FINANCIAL INCLUSION IN UGANDA

A Presentation During the 2nd Meeting of the COMCEC Financial Cooperation Working Group, March 27th, 2014, at Crowne Plaza 0Hotel, in Ankara, Republic of Turkey

By Kasenge Lawrence
Economist, Microfinance Department, Ministry Of Finance, Planning And Economic Development, UGANDA

Outline of presentation

- Background
- Classification of Financial institutions
- FINANCIAL INCLUSION IN UGANDA-Key Findings of FINSCOPE Survey
- Financial Access Strands
- Challenges and Barriers to financial Inclusion
- Way Forward

Background

- Since 2006, the Uganda's financial sector has experienced positive changes, remarkably; in the increase of commercial banks (24 banks with over 400 branches), SACCOS and MFIS and informal financial institutions (VSLAs, ASCAs and ROSCAs)
  - 20 insurance companies licensed and regulated by IRA
  - In particular since 2009, there has been a dramatic increase in the use of mobile money services
- Government efforts to strengthen financial inclusion since 2001
- With the above developments, there is need to explore the extent to which these developments have translated into more financial inclusion of the adult population.
- In Uganda this has been monitored through FinScope surveys since 2006, repeated every after three years

Financial Inclusion- Definition & Measurement Issues

- Financial inclusion means access to basic financial services from reliable service providers in day to day life.

Financial Inclusion- Definition & Measurement Issues

- With no widely adopted uniform definition, financial inclusion is reckoned in Uganda as access to financial services from:

a) Officially regulated and supervised entities

- Banks and MDI institutions licensed by Bank of Uganda
- Insurance companies supervised by Insurance Regulatory Authority,
- Capital market institutions like investment banks, merchant banks, stock exchanges supervised by the Securities and Exchange Commission (SEC).

a) Official entities themselves

- Post offices offering savings;
- Money transfer and insurance services;
- Mobile banking

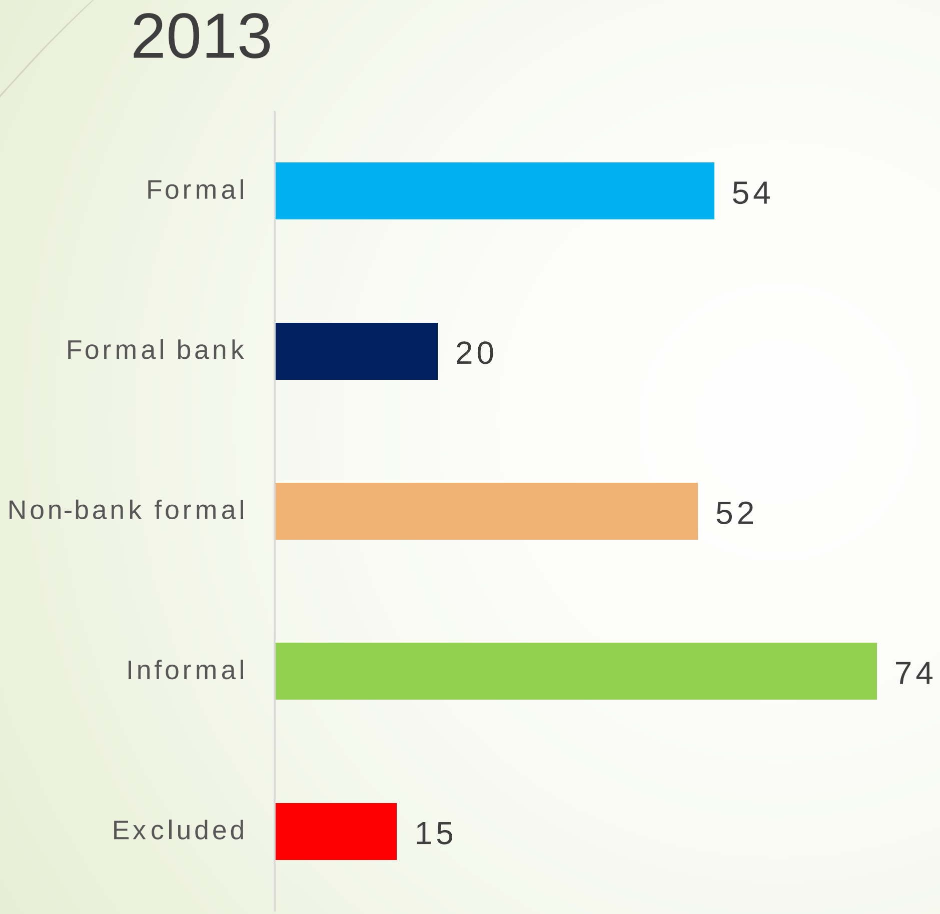
classification of Financial institutions

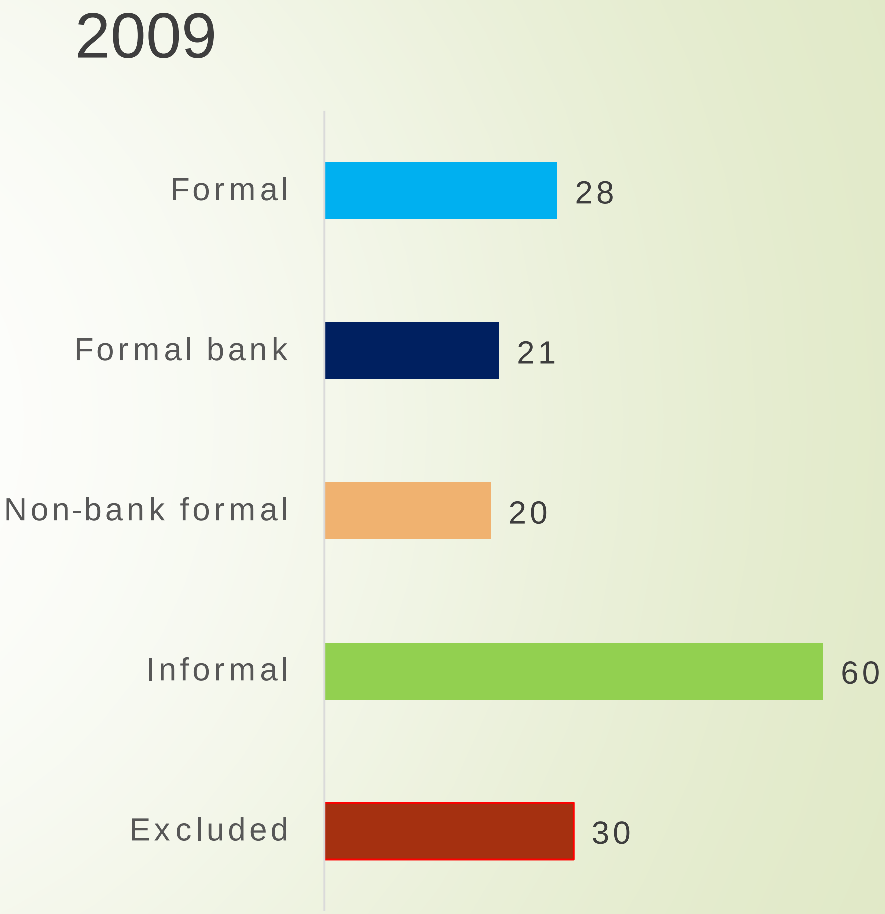
- Financial access strand – FinMark Framework
  - Formal banked (regulated by BoU) - commercial banks, microfinance deposit taking institutions (MDIs)
  - Non-Bank Formal– SACCOs and Other MFIs at Tier 4, Insurance firms, Forex bureaus, Mobile money, other
  - Informal – Village and community based savings and loans associations (VSLAs, ROSCAs, ASCAs) and Money lenders, others
  - Financially excluded- Not transacting any financial services

