Access Barriers to Financial Inclusion: A Study of the Ugandan Case

By

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Declaration

It is hereby declared that

1. The thesis submitted is my/our own original work while completing a degree at Brac University.
2. The thesis does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The thesis does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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Abstract

Financial inclusion is a policy concern around the world. Uganda's financial sector comprises formal, semi-formal and informal institutions that offer services such as banking services including opening bank accounts, savings deposits, and access to credit, bill payments, mobile money, and insurance. Financial institutions have routinely excluded many citizens. Since poor and low-income people do not have much cash, non-access to credit has limited their participation in the market.

This study on the financially excluded population has explored barriers to access financial services. To identify these barriers, the study is based on experience, on reports from the financial institutions of Uganda, and on the relevant literature. To assess these obstacles, the Delphi method was adopted, i.e., selection of experts in the area of financial inclusion and obtaining their feedback on the identified hypothesized access barriers to the financial services in Uganda. The study has given particular attention to the causes of barriers to financial services, and suggested measures that may improve inclusion in Uganda.

The methodology has included designing a survey instrument, which was sent to 22 experts through email, facebook and whatsapp. These experts were Uganda citizens, both female and male, in the financial sector, NGOs, government officials and institutions, academicians, and researchers. The survey has obtained data on the access barriers to financial inclusion. The hypothesized access barriers have been, on the demand side, have been low income, illiteracy, and limited awareness of financial services, and on the supply side, access barriers included security risks, high transaction costs, poor network infrastructure, ICT and limited access channels.

Feedback analysis has revealed that young, poor, and rural individuals are mostly excluded. Financial services are indeed not accessible to rural communities who are largely served by the informal village savings groups, loan associations, and unregistered Savings and Credit Cooperatives Associations (SACCOs). Conversely, formal financial services are available and used widely in urban areas. Public policy may change this situation by disseminating information on available services and by customizing such information to better serve potential rural users.

Keywords: Financial sector, financial institutions, financial services, access barrier, financial exclusion/inclusion, Uganda.

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List of Acronyms/Abbreviations

NFIS	National Inclusion Financial Strategy
BOU	Bank of Uganda
SDGs	Sustainable Development Goals
UNDP	United Nations Development Programme
NRA	National Risk Assessment
MoFPED	Ministry of Finance, Planning and Economic Development
MDIs	Microfinance Deposit-taking Institutions
SACCOS	Savings and Credit Cooperatives Associations
ATMs	Automated Teller Machines
MFIs	Micro Finance Institutions
VSLAs	Village Savings and Loan Associations
ROSCA	Rotating Credit and Savings Association
CRB	Credit Reference Bureau
DFS	Digital Financial Services
NGOs	Non-Governmental Organizations
IDs	Identity Documents
FINCA	Foundation for International Community Assistance
ICT	Information Communication and Technology
UN	United Nations
GDP	Gross Domestic Product
FY	Financial Year
UBOS	Uganda Bureau of Statistics

Chapter 1

Introduction

1.1 Background of the Study

Financial inclusion is a policy concern across the globe. There is no specific definition of financial inclusion since it differs across scholars, policymakers depending on different geographical locations, economic situations, social factors and financial progress of regions in question and priorities of such segments in a country.

Financial Inclusion is referred to as the provision of affordable financial services to the marginalized and poor (Mahendra, 2006, p.1).

Financial Inclusion avails citizens with access and use of financial services offered by various financial institutions (Sarma and Pais, 2011, p.1).

Uganda has designed a National Financial Inclusion Strategy (2017-2022) that entails that every citizen of the country can access and use a wide range of quality and affordable financial services .The focus is to reduce financial exclusion.

Studies have shown that market failure has been a concern to various scholars in the financial system. Tarja (2014) suggested that the financial sector needs to provide opportunities for market participants to penetrate into the financial market through provision of finances for investment to boost economic growth and ensure poverty alleviation through proper income distribution.

Asli and Jake (2011 and 2014) report that financial inclusion ensures the usage of formal financial services that are readily available, affordable, and delivered in a more convenient and innovative means.

Research from the World Bank (2011 and 2012) shows that in developing economies about 40-41% of the adult population are unbanked as compared to high-income economies where only 11% of adults are likely to be unbanked.

In Uganda, the FinScope Survey data (2018) reports that only 5% of the adults in rural areas use both formal and informal saving means and that about 2 % borrow from the formal financial institutions. The variations are due to the nature of financial services offered.

The Bank of Uganda in 2017 shows that financial inclusion among the marginalized group living in rural areas improved because of the available financial institutions such as banks like FINCA, Centenary, and PRIDE Microfinance among others that extend financial services.

Mahendra (2006) argues that financial inclusion offers services like savings deposits, credit, insurance, payments by formal financial institutions to those who intend to be excluded.

1.2 Financial exclusion

Studies have been showing more focus on financial development yet in low-income countries, the financial sector has not deeply penetrated to offer services to all citizens of the country. Many individuals and firms have not been catered for thus lack access to finances.

Stijn (2005) argues that growth and welfare of firms and households without access to finance is often affected due to the market failures in the financial system and reports that a lot of emphasis has been geared towards the better off people in the different segments.

