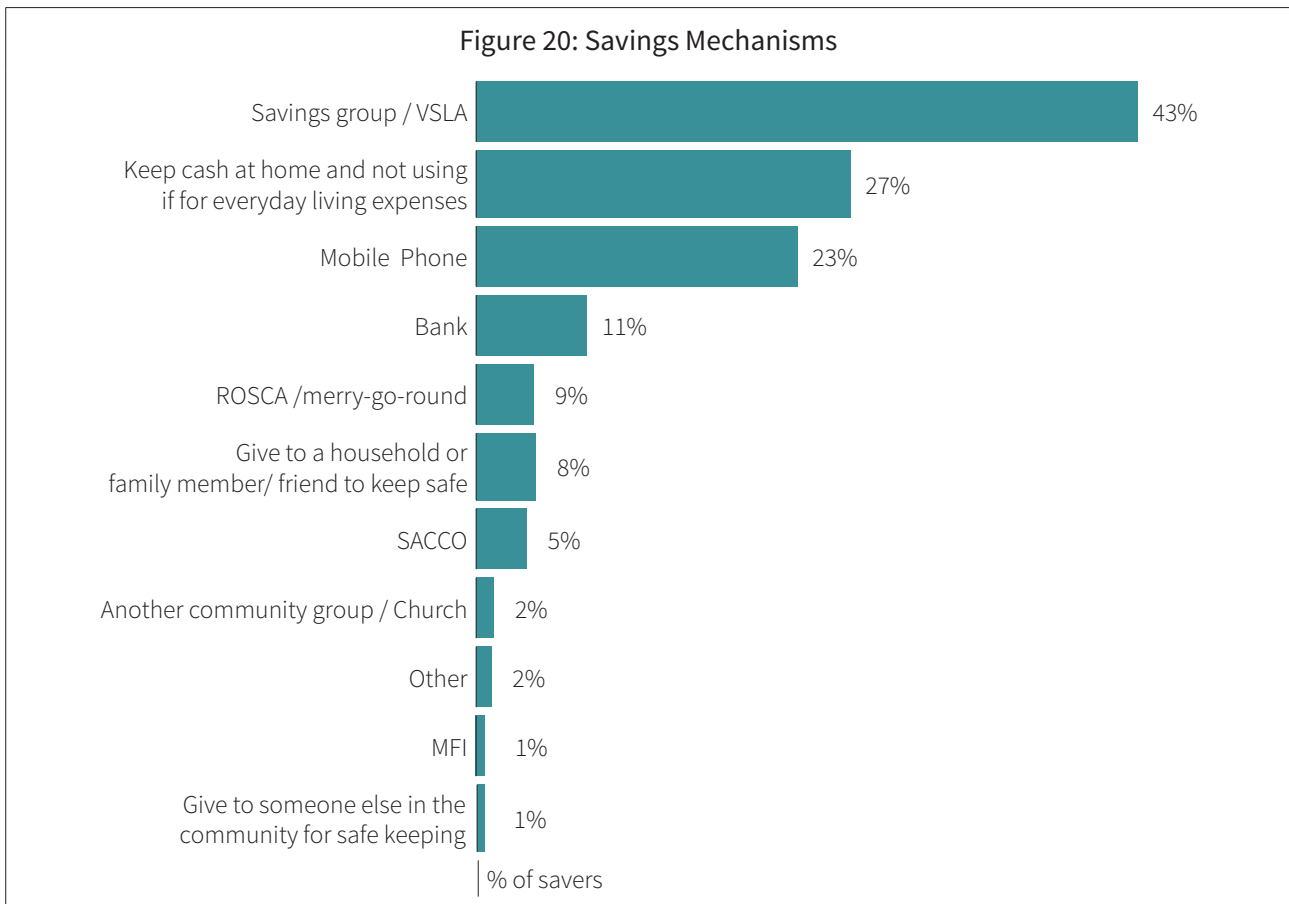
As was mentioned earlier, 54% (10 million) of Ugandan adults report to save or put money away with the intention to keep doing so to ensure that the amount increases over time. Most savers (63%; 6.3 million) are saving for consumption smoothing purposes (i.e. making sure that they can cover day-to-day and unexpected expenses during low-income periods).

- 37% (3.7 million) of savers are saving to cover regular expenses during low-income periods – living expenses and education or education-related costs
- 26% (2.6 million) of savers are mainly saving to cover unexpected expenses – mainly medical costs and, to a significantly lesser extent, funeral costs
- 46% of Ugandan adults do not save – mainly because they have no money left after covering expenses



The FinScope 2018 survey findings further reveal that:

- 50% of savers (5 million adults) save informally – i.e. with savings group/VLSAs, ROSCAs, giving it to someone in the community to keep safe
- 34% of savers (3.4 million adults) save with formal financial institutions – i.e. on their mobile phones, with commercial banks, SACCOs, or microfinance institutions



One in three (37%; 6.9 million) of Ugandan adults regard commercial banks as the safest place to keep their savings, followed by savings groups (22%; 4.1 million). Savings groups, however, suit their needs better and are preferred because they provide the quickest access to savings.

- Most adults who save (43%; 4.3 million), save with savings groups
 - ~ They are more likely to save more than once a month
 - ~ The most recent amount saved (prior to the FinScope survey) by those who save with savings groups was 6,000 Uganda shillings⁸
- 23% of savers (2.3 million) keep money on their mobile phones

