fsduganda
Financial Sector Deepening

Report on **Informal Financial Inclusion** in Uganda

2018

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Cover Photos:

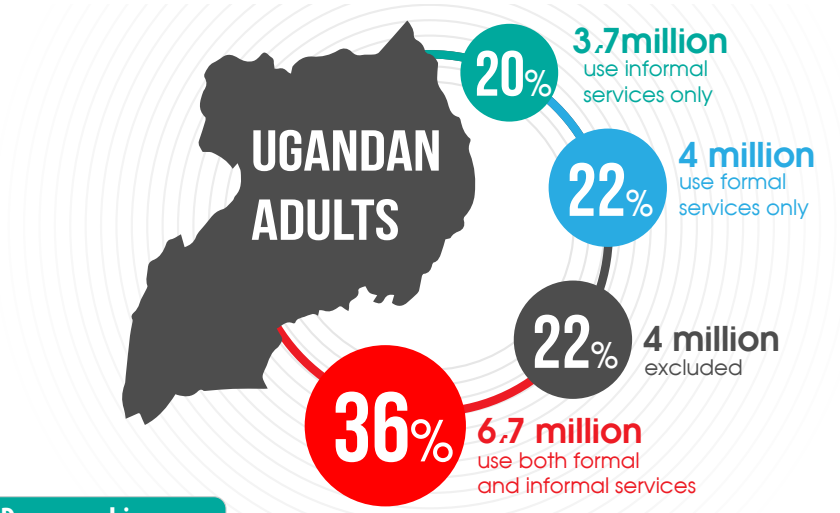
Front: A woman carrying a savings box. Photo Credit: Village Enterprises

Back: A man attending to his stall on a market day. Photo credit: Shutterstock

FINSCOPE UGANDA 2018

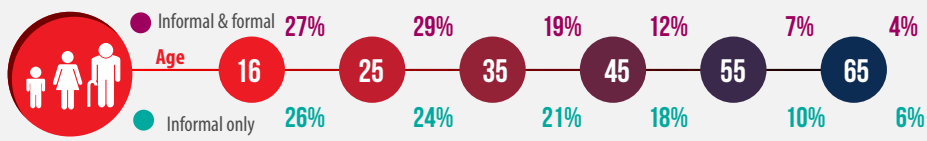
Findings on informal financial inclusion

The FinScope demand side surveys are conducted every three years, to determine how individuals 16 years or older (adults) manage thier money, the extent to which they use financial services, and to monitor changes in levels of financial inclusion over time.

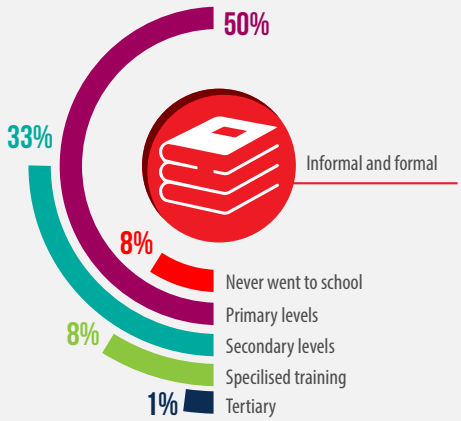


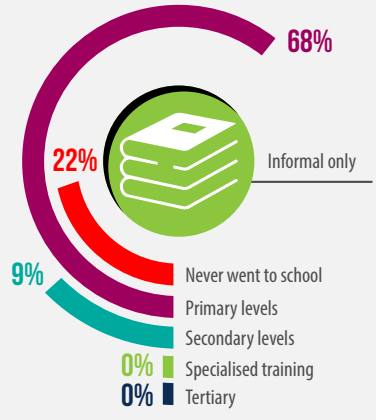
Demographics

Age ranges and percentage of the formally and informally served



Education level





ACKNOWLEDGEMENTS

This research was made possible with funding from the Department for International Development (DFID). It was carried out by Financial Sector Deepening Uganda (FSDU) in partnership with the FinScope Secretariat at the Bank of Uganda (BoU); the FinScope steering committee(see details below) and Uganda Bureau of Statistics (UBOS). Data collection was carried out by Ipsos Uganda. Yakini Development Consulting provided technical advice and drafted this report.

Steering committee members:

ACRONYMS

BoU	Bank of Uganda
FSDU	Financial Sector Deepening Uganda
FSP(s)	Financial service providers
KYC	Know your customer
MDIs	Deposit-taking microfinance institutions
MFIs	Microfinance institutions
PPI	Progress out of Poverty Index
ROSCAs	Rotating Savings and Credit Association
SACCOs	Savings and Credit Cooperatives Organisations
UBoS	Uganda Bureau of Statistics
VSLAs	Village savings and credit associations

A group holds a meeting to discuss savings. Photo credit: FSDU

DEFINITIONS

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

Adult population – individuals 16 years or older.

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 – refers to adults 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 included population – refers to 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 Cooperative Organisations (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 such as digital payment services, saving, credit and insurance services provided by formal financial service providers.