Sub-Saharan Africa lags very much behind in expanding financial access and this clearly portrays poverty. Asia is very far advanced in expanding its financial access because of the rapid industrialization in some Asian Countries and Central Europe is extremely advanced as compared to Asia and Africa because of its progress in rebuilding access (Stephen and Alan, 2004).

FinMark Trust (2014) reports that financial exclusion has taken the largest toll on marginalized people in rural areas, firms and households. Notably, finance is an important major opportunity for growth and welfare improvement. Currently, the world faces a huge challenge of financial exclusion in the financial system yet investments, economic activities, business transactions all need access to finance.

FinScope survey (2013) shows that adults in rural communities dominate the use of informal financial systems twice as their counterparts in urban areas would do. Still wrapped up, adults in rural areas are more likely to be excluded in the financial system than in urban areas because of access barriers arising from both the demand and supply side of the economy.

Stijn (2005) suggests that international and national stakeholders should focus on formulating models on different aspects of financial access.

1.3 Uganda and the Financial Sector: An Overview

Uganda is a low-income and landlocked country that is bordered by Kenya in the East, South Sudan in the North, Democratic Republic of Congo in the West, and is north of Rwanda. It is located in the heart of the Great Lakes region (Lake Edward, Lake Albert, and Lake Victoria). Agriculture is the backbone of Uganda's economy. It has very fertile soils, regular rainfall, access to water but limited infrastructures.

According to its demographic features from Uganda population 2021, the current population is 47.2 million (Worldometer elaboration of the UN data). The population density is 229 per square kilometres and the total land area is 77147 square miles. About 25.7% of the population is urban and the median age is 16.7 years.

The country's GDP in FY20 was recorded 2.9% less than 6.8% that was recorded in FY19. Household incomes have dropped due to poverty, the poor are vulnerable to shocks and the situations are worse with the coronavirus pandemic (World Bank 2021).

In 2017, UBOS reported that females constituted 51% of the population. In education, women are behind men. Proportion of females with less or no education is much higher than men. This is worse in Karamoja in the Eastern part of the country where 81% of the women dropped out of school with incomplete primary education. The rural area population is more illiterate than those in urban areas (32% and 15% respectively). It is to be noted that the education system of Uganda has a structure of pre-primary education, 7 years of primary, 6 years of secondary education (Ordinary and Advanced levels) and 3-4 years post-secondary education.

Studies show that many Ugandans do not have access to finances due to the existing access barriers. Despite the market failures, stakeholders like the Bank of Uganda, MoFPED developed a strategy that ensures financial inclusiveness in the country. The designed National Financial Inclusion Strategy (NFIS) will run from 2017-2022.

The main objective of the NFIS 2017-2022 is to increase financial access and empower the citizens in the financial system to make informed decisions on their finances, improve their welfare and to achieve economic growth. It has four pillars such as financial literacy, financial consumer protection, financial innovations and financial services data (BOU report, 2013).

Analysis from the Uganda Bureau of statistics indicate that about 54% of the adults accessed and used formal financial services in 2013 as opposed to the trend in 2009 which was about 28%. This trend reflected an improvement, and it was because Mobile money came up as a new digital innovation in the financial sector. Although there was a positive trend, Uganda's financial sector is still lagging behind.

The Bank of Uganda (central bank) oversees financial activities of all financial institutions in the country. As a body responsible for regulation and monitoring, BOU provided guidelines to regulated financial institutions for financial consumer protection and for financial literacy.

BOU as a regulatory body passed out regulations and Legislative guidelines which are in support of financial lenders Act 2016, Mobile money guidelines 2013, Anti Money Laundering Act 2013, and Agency banking regulations.

1.4 Statement of the Research Problem

Despite the growing access to and use of a wide range of financial services offered and its drive-in poverty reduction across the country, there have been notable access barriers to financial inclusion in Uganda.

The access barriers can impede market participation and penetration. To ensure stability of the markets, policy rights and interventions have to be taken into consideration.

This study intends to analyse the access barriers to financial inclusion, identify the people who are excluded, find out what can be done to improve financial inclusion and then give policy recommendations to incorporate the excluded into the financial system.

1.5 Research Questions

The main questions in this study are stated below:

1. What are the access barriers to financial inclusion?
2. Who is excluded in the financial services?
3. What are the policy recommendations to incorporate them into the financial system?

1.6 Objectives of the Study

In light of the stated research questions, the study aims at achieving the following objectives:

1. To identify the access barriers to financial inclusion in Uganda.
2. To identify the excluded individuals in Uganda.
3. To suggest policy recommendations to incorporate the excluded individuals and communities of the country in the financial system.

1.7 Research Hypotheses

Four major hypotheses that have guided this research are as follows:

1. Information on financial services is not widely known, particularly to certain groups of citizens.
2. Low level of income serves as a barrier to access and use of financial services.
3. Citizens located in remote rural areas cannot access the financial services.
4. Personal characteristics of individuals such as education and gender impede access, e.g., those with very limited education or not at all and women cannot access financial services.