FINANCIAL INCLUSION IN UGANDA

FINSCOPE 3 SURVEY 2013

Overall usage of financial services, %



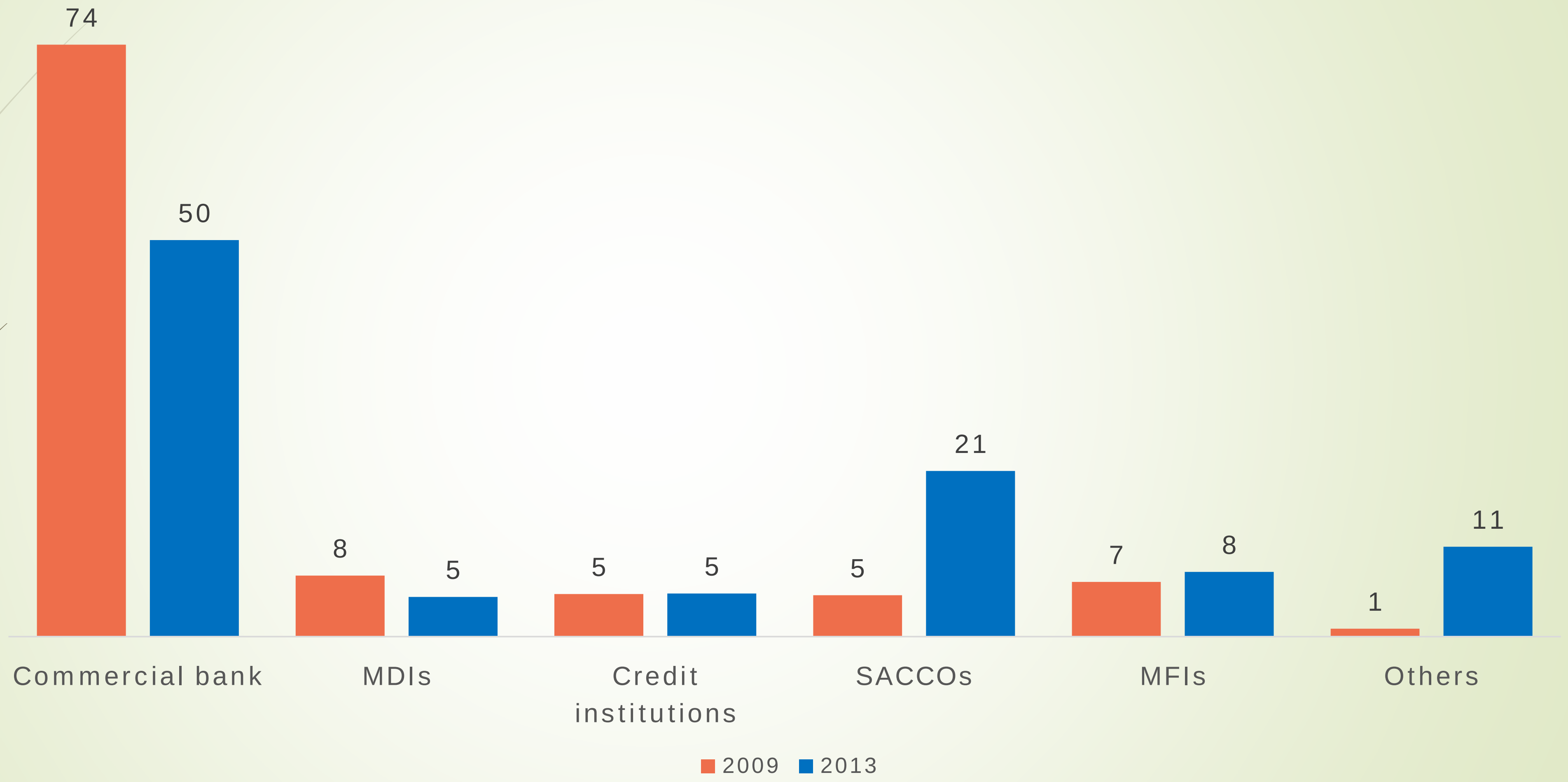


Formal Product penetration

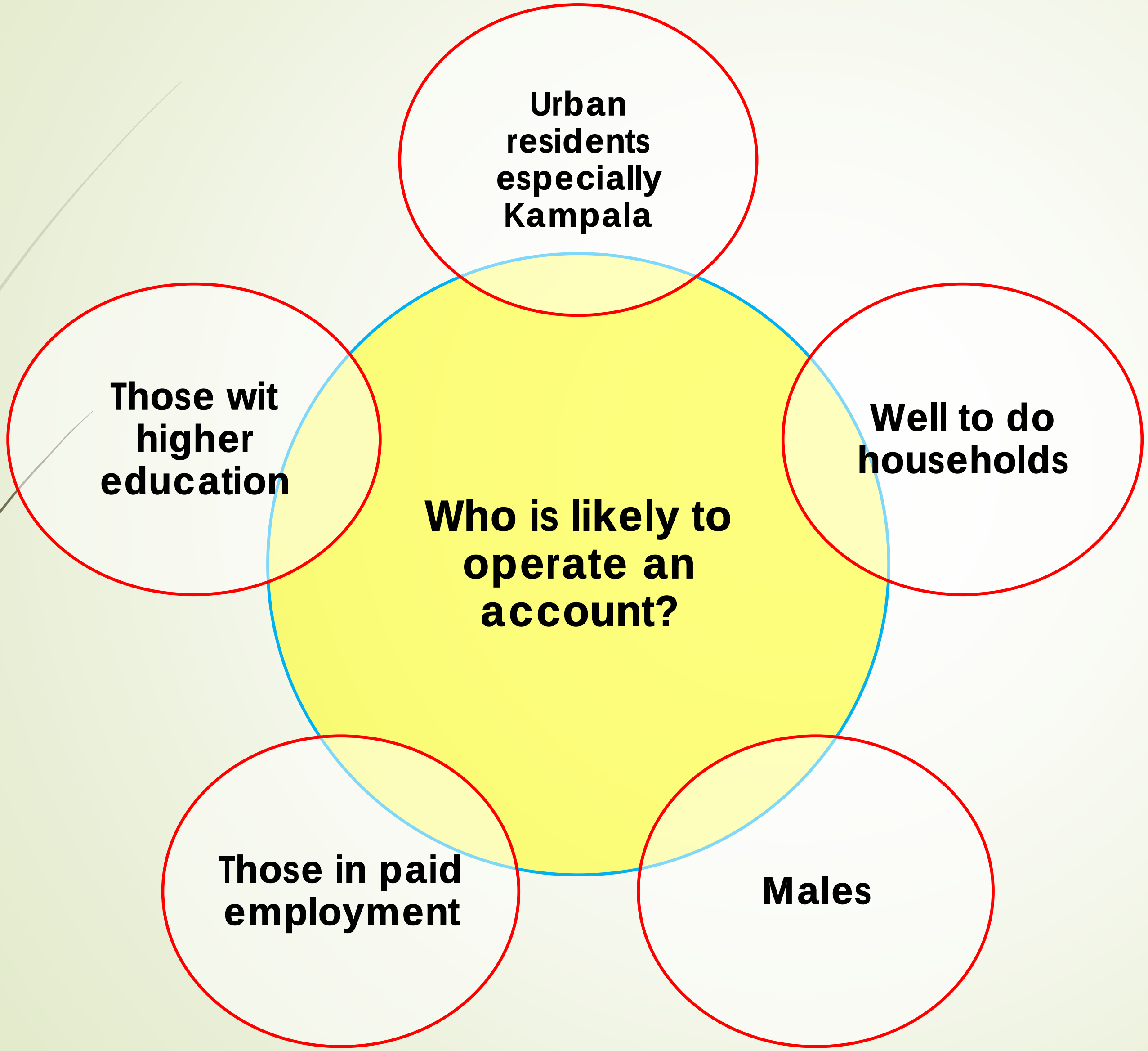
Formal product penetration means products and services that are transacted through formal financial institutions (formal banked and non-bank formal)

- These include (operating a savings account, fixed deposit account, joint account, current account, ATM card/Debit card, credit card, investment account, other)
- The common ones are operating a savings account and ATM card/Debit card
- Overall 20 percent of Adult Ugandans have accounts with formal financial institutions