Inactivity – refers to having taken up a service but not having used it in the 30-day period prior to the FinScope survey.

Informal financial included population – refers to 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.

Informal financial services – financial services such as saving, and credit 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 to receive financial protection or reimbursement when losses occur.

Men – male adult population (i.e. males 16 years or older).

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).

Women – female adult population (i.e. females 16 years or older).

Youth – adult population in the 16 to 30-year age group.

A SACCO signpost in Sheema District. Photo credit: FSDU

INTRODUCTION

Efforts to increase formal financial inclusion in Uganda are faced with significant challenges which are both supply and demand side in nature.

From a supply-side perspective the most significant challenge is that 76% of Ugandan adults are rural-based. 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.

From a demand-side perspective on the other hand, the most significant challenge is that most adults rely on sources of income that give them access to small amounts of cash on an inconsistent basis (e.g. almost half (48%) of Ugandan adults rely on farming/fishing activities for money). Their financial behaviour is driven by their daily needs. They are likely to save and borrow small amounts, quick access to savings and credit would be a key requirement, and they are therefore unlikely to see value in opening a bank account or using other formal financial institutions.

Against this background, coupled with strong social capital and based on reciprocal trust and support, an informal financial system develops with the main focus on credit and savings. Evidence from FinScope surveys across Africa suggests that the reason why this informal system is sustained is two-fold:

- The absence of interventions that are effective in changing the perception that there is no value for informally served individuals in using formal financial products and services.
- Once the informal system is established, it evolves and starts to offer opportunities for additional non-financial benefits.

The objective of this report is to explore informal inclusion both in terms of type of services offered and used as well as drivers and frequency of usage.

FINSCOPE SURVEYS

The FinScope survey was developed by FinMark Trust. It 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 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 prohibiting or limiting uptake and usage of financial services within 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 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.

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 first FinScope survey was implemented in Uganda in 2006. The second survey, allowing assessment of changes in the market, was implemented in 2009 whilst the third FinScope Uganda survey was conducted in 2013. The FinScope survey findings are crucial for stakeholders of Uganda's financial sector particularly because it establishes credible benchmarks and indicators of financial inclusion and capability and provides insights into obstacles to financial sector growth. FinScope also informs policy reform and innovation in service development and delivery, thereby enhancing financial inclusion.

FINSCOPE UGANDA 2018 OBJECTIVES

The 2018 survey had 3 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 peer 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) of Uganda.

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 and analyse the data. The Uganda Bureau of Statistics (UBoS) drew the sample as well as validated and weighted the data from this study, making it representative of the Ugandan adult population of 18.6 million.

FINSCOPE UGANDA 2018 SAMPLING FACTS AND STATISTICS

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

- During the first stage of sampling, geographic representation was ensured. A sample of 320 enumeration areas (EAs) were selected using a probability proportional to size (PPS) approach ensuring national, regional and urban-rural representativeness. EA sampling was conducted by UBoS.
- During the second stage of sampling, ten 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 ten selected households to be interviewed.
- The sampling approach ensured 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 activity.

FINSCOPE UGANDA 2018 FINDINGS

About 6 out of 10 Ugandan adults rely on informal financial services to meet their various financial needs.

FinScope 2018 findings show that 10.3 million (56%) of Ugandan adults use informal services. Of those that use informal services, 65% (6.7 million) also use formal services whilst 35% (3.6 million) rely only on informal services (Figure 1).

Figure 1: Informally served adults

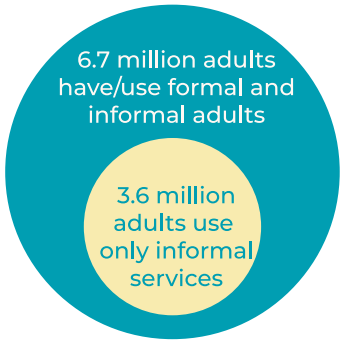


Table 1 gives an overview of the geographic and demographic distributions of informally served Ugandans. These findings indicate that most of those who use informal services are rural-based (78%), they are more likely to be female (55%), under the age of 35 years (56%), they have achieved at most primary level of education (70%) and they are most likely to rely on farming/fishing activities and casual labour for money.

Reaching out to adults, most of them female and rural based, presents the most significant challenge for expanding formal inclusion.

There are noteworthy differences in the profiles of adults who use both formal and informal services and those who rely only on informal services to manage their money. Adults who rely only on informal services are:

- More likely to be rural-based than those who use formal services as well – 88% vs. 73%.
- More likely to be female – 64% vs. 50%.
- Older – 16% are older than 55 years compared to 10% of adults who also use formal services.
- More likely than those who also use formal services to have achieved only primary level of education – 90% vs. 58%.
- They are more likely to rely on farming/fishing for an income – 56% vs. 49%.