1.8 Significance of the Study

This study will advance more discussions in research, it will give insights on the access barriers to financial inclusion, identifies the excluded group, measures and policy recommendations to incorporate the excluded.

To students, financial experts, financial institutions, regulatory bodies, policymakers and the public, it will be useful for further studies based on the findings.

1.9 Limitations of the Study

The major limitation of the study has been the limited existence of published literature and data on access barriers to financial inclusion in Uganda.

The study employed both secondary and primary data. However, primary data was carried out online and this made it difficult for respondents to avail adequate feedback as they would in a face-to-face interview, it was constrained by other factors like time, internet among others.

In addition, the Delphi method was used to obtain primary data where key experts were interviewed, however this limited feedback from the other groups in rural areas since majority lack access to internet, smartphones, other gadgets and rural areas are faced with network challenges which made it difficult to access them online. The study could not undertake statistical analysis.

1.10 Structure of the Study

The study content has been presented in different chapters and sections.

Chapter 1 presents the background of the study, financial exclusion, and overview of Uganda and financial sector, statement of the problem, research questions, objectives, research hypotheses, the significance, limitations and the structure of the study.

Chapter 2 presents literature review. This chapter serves as a basis for the foundation of concepts and ideas for this study.

Chapter 3 basically reports on the methodology used in the study; the data sources such as primary and secondary data and research design.

Chapter 4 reports expert feedback on access barriers to financial inclusion and related concerns from the experts.

Chapter 5 reports the policy implications/recommendations of the research findings.

Chapter 6 presents the conclusion of the study.

Chapter 2

Literature Review

This chapter discusses both theoretical and empirical literature on related topics on financial inclusion by other scholars and researchers. It critically analyses the concept, ideas, knowledge and surveys on the already explored literature. In reviewing the published literature, we shall get insights on the strengths, limitations of the existing literature and construct the study framework.

2.1 Overview of Financial Inclusion

According to the Asli and Jake (2014), several countries around the world focus on financial inclusion for financial sector growth and development.

Growing theories suggest that financial institutions need to focus on delivering services to rural areas or areas of limited access. This analysed the concern from the supply point of view (Hannig, Alfred. Jansen, Stefan, 2010). Financial inclusion has empowered both households and firms through financial access where they are able to manage their payments, make savings, acquire loans, store and transfer funds for instance by Mobile Money, mobile banking among others.

Asli and Jake (2017) identify several potential benefits arising from financial inclusion for instance, use of digital financial services like mobile money services, payment cards, and other technological means of accessing finances (digital applications). In Uganda, the central bank and financial institutions have put focus on digital financial services, however the effects have not yielded much because many citizens lack gadgets and are illiterate leading to low confidence in digital financial services most especially in rural areas.

According to Sarma (2008), gender disparity, geographical access concerns of urban and rural dimensions are often ignored which affects the financial sector.

2.2 Financial Services

Financial Service Provision in Selected Countries

A study on formal banking access indicates that Mexico, a middle income economy, and Sub-Saharan Africa have put emphasis on the financially excluded (Micheal, 2012, p.2).

The World Bank and other multilateral agencies consider access and use of financial services as a key factor to inclusiveness and growth (Asli and Jake, 2017).

Financial service provision is growing in Kenya with financial services such payments, savings, credit, M-Pesa mobile payment. This has the potential of competing. “Entry of commercial banks from South Africa and Nigeria show that Kenya’s financial sector is open for entry of new financial institutions” (Cracknell, 2012).

Financial Inclusion in low-income countries has been seen to eradicate poverty, however Ozili (2018) reports that digital financial services have been geared up hence improving access among poor people, reducing costs of intermediation and increasing income for the government in other countries.

Financial services offered in Uganda according to the National Financial Inclusion Strategy 2017-2022