- SACCOs next to commercial banks seem to be picking up in providing account holding

Operating an account with formal financial institutions, %



Product penetration…ctd



- The main accounts operated are savings followed by ATM card/Debit, which are operated by more than 10 percent of the urban population
- The most common transactions with different banking points are deposit and withdraws by about 33 percent of the adult population in 2013

SAVINGS AND INVESTMENTS

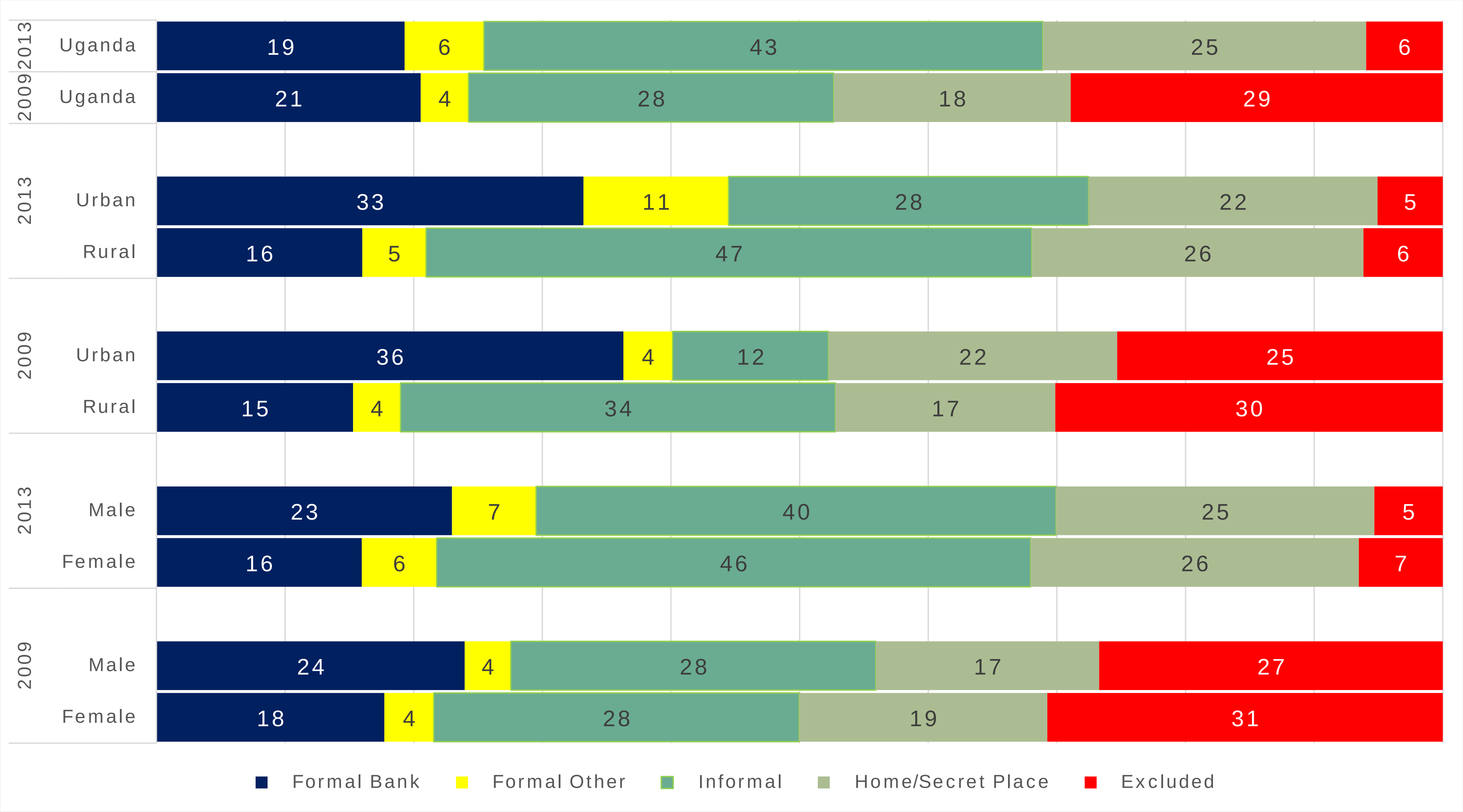
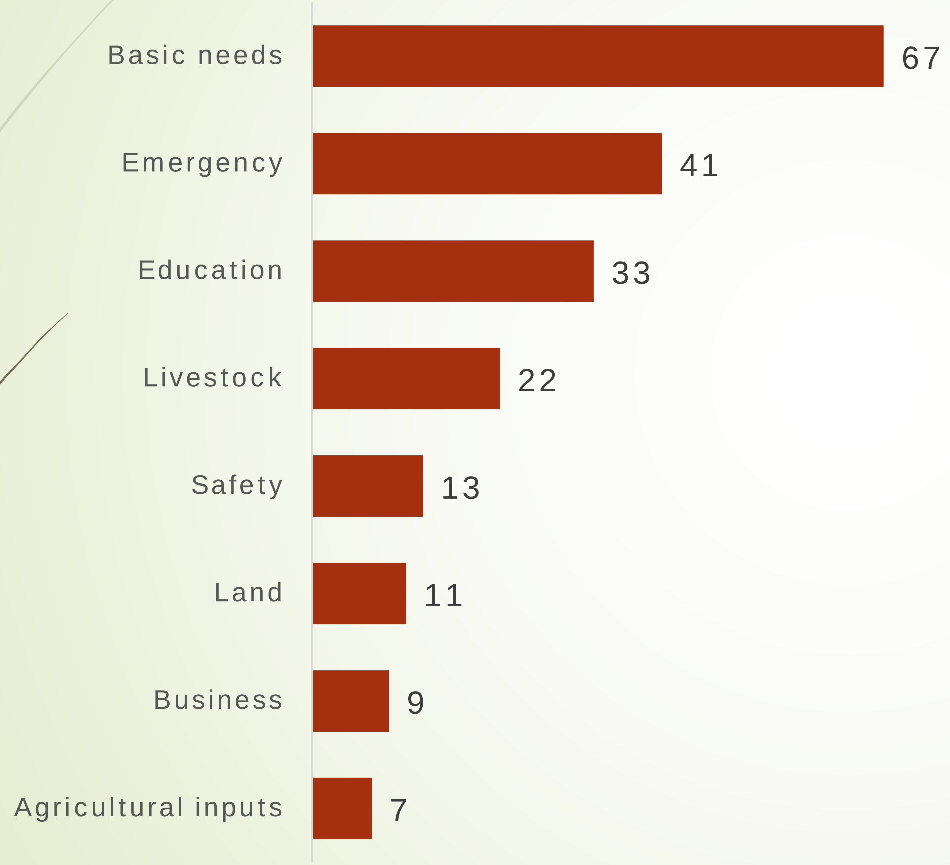
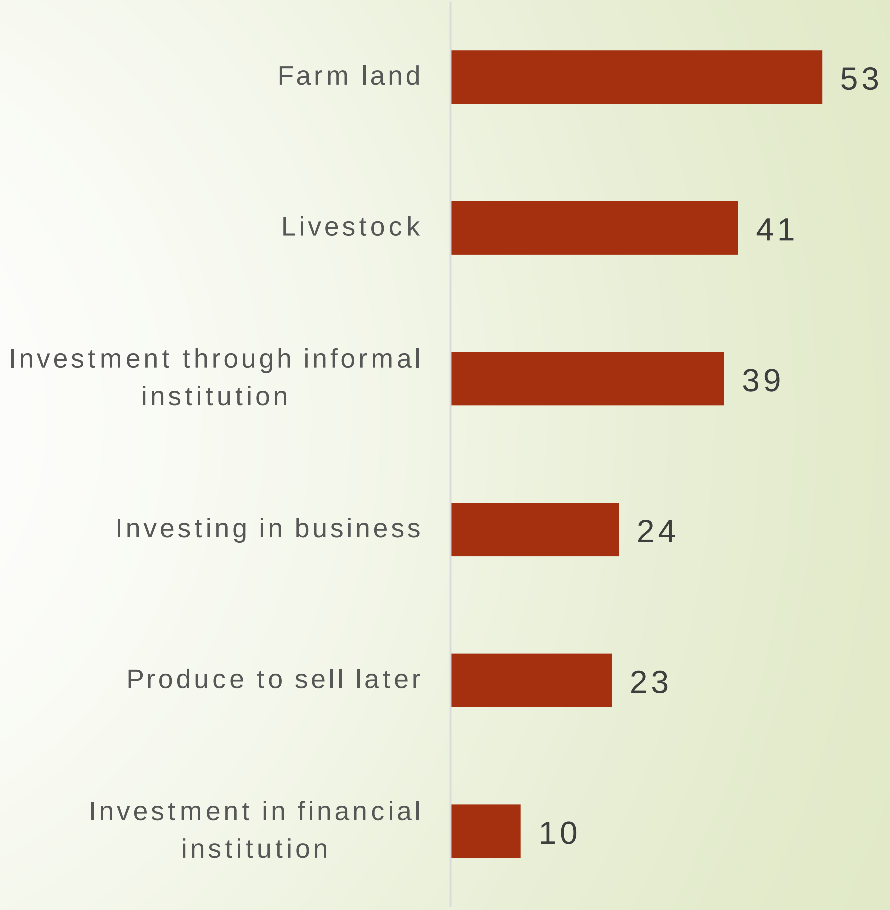