Table 1: Geographic and demographic distributions of informally served Ugandan adults

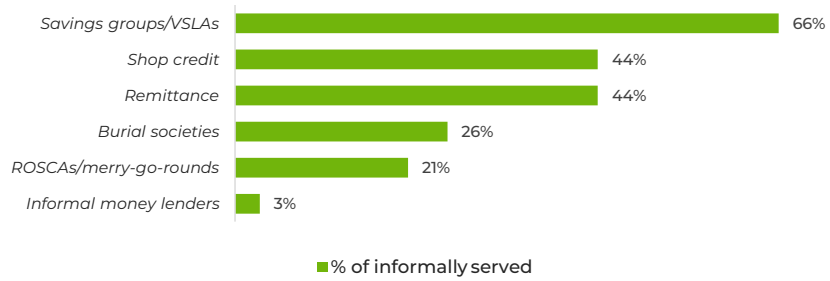
	Informally served (total) 10.3 million adults		Informally & formally served 6.7 million adults		Informally served only 3.6 million adults	
Characteristic	**Number of adults**	**% of adults**	**Number of adults**	**% of adults**	**Number of adults**	**% of adults**
Total population	10,342,663	56%	6,707,336	36%	3,635,297	20%
Geographical setting						
Rural	8,085,003	78%	4,875,155	73%	3,209,848	88%
Urban	2,257,661	22%	1,832,212	27%	425,449	12%
Gender						
Male	4,641,164	45%	3,320,228	50%	1,320,936	36%
Female	5,701,499	55%	3,387,138	50%	2,314,361	64%
Age Category						
16 to 25 years	2,765,590	27%	1,814,753	27%	950,837	26%
26 to 35 years	3,020,955	29%	2,139,194	32%	881,761	24%
36 to 45 years	2,015,306	19%	1,268,127	19%	747,179	21%
46 to 55 years	1,293,345	13%	804,000	12%	489,345	13%
56 to 65 years	827,232	8%	463,209	7%	364,023	10%
Older than 65 years	420,235	4%	218,083	3%	202,152	6%
Education level						
Never went to school	1,336,987	13%	529,663	8%	807,324	22%
Primary levels	5,846,246	57%	3,367,250	50%	2,478,996	68%
Secondary levels	2,535,478	25%	2,202,179	33%	333,299	9%
Specialised training	538,804	5%	523,126	8%	15,678	0%
Tertiary	83,451	1%	83,451	1%	0	0%
Main Source of Income						
Farmer/fishers	5,322,705	51%	3,284,354	49%	2,038,351	56%
Casual labourers	1,553,629	15%	954,978	14%	598,651	16%
Dependents	1,315,536	13%	800,740	12%	514,796	14%
Business owners: traders	703,528	7%	560,407	8%	143,121	4%
Formal sector employed	377,622	4%	363,841	5%	13,781	0%
Business owners: service providers	310,660	3%	257,402	4%	53,258	0%
Informal sector employed	209,134	2%	168,496	3%	40,638	1%

Service Uptake

VSLAs are instrumentally meeting financial needs of nearly 7 out of 10 Ugandan adults.

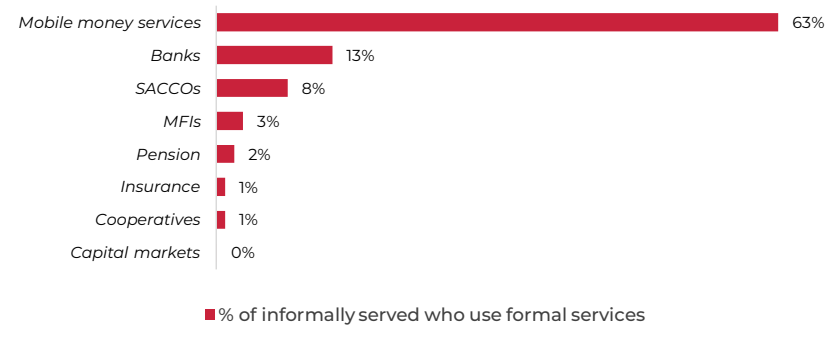
Findings summarised in Figure 2 give an overview of the type of informal services used by the informally served. The figure indicates that those who use informal services are most likely to be members of savings groups/VSLAs (66%), burial societies (26%) and ROSCAs (21%). Also, 44% of informal service users make use of shop credit (i.e. they get goods in advance and pay later) and 44% use informal means to send and/or receive money (i.e. by sending/receiving airtime which could be sold for money or by using taxi and/or bus drivers as couriers).

Figure 2: Informal servives used by the informally served



Adults who use both formal and informal services are most likely to have/use mobile money services (63%) followed by banking services (13%) and SACCO services (8%). This is presented in Figure 3.