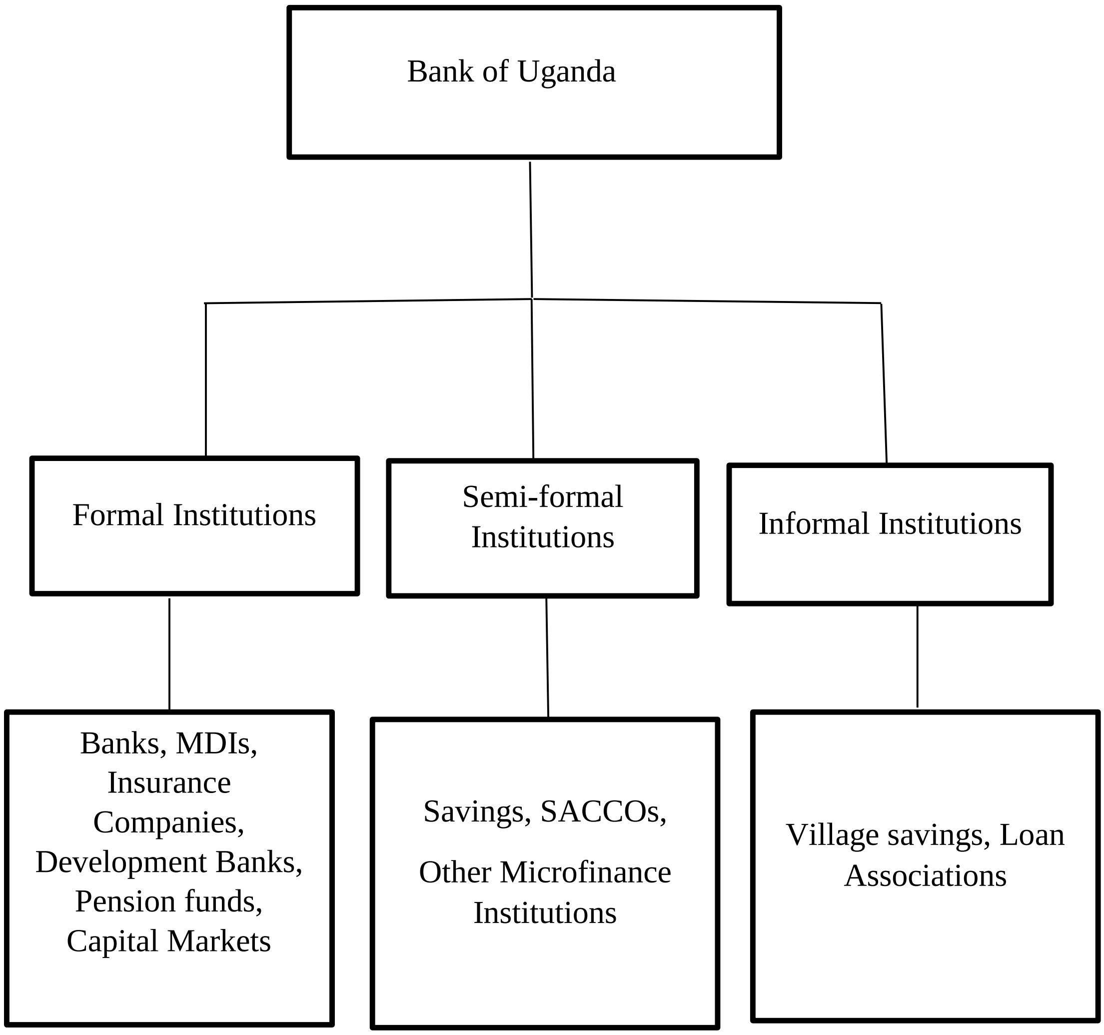
Financial Services offered	Institutions
Credit	Banks, Credit Institutions, MDIs, SACCOs, MFIs, Money lenders
Savings	Banks, Credit Institutions, MDIs, SACCOs, Public Pension Fund, Social Security Fund, Private Retirement Benefit Schemes
Mobile Money	Mobile Money Service Providers
Payments	Banks, Credit Institutions, MDIs
Insurance	Life Insurance and Non-Life Insurance Companies

2.3 Review of the Financial Sector

Studies show that the financial sector in Sub-Saharan Africa is lagging behind. The financial institutions are small and with limited financial services as compared to institutions in first world economies**.** This study argues that deeper penetration in financial markets will boost Africa’s financial sector growth (Anne, Catherine, and Jakob, Smita, 2006).

Financial systems in many Sub-Saharan Africa still lags behind compared to other developing countries, although the financial sector and its reforms have been noticeable and impactful in the past years (Asli and Jake, 2012).

Figure 1: Structure of Uganda's Financial Sector



Author's design

Uganda's financial sector consists of the formal, semi-formal and informal institutions which provide a range of financial services like loans/credit, savings deposits, insurance, payments, among others. Formal financial services are offered by banks, SACCOs, Mobile Money, MFIs while informal financial services are offered by VSLA, ROSCA, Money lenders.

BOU (2015) report indicates that informal institutions are more prominent in rural areas than in urban areas. On the other hand, formal institutions are more widely established in urban areas than in rural areas, they serve up to 14% of the rural areas. 62 % of the citizens lack access to finances. About 33% own bank accounts with a very low savings rate of 16% and low borrowing rate.

Levine and Ross (2005) argues that financial development has been evidenced to have projected growth through financial access and from an economic perspective, it has promoted investment, resource allocation and firms are able to operate on a large scale.

The central Bank of Uganda regulates and supervises banking activities with legislations that govern it for instance, Financial Institutions Act 2014, MDIs Act 2003, Anti money Laundering Act 2013, forex, Credit Reference.

Studies argue that financial institutions which serve marginalized people promote pro-poor growth hence generating an economic surplus which gives them access to savings and credit hence poverty alleviation and increased access to wide range of quality affordable financial services. Lack of financial access narrows down savings accumulation and hinders investment income generating activities that is why more focus is on financial inclusiveness (Hannig, Alfred; Jansen, Stefan, 2010).

Reported from the Intermedia Uganda FII Tracker surveys 2014, the central bank looked forward to incorporating about 70% of the adult citizens in the financial system by 2017 and to achieve this target, there was need to increase financial literacy, ability to track regulatory framework for agent banking and give support for innovation and technology such as Mobile Money. Despite the suggestions, the commitment has been so slow in progress.