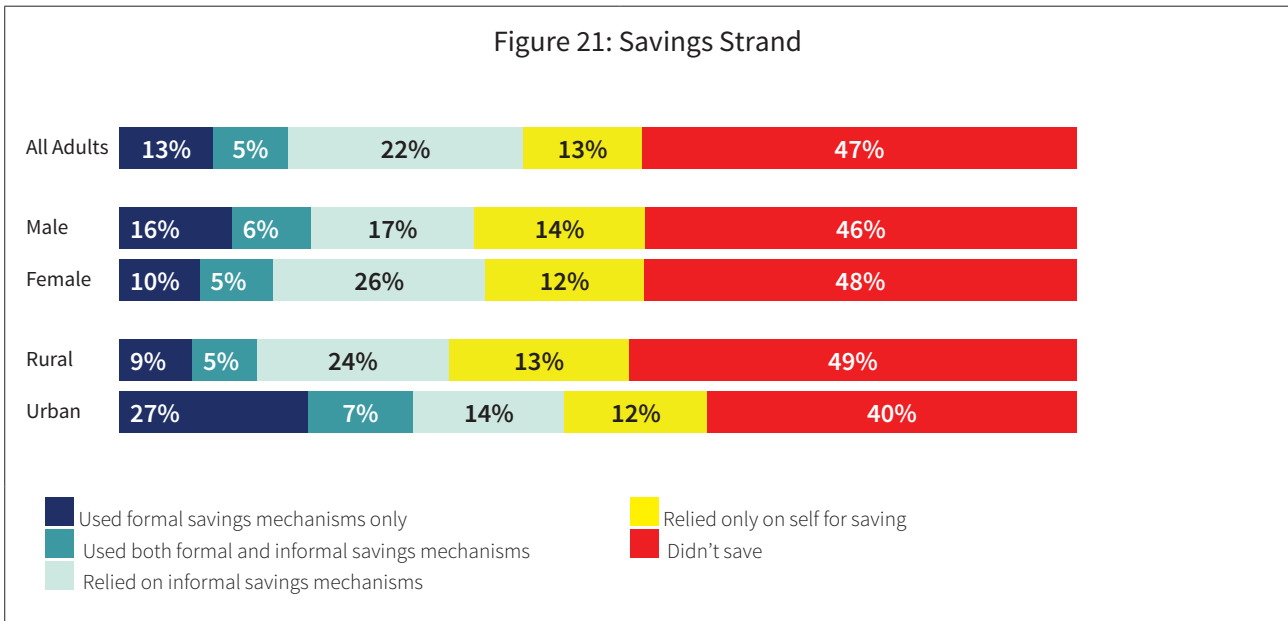
⁸ Because the distribution of amounts saved is skewed towards lower amounts, the median is used as a measure of central tendency





- ~ They are most likely to save more than once a month
- ~ Prior to the FinScope survey, those who saved on mobile phones saved 30,000 Ugandan shillings (median amount)
- 11% of savers (1.1 million) save with commercial banks
 - ~ They are most likely to save monthly
 - ~ Prior to the FinScope survey, those who saved with commercial banks, saved 50,000 Ugandan shillings (median amount)
- One in three savers (27%; 2.7 million) keep savings at home
 - ~ They are most likely to save more than once a month
 - ~ Prior to the FinScope survey, those who saved at home saved 10,000 Ugandan shillings (median amount)
- ~ The Savings Strand (Figure 21) revealed that:
 - Saving with formal service providers are skewed towards males (22%; 1.9 million) while 15% (1.5 million) of females save formally
 - ~ Females are significantly more likely to rely on informal mechanisms than males – 26% (3 million) vs. (17% (1.5 million))
 - Saving with formal service providers are skewed towards adults in urban areas (34%; 1.5 million); 14% (2 million) of rural adults save formally
 - ~ Rural adults are significantly more likely to rely on informal mechanisms (24%; 3.4 million) than their urban counterparts (14%; 0.6 million)





Credit Services

Ugandan adults are risk averse – 54% (10 million) did not borrow in the 12 months prior to the FinScope survey – the main barrier being fear of not being able to meet the repayment terms followed by not wanting to borrow because they don't believe in borrowing.

According to the FinScope 2018 survey findings, 46% (8.5 million) adults borrowed money during the 12-month period prior to the survey – 65% (5.5 million) of whom borrowed to smoothen cashflow:

- 43% (3.7 million) of borrowers borrow to cover regular expenses during low-income periods – i.e. to cover living expenses and education or education-related costs
- 22% (1.9 million) of borrowers borrow to cover unexpected expenses – mainly medical and funeral costs

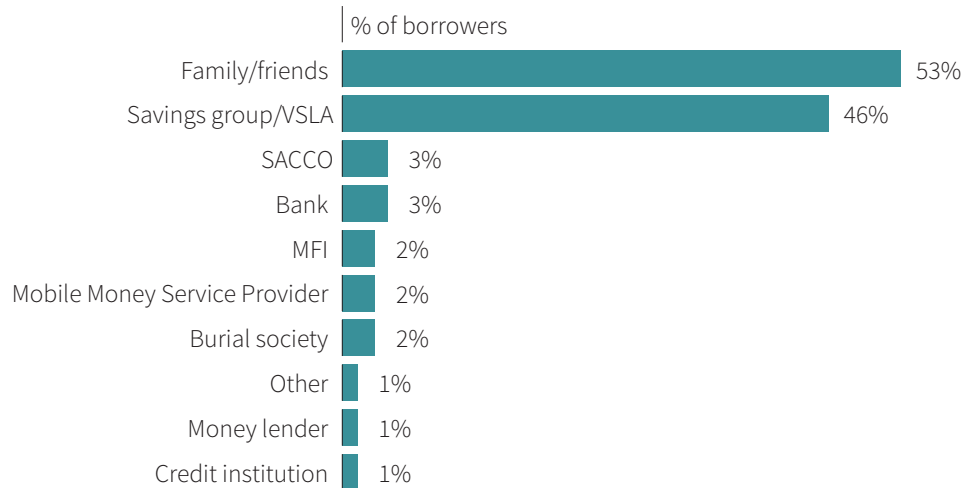
The FinScope 2018 survey findings further reveal that:

- 49% (4.2 million) of borrowers borrow from informal lenders i.e. savings groups, burial societies, community-based money lenders etc.
- 10% (0.9 million) of borrowers borrow from formal lenders such as commercial banks, microfinance institutions, credit institutions, SACCOs, etc.