Figure 3: Formal services used by the informally served



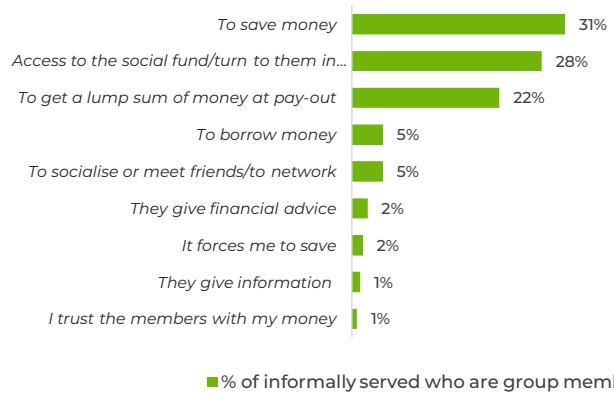
Drivers of informal service uptake

Savings and insurance services are the main drivers of uptake of informal financial services.

Membership to groups is one common way through which people access informal services and get their financial needs met. Analysis focused on group membership and the use of services of informal money l enders to assess uptake of informal services.

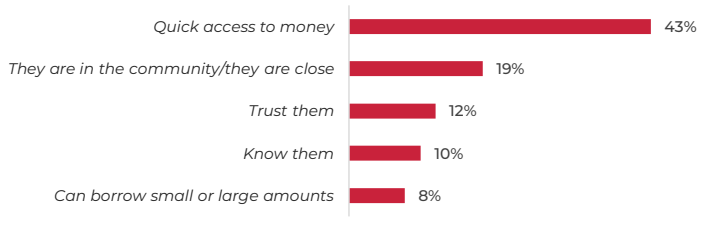
According to Figure 4, getting access to savings and insurance services is the main driver of group membership as 31% of informally served adults who belong to groups, do so to save. An additional 22% belong to groups in order to access lump sum amount of money during pay-out. Access to a social fund and/or somewhere to turn to when in financial need (i.e. insurance services) is the most significant secondary driver as 28% of group members joined groups for this reason. Only 5% of group members joined their respective groups to get access to credit.

Figure 4: Main drivers of group membership



In terms of borrowing, Figure 5 presents the main reasons why Ugandans borrow from informal money lenders. The figure indicates that 43% of adults use money lenders because they provide quick access and proximity. Another 19% of adults use money lenders because such money lenders are in the community and therefore they do not have to travel far to access their services. Trust and being familiar with these money lenders and the fact that it is possible to borrow large or small amounts of money are secondary drivers of borrowing from money lenders.

Figure 5: Main drivers of using of informal money lenders



Frequency of usage of informal services

Figures 6 to 8 present the frequency of use of services offered by groups per type of service. According to Figure 5, most (66%) of group members save or contribute to the group on a weekly and 22% contribute to the group once a month.

Figure 6: Frequency of saving/contributing to the group

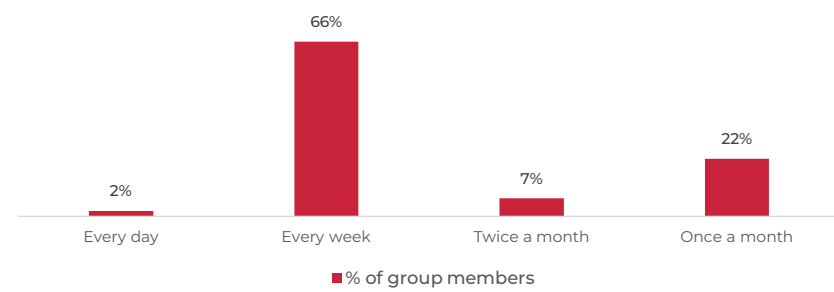
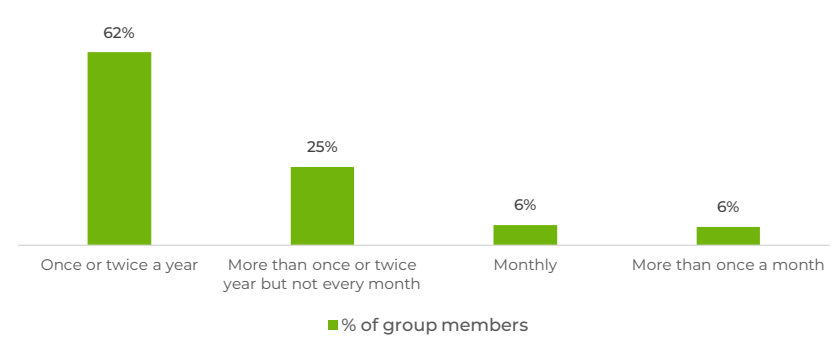


