fsduganda
Financial Sector Deepening

Report on banking and the status of financial inclusion in Uganda:
Insights from FinScope 2018 Survey

UKaid
from the British people

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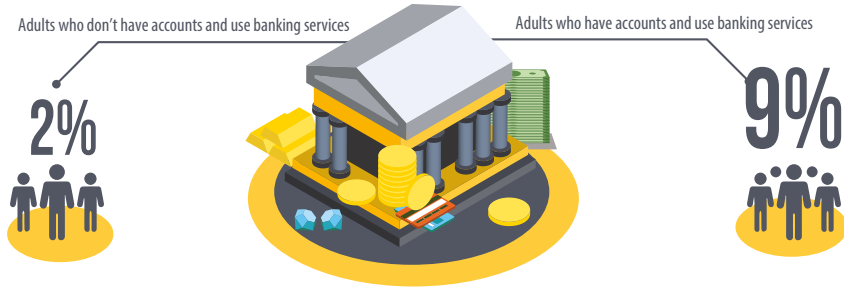
Cover Photos:

Front: A client receives services from a bank counter. Photo: Bank of Uganda
Back: Licensed Commercial Banking Institutions and MDIs in Uganda.

BANKING AND FINANCIAL INCLUSION IN UGANDA

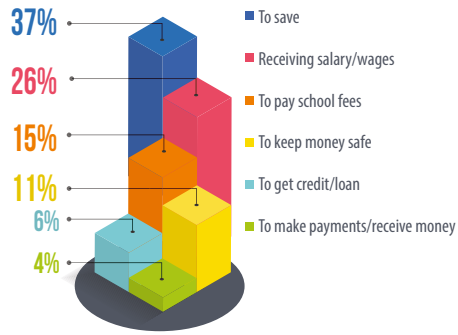
INSIGHTS FROM FINSCOPE 2018 SURVEY

Banking is defined to include commercial banks and micro finance deposit taking institutions (MDIs)

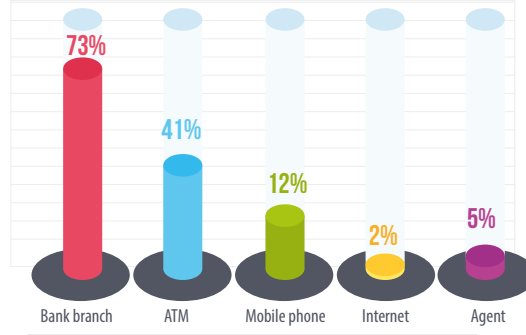


In 2018, 11% of adults used banking services; 9% had accounts, while 2% did not have accounts. Using banking services without having accounts include over the counter (OTC) transactions such as paying school fees and bills and using an account of a relative or friend.

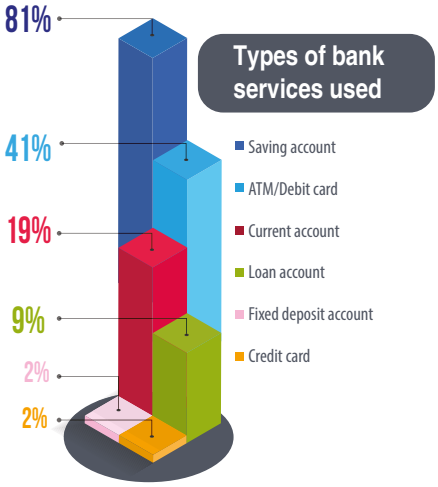
Drivers of uptake



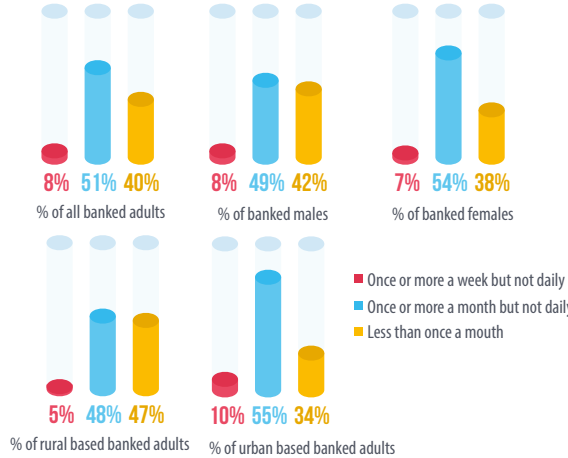
Channels used to access bank accounts



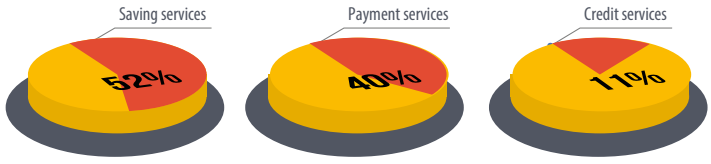
Types of bank services used



Frequency of usage of accounts



Depth of usage of bank services



ACKNOWLEDGEMENTS

This research was made possible by 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 Uganda Bureau of Statistics (UBOS) and the FinScope steering committee (see details below). Data collection was carried out by Ipsos Uganda. Yakini Development Consulting provided technical advice, undertook data analysis and drafted this report.

FinScope Steering Committee members:

ACRONYMS

ATM	Automated teller machine
BoU	Bank of Uganda
EA	Enumeration Area
FSDU	Financial Sector Deepening Uganda
FSP	Financial Service Provider
KYC	Know Your Customer
MDI	Deposit-taking microfinance institution
MFI	Microfinance institution
OTC	Over the Counter
PPI	Progress out of Poverty Index
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative Organisations
UBoS	Uganda Bureau of Statistics
VSLA	Village Savings and Loan Association

A customer accesses ATM services. Photo: BoU.

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 aged 16 years or older.

Banked population – adults who access and use the services of commercial banks and MDIs. Credit institutions were omitted. The banked proportion of the population was recalculated for 2013 to ensure accurate comparison with this 2018 figures.

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

Financially excluded – Persons who do not have access to or use financial services (either formal or informal).

Financially included – those who do have access to or use financial services (either formal, informal or both).

Formal financially included population – Persons who have access to or use financial services provided by a formal financial service provider.

Formal financial service providers – financial service providers who are regulated or supervised, e.g. 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 provided by formal financial service providers.

Informal financially included population – those who use financial services provided by an informal financial service provider.

Informal financial service providers – financial service providers who are not regulated or supervised, e.g. savings groups, Village Savings and Loan Associations (VSLAs), Rotating Savings and Credit Associations (ROSCAs) and community-based money lenders and burial societies. Family and friends are not regarded as informal service providers.

Informal financial services – financial services provided by an institution or individual that is not regulated or supervised.

Insurance service – provides the user with a means to put aside money in order to receive 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 or government to business).

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

Uptake – refers to having access to or using a financial service (e.g. 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).

Receiving cash from a customer. Photo: Bank of Uganda

INTRODUCTION

To develop effective interventions – financial or otherwise – aimed at developing any sector, it is important to have a comprehensive understanding of the sector. In particular, it is important to understand the specific challenges faced by that sector and the capacity that exists to deal with them.

The objective of this report is to give an overview of the Ugandan banking sector and the potential opportunities that exist to increase the banked population. The information generated by the FinScope Uganda survey, conducted in 2018, provides the basis for this report's analysis.

Information presented in all tables and figures are obtained from analysis of FinScope 2018 dataset.

FINSCOPE SURVEYS

The FinScope survey was developed by FinMark Trust. It was designed to determine how people manage their money and 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, FinScope also provides insights into the drivers of uptake and usage of financial services among different segments of the adult population, as well as insights into factors limiting uptake and usage within different population segments. FinScope is of value to both policymakers who wish to promote financial inclusion and improve the functioning of financial markets, and to private service providers who wish to develop strategies and design financial products that are relevant to customers.

The first FinScope survey was carried out in Uganda in 2006. The second survey, which allowed an assessment of changes in the market, was conducted in 2009, and the third took place in 2013.

FinScope survey findings are crucial for stakeholders in Uganda's financial sector, particularly because they establish credible benchmarks of financial inclusion and insights into obstacles to growth. FinScope also informs both policy reform and innovation in service development and delivery, thereby helping to increase levels of financial inclusion.

FINSCOPE UGANDA 2018 OBJECTIVES

The 2018 survey had 3 main objectives:

1. To track overall trends in financial inclusion, in order to provide information on how the landscape of inclusion has changed since 2007. This included benchmarking these trends against peer countries within the region.
2. To provide insights that could be utilised both at policy and market levels to further deepen financial inclusion.
3. To illustrate the financial service needs of the adult population of Uganda.

FINSCOPE UGANDA 2018 IMPLEMENTATION ARRANGEMENTS

The 2018 FinScope survey was commissioned by FSD Uganda. 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, to analyse data and to write FinScope reports. A top-line findings report and four thematic reports have been written (on the themes of insurance, banking, gender and young adults, and informal inclusion). 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.

Post Bank unveils prepaid card to ease field payments. Photo: FSDU

FINSCOPE UGANDA 2018 SAMPLING FACTS AND STATISTICS

A three-stage stratified sampling approach was used to achieve a representative sample of the adult population:

- The first stage of sampling looked at geographic representation. 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, 10 households were selected at random from a comprehensive list of households in each sampled EA. The lists of households for each of the sampled EAs were compiled by Ipsos enumerators prior to conducting fieldwork. During this listing process, enumerators moved through each EA compiling a list of every structure and household.
- During the third stage of sampling, one adult from each of the 10 households was selected at random 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, socio-economic classification and main income-generating activity.

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.

FINANCIAL SECTOR TARGET MARKET

According to the Uganda Bureau of Statistics' 2018 mid-year estimates, the size of the Uganda population is 38.7 million. The target market for the financial sector (including the banking sector) is the *adult* population of Uganda. This includes those over 16 years of age, who are therefore eligible to work and generate income, and as such are potential consumers of financial services. The adult population of Uganda is 18.6 million. Table 1 gives a summary of its size and demographic distribution.