Figure 22: Lenders Used By Borrowers

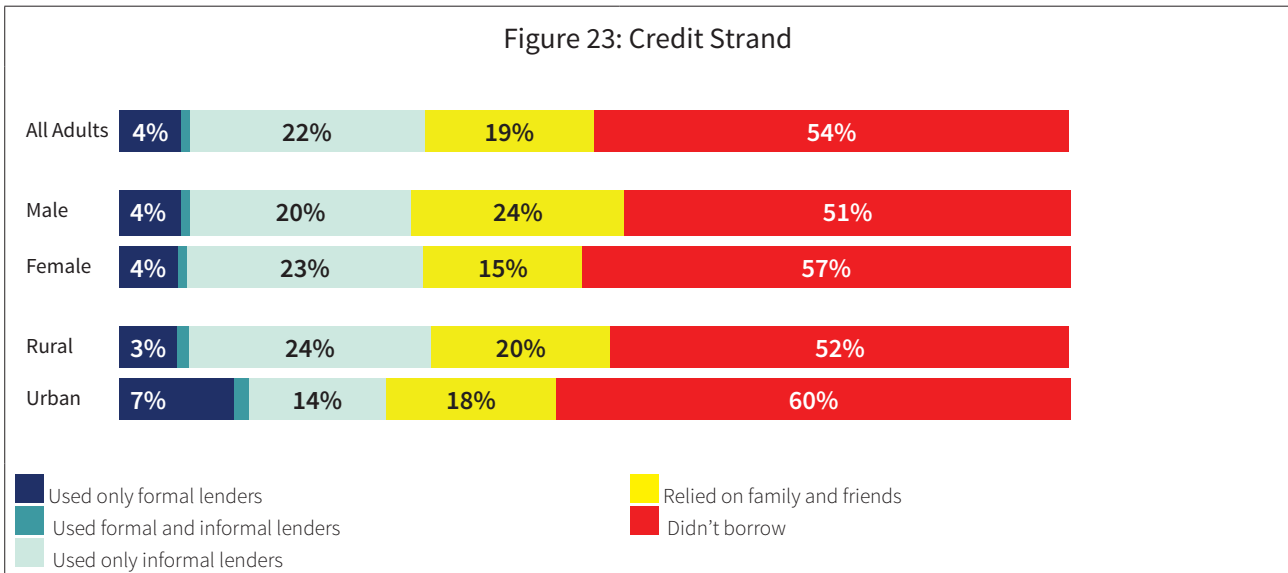


Most (47%; 8.7 million) Ugandan adults feel most confident to borrow money from family members or friends and savings groups (29%; 5.4 million). They prefer to borrow from family and/or friends however, because they provide the quickest access to money.

- Most adults (53%; 4.5 million) who borrow from family or friends – are most likely to pay back the money in a lump sum at an agreed upon time.
 - ~ They borrowed on average 50,000 Ugandan shillings⁹ prior to the survey
- 46% of borrowers (3.9 million) who borrow from savings groups – are most likely to pay back the money by making regular payments over a time.
 - ~ They borrowed 40,000 Ugandan shillings (medium amount) prior to the survey
- 3% of borrowers (0.3 million) borrow from banks and 3% from SACCOs (0.3 million) – they are most likely to pay back the money by making regular payments over a time.
 - ~ Those who borrow from SACCOs, borrowed 450,000 Ugandan shillings prior to the survey whilst those who borrow from banks borrowed 500,000 Ugandan shillings.

⁹ The median is used as measure of central tendency as the distribution of the amounts borrowed is skewed towards lower values





The findings in figure 23 indicate that:

- Urban adults are more likely than those in rural areas to have formal credit products –8% (0.4 million) of urban adults vs. 4% (0.6 million) of rural adults
 - ~ Adults in rural areas are significantly more likely to rely on informal credit than those in urban areas – 24% (3.4 million) of rural adults vs. 14% (0.6 million) of urban adults

Insurance Services

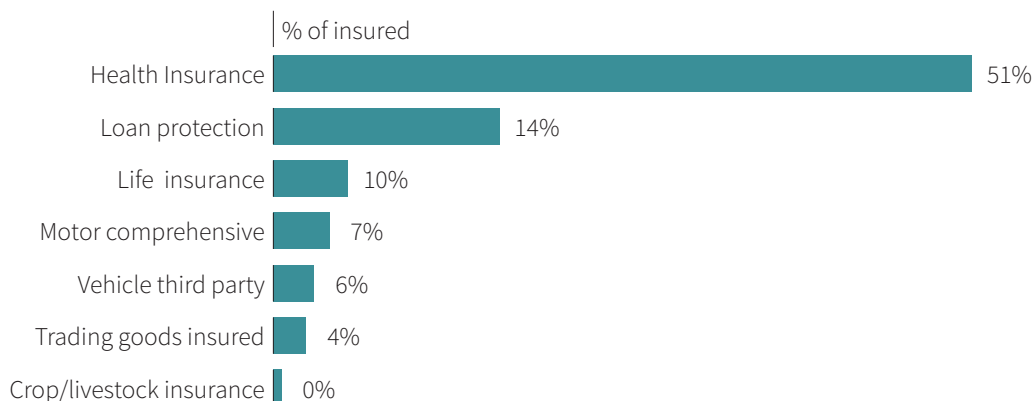
Insurance penetration remains low – only 1% of Ugandan adults (.22 million) have insurance cover.

- More than half of insured adults have health insurance (Figure 24)
- Although most adults earn money from farming, there is no uptake of crop/livestock insurance
- 22% of insured adults (0.05 million) made a claim against their insurer during the 6-month period prior to the FinScope survey; 10% (0.02 million) claimed longer than 6 months before the survey whilst 68% (0.2 million) have never claimed
 - ~ Of those adults who claimed from their insurers in the 12-month period prior to the FinScope survey, 87% reported that their claims were successful whilst 13% reported that their claims were still being processed at the time of the survey



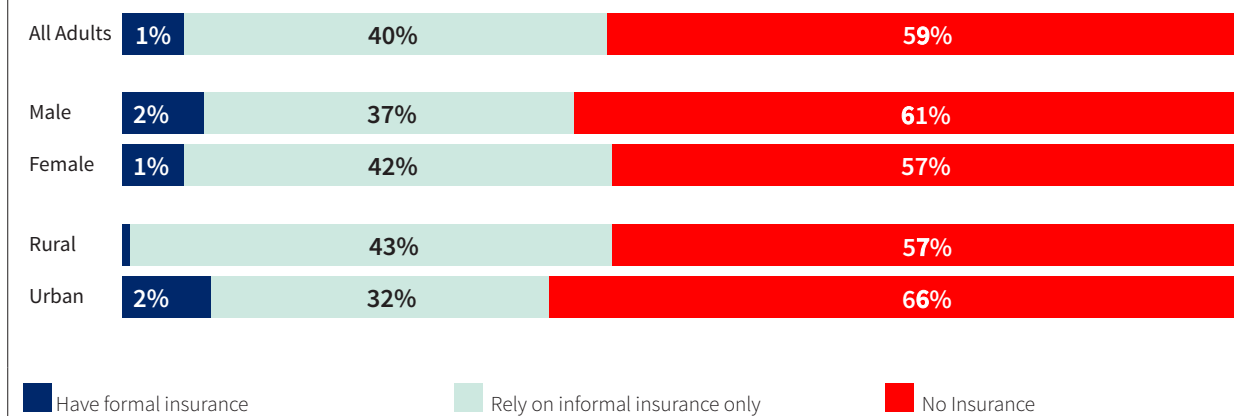


Figure 24: Type of Insurance Cover



Although the uptake of formal insurance products is low, Ugandan adults protect themselves through informal means such as membership of community health schemes, burial societies and community-based savings groups that offer financial assistance to members in times of need. Findings summarized in Figure 25 show that reliance on informal insurance cover is significantly skewed towards females as well as adults residing in rural areas.