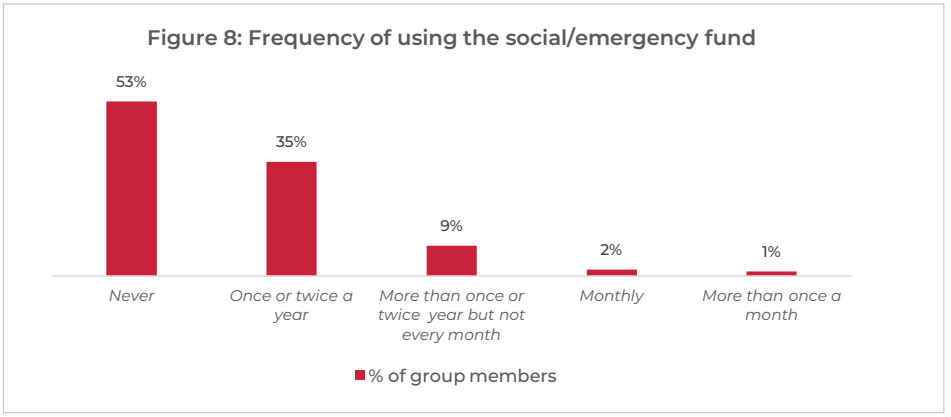
Figure 7 indicates that whilst most group members (62%) only borrow from the group once or twice a year, 25% borrow more than once or twice a year but not monthly. Only 12% of group members either borrow from the group on a monthly basis or more than once a month.

Figure 7: Frequency of borrowing from the group



Although group members regard access to the social fund (i.e. insurance services) as a main driver of belonging to a group, FinScope findings indicate that 53% of members do not use the fund. One in three (35%) use the social fund once or twice a year and an additional 9% use it more than twice a year but not monthly. Only 3% of group members use the social/emergency fund as regular as monthly or more than monthly (Figure 8).

Figure 8: Frequency of using the social/emergency fund



Savings Behaviour of the Informally served

VSLAs provide the main means of savings for 6 out of 10 adults who are informally served.

Figure 9 presents the savings mechanisms used by the informally served adults who save. The figure indicates that most (63%) save with a savings group/VSLA followed by 19% saving on their mobile phones and 18% in a secret hiding place at home.

Figure 9: Savings mechanisms used by informally served adults

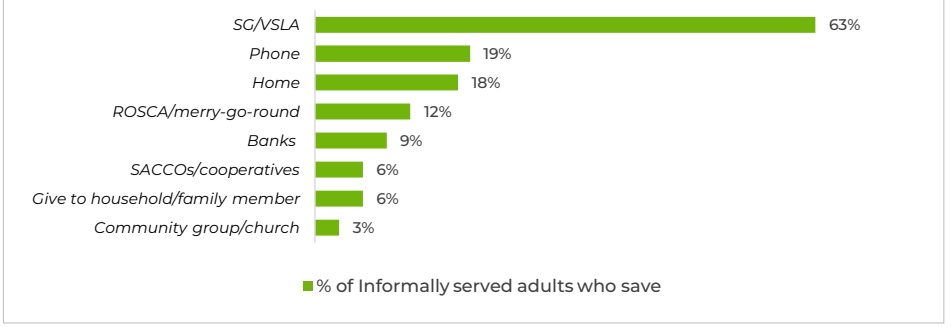


Figure 10 indicates that those relying on informal services only are even more likely to save with a saving group/VSLA (75%) than those who rely on both formal and informal services (57%).

Figure 10: Comparing savings mechanisms used by adults relying on informal services with those of adults who also use formal services

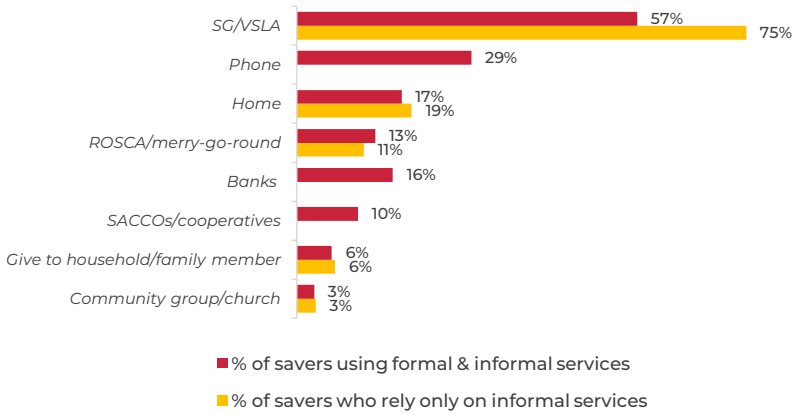
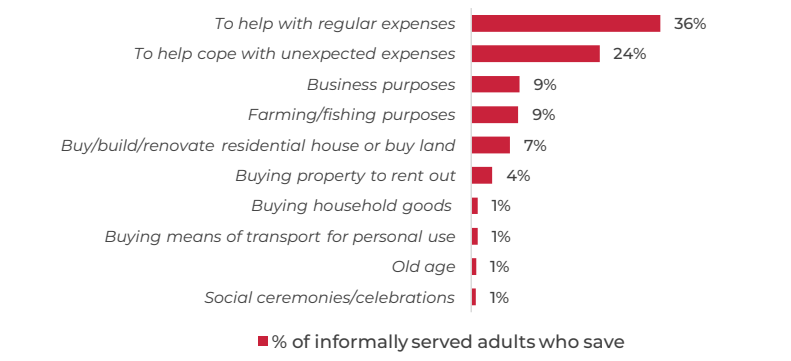


Figure 11 indicates that most (36%) informally served adults who save, mainly do so to cope with regular expenses (for most these are living and education or education-related expenses) whilst 24% save to cope with unexpected expenses (mainly medical expenses). An additional 9% save for business purposes (buying stock) whilst a further 9% save for farming purposes (mainly to buy livestock). As their savings behaviour is mainly driven by a need to smoothen cashflow, informally served adults are most likely to choose a savings mechanism that would give them quick access to their savings whilst safety of their money is a secondary driver of choice.