FinScope survey (2013) indicates that up to 71.5 % of the citizens are rural based and that they are less privileged and have limited access to the available formal financial services than urban based Ugandans. Despite the fact that financial institutions offer several financial services in the country, market participation and penetration are still very low, many rural communities are excluded.

2.4 Overview Financial Exclusion

Who are the excluded?

Theories are growing to reduce financial exclusion. Studies report that many people are being excluded since they do not use formal or informal financial services. According to Sarma (2011), financial exclusion indicates social exclusion to financial services and this implies that a number of people in developing countries seem to be excluded from access.

Notably, financial inclusiveness does not only focus on incorporating the poor who are being excluded but also aims at ensuring that financial institutions reach out to the unbanked population (Hannig, Alfred, Jansen, Stefan, 2010).

Reflected in the NFIS 2017-2022, about 10% of the population in urban areas are financially excluded as compared to the majority who are completely excluded from rural areas. Despite the fact that many Ugandans living in rural areas have less access to formal financial services, informal financial services widely dominate the rural areas which helps to reduce financial exclusion to some extent.

FinScope Survey (2013) reports that 34% of Ugandan women use informal financial services as opposed to 27% of the men. Concerns of formal financial institution usage and financial capability are more prominent among men than women. For instance, 38% of the men use mobile money more than women (25%), more men own mobile phones than women. Women are mostly affected by cultural beliefs that are very common in rural areas which makes it difficult for them to make independent and informed decisions.

Majority of the unbanked population are the poor people, and this is a global concern as well. Globally, 40% of unbanked adults come from the poorest of households within their economy and 60% from the richest although this varies across countries (Asli and Jake, 2017).

Uganda has a youthful population yet one of the fastest growing ones across the globe. According to the National Financial Inclusion strategy (2017-2022), the average age is 15.7 years as compared to 19.5 in Kenya, which is a neighbouring country in the West and that of Brazil is 31.6 as referenced. The youthful population needs to be incorporated into the financial system to generate new innovative opportunities for the financial sector.

Theories suggest that financial inclusion should focus on the poor, rural communities, youth above 15, the disabled and women to ensure financial access for all .Notably, the financial system in Uganda does not favour youth below 18 years. For instance, to own an individual bank account, one must be above 18 years of age, yet some youths below that age are more creative and productive than adults.

2.5 Access Barriers to Financial Inclusion in Uganda

The barriers to financial inclusion have the potential of causing market failure. The access barriers to financial inclusion arise from demand and supply. The supply side basically looks at the financial institutions that offer financial services like banks, MDIs among others whereas the demand side access barriers arise from the consumers (firms and households).

Stijn (2005) questions the difficulty of incorporating other segments of people in the financial systems despite the right scale of operation and available technology.

On the basis of existing information, as available in secondary materials, access barriers to financial inclusion in Uganda are operational both on the supply and demand sides which are shown or illustrated below.

	Financial institution access barriers (as operational on the supply side)	**Household/Individual and Firms/businesses access barriers (from demand side)**
1	High Education requirements	1. Illiteracy
2	High Transaction costs	2. Low levels of income
3	Women are not Priority (Gender disparity)	3. Failure to meet the required requirements for accessing finances
4	Location characteristics (Remoteness)	4. Poor interest in financial services (Distrust)
5	Poor Network Infrastructure, ICT and limited access channels	5. Limited awareness/Ignorance
6	Limited consumer protection rights in the financial sector	6. Security risk for customers
7	Poor product design that does not suite customers and limited products offered	
8	Security risks for digital financial services	

Underlying discussion on the summarized access barriers:

A. Supply side access barriers

1. High education requirements

Studies in low-income economies show that the majority of the adult population have primary education or less. Most of the unbanked adults are likely to have low education and account ownership is low among the less educated (Asli and Jake, 2017). In Uganda, some banks have more interest in highly educated customers who are treated in a corporate way and special products are designed for them.

2. High transaction costs

Stijn (2005) explains high transaction costs in terms of high minimal deposit charges, high administrative charges like monthly maintenance charges, bank charges, high fixed costs for loan application and loan charges. This discourages poor customers in formal institutions because most of the borrowers are from rural areas, and entirely relying on subsistence farming for survival.

High operating costs and losses in loans disbursed. The number of non-performing loans in some financial institutions is high because loans are disbursed without thorough assessment of a customer's profile as a result, the loans end in default.

3. Women are not a priority, if not at all

In Uganda, women use informal financial services like moneylenders, village savings and loans, credit associations than men due to the illiteracy gap. However, men are commonly involved in formal financial services and the majority of the excluded groups live in rural areas.

FinScope report (2013), shows that about 20% of the adults relied on banks, 31% in informal institutions and the majority were women who have limited avenues for consumer protection against bad lending acts, savings loss. This gender gap is so pronounced among women and limits financial access.

Poor women are 31% of the population in rural areas, however usage and ownership of technology is so poor for instance use of mobile phones is so low in rural areas as compared to the poor urban women and men. (Intermedia Uganda FII Tracker surveys, 2014).

4. Location characteristics (Remoteness)

The remoteness and geographical dimensions (regions) of the country contribute greatly in limiting access and use of the available financial services and banks have failed to prioritize such hard to reach areas. The main regions of the country are represented by the Northern, Eastern, Western and Central parts of Uganda. However, the Northern and Eastern regions are less privileged with few financial institutions as a result of their remoteness and less development.