Figure 25: Insurance Strand



Digital Payment Services

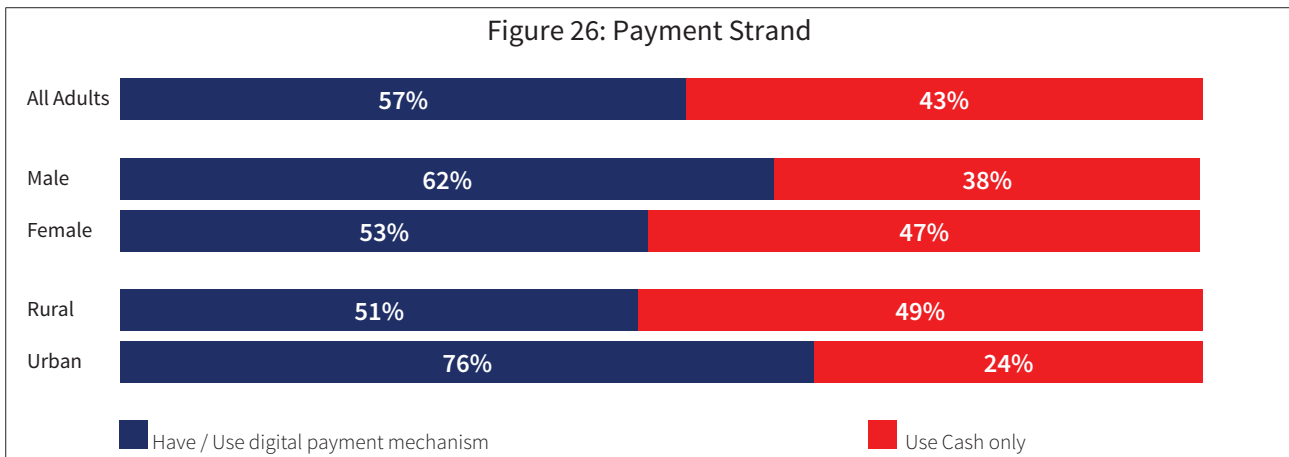
Although most Ugandan adults still use cash to pay for goods and services such as groceries, medical treatment and medication as well as school fees, FinScope findings show that 57% (10.6 million) of Ugandan adults have/use digital payment services (Figure 26). Having to send money to someone or receiving money from elsewhere in the country (remittances) is the main driver of uptake of digital payment services.





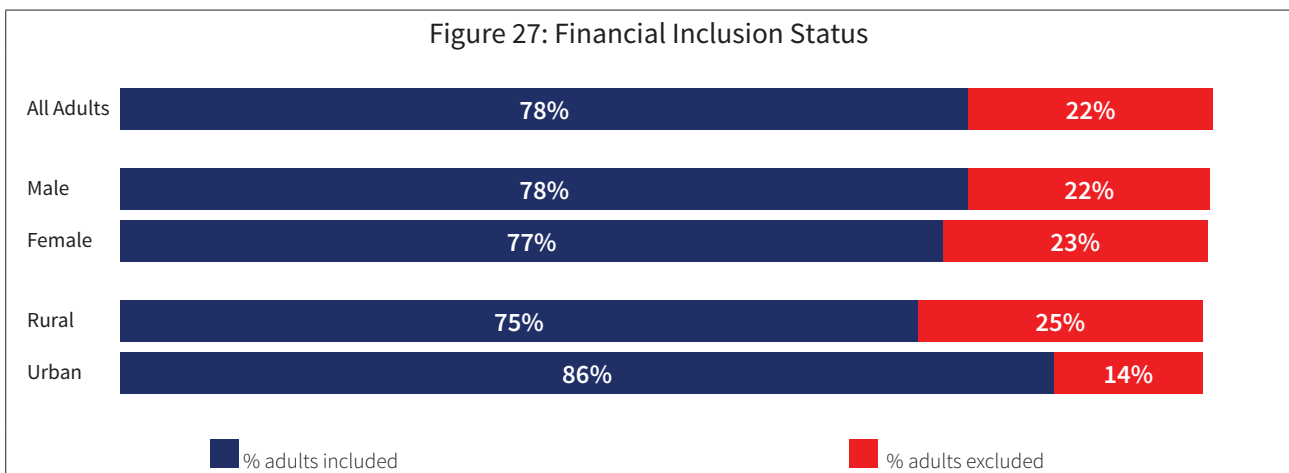
More than half of adults (55%; 10.1 million) send or receive money to someone elsewhere in the country – 82% (8.3 million) of whom do so through mobile money services.

- 28% (5.2 million) of adults use digital payment systems to pay for goods/services
- 6% (1.1 million) of adults use digital payment systems for bill payments
- ~ 44% (8.2 million) of adults have activated digital accounts
- ~ 39% (7.2 million) of adults used their digital accounts within the 90 days prior to the FinScope survey
- ~ 32% (5.9 million) of adults used their accounts within the 30 days prior to the FinScope survey



5.7 Overall Levels of Financial Inclusion

Uptake of savings, credit, insurance and payment services described in section 5.6 of this report results in 78% (14.4 million) of Ugandan adults being financially served whilst 22% (4.2 million) are financially excluded. This includes both formal and informal financial inclusion. Financial inclusion is significantly skewed towards adults from urban areas – 86% (3.8 million) of urban adults are financially included vs. 75% (10.6 million) of those residing in rural areas.





Uptake and Usage: Formal Service Providers

More than half of Ugandan adults (58%; 10.8 million) have taken up formal financial services. FinScope findings further reveal that:

- Uptake is significantly skewed towards males as well as towards adults in urban areas (Figure 28)
 - ~ 63% (5.4 million) of males and 54% (5.4 million) of females are formally served
 - ~ 77% (3.4 million) of urban adults vs. 52% (7.4 million) of rural adults are formally served
- Uptake of formal services is driven by mobile money services (Figure 29)
 - ~ 56% (10.4 million) of adults have/use mobile money services
 - ~ 43% (7.9 million) of adults are registered to use mobile money services whilst 8% (1.5 million) use mobile money services through family or friends and 5% (0.9 million) use the services through agents.