Figure 11: Main drivers of savings of informally served adults



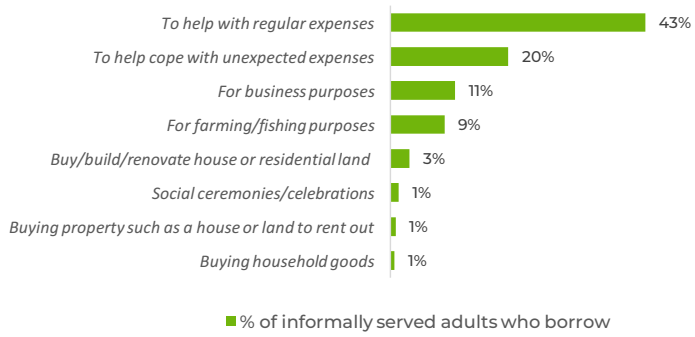
Borrowing behaviour of the Informally served

Up to 6 out of 10 adults borrow to smoothen their cashflow.

More than half (62%) of informally served adults borrow. Those who use formal as well as informal services are more likely to borrow (65%) than those who rely on informal services only (58%). Figure 12 presents the main drivers of borrowing whilst Fgures 13 and 14 present the lenders used by the informally served.

The drivers of borrowing behaviour is similar to that of the savings behaviour of the informally served. Most (43%) of informally served adults who borrow, borrow mainly to cope with regular expenses (which, for most, are living and education or education-related expenses) whilst 20% borrow to cope with unexpected expenses (mainly medical expenses), an additional 11% borrow for business purposes (buying stock to sell) whilst a further 9% borrow for farming purposes (mainly to buy inputs such as seeds and fertiliser).

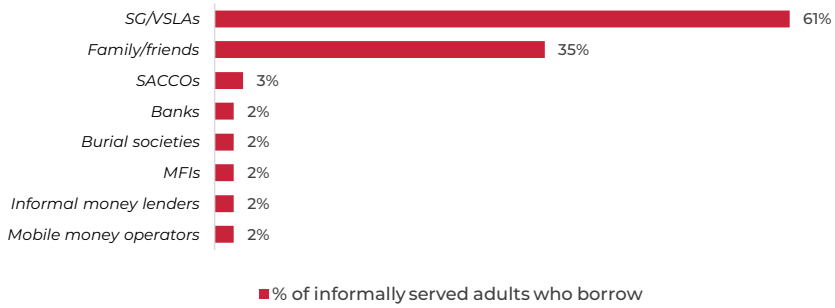
Figure 12: Main drivers of borrowing behaviour



As their borrowing behaviour is mainly driven by a need to smoothen cashflow, informally served adults are most likely to choose a lender based on the quickest access and proximity to money.

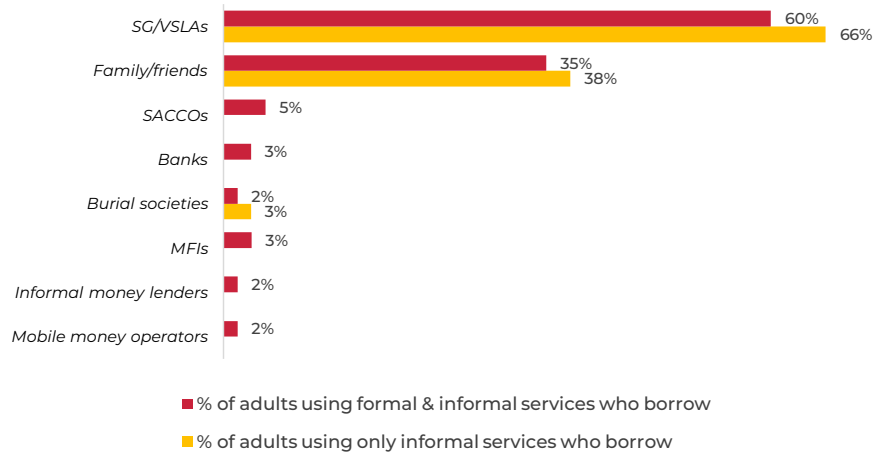
Figure 13 shows that most (61%) of informally served adults who borrow, borrow from savings groups/VSLAs whilst 35% borrow from family and friends.

Figure 13: Lenders used by informally served Ugandans who borrow



Comparing the adults who use formal and informal services and those who rely on informal services only, Figure 14 indicates that those relying on informal services only are even more likely to borrow from saving groups/VSLAs (66% vs. 60%) and family and friends (38% vs. 35%).