FinScope survey (2013) reports that 71.5% Ugandans live in rural areas. More adults in urban areas use formal financial institutions like banks, microfinance deposit-taking institutions and non-banks like mobile money, Microfinance institutions and SACCOs as compared to adults who use formal financial services in the rural areas across the country.

5. Poor Network Infrastructure, ICT and limited access channels

Poor network infrastructure affects transfer of payments around the world both at international and domestic level, this forces customers to use informal means. Many residents in rural areas lack access to Digital Financial Services (DFS) like phones. Banks have fewer branches in rural areas yet over 70% of the population in urban areas are financially included. Rural areas suffer with poor electrification creating quite diverse barriers to digitalization of financial services (Financial Inclusion Insight Survey, 2015).

Comparing Uganda with Kenya, Kenya is far better in terms of financial sector development and the country has more bank branches than Uganda. In Uganda, urban areas have more bank branches about 70%, more ATM outlets than rural areas. Only few areas in the rural areas have access points (Financial Inclusion Insight Survey, 2015).

The country faces a lot of network challenges, and this makes it so difficult to deliver financial services. For instance, mobile network service providers are still unable to control the transmission lines of communication and offer products across those lines unlike other countries where mobile financial services are thriving, Uganda is still slow in this.

6. Limited protection of consumer rights

Clients of MFIs, SACCOs and Insurance companies are not protected of their rights as it is supposed to be in the financial sector. Fraud related cases at times result, some customers are not fairly treated as it is supposed to be in the code of conduct and banks pay less attention.

Atkinson and Messy (2013) report that a survey, conducted for financial regulators, shows that most governments in 143 economies in 2010 include financial consumer protection in their mandate.

7. Poor product design that does not suit customers and limited products offered

Levine and Ross (2005) report that most of the financial services in the formal sector target a small portion of the population and these products are accessible and available to the specific category. Financial services offered do not suit every category.

According to the National Financial Inclusion Strategy 2017-2022, the majority of Ugandans are young about 15.7 years on average. However, to open an individual bank account, one must be 18 years and above.

The formal financial services offered have higher demand in the urban areas than in rural areas and vice versa. Due to variations in product designs, customers end up making poor choices.

8. Security risks for customers, payments and digital financial service providers

In a digital world, technologies have improved. A number of financial institutions have moved away from the traditional way of operation, and bank information is digitized. This transformation in technology is prone to hackers and for security threats.

On the supply side, financial institutions face money laundering activities like smuggling, fraud which are risky. Fraud cases are common in different parts of the country in banks, digital financial applications like mobile money which causes insecurities.

The National Identification and Registration Authority (NIRA) has the database of the national identification, however financial service providers have not been given rights to have the database, therefore it is difficult to authenticate customer details on the National Identity cards. This has forced the financial service providers to issue out money without thoroughly verifying the customer details which is a risk since fraudsters can use means to forge and steal.

B. Access barriers on the demand side

1. Illiteracy

Many citizens in rural areas are excluded because they are illiterate and fear to use the formal financial services, this is very common and their perception is that formal financial services are for the educated and the rich. Some people fail to understand the appropriateness and benefits of the financial services offered by financial institutions because they cannot read and write.

Updating customers with information, training, and developing their skills builds their confidence to make informed decisions on their finances (Atkinson and Messy, 2013).

2. Low Levels of Income

Financially excluded people around the world have limited access to finances because they don't have money to pay for the transaction costs. In Uganda, sometimes the income/wages are very unpredictable and the majority live below the poverty line in rural areas which makes it hard for them to own a bank account.

The formal financial institutions charge highly for opening bank accounts and the monthly bank charges are high in some commercial institutions. Due to poverty, many citizens can't afford the services.

According to Asli and Jake (2017), low levels of income among the unbanked adults makes it very difficult to access financial services. A number of adults were asked why they do not own bank accounts, and the dominating feedback was that they lack enough money.

3. Failure to meet the required requirements for accessing finances

Formal financial institutions in Uganda require customers' personal details before opening accounts (Key Facts), Know Your Customer (KYC) requirements like identity cards to process formal loans and this discourages some of them because they don't have such documents and fear delays in the processing of such legal documents by the responsible bodies.

Many Ugandans cannot access credit from formal institutions because they do not have collateral requirements such as land titles, property ownership, and businesses, which are mandatory during the customer assessment process. Failure to complete land registration.

4. Poor interest in financial services (Distrust)

Due to distrust, prospective clients in rural areas get scared of accessing financial services because they do not trust the security of their money.

Reported by the NFIs (2017-2022), financial institutions and Mobile Money service providers sometimes fail to verify customers' documents like IDs. Such negligence portrays a negative image resulting in distrust.

5. Limited awareness/Ignorance

A number of Ugandans lack financial literacy, information and knowledge on the available financial services offered. People often spend more than their earnings and lack basic knowledge on digital financial services like mobile money, mobile banking which is safer than keeping cash at home.