Figure 6: Savings and investment strand, %

Reasons for savings, %



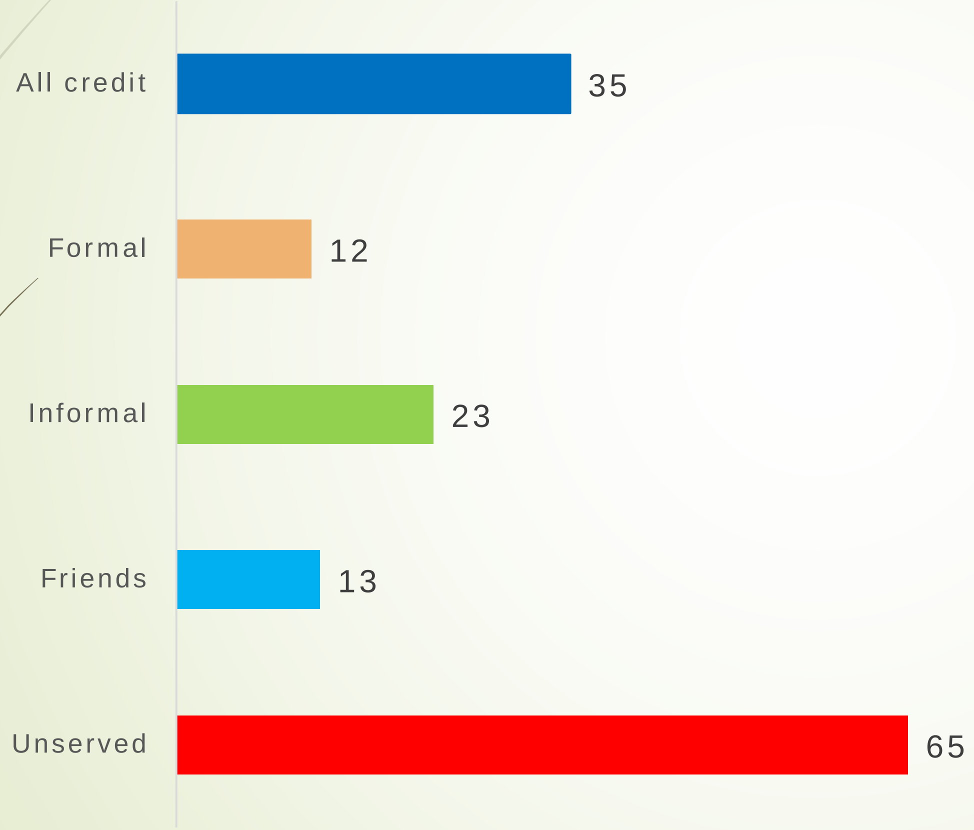
Investment mechanisms, %



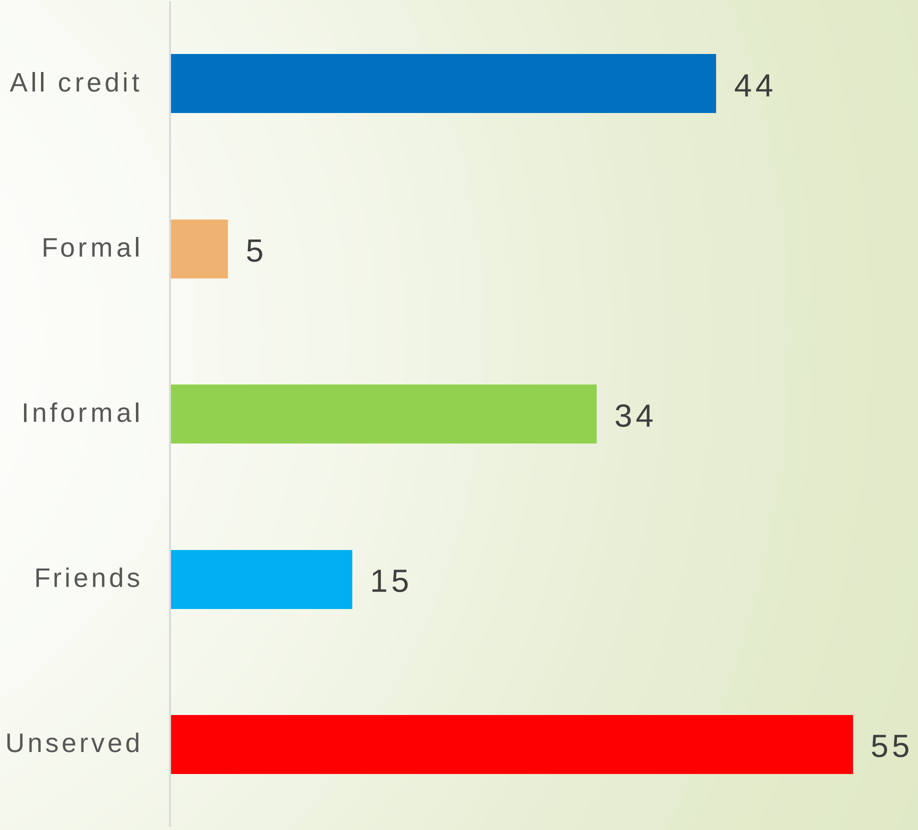
CREDIT & BORROWING

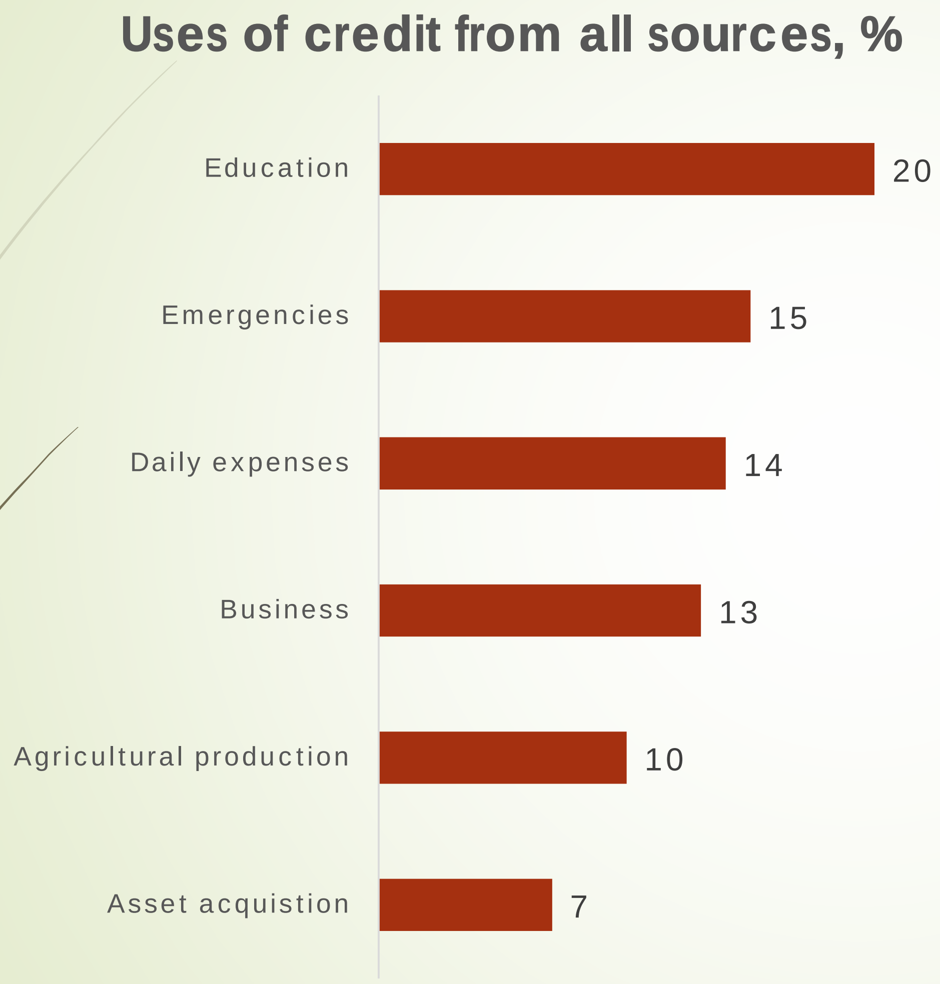
Overall access to credit %

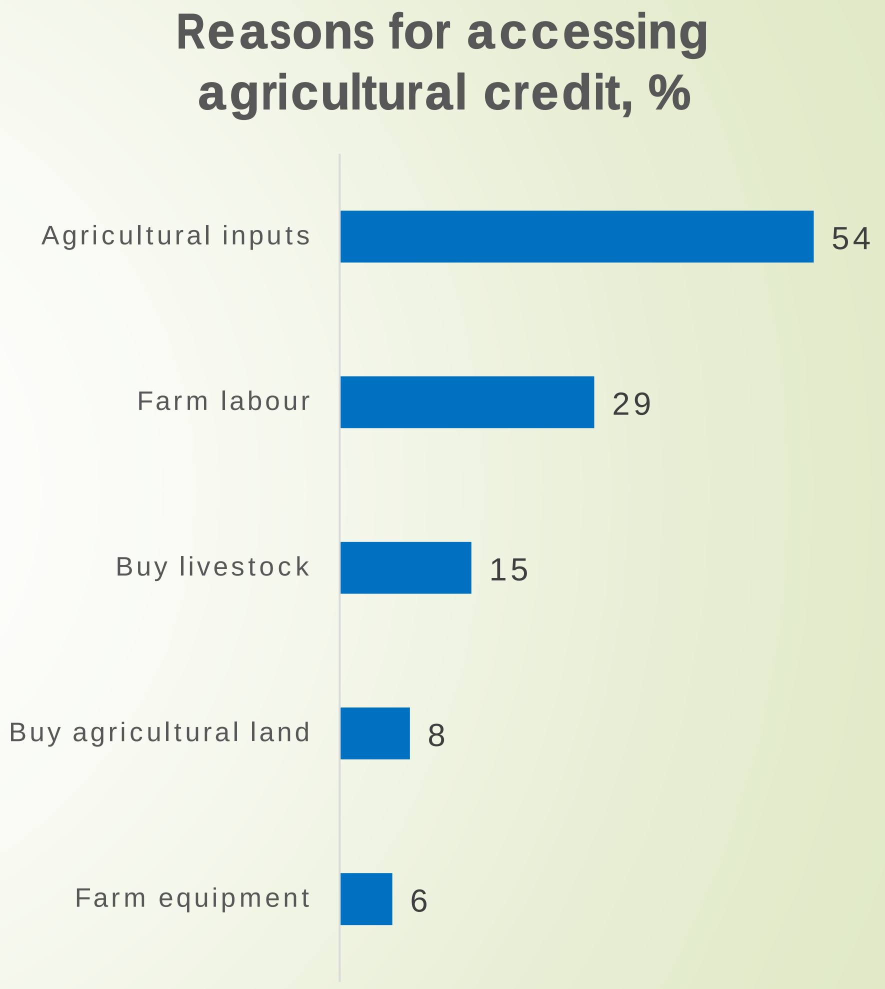
2013



2009

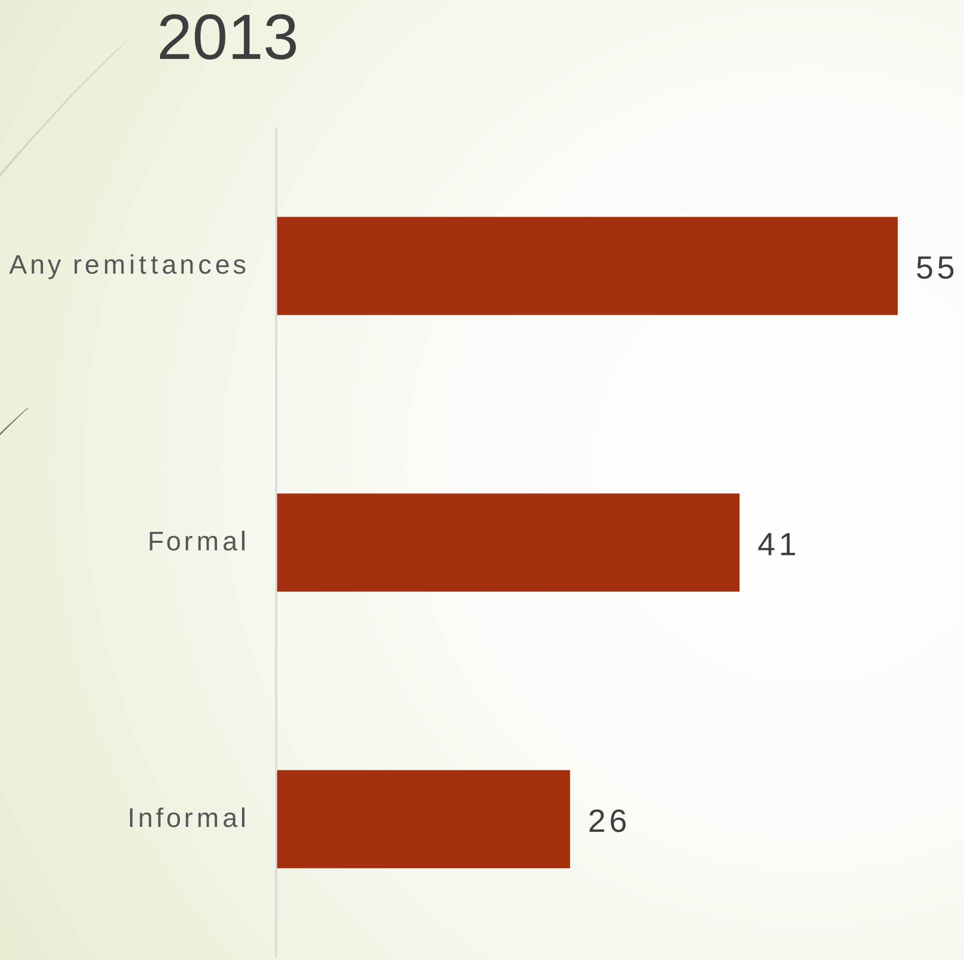


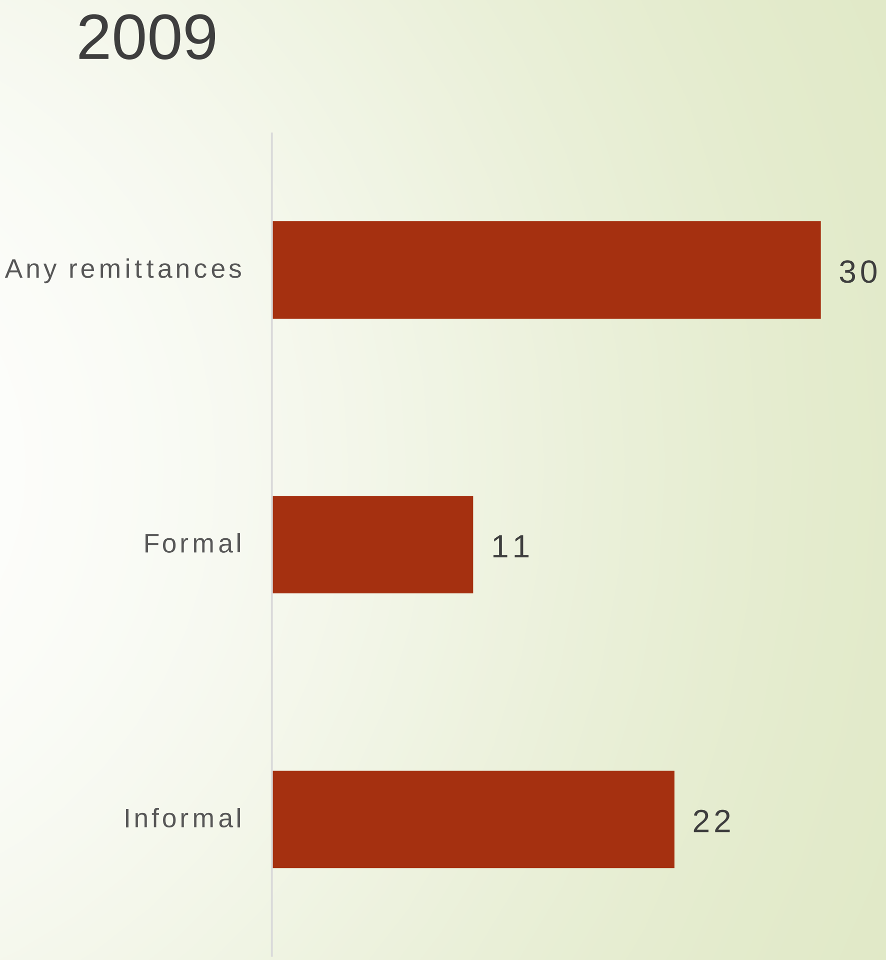

Uses of credit from all sources, %
Education
20
Emergencies
15
Daily expenses
14
Business
13
Agricultural production
10
Asset acquistion
7


Reasons for accessing agricultural credit, %
Agricultural inputs
54
Farm labour
29
Buy livestock
15
Buy agricultural land
8
Farm equipment
6