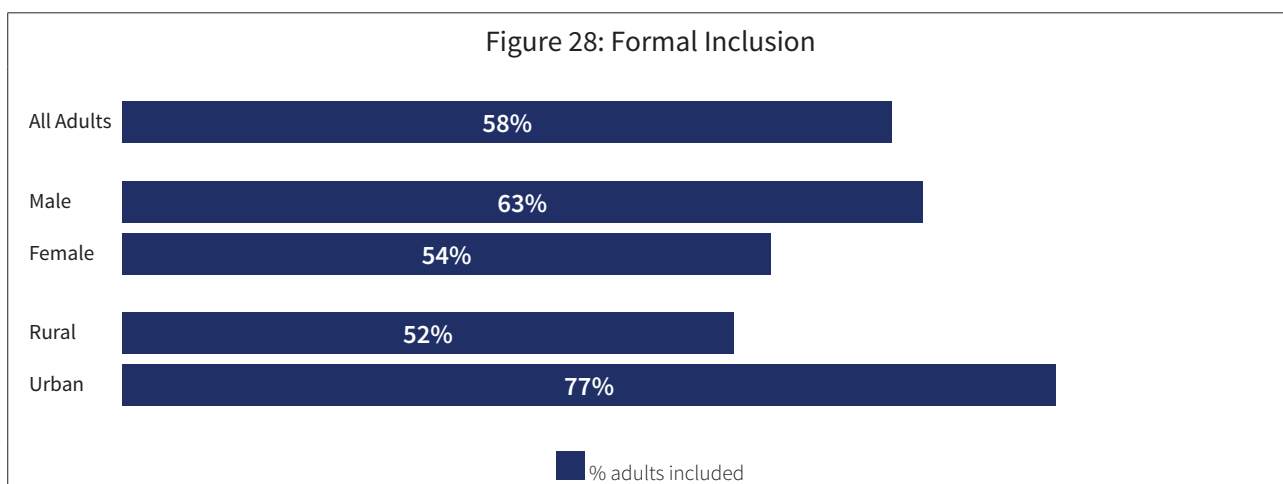




Figure 29: Uptake of Formal Services per Service Provider

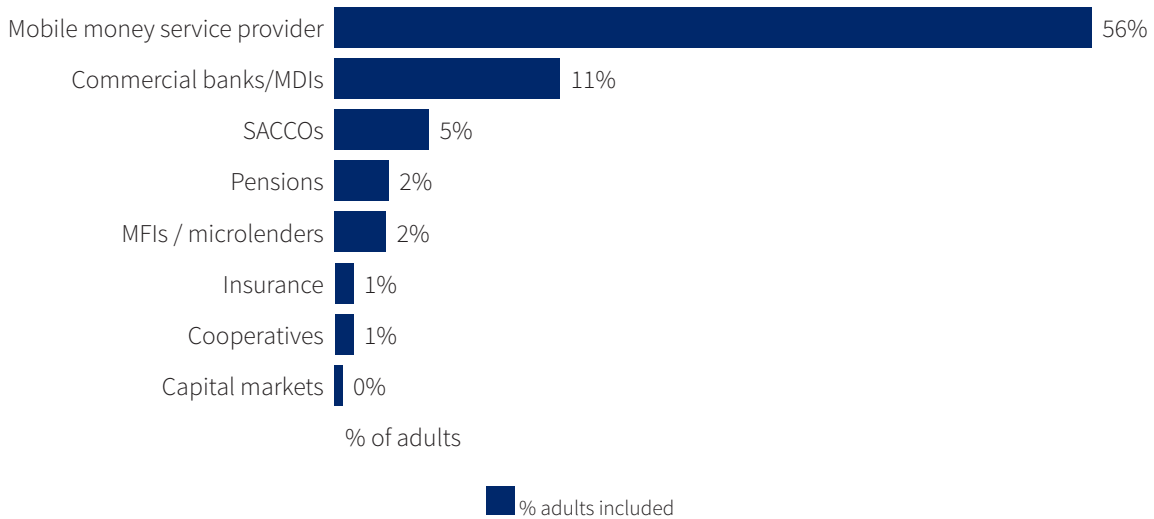


Table 1: Main Reported Barriers of Uptake of Formal Services per Service Provider

Provider	Main Barrier	Secondary Barrier
Banks / MDIs	To save	Process salaries/wages
MFIs	To get credit	To save
SACCOs	To save/buy shares	Turn to them when in financial need
Mobile Money operators	Hard to receive money	Hard to send money

Main barriers to uptake of formal services (Table 2) are mostly demand-side in nature. Supply side barriers include proximity to commercial banks, unavailability of SACCO services within the residential community and insurance services perceived to be unaffordable.

Table 2: Main Perceived Barriers to Uptake of Formal Services per Service Provider

Provider	Main barrier	Secondary Barrier
Banks	Insufficient money to justify	Proximity
MFIs	Insufficient money to justify	Awareness
SACCOs	Awareness	None in community
Mobile Money operators	Have no phone	Not many transactions
Insurance	Lack understanding	Cannot afford