Informal businesses lack awareness of registering their enterprises and gain benefits for being formalized, for example easy access of loans from financial institutions with legal documents. Societal barriers like property rights and ownership, also hinder women from being financially included in the system because they lack collateral.

6. Security risk for customers

Security is a challenge in all parts of the country for individuals, customers often lose their money in the hands of fraudsters who trick them and get access to their money.

Most common fraudsters in Uganda are con men who hack people's private accounts in online banking, ATM point attacks, robbing people at money outlets, issues of counterfeit money, persuading customers in beliefs that are not true, among others.

Chapter 3

Methodology

Research Methodology involves processes of finding, describing, explaining, analysing and evaluating matters of concern. This chapter presents the research design used in this study, data source, data collection modes, data analysis techniques, limitations of the study and ethics prior and after the research process.

3.1 Research Design

This study used the Delphi Method to obtain primary Data by interviewing an expert/opinion group to collect data. The study employs qualitative analysis to answer the research questions in the study.

The Delphi method involves data collection and filters the anonymous judgments from the experts using a series of data collection and analysis techniques to obtain feedback (Skulmoski, Hartman, Krahn, 2007).

The survey was designed and distributed online to 22 experts through emails, facebook and whatsapp. The survey was mainly designed to obtain data on the access barriers to financial inclusion and other related concerns in the financial sector. The targeted experts were Ugandans both female and male in the financial sector, NGOs, Government Institutions, academicians and researchers.

3.2 Data Sources

The data for this study originates from two sources, that is, primary and secondary data sources.

Primary Data Source:

The study used data from an online survey that was conducted from 3rd-14 May 2021 and the survey form was designed in line with the purpose of the study (see attached Appendix). The survey questionnaire was designed with the aid of google forms and shared with the key experts on different platforms such as email, whatsapp, and facebook messenger among others.

The experts were selected and interviewed based on their profile details like age, level of education, area of expertise, occupation. Experience and knowledge on the financial sector, research and rural communities was considered.

The survey was designed and conducted to get knowledge on the usage of financial services, the extent to which the available services have been accessed and used in rural areas, to identify the people excluded most, access barriers to financial inclusion and policy measures to incorporate the financially excluded in the financial system.

Secondary Data Source

A number of scholarly journals, publications, and reports of the Central Bank of Uganda, the National Financial Strategy 2017-2022, World Bank reports have been used in this study to obtain information on the financial sector, financial services and access barriers to financial inclusion in Uganda.

Chapter 4

Expert Profile and Feedback on Access Barriers

This chapter first provides the profiles of the experts consisting of their age, education, institutional affiliation with position, and expertise. Then it presents experts' knowledge on access and use of financial services, the excluded people, access barriers, and policy recommendations to incorporate the financially excluded in the financial system of Uganda.

4.1 Profile of the Experts

Most of the respondents were below 30 years. Level of education, institutional affiliations and positions of expertise were taken into consideration in this survey.

Gender

Both men and women are well represented in terms of gender composition by the experts of the study: 45.5% male and 54.5% female.

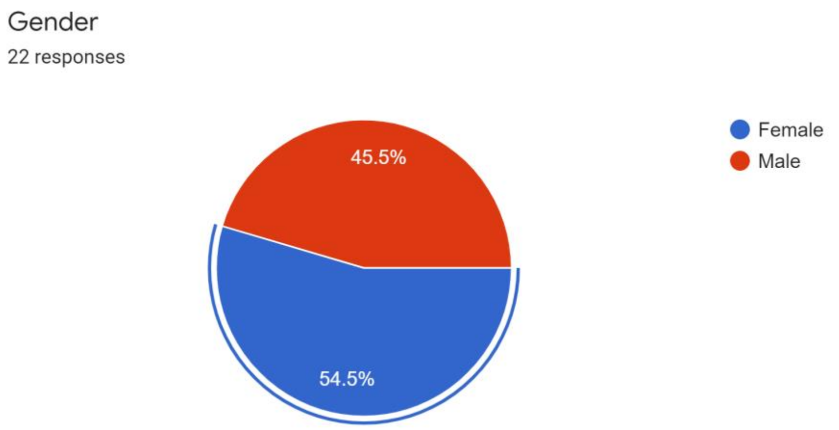


Fig 2: Experts' gender

Age

All experts belong in the age range of 21 to 65. Of whom most (81.8%) are of 21 to 34 years age. Three are of age 35-44. Only one expert's age is above 65 years.

Education

Information on education shows that most (18 of 22, i.e. 81.8%) attained bachelor's degree. The remaining three 3 experts have a degree of masters/postgraduate level/other.