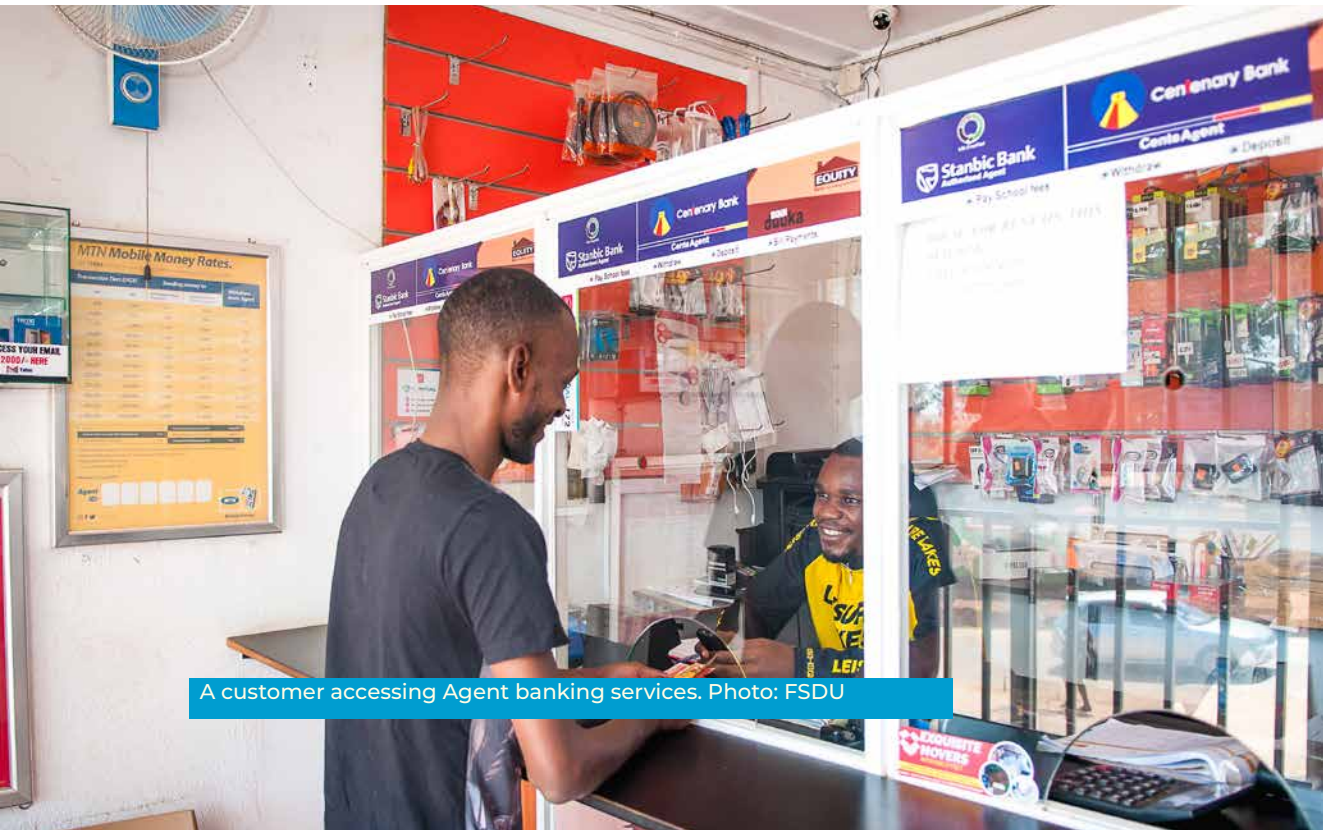
Table 1: Uganda adult population: 2018

Characteristics	Number of adults	% of adults
Total population	18,572,641	100%
Geographical setting		
Rural	14,138,155	76%
Urban	4,434,485	24%
Gender		
Male	8,588,679	46%
Female	9,983,962	54%
Age Category		
16 to 25 years	5,956,209	32%
26 to 35 years	4,919,494	26%
36 to 45 years	3,090,047	17%
46 to 55 years	2,125,581	11%
55 to 65 years	1,599,173	9%
Older than 65 years	882,137	5%
Education level		
Never went to school	2,694,672	15%
Primary levels	10,293,617	55%
Secondary levels	4,502,427	24%
Specialized training	854,751	5%
Tertiary	199,133	1%
Main source of income		
Farmers/fishers	8,822,636	48%
Dependents	3,633,421	20%
Casual labourers	2,701,769	15%
Business owners: traders	1,133,906	6%

Characteristics	Number of adults	% of adults
Formal sector employed	617,084	3%
Business owners: service providers	453,214	2%
Informal sector employed	363,456	2%
Other	847,154	5%

NOTE: 'Casual labourers' is a common term used to describe workers performing a variety of services, on a temporary or part-time basis. Casual labourers usually get paid on completion of their work, with wage levels varying from job to job. Adults from low-income households often perform casual labour to cope with unexpected expenses. Casual labour is different from being employed in the informal sector (e.g. working for the owner of an unregistered business or a farmer) in the sense that those employed in the informal sector receive wages (usually a fixed amount) on a regular basis.

Table 1, above, shows that Uganda's adult population is relatively young (58% are under 36), a slight majority (54%) are female, and around three-quarters live in rural areas. Just over half of the adult population is educated up to primary school level. Most rely on irregular sources of income, and 20% depend on others to give them money or to cover their expenses.



A customer accessing Agent banking services. Photo: FSDU

FINSCOPE UGANDA 2018 FINDINGS

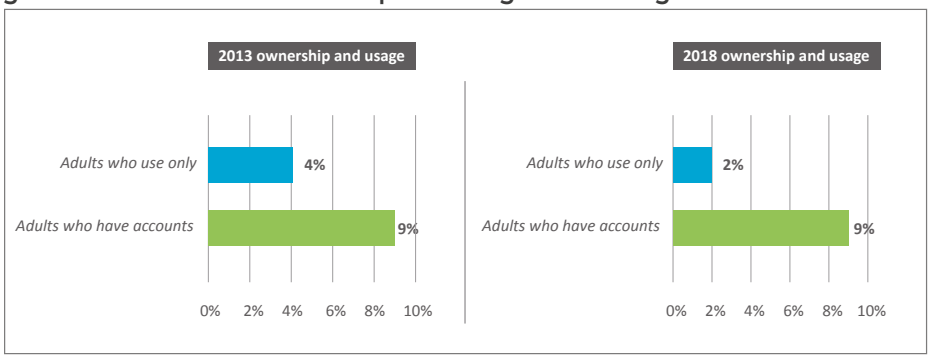
UGANDA'S BANKING SECTOR AND FINANCIAL INCLUSION

In 2018, 11% of adults used services from banks; 9% and 2% of them had accounts and did not have accounts respectively.

Ownership is defined to mean those who currently have an account and those who use such accounts. It includes those who do not have an account but use the services. While in the previous FinScope surveys, banking included commercial banks, Credit Institutions (CIs) and Microfinance Deposit-taking Institutions (MDIs), in 2018, only banks and MDIs were considered hence the need to revise 2013 figures for banking to exclude CIs. The revision was made to make findings from FinScope Uganda comparable across 2013 and 2018 and also across other countries where FinScope is conducted. In addition, CIs were excluded because they do not provide a full range of financial services which the financially excluded and the underserved would need to enable them pay, save, borrow and acquire assets.[1]

Figure 1 below shows that in 2013, 13%, of adults used services from banks. Of those who used banking services, 9% had accounts, while 4% did not have accounts. In 2018, 11% of adults used services from banks. Of those who used banking services, 9% had accounts, while 2% did not have accounts. The 2% drop in those who used banking services between 2013 and 2018 was caused by those adults who use banking services without owning an accounts. Using banking services without owning an account include over the counter transactions (OTC) such as paying school fees and bills and using an account of a relative or friend.

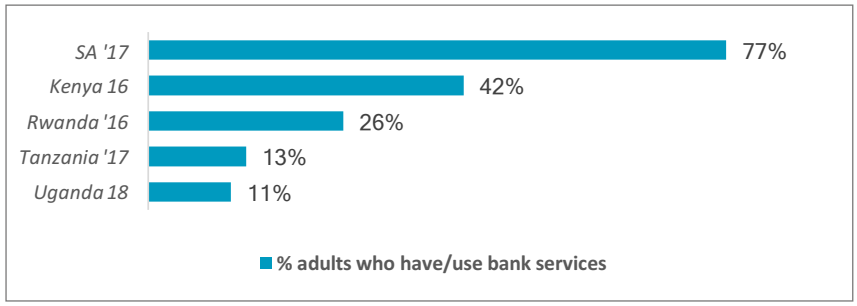
Figure 1: 2013 and 2018 ownership and usage of banking services



1 http://www3.weforum.org/docs/WEF White Paper Advancing Financial Inclusion Metrics.pdf

A comparison with other countries in which FinScope surveys have been conducted shows that, when it comes to the proportion of adults who use banking services, Uganda is lagging behind (see Figure 2 below). The biggest challenge for Uganda lies in accessing its largely rural population (76% of adults live in rural areas, compared to, for example, 66% in Tanzania). Given the high cost of providing financial services to rural areas, Financial Service Providers (FSPs) (banks included) lack an incentive to do so. This means that only 7% of rural Ugandans are 'banked', compared to 24% of those residing in urban areas. To bring about growth in the banking sector, Uganda will have to find innovative ways of reaching potential consumers in the countryside. Agent banking, which was implemented in Tanzania in 2013 and introduced recently in Uganda, and mobile banking are examples of such innovations. These figures indicate that there is a good opportunity to grow banking through mobile services.

Figure 2: Country comparison



Profile of banked adults

Kampala has the highest percentage of banked adults (42%), followed by Wakiso (20%), and Karamoja has the least

Table 2 gives a regional overview of the banked population of Uganda. Once more, it is clear that those in rural regions (such as Karamoja, Kigezi and Bugisu) are less likely to be banked than those in urban regions (like Kampala and Wakiso).