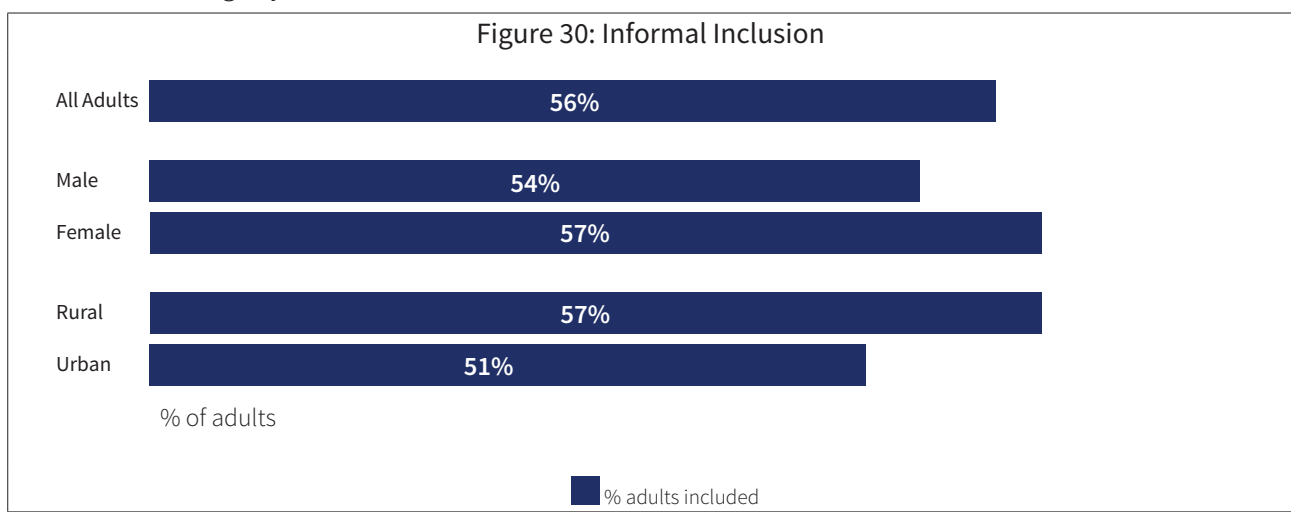
Adults with access to mobile money services are more likely to be active¹⁰ users of these services than adults who have access to commercial bank services. Sixty seven percent of adults with access to mobile money services were 30 day active prior to the FinScope survey compared to 58% of adults with access to bank accounts.

Adults with access to bank services are significantly more likely not to have used their accounts in the 3-month period prior to the FinScope survey (26%) than those with access to mobile money services (15%). The main reason cited for inactive accounts was not having a need for it – which is likely to be indicative of the services not being appropriate.

Usage of Informal Service Providers

More than half of Ugandan adults (56%; 10.3 million) use informal financial services (Figure 30). Survey findings further reveal that:

- Females (57%; 5.7 million) are more likely than males (54%; 4.6 million) to use informal services
- Usage of informal services is significantly skewed towards adults residing in rural areas – 57% (8.1 million) of rural adults vs. 51% (2.3 million) of urban adults are informally served
- Uptake of informal services is driven by savings group/VSLA membership (Figure 31)
 - ~ 37% (6.8 million) of adults belong to savings groups/VSLAs
 - ~ The main driver of membership is to save or getting a lump sum of money when the savings cycle ends



¹⁰ Active usage refers to having used the service within the 30 period prior to the FinScope 2018 survey



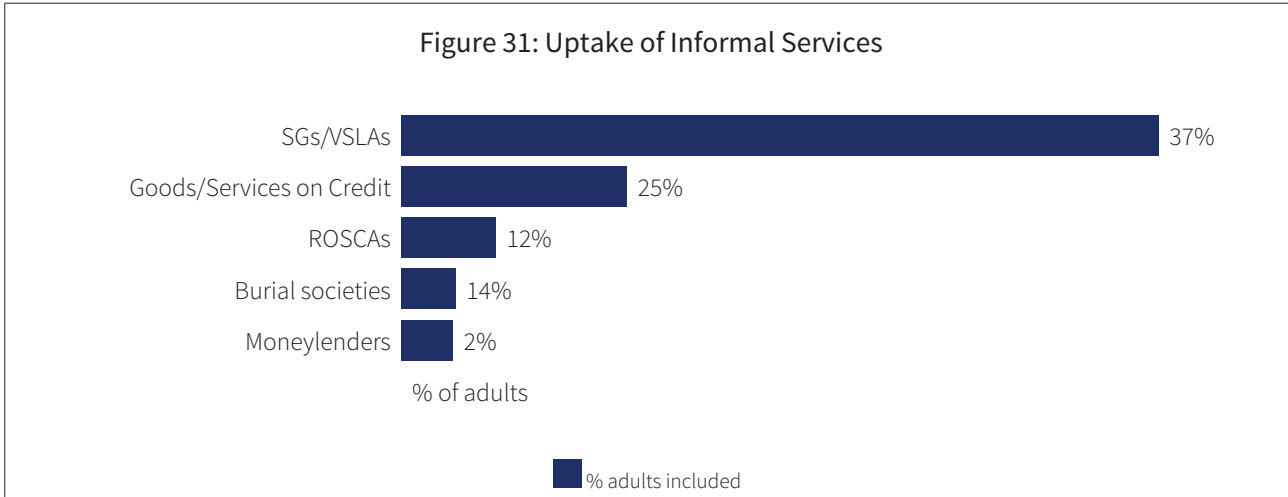


Table 3: Main Drivers of Uptake of Informal Services

Drivers of Uptake per Service Provider		
Provider	Main Driver	Secondary Driver
VSLAs/group	Save/to get lump sum	Turn to them when in financial need
Money lenders	Quick access to money	Proximity

5.8 Financial Access Strand

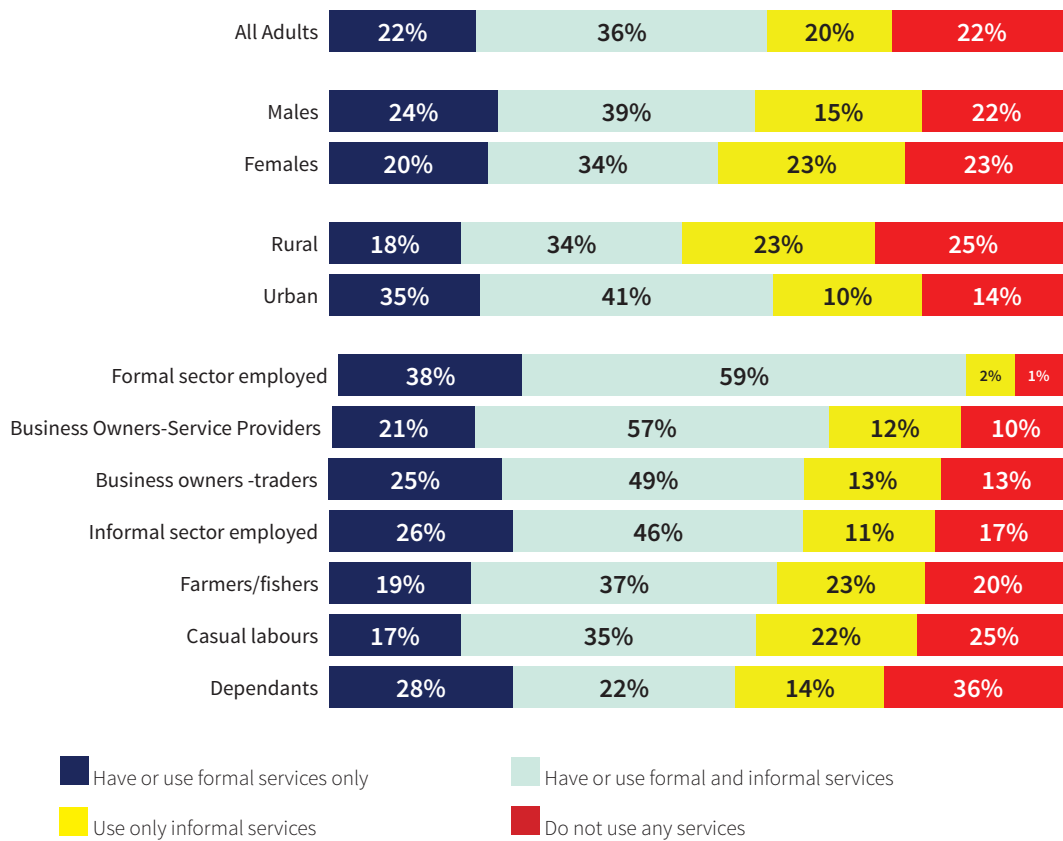
According to the FinScope 2018 Access Strand (Figure 32):