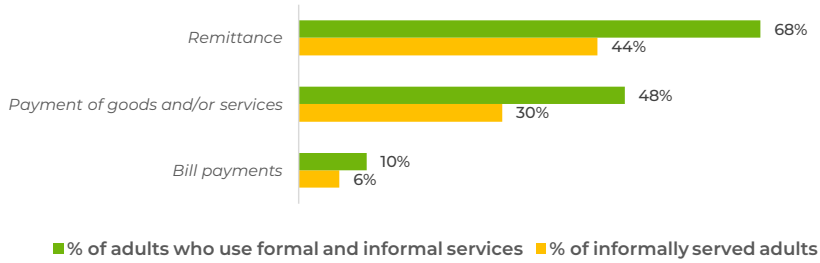
Figure 14: Comparing lenders used by adults relying on informal services with used by adults who also use formal services



Digital behaviour of the informally served

Almost half (49%) of informally served adults have/use digital financial services – 75% of those who use formal and informal services whilst (per definition) none of adults relying on informal services only have/use digital financial services. Figure 15 indicates that those who use both formal and informal services use digital services mostly for the purpose of remittances.

Figure 15: Drivers of usage of digital services by the informally served



Opportunities to expand formal inclusion

Opportunity to expand formal financial inclusion is in targeting the urban youth and farmers who share similar characteristics with those who are included.

Segmenting the population reliant on informal financial services

The 3.6 million adults who rely on informal financial services to manage their financial lives are not homogenous in terms of their characteristics as is illustrated by the profile summarised in Table 1. They will therefore also not be homogenous in terms of their financial service needs. A “one-size-fits-all” approach to attempt to attract them to formal financial services, will not be effective.

The objective of segmenting the population who rely on informal financial services is to identify smaller segments which are more homogenous in terms of their financial service needs, and to profile these segments to understand their specific needs.

The effectiveness of marketing initiatives and efforts specifically towards designated segments in a manner consistent with that segment's needs will increase the efficiency and effectiveness thereof and will therefore reduce the risk to the formal financial sector as it will enable evidence-based marketing decisions.

The first step in the segmentation process is to identify adults who have similar characteristics and capacities as the currently formally served population amongst those who rely on informal services. For this purpose, regression and cluster analysis were done.

Three segments which are more homogenous in nature were identified. Table 2 presents the size of these market segments whilst Table 3 depicts the geographic distribution and the demographic characteristics thereof.

Segment A comprises predominantly urban youth. This segment could be regarded as the segment with the highest likelihood for formal inclusion. The 0.3 million adults in this segment illustrate characteristics that are similar to that of those adults who are currently formally served. For instance, they are digitally connected and they also own phones.

Segment B comprises predominantly farmers. The adults in this segment could be formally served if the challenges with regard to development of products and services that suit the needs of farmers as well as challenges regarding delivery of services to rural areas could be overcome.

Segment C represents the rural poor. Adults from this segment do not seem likely to have any potential for formal inclusion. They struggle to make ends meet, they don't have electricity and no capacity for digital connectivity and will be difficult to reach with any market strategy.

Table 2: Size of the three markets segments of Ugandan adults currently relying on the informal sector for financial services

	Number of Adults	% of adults who rely on informal services
Segment A (urban youth)	258,229	7%
Segment B (farmers)	668,278	18%
Segment C (riral poor)	2,708,790	75%
TOTAL (adults relying on informal services only)	**3,635,297**	**100%**

Table 3: Geographic and demographic distributions of the 3 market segments of adults reliant on informal financial services in comparison with that of adults currently formally served

Characteristic	Adults formally served	Adults reliant on informal financial services		
		Segment A	Segment B	Segment C
Geographical distribution				
Rural	68%	58%	88%	91%
Urban	32%	42%	12%	9%
Gender distribution				
Male	50%	38%	46%	34%
Female	50%	62%	54%	66%
Age distribution				
16 to 25 years	31%	36%	25%	26%
26 to 35 years	31%	33%	22%	24%
36 to 45 years	17%	23%	22%	20%
46 to 55 years	11%	6%	23%	12%
56 to 65 years	6%	1%	4%	12%
Older than 65 years	3%	1%	5%	6%
Youth	50%	36%	25%	26%
Elderly	10%	2%	8%	19%
Education distribution				
Secondary school or higher	44%	26%	8%	8%
Main Source of income				
Salaries/wages - consistent and regular income	8%	8%	0%	1%
Farmers/fishers	46%	38%	62%	56%
Business owners	11%	11%	7%	5%
Dependents	17%	19%	12%	14%
Casual labourers	13%	18%	10%	18%

Table 4 gives an overview of the capacity of adults in the three market segments in terms of Know Your Customer (KYC) and digital connectivity.