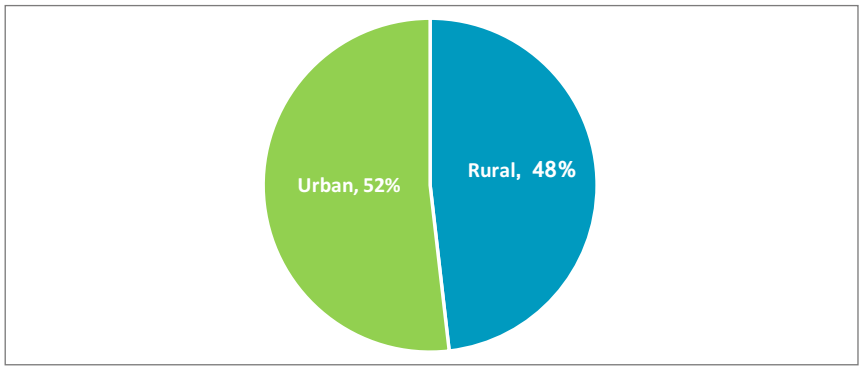
Table 2: Regional breakdown of the banked population

Region	Districts included	Number of adults banked	% of adults in region banked	% of adults in region unbanked	% of regional contribution of banked adults in Uganda	Median monthly income in region (UGX)
Kampala	Kampala	394,255	42%	58%	19%	300,000
Wakiso	Wakiso	115,477	20%	80%	6%	220,000
Bunyoro	Bulisa, Hoima, Kagadi, Kakumiro, Kibaale, Kiryandongo, Masindi	120,384	13%	87%	6%	220,000
Ankole	Buhweju, Bushenyi, Ibanda, Isingiro, Kiruhura, Mbarara, Mitooma, Ntungamo, Rubirizi, Sheema.	286,640	15%	85%	14%	150,000
Central2	Buikwe, Buvima, Kayunga, Kiboga, Kyankwanzi, Kyotera, Luwero, Mityana, Mubende, Mukono, Nakasongola, Nakaseke	363,866	13%	87%	17%	166,667
Acholi	Agago, Amuru, Gulu, Kitgum, Lamwo, Nwoya, Omoro, Pader	108,995	11%	89%	5%	110,000
Lango	Alebtong, Amolatar, Apac, Dokolo, Kole, Lira, Otuke, Oyam, Pakwach	143,606	11%	90%	7%	88,000
Central 1	Butambala, Gomba, Kalanga, Lwengo, Lyantonde, Masaka, Mpigi, Rakai, Ssembabule	95,816	9%	91%	5%	186,000

Region	Districts included	Number of adults banked	% of adults in region banked	% of adults in region unbanked	% of regional contribution of banked adults in Uganda	Median monthly income in region (UGX)
Busoga	Bugiri, Bjuyendi, Iganga, Jinja, Kaliro, Kamuli, Luuka, Mayuge, Namayingo, Namutumba	108,041	8%	92%	5%	110,000
Tooro	Bundbugyo, Bunyangabu, Kabarole, Kamwenge, Kasese, Kyenjojo, Ntoroko	96,171	7%	93%	5%	110,000
Teso	Amuria, Bukedia, Kaberamaido, Kumi, Ngora, Serere, Soroti	46,095	6%	94%	2%	101,000
West Nile	Adjumani, Arua, Kaboko, Marachi, Moyo, Nebbi, Yumbe, Zomba	55,999	6%	94%	3%	110,000
Bukedi	Budaks, Busia, Butaleja, Butebo, kibuku, Pallisa, Tororo	69,277	6%	94%	3%	66,000
Bugishu	Bududa, Bukwo, Bulambuli, Kween, Manafwa, Mbale, Namisindwa, Sironko	62,562	5%	95%	3%	166,667
Kigezi	Kabale, Kanugu, Kisoro, Rubanda, Rukungiri	22,768	4%	96%	1%	80,000
Karamoja	Abim, Amudat, Kaabong, Moroto, Nakapiripirit, Napak	Note: The number of banked adults in the Karamoja region is so small that no banked respondents were identified during the FinScope survey				140,000
UGANDA TOTAL		2,089,952	11%	89%	100%	150,000

Figures 3 to 7, below, illustrate the geographic and demographic distributions of banked adults across the whole of Uganda. Figure 3 shows that 52% of banked Ugandans live in urban areas.

Figure 3: Geographic distribution of banked adults



Banked Ugandans are slightly more likely to be male than female, as Figure 4 shows. When looking at the adult population as a whole, 54% of Ugandan men are banked compared to 46% of women.

Figure 4: Gender distribution of banked adults

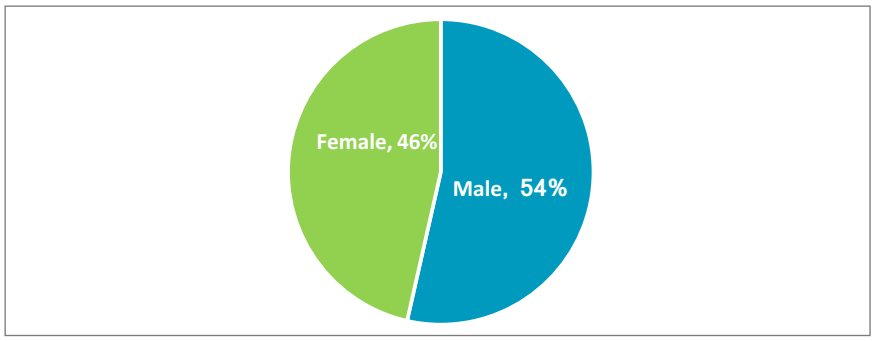
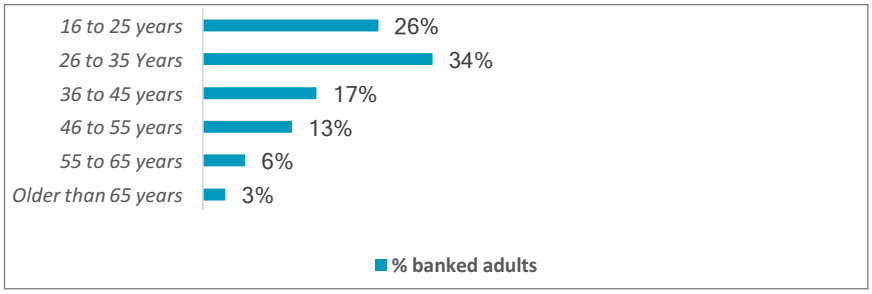


Figure 5 shows that, of the categories used in the FinScope survey, banked Ugandans are most likely to be aged between 26 and 35 years. Those over 65 years are the least likely to be banked.

Figure 5: Age distribution of banked adults



With regards to education, it is most common that banked Ugandans have achieved up to secondary level. Nearly a quarter have obtained specialised training.

Figure 6: Level of education of banked adults

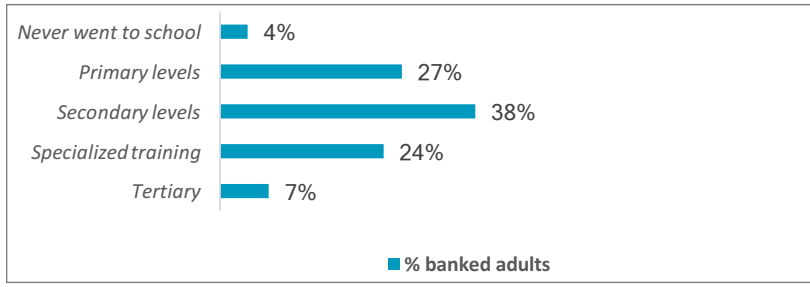
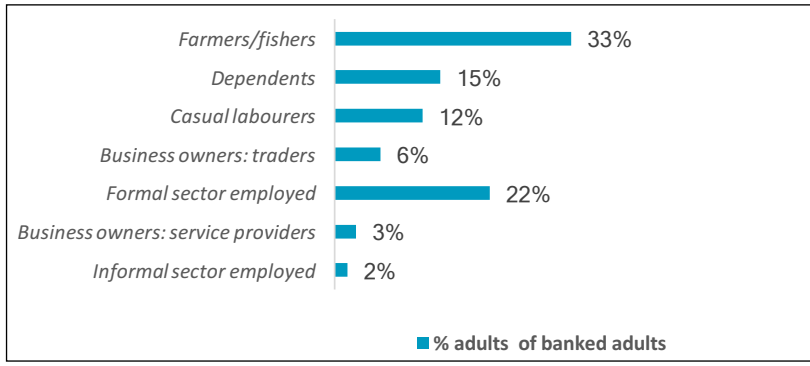


Figure 7, below, shows that farming (33%) and formal sector employment (22%) are the most common sources of income among adults who have bank accounts. Interestingly, some 15% of adults who are banked are dependent on others for money.

Figure 7: Main Sources of income of banked adults



The FinScope 2018 survey for Uganda included, for the first time, geospatial mapping of the locations of financial service access points within the enumerator areas that were sampled. This data indicates that there is a significant correlation between proximity to bank services and service uptake – especially in rural areas.2 In these areas, only 7% of adults who live in EAs without bank services are banked, compared with 20% in EAs that do have bank services.

In urban areas, the proportion of adults who are banked also increases if banking services are offered within the EA in which they live. In this case, however, the increase is only 4% (from 24% to 28%). It therefore seems that, given most banking service providers are located in urban areas, urban-based adults are less concerned than those in rural areas about proximity to banking services.

2 Bank services that were mapped included bank branches, ATMS and bank agents.

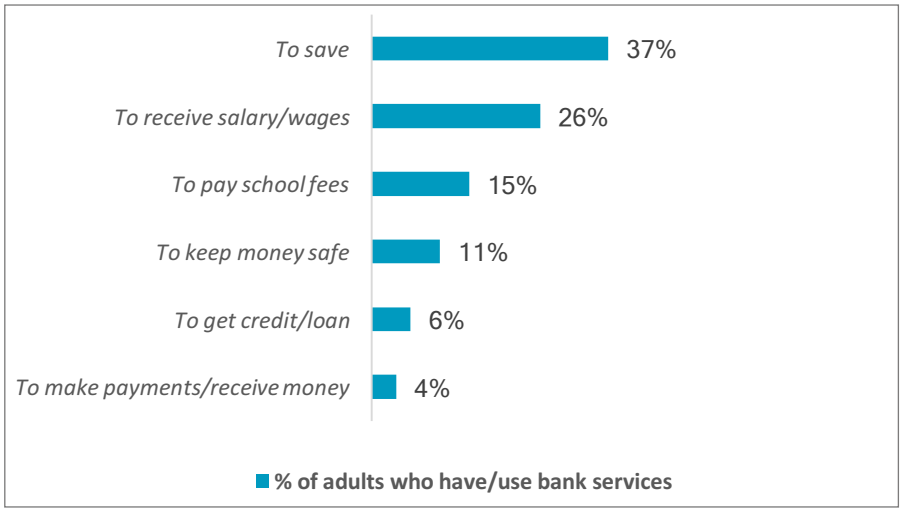
UPTAKE OF BANKING SERVICES

Drivers of uptake

The most significant driver of uptake of banking service is the need to save. The least significant driver is the need to make payments.