- Adults who have/use formal services are more likely to be male, urban-based and formally employed
- Those most like to rely on informal services only are female, rural-based and farmers/fishers and casual labourers
- The financially excluded are most likely to be rural-based, dependents and casual labourers





Figure 32: Financial Access Strand



5.9 Comparative Access Strand¹¹

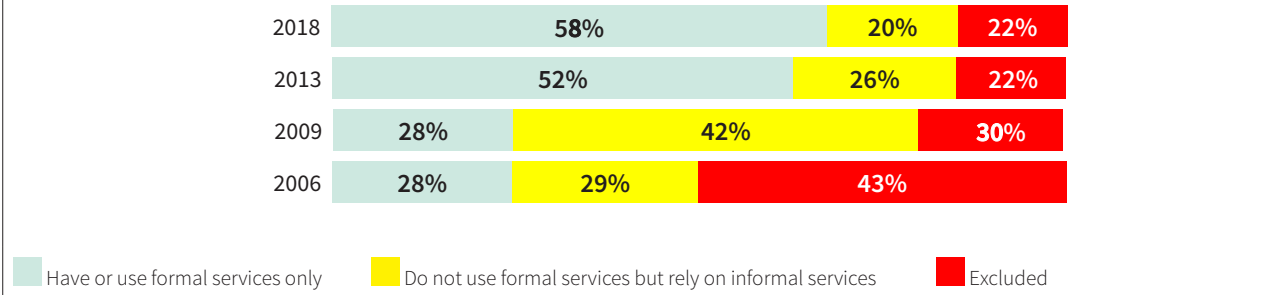
- There has been a significant increase in financial inclusion since 2006 – increasing from 57% in 2006 to 78% in 2018, resulting in exclusion dropping from 43% in 2006 to 22% in 2018
- Formal inclusion also increased significantly – from 28% in 2006 to 58% in 2018
- Reliance on informal services has dropped significantly since 2009 – from 42% to 20% in 2018
- Comparing the 2013 and 2018 strands indicates that, although the percentage of adults who are financially included stayed at 78%, there has been significant changes:
 - ~ There has been a significant increase in formal inclusion – from 52% (8.7 million) to 58% (10.8 million) of adults
 - ~ There has been a significant decrease in dependency on informal inclusion – from 26% (4.3 million) to 20% (3.6 million) of adults

¹¹ The 2013 access strand was recalculated in order to ensure comparability. The 2013 regarded “in kind” investments (such as buying livestock) as informal services usage. Although this is a form of informal savings, the purpose of the access strand is to look at saving mechanisms in terms of storing cash



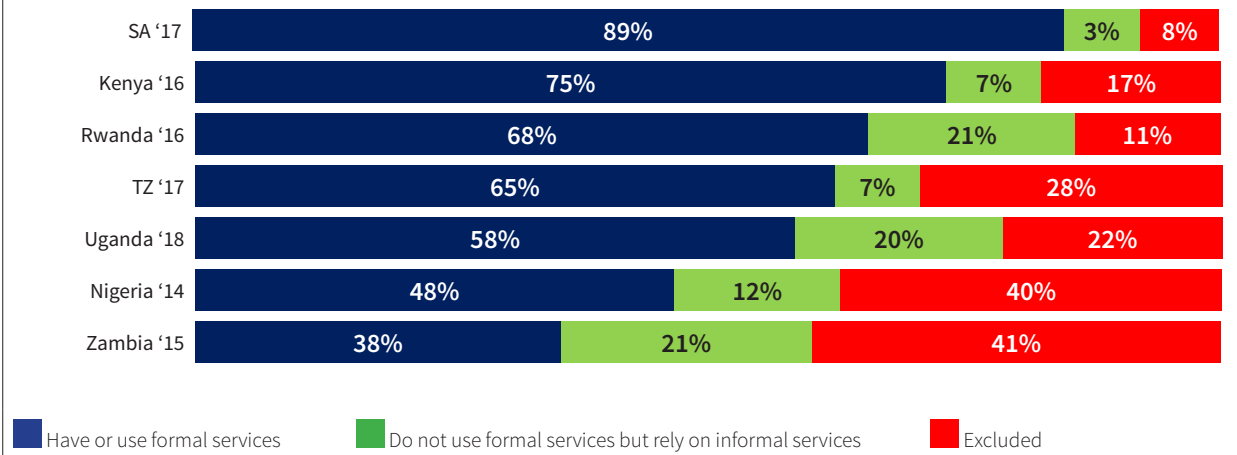


Figure 33: Access Strand Trends



The findings summarised in Figure 34 indicate the financial inclusion status of Uganda’s adult population in comparison to a number of African countries. Although formal inclusion is higher amongst Tanzanian adults, higher levels of uptake of informal services amongst Ugandan adults result in significantly lower levels of financial exclusion.

Figure 34: Country Comparison



6. CONCLUSION

In conclusion, 78% (14.4 million) of Ugandan adults are financially included, leaving only 22% (4.2 million) financially excluded. Of the included adults, more than half of Ugandan adults (58%; 10.8 million) have taken up formal financial services and a similar proportion (56%; 10.3 million) use informal financial services. Around 36% of adults have an overlap i.e. they have/use both formal and informal services.