Remittances and Transfers

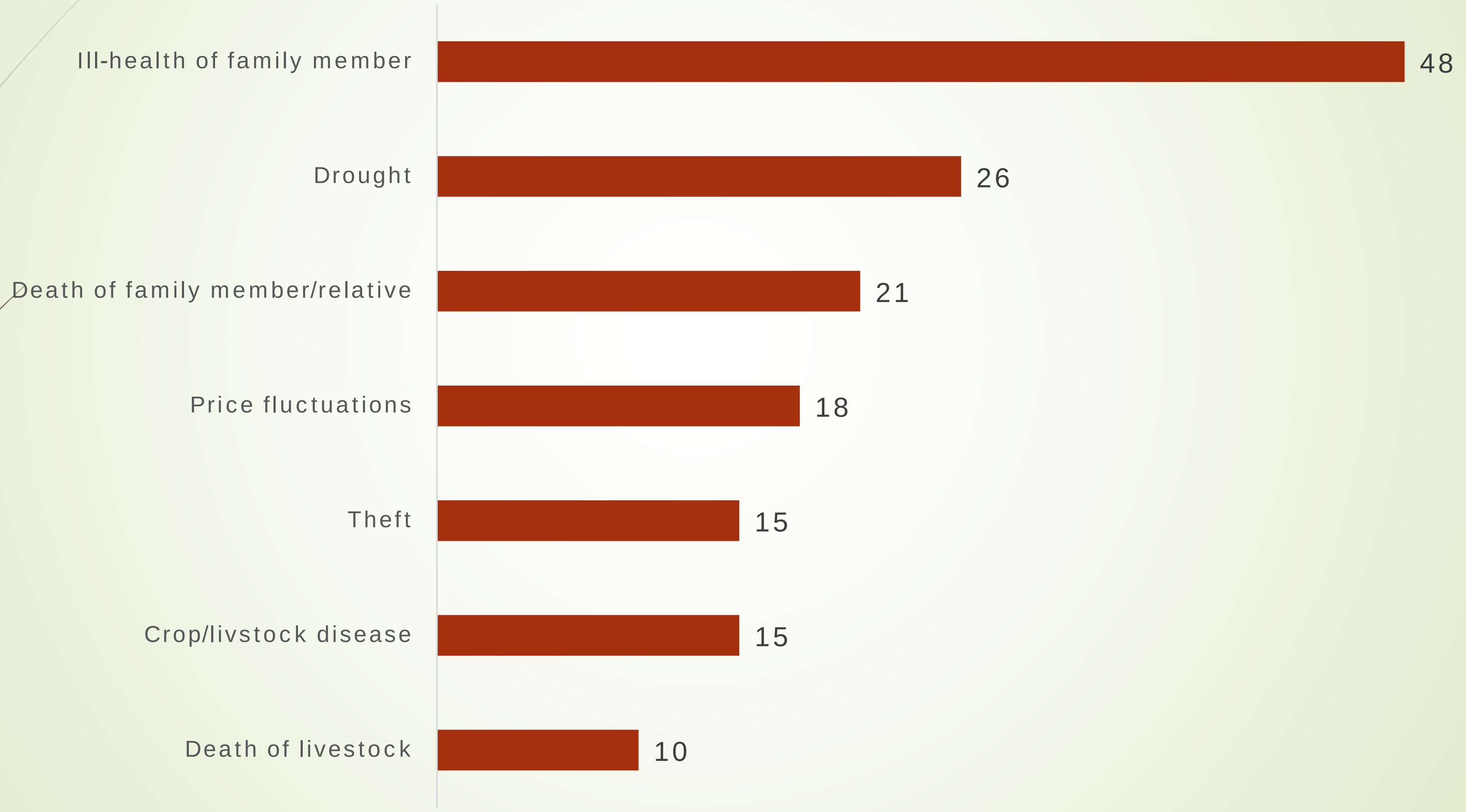
Overall access to remittances & transfers, %



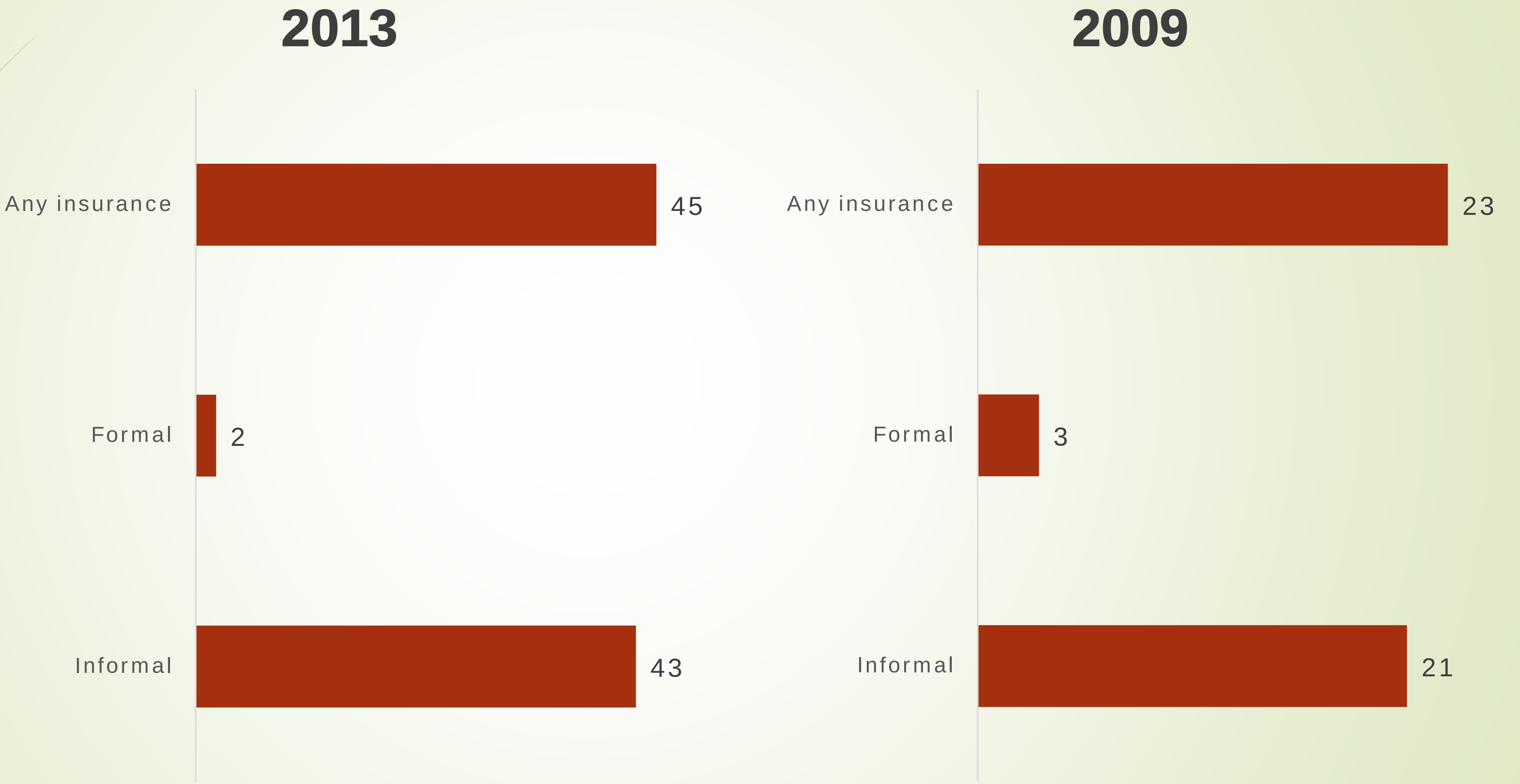


Insurance and Risk Management

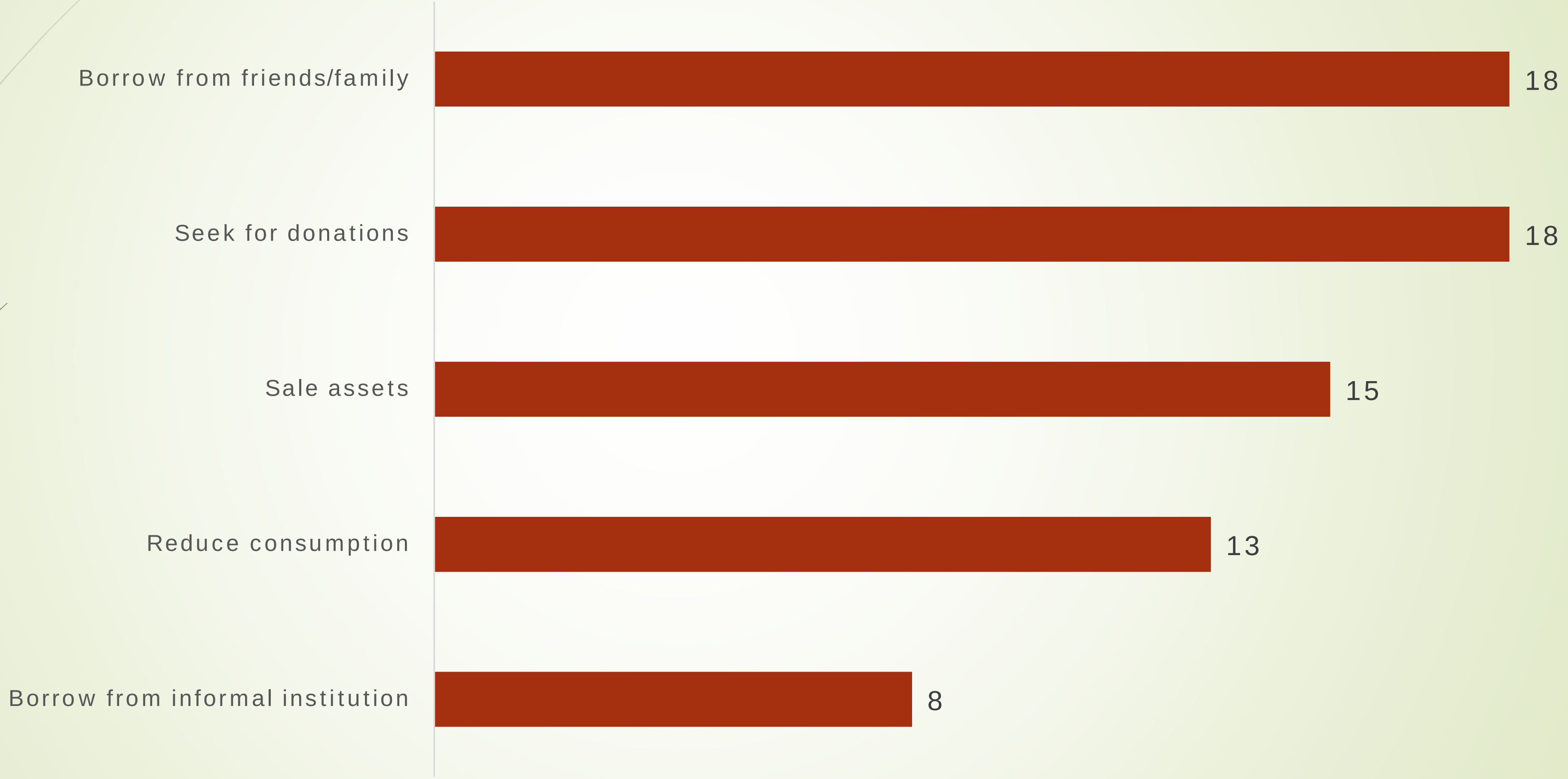
Risks encountered in the last 12 months 2013,%