The most significant driver of banking service uptake is the need to save. Figure 8, below, shows that 37% of banked adults began using banking services in order to save. The next most common reason to open a bank account was to have somewhere in which to deposit a salary or wages. This aligns with the fact that 25% of banked adults receive a regular salary or wage from formal and/or informal sector employment.

Figure 8: Drivers of banking service uptake



Account ownership

More than eight out of ten Ugandans who use banking services have accounts in their own names. A smaller proportion (14%) access bank services indirectly, either through group membership, by using someone else's account, or by making over-the-counter (OTC) payments. Figure 9 presents the findings on account ownership.

Figure 9: Account ownership

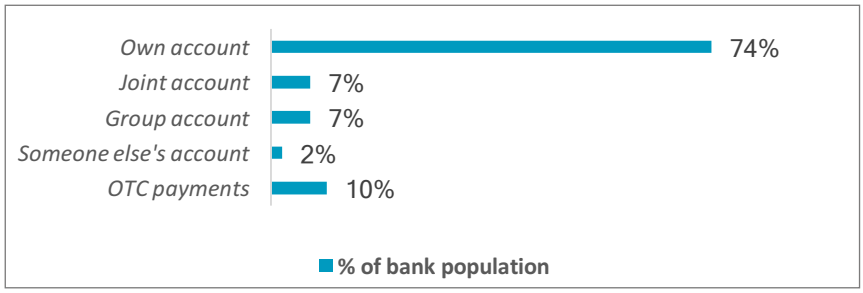
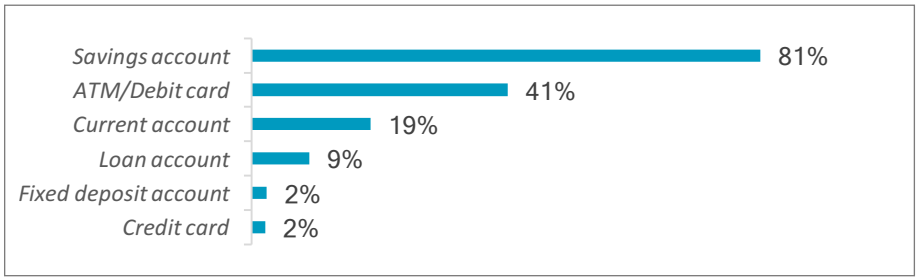


Figure 10 shows the types of services used by adults who are banked. Just over 80% have savings accounts, which are by far the most popular service. Debit cards are the next most common service used by banked Ugandans. The low level of usage of fixed deposit accounts, in comparison with the much higher usage of savings accounts, indicates that Ugandans are saving for short-term, rather than long-term, reasons.

Figure 10: Types of bank services used

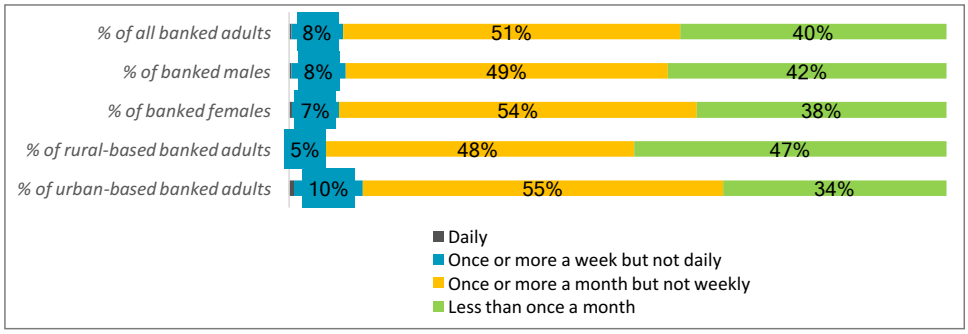


Whereas debit cards are used with a current account, the 'ATM/debit' card category is separated from 'savings account' because some adults do not use cards with their savings accounts.

Frequency and active usage

In terms of how frequently Ugandans use banking services, the findings illustrated by Figure 11 demonstrate most use their bank once or more a month, but not weekly. It is very rare for Ugandans to access banking services on a daily basis, even in urban areas.

Figure 11: Frequency of usage of bank services



As Figure 12 shows, 74% of banked adults are defined as 'active' users of banking services (that is, they have used banking services at least once in the 90 days prior to responding to the survey). Eighteen per cent of banked Ugandans, on the other hand, had not used any banking services for at least six months. The main reason cited for being inactive was not having a need to use a bank. This could either be indicative of services no longer being relevant to the individual (i.e. a supply-side barrier) or the individual not having enough money with which to operate an account (a demand-side barrier).

Figure 12: Most recent usage of bankig services

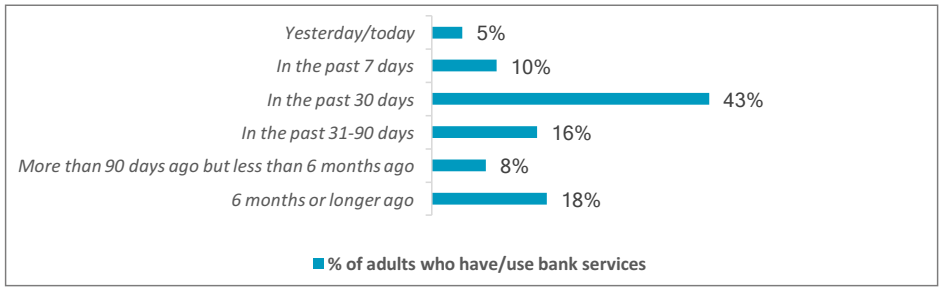


Figure 13, below, shows that banked women are more likely than their male counterparts to have used banking services within the 30 days prior to the study. Those living in urban areas are, as expected, also more likely to have used services recently than those in rural areas. The latter cite distance to bank branches as being a barrier to active usage.

Figure 13: Active Usage by gender and geography

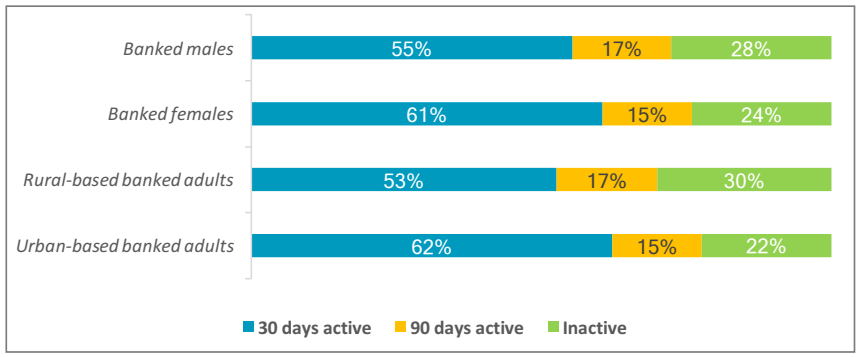
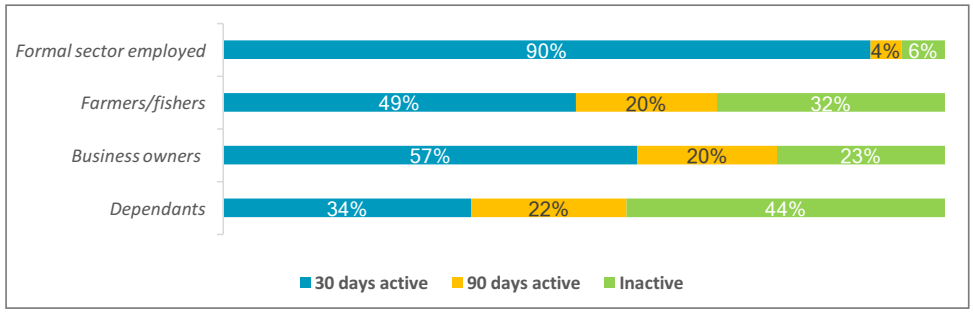


Figure 14 gives an overview of active usage by means of employment. Those employed in the formal sector, who therefore receive salaries through their bank accounts, are the most likely to be active users. Ugandans who rely on farming or fishing for income are less likely to be active bank users, while nearly half of dependants are considered inactive.

Figure 14: Active usage and main income-generating activity



Among inactive users, business owners are the most likely to cite the fact that services do not meet their needs.

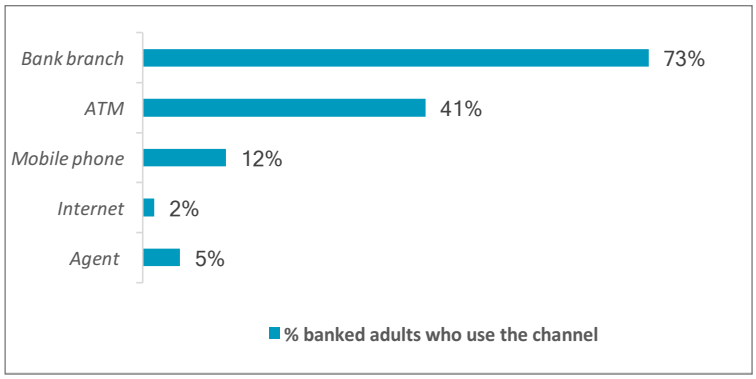
Among banked Ugandans, as Figure 15 shows, the most commonly used means of accessing banking services is a bank branch, followed by an ATM.

With regards to specific services used, the FinScope findings further reveal that:

- Women (52%) are more likely than men (33%) to use an ATM
- Urban-based banked adults (50%) are significantly more likely than those in rural areas (29%) to use an ATM
- Fifty per cent of formally employed Ugandans and 60% of dependants reported using an ATM
- Farmers reported using an agent for banking services more

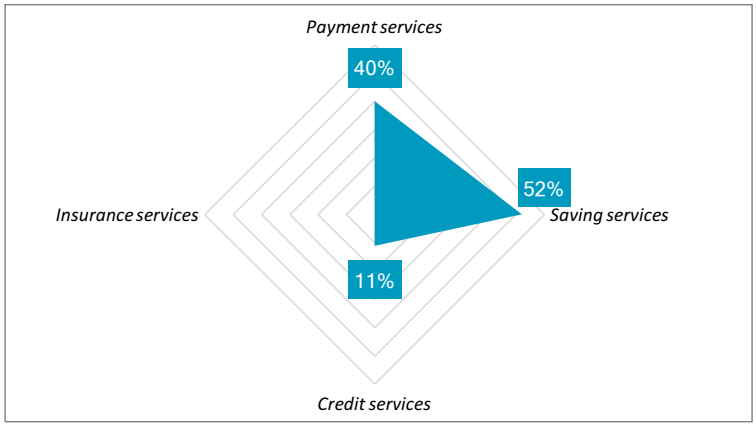
often than using other channels; an indication of the potential of agent banking to reach a large section of the population.