A close examination of the exclusion numbers reveals that 25% of adults in rural areas are excluded in comparison to only 14% in urban areas. Moreover, only 10% of urban adults rely entirely on informal services whereas the number stands at 23% for rural adults. The high cost of providing financial services in rural areas often means that formal financial institutions lack the incentive to penetrate these areas as well as the ability to mitigate perceived operational risks. High levels of financial exclusion and diminished economic prospects are therefore a direct consequence impacting these populations. However, with 76% Ugandan adults residing in rural areas, financial institutions not providing services in rural areas are missing out on the largest market share.

The following paragraphs list key action points that the private and public sector, donor organizations and stakeholders in the financial inclusion space should consider in order to achieve universal financial inclusion.

- I. **Build innovative products, services or distribution strategies that further include women.** The adult population is skewed with 54% (10 million) of adults being female. Although the trend in overall financial inclusion for women mirrored that of men, there are still significant gender gaps as is illustrated by the findings in Table 5. Financial service providers should seize the opportunity to provide services tailored to women's financial service needs. By not doing so FSPs are not maximising the service opportunities regarding more than half of their potential target market (i.e. they are missing opportunities that lie in serving at least one in two of their potential customers) .

Table 4: Financial Inclusion Status of Women

	Women		Men
	2013	2018	2018
% of adults financially included	77%	77%	78%
% of adults formally served	48%	54%	63%
% of adults relying on informal services only	29%	23%	15%
% of adults who own mobile phones	55%	46%	58%
% of adults with access to internet		8%	13%
% of adults who have proof of identify		85%	83%

II. Investments in digital financial literacy in conjunction with robust consumer protection rules are key to financial service adoption. Majority Ugandan adults (70%) have not achieved a secondary level of education which could be an indication of low levels of financial literacy. Although the FinScope Survey is not ideally suited to measure levels of financial literacy (and therefore did not focus on this), the findings show that less than half of adults keep track of their income and expenditure, they are unlikely to seek financial advice (44% don't seek advice) and if they do so, they mainly turn to family and friends. If these findings are indeed indicative of lower levels of literacy it is necessary for financial service providers to consider that, in general, Ugandan adults are most likely to have only basic levels of awareness, knowledge and understanding of financial services and terminology, and therefore should invest in consumer education to encourage higher adoption and usage. Furthermore, the issue of consumer protection becomes all the more important (especially when entering into a financial contract such as credit agreements) for regulators, in such a scenario.

III. The design of formal financial products and services needs to speak to the income inflows and outflows of adult Ugandans: Most of the adult population relies on inconsistent and irregular sources of income. When they run out of money to cover their regular expenses, Ugandans are most likely to cut down on their day-to-day expenses. Those who live in urban areas are significantly more likely

than those living in rural areas to have savings to fall back on whilst those living in rural areas are significantly more likely to borrow or to do odd jobs (work more) to cope when they run out of money. The main driver of savings and borrowing behaviour is to smoothen cashflow. This results in customers being perceived as high-risk by formal FSPs. Against this background, together with the finding that social capital is strong and based on reciprocal trust and support, it is not surprising that informal inclusion remains high – most savers save with savings groups/VSLAs and most of those who borrow, borrow from family and friends or savings groups/VSLAs.

Ugandans regard children's education as the costliest life cycle event and this is therefore a significant driver of savings behaviour (second to cashflow smoothing). Planning for unexpected expenses can be difficult – especially for those with inconsistent and irregular income. These adults are therefore applying reactive coping mechanisms such as borrowing when adverse events occur. Strategies ensuring future financial security could be more proactive in nature however. It is therefore of concern that survey findings show that 20% of Ugandan adults 55 years or younger have no strategy to ensure future financial security, 25% plan to rely on money from farming activities and 20% plan to rely on their children to take care of them when they reach the age they cannot generate an income themselves.

IV. Digital connectivity is still limited, with internet usage at a mere 10% of the adult population; limiting the growth

and scale of internet powered financial services and products. As was mentioned

earlier in this report, in recent years financial service providers have realized the importance of digital connectivity for enhancing financial inclusion efforts. The FinScope Uganda 2018 survey looked at mobile phone ownership as well as access to the internet as indicators of digital connectivity. The findings revealing that 52% of adults have mobile phones but only 10% have access to the internet. Adults living in rural areas are significantly less likely to have mobile phones and access to internet than adults living in urban areas and therefore are less likely to use internet based payment products / services (e.g. mobile banking apps). Additionally, findings show that 49% of rural adults compared to 24% of urban adults rely only on cash for payments. This indicates that it will be necessary for service providers to think innovatively about maximizing the benefits of using digital technology as means of service distribution in rural areas.

Although 84% of adult Ugandans have a valid document to prove their identity, not all documents are accepted by all financial service providers. For instance, not all financial service providers accept drivers' licenses as proof of identity. Furthermore, Ugandans are significantly less likely to have proof of residential address as only 15% adults have the needed documentation that will be accepted as proof of residence. Therefore, if stringently applied, access to formal financial services providers will significantly be hampered by Ugandans not meeting the requirements. Only 14% of adults have the

documentation to prove both identity as well as residential address.

V. **While there have been big gains in financial inclusion, particularly formal financial inclusion, 22% of the population is still excluded, requiring both policy and private sector intervention.**

Looking at the trends since 2006 when the first FinScope Survey was conducted there has been a significant increase in financial inclusion since 2006

- increasing from 57% in 2006 to 78% in 2018, resulting in exclusion dropping from 43% in 2006 to 22% in 2018. Formal inclusion also increased significantly
- from 28% in 2006 to 58% in 2018.

Reliance on informal services has dropped significantly since 2009 – from 42% to 20% in 2018.

Comparing the 2013 and 2018 access strands indicates that, although the percentage of adults who are financially included stayed constant at 78%, there have been significant changes. Formal inclusion has increased from 52% (8.7 million) to 58% (10.8 million) of adults whilst there has been a significant decrease in dependency on informal inclusion – from 26% (4.3 million) to 20% (3.6 million) of adults.

The focus of further financial inclusion efforts should now be on innovative and collaborative public and private sector interventions that unlock opportunities amongst the 4.2 million adults who are financially excluded, most of whom reside in rural areas (85%), are women (56%), are young and largely employed in the agriculture sector.



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