Table 4: Capacity of the adults in the three market segments with regard to digital connectivity and meeting KYC requirements

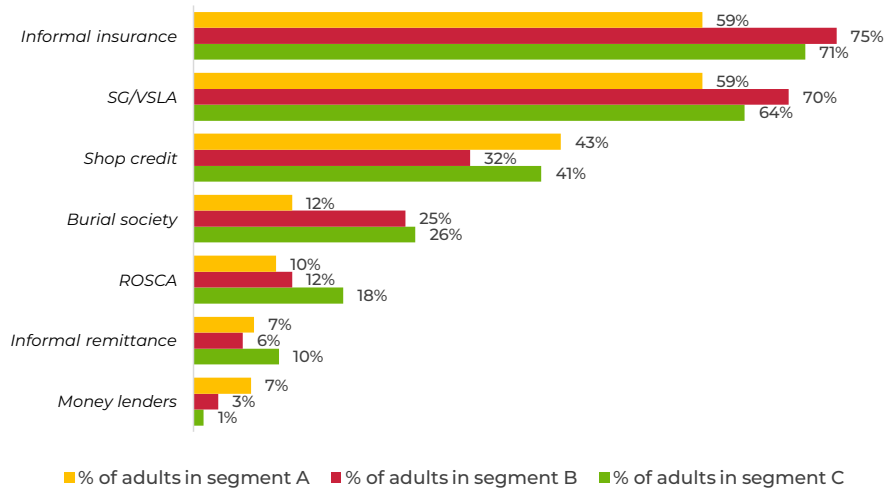
Characteristic	% of adults		
	Segment A	Segment B	Segment C
Digital Connectivity			
Mobile phone ownership	22%	99%	0
Internet access	3%	2%	0
Digital Connectivity			
Proof of identity	81%	89%	84%
Proof of residence	13%	10%	7%
Both	9%	10%	6%

Most of the adults in market segment B own mobile phones. This make mobile based financial products suitable to use to target this market segment. Adults in both segment A and B have proof of identity, making most of them able to meet KYC requirements.

Financial services used per segment

Figure 16 gives an overview of the informal services used by adults in the 3 segments.

Figure 16: Informal services used per segment



Most adults in segment B use informal insurance and other financial services from savings groups and VSLAs. Similarly, most adults in segment C also use informal insurance and other financial services from savings groups and VSLAs.

CONCLUSIONS AND RECOMMENDATIONS

From a supply-side perspective the most significant challenge for increasing the uptake of formal financial services in Uganda is that 76% of Ugandan adults are rural-based. 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 in rural areas.

From a demand-side perspective on the other hand, the most significant challenge is that most adults rely on sources of income that give them access to small amounts of cash on an inconsistent basis (e.g. almost half (48%) of Ugandan adults rely on farming/fishing activities for money). Their financial behaviour is driven by their daily needs. They are likely to save and borrow small amounts, quick access to savings and credit would be a key requirement. Against this background, coupled with strong social capital and based on reciprocal trust and support, an informal financial system, which has a main focus on credit and savings based on a strong need to smooth cashflow is in place.

FinScope 2018 findings show that 10.3 million (56%) of Ugandan adults use informal financial services – 65% (6.7 million) of whom also use formal services whilst 35% (3.6 million) rely only on informal services. Most of those who use informal services are rural-based (78%), they are more likely to be female (55%), under the age of 35 years (56%), they have achieved at most primary school levels of education (70%) and they are most likely to rely on farming/fishing activities and casual labour for money. Those who do not use any formal services (i.e. they rely on informal services only are more likely to be rural-based (88%), more likely to be female (64%), older and more likely to have lower levels of education.

In terms of the type of informal services used by the informally served, this report shows that informally served adults are most likely to be members of savings groups/VSLAs (66%), burial societies (26%) and ROSCAs (21%) whilst 44% make use of shop credit (i.e. they get goods in advance and pay later) and 44% use informal means to send and/or receive money (i.e. by sending/receiving airtime which could be sold for money or by using taxi and/or bus drivers as couriers).

Getting access to saving and insurance services seem to be the main drivers of group membership amongst the informally served as 31% of informally served adults who belong to groups, do so in order to save whilst for an additional 22% the main driver is access to a lump sum of money at pay-out. Access to a social fund and/or somewhere to turn to when in financial need (i.e. insurance services) is the most significant secondary driver as 28% of group members joined groups for this reason. Only 5% of group members primarily joined their respective groups to get access to credit.

A group savings box. Photo credit: FSDU

There is an opportunity to develop the VSLAs into a unique market segment within the financial services industry to cater for the needs of the underserved population segments.

Innovations in products, delivery channels and marketing are recommended in order to increase uptake and usage.

Innovations in products development should reflect the realities of the demographics of the adult population thereby leading to relevant products. Products must speak to adults, who are rural-based, more likely to be female, under the age of 35 years, have achieved at most primary school education and are most likely to rely on farming/fishing activities and casual labour for income.

Mobile money-based delivery channels are recommended. FinScope findings show that services bundled with mobile money services are likely to have good uptake and usage. This is because 63% of adults who use both formal and informal services are most likely to have/use mobile money services.

Last, but not least, appropriate marketing strategies, especially targeting the urban youth and rural farmers, who have what it takes to be formally financially included is recommended.

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Financial Sector Deepening

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