Figure 15: Channels used to access bank services



Bank services are most likely to be used for transferring money, making payments and saving (see Figure 16). Only 11% of bank clients, on the other hand, use credit or loan facilities.

Figure 16: Types of services most used by bank clients



According to the survey findings, there are no Ugandans who use only bank services and no other financial services. Those who access banks also use non-bank formal services and/or informal services (see Figure 17 below). More than half of the banked population (63%) also use informal services. In addition, 36% of Ugandans who hold bank accounts access financial services from non-bank formal service providers. These trends seem to indicate that Ugandans consider banking services inadequate when it comes to providing for their full range of financial needs.

Figure 17: Overlaps in uptake of banking and other financial services

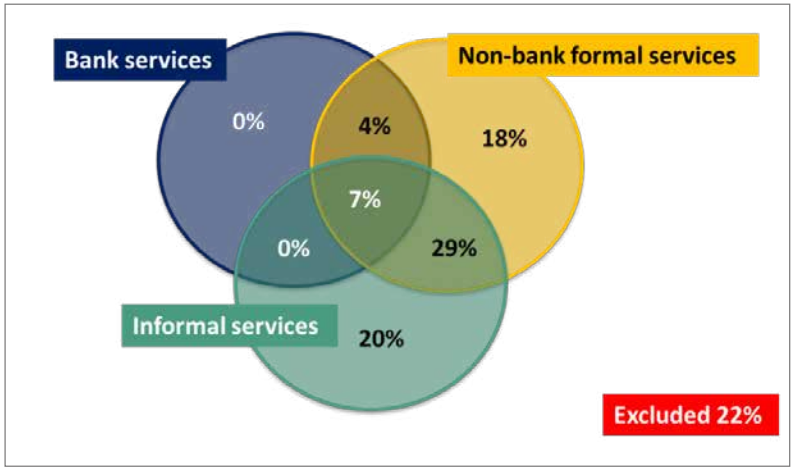


Figure 18, below, shows that 93% of banked adults also use mobile money services to send money to, or receive money from, other parts of the country.

Figure 18: Non-bank formal services used by banked adults

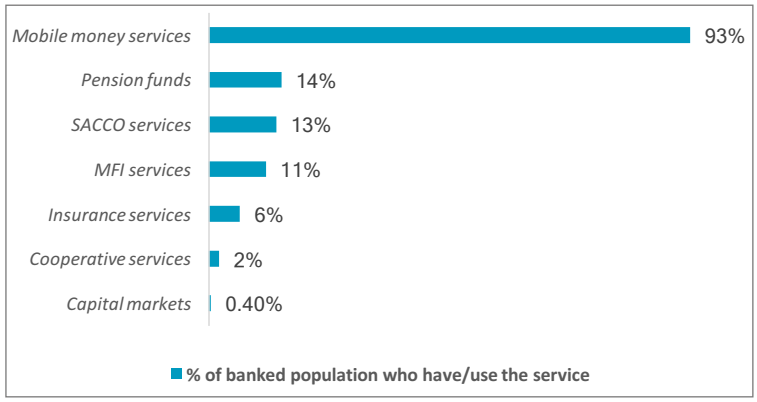
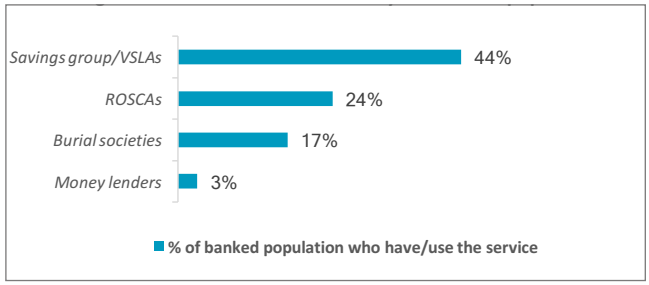


Figure 19 illustrates that 44% of adults who have bank accounts also access savings from savings groups or SACCOS. An additional 24% and 17% access savings from ROSCAs and burial societies respectively. The relatively low usage of burial societies can be explained by their limited penetration and convenience. Only a very small proportion (3%) of banked Ugandans borrow from informal money lenders.

Figure 19: Informal services used by the banked population



There are a number of other reasons why adults who have bank accounts continue to use the services of other types of provider:

- Microfinance institutions (MFIs) and cooperative services give them access to credit services or loans
- SACCO membership provides networking opportunities, as well as access to credit
- Informal group membership (savings groups/VSLAs, ROSCAs and burial societies) allows access to insurance, as well as a lump sum during pay-out
- Money lenders can provide quick access to credit
- Most banked adults who access loans from SACCOs or ROSCAs lack the collateral required to access loans from banks.

SAVINGS BEHAVIOUR OF BANKED ADULTS

Banks are the most popular avenues of savings. Mobile services are the next most popular way to save.

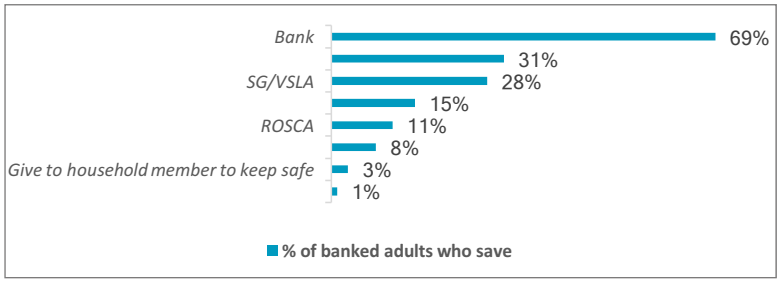
More than half (54%) of Ugandan adults save, and 75% of those who are banked do so. Table 3 gives a demographic overview of banked adults who save. These findings indicate that those who do so are most likely to be male, aged between 26 and 35, have achieved secondary education, and be employed in the formal sector.

Table 3: Profile of banked adults who save

Characteristics	Banked population	
	Savers	Non savers
Number of adults	1,586,976	502,977
% of adults	76%	24%
Geographical setting		
Rural	49%	47%
Urban	51%	53%
Gender		
Male	58%	40%
Female	42%	60%
Age Category		
16 to 25 years	24%	34%
26 to 35 years	37%	26%
36 to 45 years	15%	21%
46 to 55 years	13%	14%
56 to 65 years	7%	3%
Older than 65 years	4%	3%
Educational level		
Never went to school	3%	7%
Primary levels	26%	30%
Secondary levels	39%	33%
Specialized training	26%	19%
Tertiary	6%	11%
Main source of income		
Farmers/fishers	34%	31%
Dependents	11%	27%
Casual labourers	13%	9%
Business owners: traders	5%	10%
Formal sector employed	24%	16%
Business owners: service providers	3%	3%
Informal sector employed	2%	0%

Banked adults regard banks as the safest way to save; 69% of those who save do so with a bank. Mobile services are the next most popular way to save, followed by savings groups/VSLAs. Just over a tenth of banked Ugandans who save do so by keeping money at home (see Figure 20).

Figure 20: Savings mechanisms used by banked adults who save



As shown in Figure 21, below, almost half of banked Ugandans report that the most important factor in choosing where and how to save is the safety of their money. Around one in three is concerned first and foremost about how quickly they will be able to access their savings.

Figure 21: Criteria applied when choosing savings mechanisms

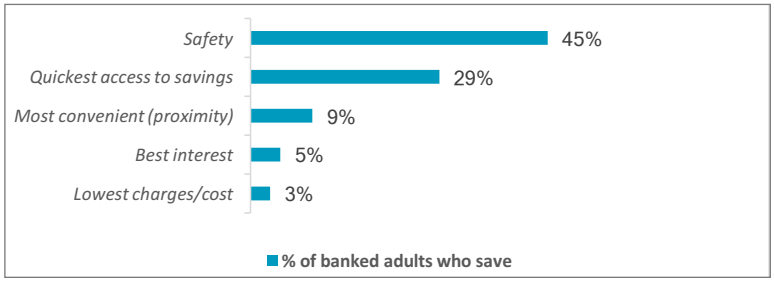
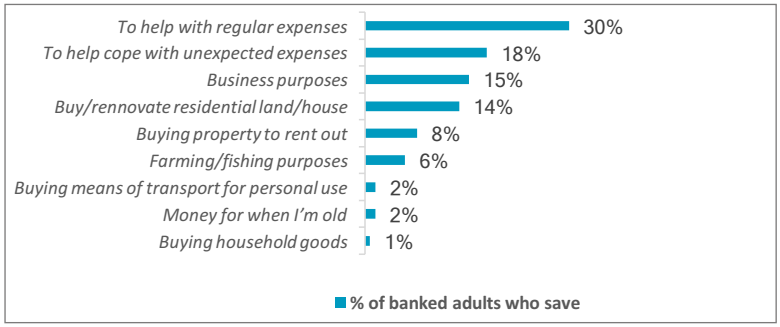


Figure 22 shows that 48% of adults who save do so in order to smooth their cash flow. Another 15% save for business purposes, and 14% do so because they are planning to buy or renovate a house.

Figure 22: Main drivers of savings behaviour



BORROWING BEHAVIOUR OF BANKED ADULTS

Only 19% of banked adults who borrow do so from banks. Nearly half borrow from savings groups/VSLAs

More than half of Ugandans who use banking services are borrowers. Table 4, below, presents a demographic overview of both those who borrow and those who do not. The figures indicate that those who borrow are most likely to be rural-based, have achieved secondary education and rely on farming or fishing for income.