Overall usage of insurance, %

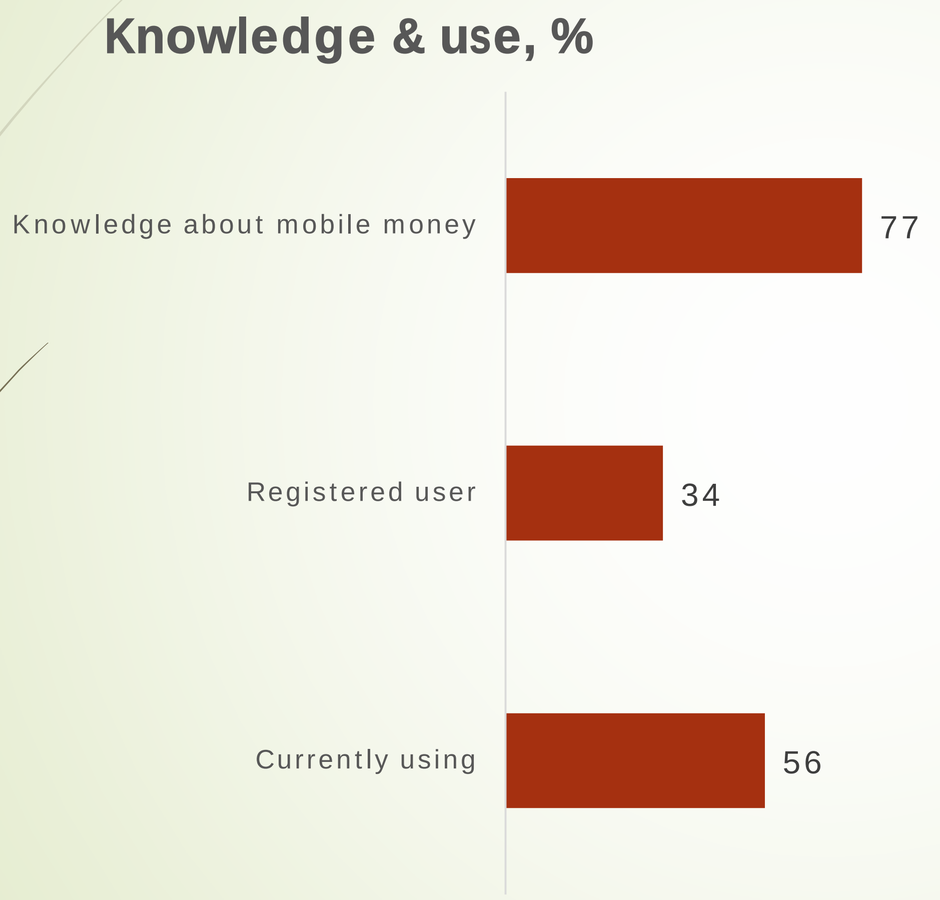


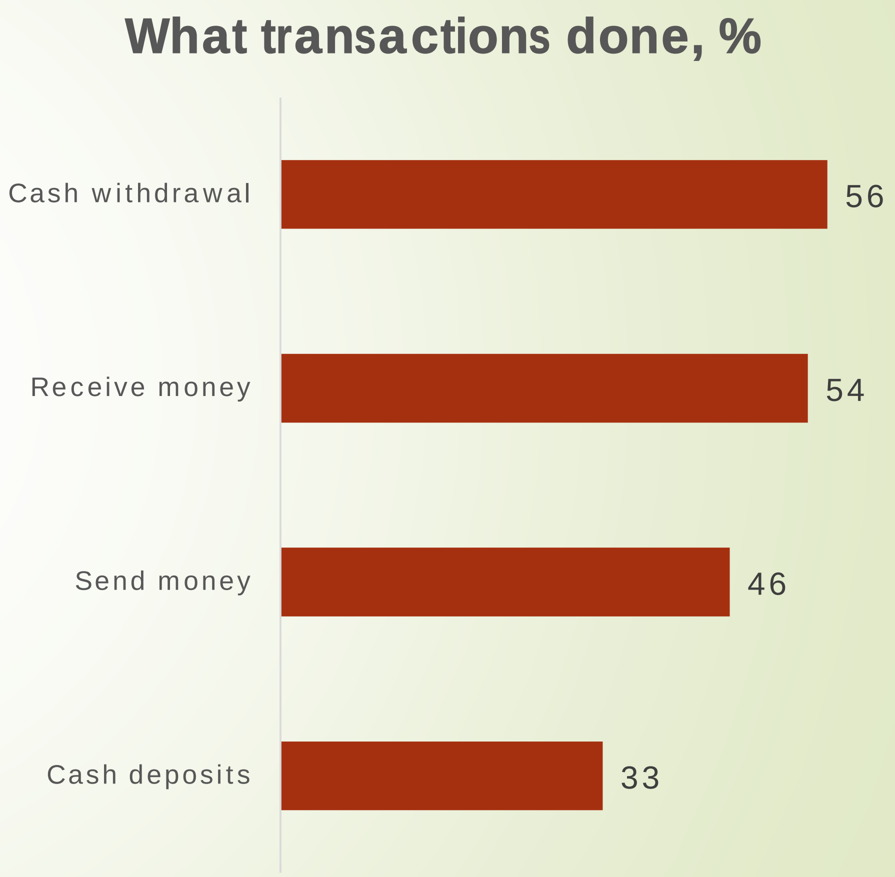
Risk management mechanisms in 2013, %



Mobile Money Services

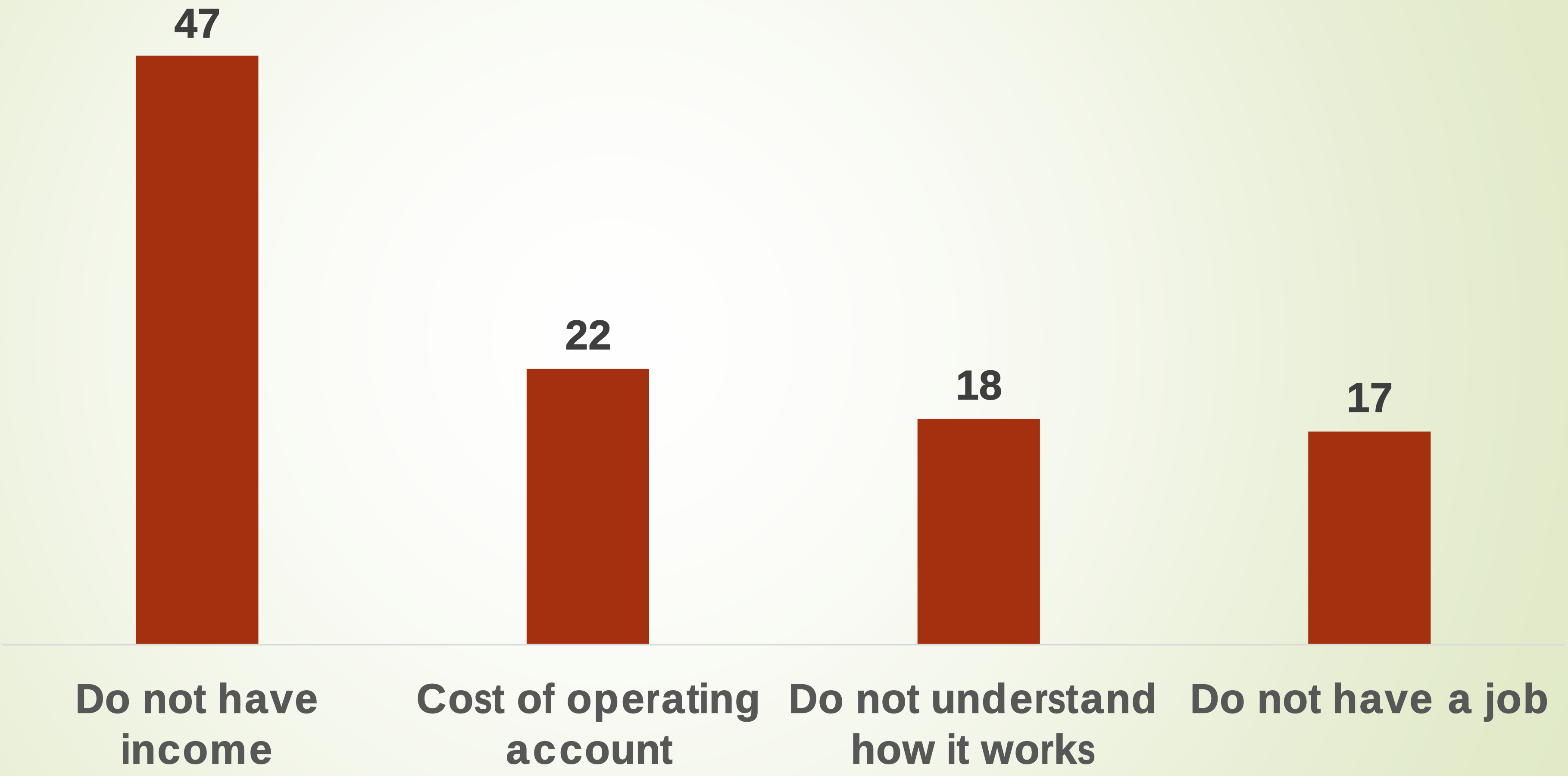
Mobile Money Services in 2013