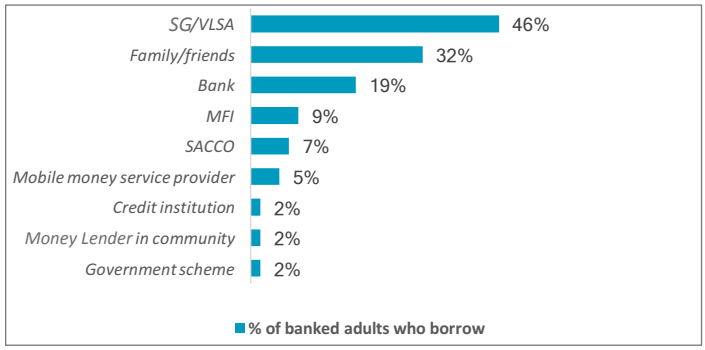
Table 4: Profile of banked adults who borrow

	Banked population	
Characteristics	**Borrowers**	**Non-borrowers**
Number of adults	1,194,703	895,250
% of adults	57%	42%
Geographical setting		
Rural	53%	41%
Urban	47%	59%
Gender		
Male	54%	54%
Female	46%	46%
Age of category		
16 to 25 years	26%	27%
26 to 35 years	33%	35%
36 to 45 years	18%	15%
46 to 55 years	14%	12%
56 to 65 years	6%	7%
Older than 65 years	2%	5%
Educational level		
Never went to school	2%	7%
Primary levels	30%	22%
Secondary levels	35%	41%
Specialised training	27%	21%
Tertiary	6%	9%

Characteristics	Banked population	
	Borrowers	Non-borrowers
Main source of income		
Farmers/ fishers	37%	29%
Dependents	11%	20%
Casual labourers	12%	13%
Business owners: traders	8%	4%
Formal sector employed	23%	20%
Business owners: service providers	4%	2%
Informal sector employed	1%	2%

Interestingly, only 19% banked adults who borrow actually do so from banks (see Figure 23 below). Instead, nearly half borrow from savings groups/VSLAs, while just under a third borrow from friends and family.

Figure 23: Sources of credit



For banked Ugandans, drivers of borrowing behaviour are similar to those of savings behaviour. Smoothing cash flow is, again, the number one reason (see Figure 24, below).

Figure 24: Drivers of borrowing behaviour

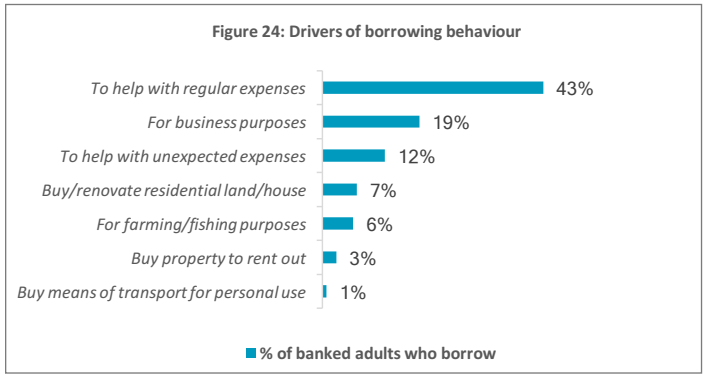
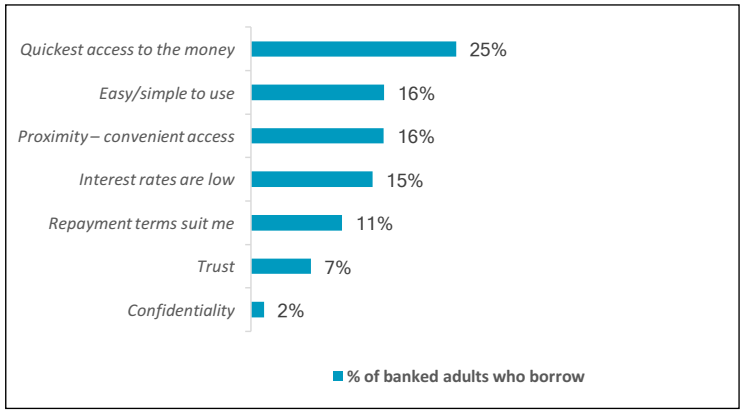


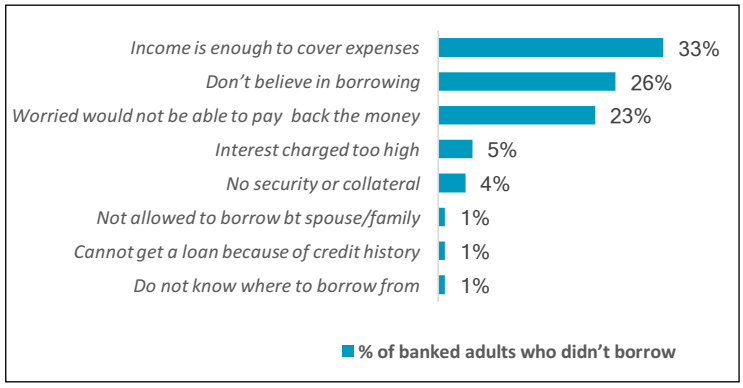
Figure 25, below, shows that when choosing a source of capital, 25% of borrowers seek out a lender who will provide them with the quickest access to credit. Sixteen per cent cited ease of use as their main criterion for choosing a lender, while 15% look for low interest rates.

Figure 25: Criteria for choosing lenders



Many factors discourage banked Ugandans from borrowing (see Figure 26). A third of those who do not borrow said that they already had enough income to cover their expenses. Just over a quarter do not believe in borrowing (which may be for cultural or religious reasons), while 23% are concerned that they would not be able to meet the repayment terms. Only 5% of banked adults who do not borrow cited interest rates being too high, and just 4% said they did not possess the necessary collateral. Noticeably, barriers to borrowing for those who are banked are mainly demand-side, rather that supply-side, in nature.

Figure 26: Barriers to borrowing

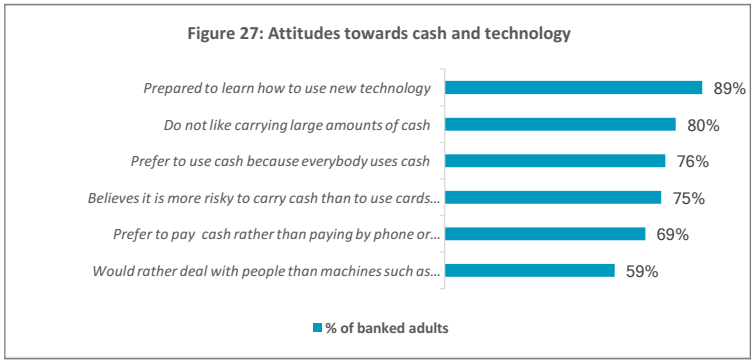


DIGITAL BEHAVIOUR OF BANKED ADULTS

Nearly 90% of Ugandans are prepared to learn and use new technology for payments but over three-quarters still prefer to pay by cash.

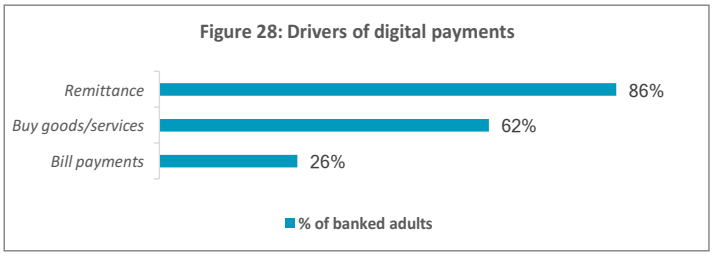
An analysis of attitudes towards cash and technology reveals that nearly nine in ten Ugandans are prepared to learn and use new technology when it comes to payments, and 80% of banked adults do not like to carry large amounts of cash. Over three-quarters, however, said they still prefer to use cash to make payments (see Figure 27).

Figure 27: Attitudes towards cash and technology



As Figure 28 shows, remittances, buying goods or services, and bill payments are the key drivers of use of digital payments.

Figure 28: Drivers of digital payments



BARRIERS TO UPTAKE OF BANKING SERVICES

The main barriers to using banking services is a perception of insufficient income, cited by over half of unbanked Ugandans.

Most Ugandan adults (89%, or 16.5 million) are unbanked. As the findings summarised in Figure 29 show, the main barriers to using banks originate from the demand side. Chief among them is insufficient income, which was cited by over half of unbanked Ugandans. Supply-side perceptions also prevent uptake of banking services. These include proximity to services, inability to maintain the minimum balance required by banks and the perceived high cost of banking services.

Figure 29: Barriers to banking

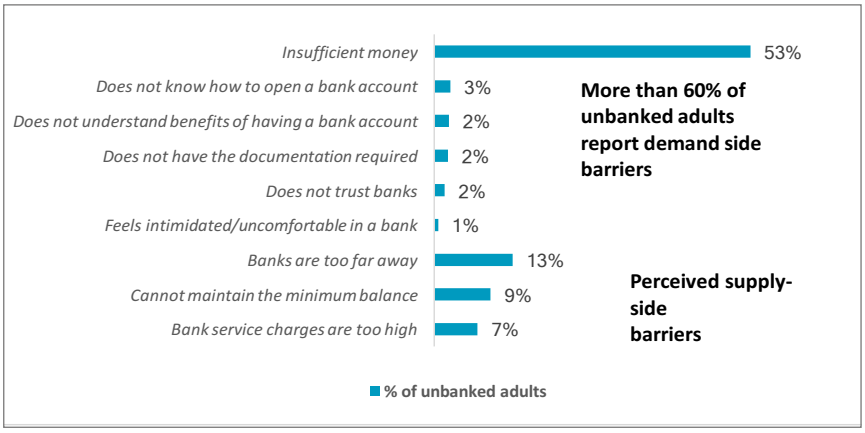


Photo: Uganda Bankers' Association (UBA)

OPPORTUNITIES FOR BANKING

Opportunities to increase uptake of banking services is in serving the 14% who are currently using group accounts and 10% who use OTC services.

Opportunities to increase inclusion in the banking sector and to expand the reach of banking services lie in serving the indirectly banked and in extending services to the unbanked.

Indirectly banked

Although most banked adults (86%) use bank services in their own names, some (14%) use them through a group account or someone else's account, or use OTC services (10%). The indirectly banked, who constitute 300,000 Ugandans, represent the first and most obvious opportunity for banks. Table 5 presents a demographic overview of Uganda's indirectly banked.

Table 5: Profile of indirectly banked adults

Characteristics	Banked population	
	Use bank services in own name.	Indirectly banked.
Number of adults	1,795,533	294,420
Geographical setting		
Rural	46%	63%
Urban	54%	37%
Gender		
Male	55%	45%
Female	45%	55%
Age category		
16 to 25 years	24%	41%
26 to 35 years	37%	17%
36 to 45 years	18%	11%
46 to 55 years	14%	7%
55 to 65 years	4%	20%
Older than 65 years	3%	4%
Educational level		
Never went to school	3%	8%
Primary levels	26%	29%

Characteristics	Banked population	
	Use bank services in own name.	Indirectly banked.
Secondary levels	35%	53%
Specialized training	27%	10%
Tertiary	8%	
Main source of income		
Formal sector employed	25%	2%
Informal sector emplyed	2%	
Farmers/fishers	48%	50%
Business owners - traders	7%	6%
Business owners - service providers	3%	4%
Casual labourers	13%	7%
Dependents	13%	25%

According to these figures, indirectly banked individuals are most likely to be rural-based, aged between 16 and 25, and rely either on farming or fishing for income, or be dependent on a household member to provide them with money.

These individuals are most likely to be students, whose main service needs include:

- money transfer services (for receiving money from their household members)
- digital payment facilities to pay school fees and other opportunity costs
- educational savings and loan facilities

The indirectly banked are most accessible as 37% are urban-based, 26% own mobile phones, 87% have proof of identity, 21% have documentation to prove their residential addresses and 20% have both proof of identity and residence.

Unbanked population

Profile of the unbanked

Table 6 gives an overview of the characteristics of these 16.5 million unbanked adults in Uganda. They are most likely to be rural-based, female, aged between 16 and 25 and have achieved only primary school education. They also tend to rely either on others or on farming/fishing for income.

Table 6: Profile of the unbanked population

Characteristics	Bank Status	
	Unbanked	Banked
Number of Adults	16,482,688	2,089,953
% of adults	89%	11%
Geographical setting		
Rural	80%	48%
Urban	20%	52%
Gender		
Male	45%	54%
Female	55%	46%
Age Category		
16 to 25 years	33%	26%
26 to 35 years	26%	34%
36 to 45 years	17%	17%
46 to 55 years	11%	13%
56 to 65 years	9%	6%
Older than 65 years	5%	3%
Education level		
Never went to school	16%	4%
Primary levels	59%	27%
Secondary levels	23%	38%
Specialized triaining	2%	24%
Tertiary	0%	7%
Main source of income		
Farmers/ fishers	49%	33%
Dependents	20%	15%
Casual labourers	15%	12%
Business owners: traders	6%	6%
Formal sector employed	1%	22%
Business owners: service providers	2%	3%
Informal sector employed	2%	2%

Segmenting the unbanked

Six million Adults (32%) provides low hanging fruits as they already meet KYC requirements but are not banked. Banks have to invest in product development and channel upgrading in order to include three million (16%).

The 16.5 million unbanked adults in Uganda are not homogeneous in terms of their demographic characteristics, as is illustrated in Table 6. They therefore have varied financial needs, and a 'one-size-fits-all' approach to attracting them to banking will not be effective.

The objective of segmenting the unbanked population is to identify smaller segments with distinct financial service needs, to allow for better targeting.

The first step in the segmentation process is the identification of those unbanked adults who have a similar profile to the current banked population (and who therefore do not appear to have any significant barriers to uptake). Three clusters were identified: the banked, bankable after upgrading (development segment) and the unbankable. Table 7 presents the size of these market segments and Table 8 details their demographic characteristics.

Table 7: Size of the unbanked segments

	Unbanked Segments		
	Bankable	Development	Unbankable
Number of adults	6,168,360	3,148,258	7,166,070
% of unbanked adults	32%	16%	37%

Table 8: Geographic and demographic distributions of unbanked segments

Characteristics	% Of adults per unbanked segment		
	Bankable	Development	Unbankable
Geographical setting			
Rural	62%	87%	92%
Urban	38%	13%	8%

Characteristics	% 0f adults per unbanked segment		
	Bankable	Development	Unbankable
Gender			
Male	41%	54%	45%
Female	59%	46%	55%
Age category			
16 to 25 years	49%	15%	27%
26 to 35 years	27%	21%	26%
36 to 45 years	12%	18%	20%
46 to 55 years	7%	17%	12%
55 to 65 years	4%	18%	9%
Older than 65 years	1%	11%	6%
Education level			
Never went to school	1%	28%	23%
Primary levels	46%	72%	65%
Secondary levels	47%		11%
Specialized training	5%		1%
Tertiary	1%		
Main source of income			
Formal sector employed	2%	0%	0%
Informal sector employed	4%	2%	1%
Farmers/fishers	37%	55%	58%
Business owners traders	8%	7%	4%
Business owners service providers	3%	2%	2%
Casual labouers	17%	11%	15%
Dependents	25%	19%	17%

Bankable segment

The bankable segment comprises 6.2 million adults. Their demographic profile, level of connectivity and level of wealth are all largely the same as that of the current banked population. There is no obvious barrier to banking for the individuals in this segment.

- Ugandans in the bankable segment are significantly more likely than other unbanked adults to be from households with higher

incomes. Adults in the bankable segment can in general be described as urban-based, young adults who are either studying or have just completed studying.

As with the indirectly banked, their main service needs could include:

- money transfer services (for receiving money from household members)
- digital payment facilities to pay school fees and other opportunity costs
- educational savings and loan facilities

There are also a number of other likely service needs that can be addressed:

- ***Savings*** needs – 56% of adults in the bankable segment save. They choose a savings mechanism based on how quickly they can access their money, as they are most likely to save to smoothen cash flow. This also means they are most likely to save on their phones, with a savings group or at home, although they regard putting their money in a bank as the safest means of saving.
- ***Credit*** needs – 46% of adults in the bankable segment borrow. Again, most of them choose a lender based on speed of access to their money as they mostly borrow to smoothen cash flow, but they also regard simplicity of the application process and proximity to the lender as important criteria. They feel most confident borrowing from family and friends or savings groups. Their asset-building aspirations may also play a part in their borrowing – 33% (2 million) aspire to buy land while 21% (1.3 million) want to build/buy a house (although 42% have no strategy to finance these plans).
- ***Payment*** needs – those in the bankable segment are more likely than others to regard carrying cash as risky, are more willing to use new technology and are less likely to prefer making payments using cash.
    - ***Digital payment*** needs – bankable Ugandans are more likely than those in other segments to need money transfer services to pay their bills or to buy goods and services. Two million adults (32%) in this segment currently use mobile phone services to pay for goods and services, while 0.5 million (7%) pay utility bills using mobile money services.
    - ***Remittance*** needs – 70% of adults (4.3 million) in the bankable segment need money transfer services to meet their remittance needs. Currently, most of them (80%) use formal services (mainly mobile money services), while 20% don't have any digital facilities for sending and receiving money.

Given that the saving and borrowing behaviour of those in the bankable segment is mainly driven by a need to smoothen cash flow, most don't have reliable strategies for future financial security. In other words, their financial behaviour is driven by short-term, rather than long-term, concerns. This tendency, together with the finding that most (60%) admit that they need financial advice but tend to turn to a household or family member instead of a professional, is indicative of a need for financial education.

Development segment

There are about 3 million adults in the development segment. They lack some of the characteristics that would make them bankable; given the services currently offered by Ugandan banks, some changes (either on the demand or the supply side) are needed before individuals in this segment become banked.

- ***Accessibility*** – although adults in this segment have better capacity to meet KYC requirements than those in the bankable segment, they are less connected. A regression analysis revealed that connectivity is more significant for the banking sector than meeting KYC requirements. Furthermore, the geographical distribution of the adults in this segment makes them much less accessible for FSPs than those in the bankable segment – 87% live in rural areas.
- ***Demand-side*** barriers making this segment less profitable for banks are as follows:
    - They are older than those in the bankable segment – one in three are older than 55 and therefore nearing the age of becoming dependent on others for money, rather than being economically active
    - They are more likely than those in the bankable segment to rely on irregular sources of income, such as farming/fishing activities and casual labour
    - They have not obtained a secondary education, and are therefore likely to be less financially literate than those in the bankable segment
    - They are more likely than those in the bankable segment to prefer to use cash rather than technology to make payments.
- In terms of ***supply-side*** barriers, those in the development segment are more likely than those in the bankable segment to cite distance from a bank as a reason for not using banking services.

Unbankable segment

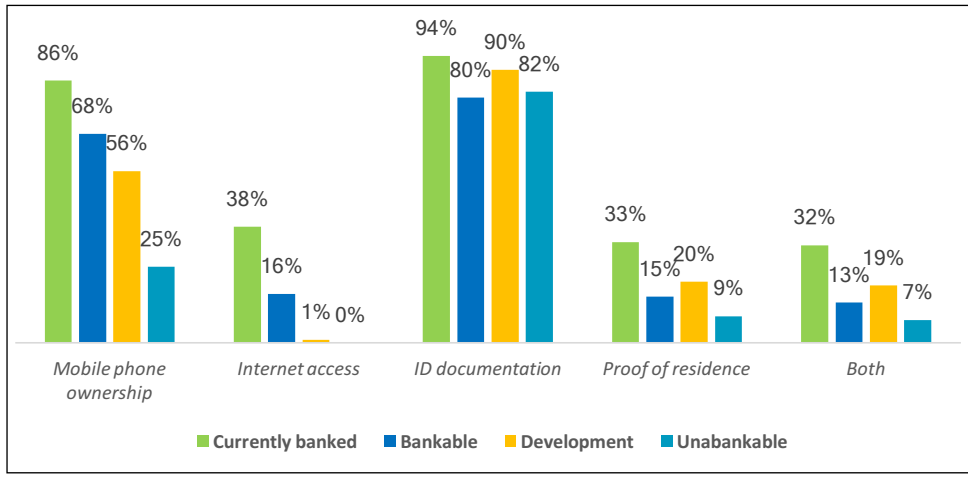
The unbankable segment includes 7.2 million Ugandans. They are so different from the currently banked population that it is likely they will not become bankable in the short term. This segment is beyond the current banking access frontier and significant changes (on both the demand as well as the supply side) are needed to make these individuals reachable.