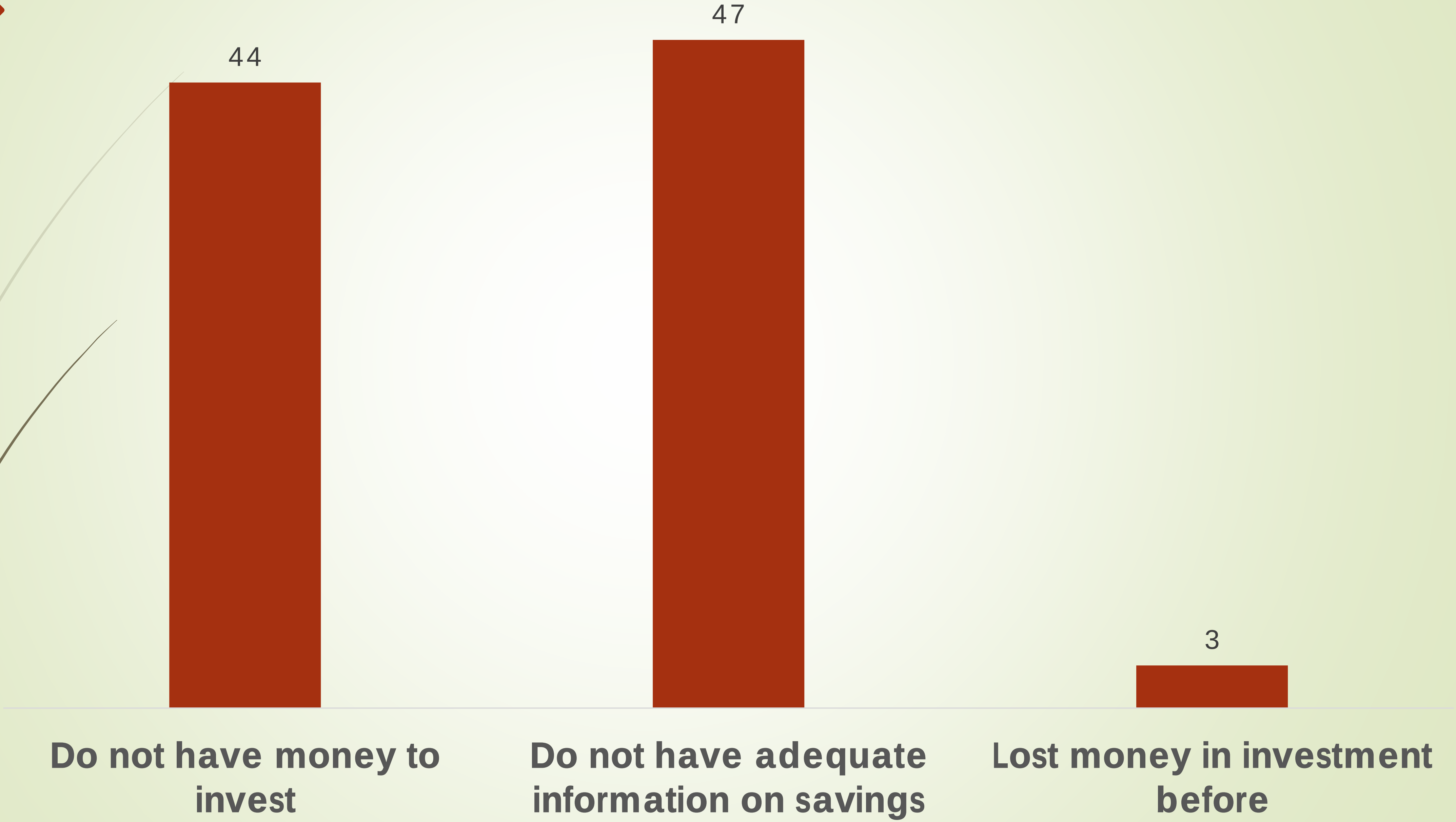


Challenges to financial inclusion

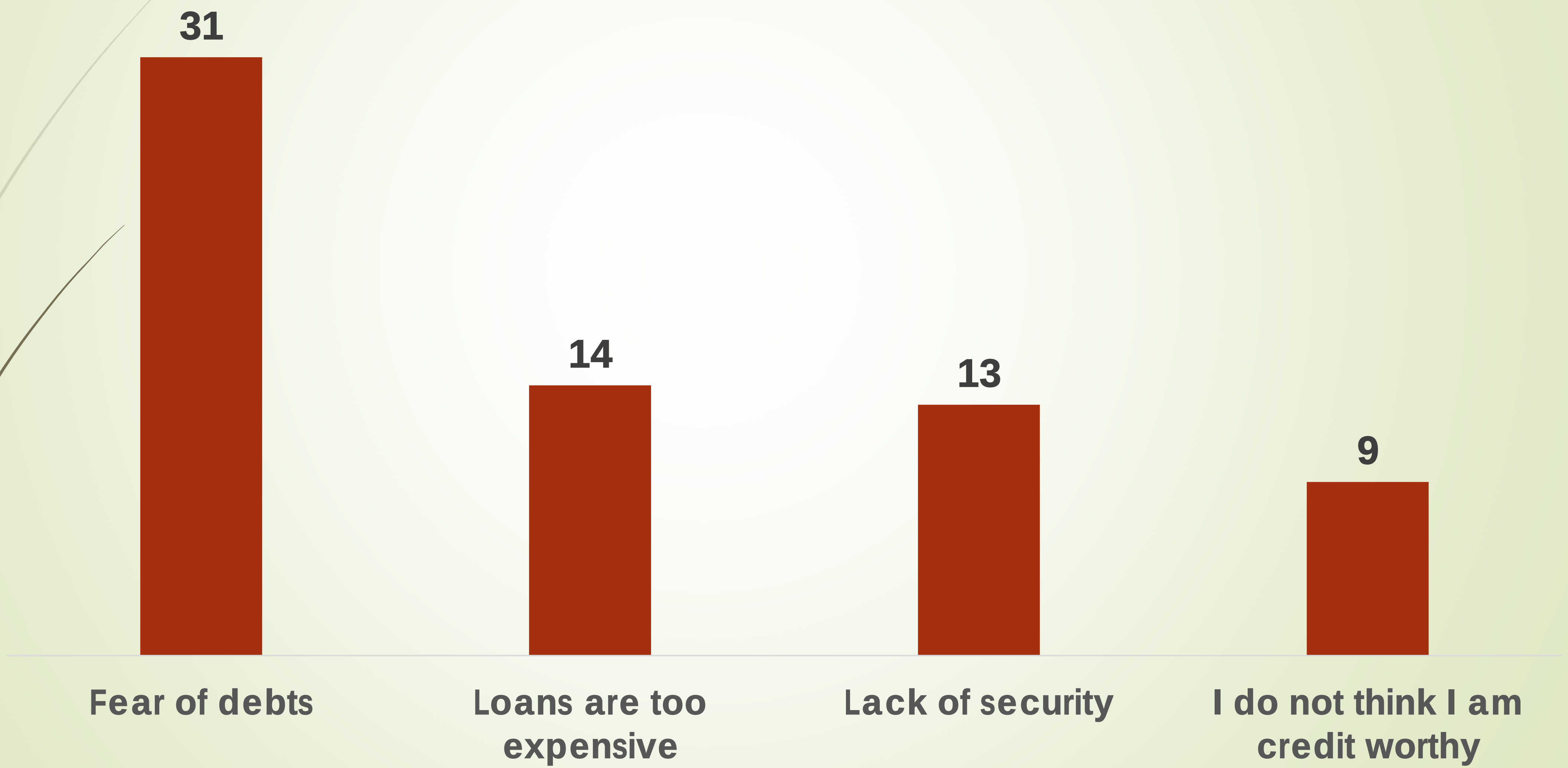
Challenges to Financial Inclusion: Bank accounts, %



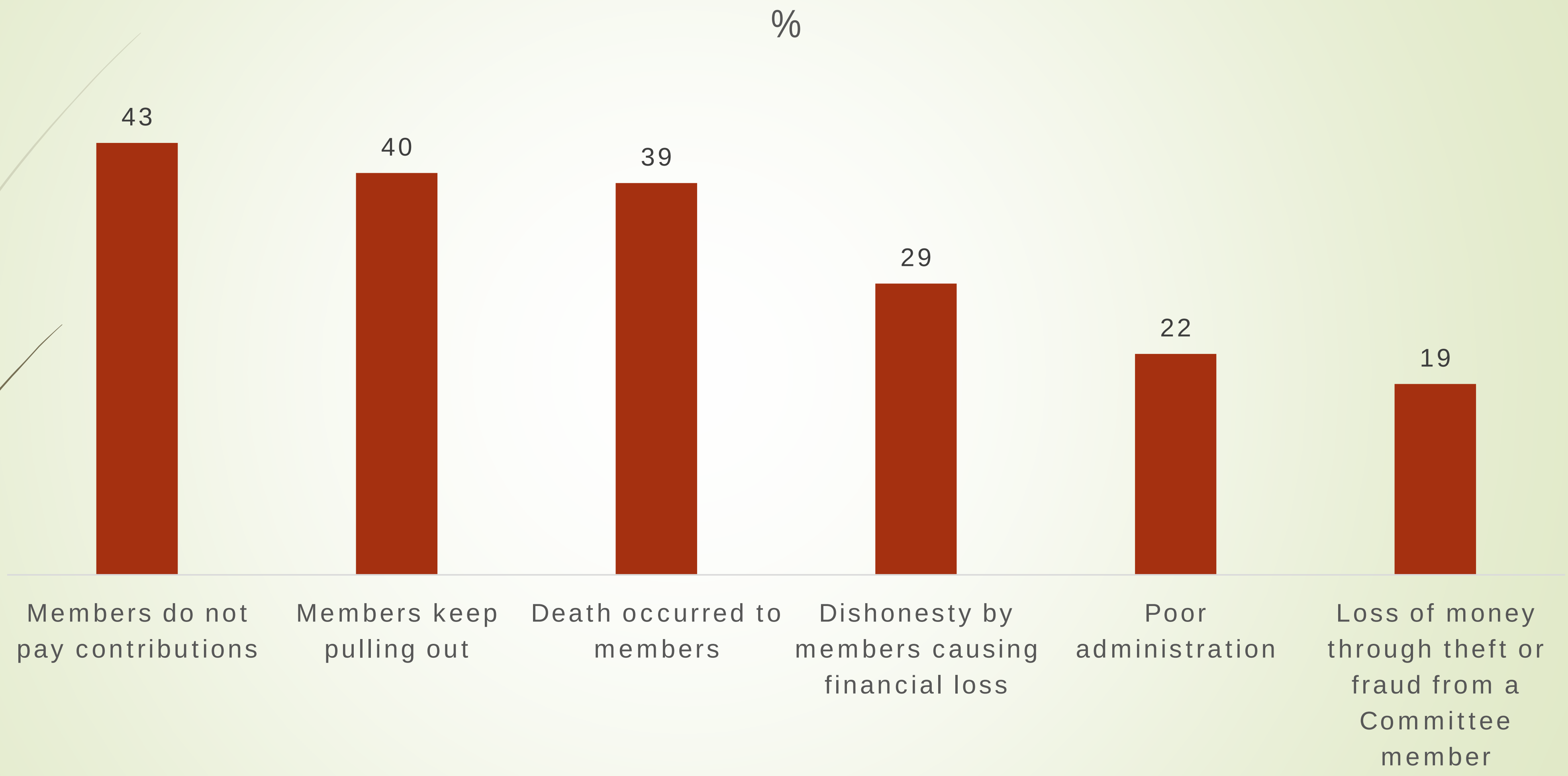
Challenges to savings and investments, %