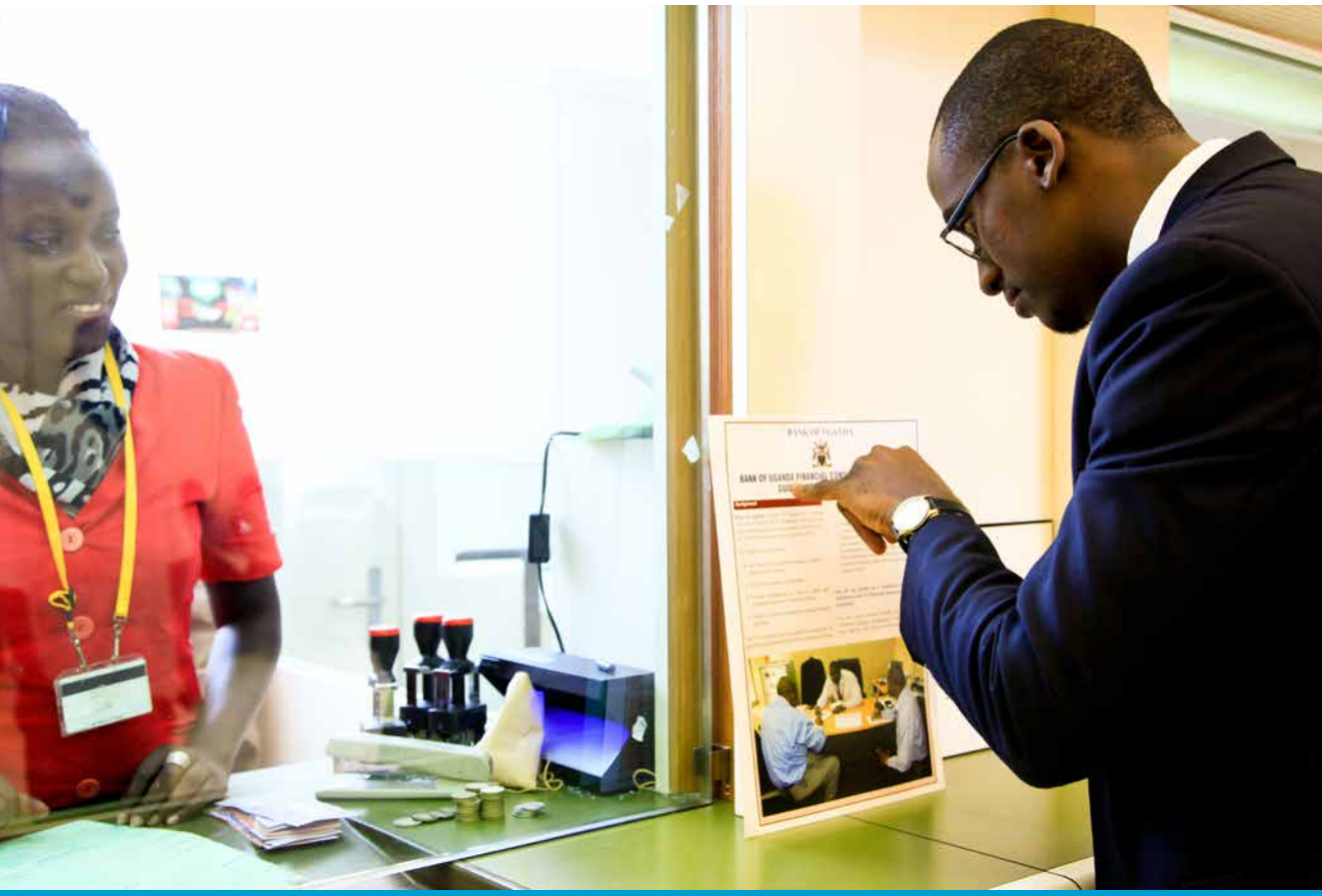
One of the major factors in this is that adults in the unbankable segment come from the country's lowest income households. In terms of self-reported barriers to banking, they are significantly more likely than other unbanked adults to claim that they do not have enough money to justify opening a bank account.

Unbankable Ugandans are also very difficult for banks to access. Ninety-two per cent of them live in rural areas, only 25% have mobile phones and none of them have internet access.

Figure 30 gives an overview of the accessibility of adults in the different segments in terms of connectivity and capacity to meet KYC requirements.

Figure 30: Connectivity and capacity to meet KYC requirements





A customer accessing banking services. Photo: Bank of Uganda

CONCLUSIONS AND RECOMENDATIONS

Only 7% of adults in rural areas are banked compared to 24% in urban areas due to high cost of opening bank branches in rural areas.

The banking sector in Uganda currently serves 11% of the adult population. The biggest challenge for Uganda lies in the accessibility of its adult population. Most adults (76%) reside in rural areas, and the high cost of providing financial services to these parts of the country tends to prevent FSPs from extending their services. This means only 7% of rural Ugandans are banked, compared with 24% of those who live in towns and cities. The agency banking initiative is likely to address this, if bank agents are deliberately selected and established in a way that addresses the rural-urban divide.

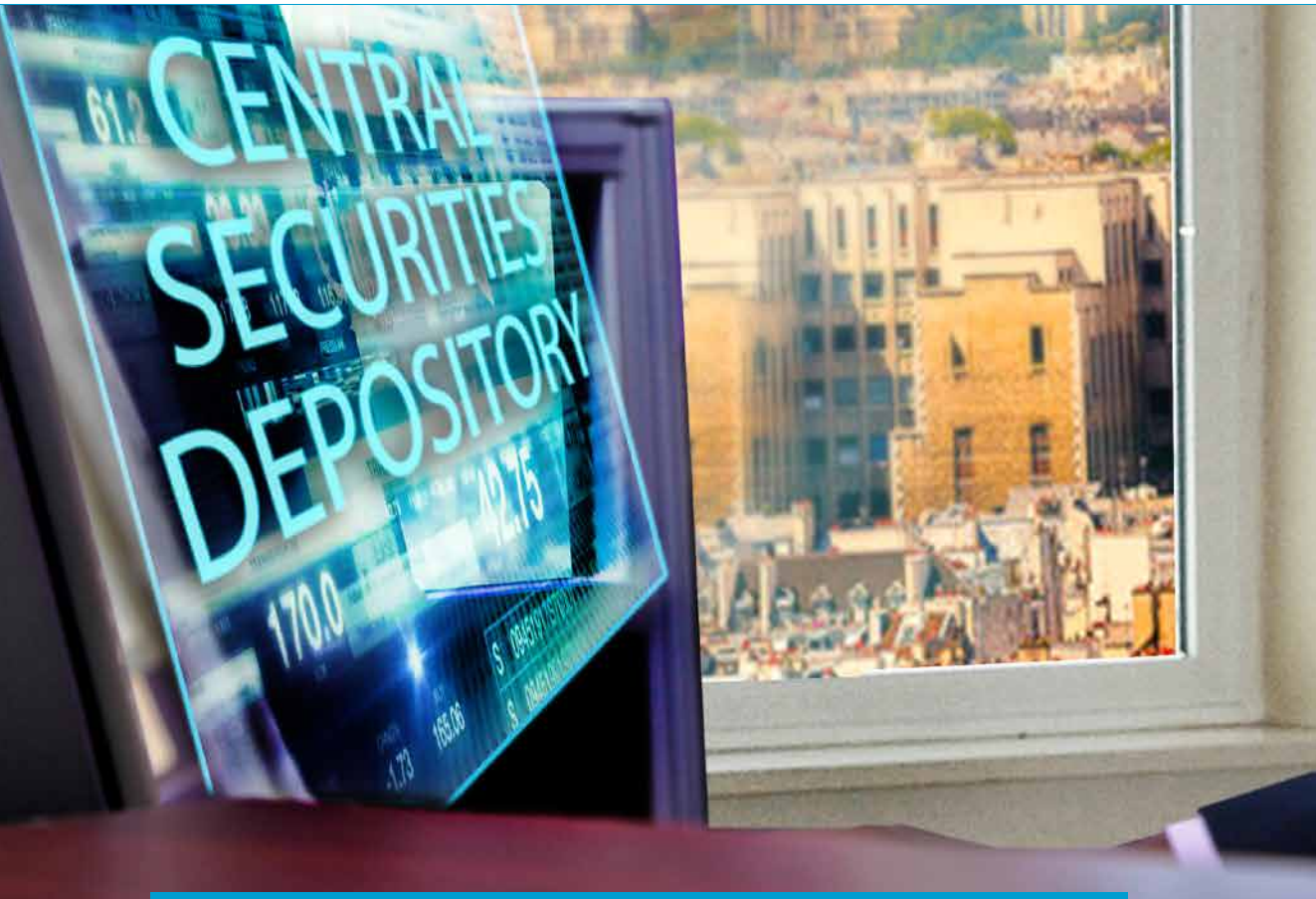
The need to save is a key driver of banking services; 37% of banked adults started using a bank in order to save. Single account ownership constitutes 86% of all bank account ownership, and most Ugandans (51%) use their accounts more than once a month. Bank branches are the most popular means of operating an account. More than half of the banked population (63%) also use informal services, casting a doubt as to whether banking services are relevant and adequate for many Ugandans. Opportunities to increase inclusion in the banking sector and to expand the reach of banking services lie in serving the indirectly banked and in extending services to the unbanked.

Among the unbanked, this report has identified three distinct market segments: the bankable, a development segment, and the unbankable. The bankable segment comprises 6.2 million Ugandans, all of whom share similar characteristics to those who are currently banked. The development segment is made up of 3 million adults, each of whom lacks some of the characteristics that would make them bankable but represents a potential customer, should certain changes on the demand or supply side be made. The unbankable segment is beyond the current banking access frontier; significant changes would be required to make these individuals bankable.

Innovative products and channel upgrading that bring down costs of service delivery are likely to increase uptake of banking services to 45%.

If the Ugandan banking sector were to be successful in converting all of those in the bankable segment, the banked proportion of Uganda's adult population would rise to 45% – putting Uganda on a par with Kenya.

This study therefore recommends direct marketing initiatives, innovative product development and the upgrading of delivery channels (such as agent banking) – targeted at the bankable and development sectors – are necessary to increase the reach of banking services in Uganda.



A montage of a client accessing stock exchange services online. Photo: Bank of Uganda

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