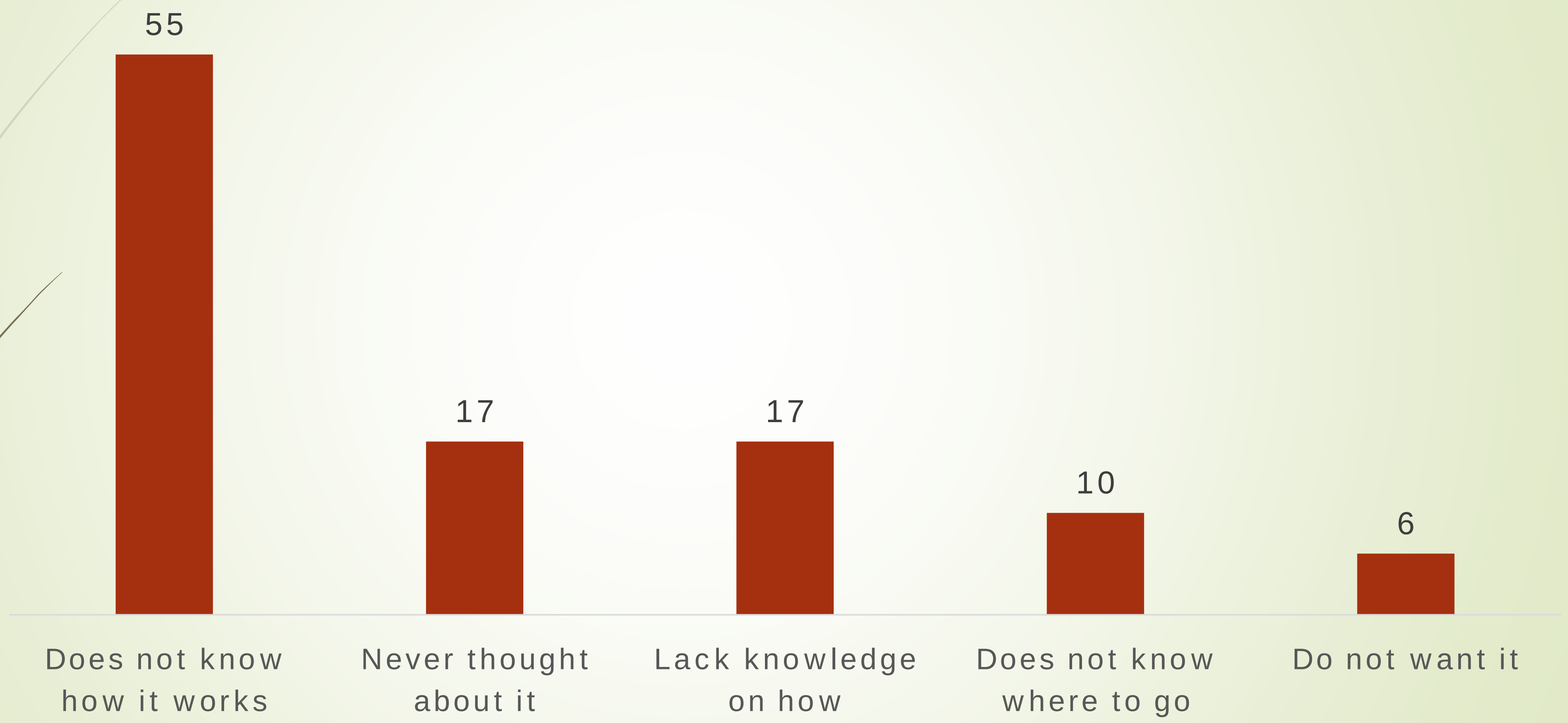
Challenges to credit & borrowing, %



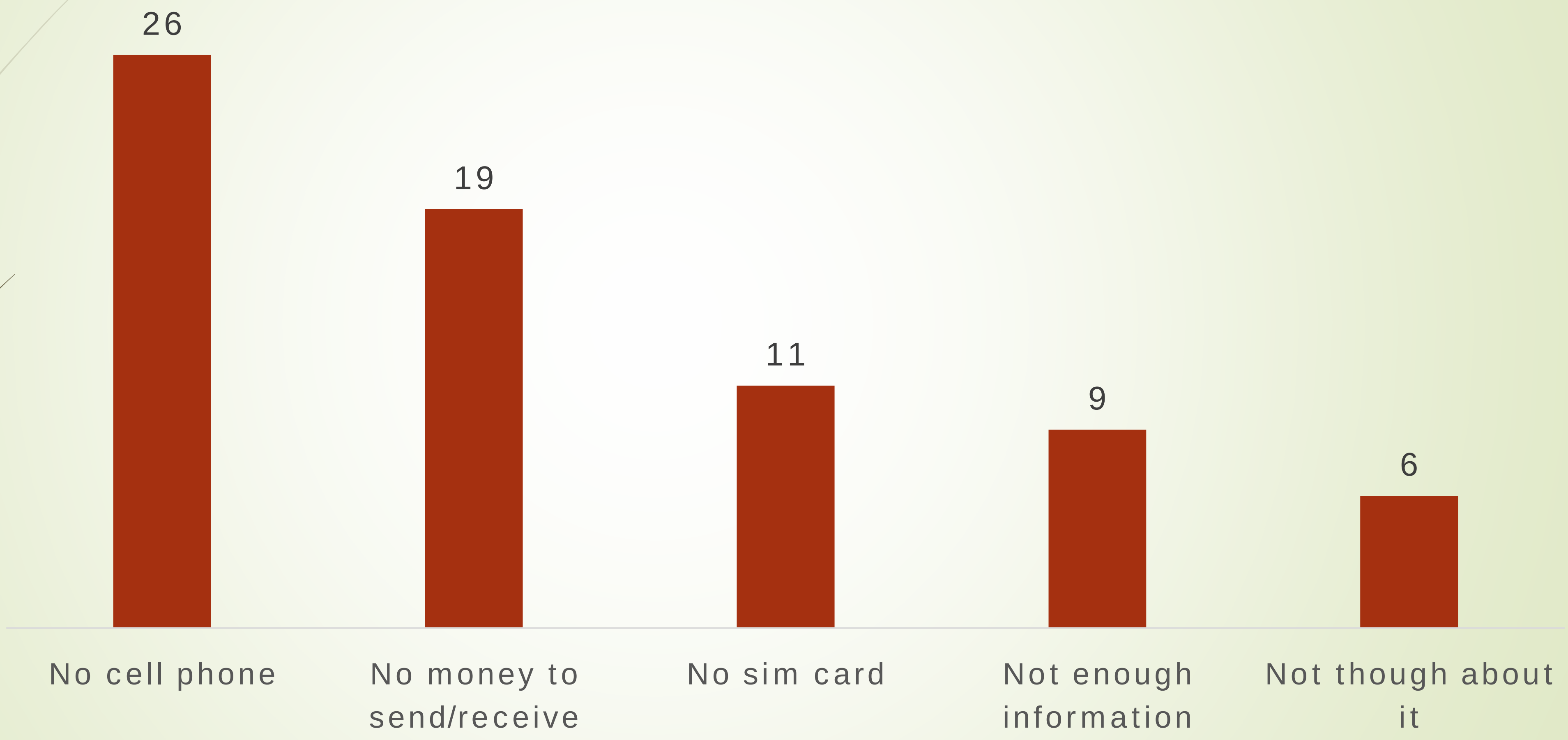
Challenges to informal insurance in 2013, %



Challenges to formal insurance in 2013, %



Barriers to using mobile money services 2013, %



Challenges from the supply side

- the transaction costs that the bankers incur,
- poor communication,
- lack of infrastructure,
- language barriers,
- low literacy levels
- poor technology
- High costs of providing services

Challenges from the supply side cont'd

- Few branches or service outlets of banks and other formal financial institutions in rural areas;
- Small sized transactions with the poor which is seen as un-remunerative and unattractive by the financial institutions;
- Quite difficult to have a One-Size-Fits-All financial inclusion policy and regulations for the different players
- *Absence of sufficient data on institutions especially on microfinance institutions*
- Lack of a definitive present address of rural migrants in urban areas.

Challenges on the supply side cont'd

- *Legislative Requirements*
  - The legislative environment may hinder establishment of financial inclusion policies
    - Capital adequacy requirements,
    - audited balance sheets,
    - size of business,
    - threshold category based on number of members and professionalism
  - They aim at financial sustainability but are a constraint to inclusion

WAY FORWARD-How to address challenges

“Cooperation”.

- policy makers can work together in

  - engineering solutions,

  - creating a financial inclusion enabling environment,

  - designing regulation and infrastructure,

  - monitoring progress and assessing policy achievement.

WAY FORWARD-How to address challenges cont’d

- Build bridges and collaborations between Government institutions concerning policy on financial inclusion.
- Cooperation across departments within the same level of Government.
- Ensure inter-sectoral collaboration for communities that are to play an active role in the policy-making process.
- Build financial literacy so that people have realistic expectations and understand their rights

WAY FORWARD-How to address challenges cont'd

- **Information Technology: a major breakthrough**
- Lower borrowing costs made possible by IT based remote delivery and recovery of loans can enable many currently excluded individuals to borrow for new output activities.
- Some public utilities are already collecting utility bills from users through mobile phone based arrangements.
- Cost saving IT based remote delivery arrangements are possible for numerous government payments like social safety net allowances, pension payments, and so on.

Concluding Remarks

- There may never be an occasion to call the tasks of financial inclusion and poverty eradication over and done with.

- In conclusion, we should deeply keep in mind that financial inclusion combats poverty by:

  - unblocking advancement opportunities for the disadvantaged poor;
  - fostering social inclusion;
  - Promoting inclusive socioeconomic growth.

Many thanks