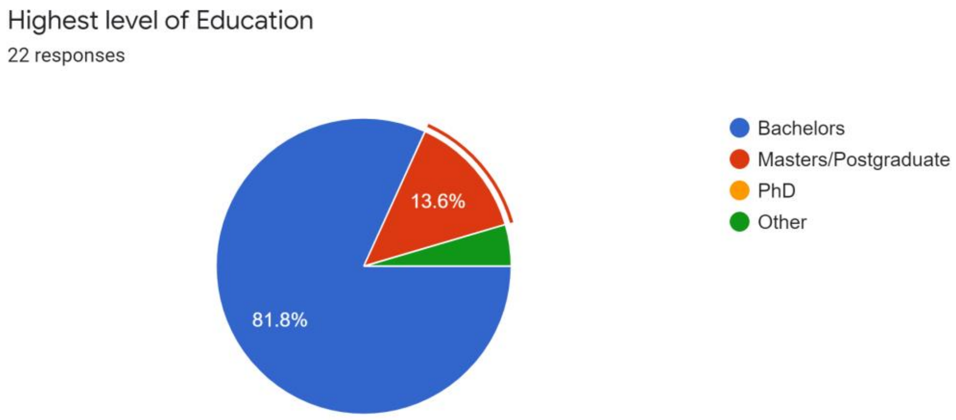


Figure 3: Experts' Level of Education

Institutional Affiliation and Position

Feedback has been drawn from experienced experts from diversified backgrounds in their area of expertise. Their institutional affiliation includes financial institutions/banks, Government institutions/University (Makerere), NGOs.

The experts are:

- Bankers /financial experts mostly Credit Officers: 10 (45.5%)
- NGO officials: 4 (18.2%)
- Government Officials: 3 (13.6)
- Researchers: 2 (9.1%)
- Academicians and an agribusiness expert: 3 (13.6%)

4.2 Knowledge of Financial Services Offered by Financial Institutions

From the study, experts report that the majority of the citizens in Uganda know financial institutions for loan access.

- Knowledge on loan access is 77.3%,
- Followed by saving schemes /Deposits by 54.5%, 18.2% for knowledge on insurance policies, 45.5% for Digital Payment Systems and 4.5% for investment advisory.

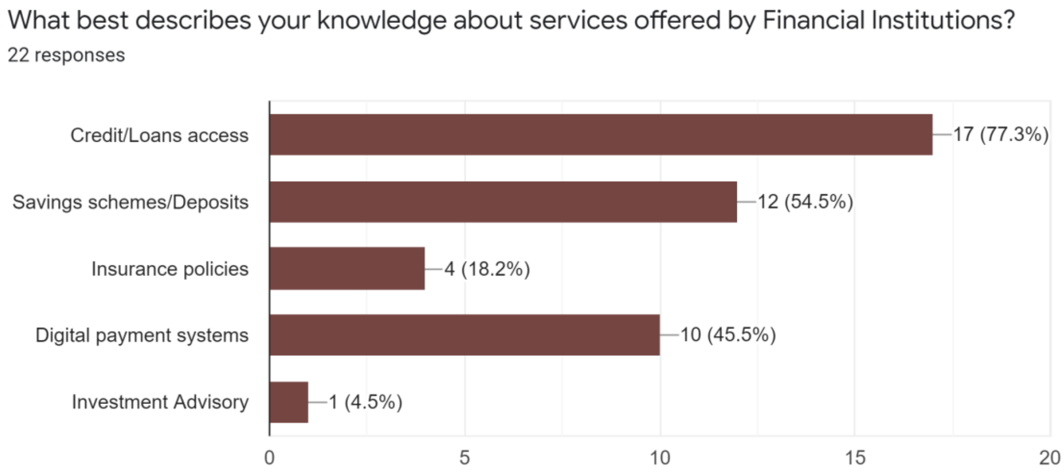


Figure 4: Experts' knowledge of financial services

4.3 Experts feedback on Access and Use of Financial Services

About 72.7% of the respondents' ranked access and use of financial services low usage in Uganda based on their observation and experience, 27.3% ranked it as moderate and none of them ranked it as high.

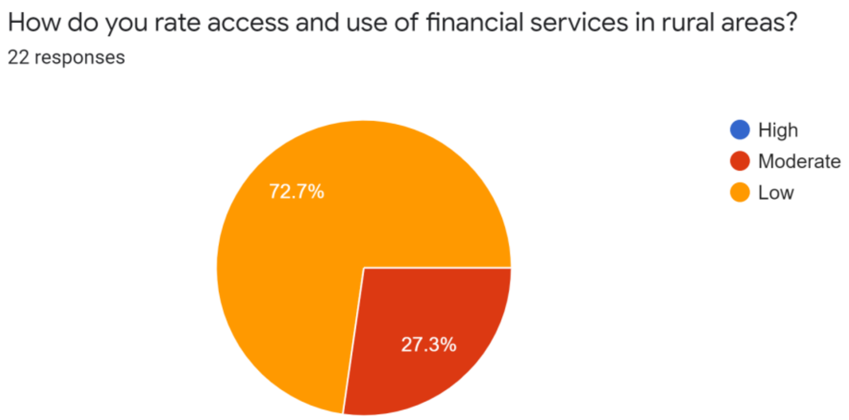


Figure 5: Experts' Feedback on access and use of financial services

4.4 Expert Feedback on Access and Use based on Financial Sector in Rural Areas

Of the financial sectors that offer financial services, that is, the formal, Semi-formal and informal, very few of the rural population use formal institutions like banks, MDIs and insurance usage is very poor.

In the category of the semi-formal institutions, SACCOs are used more than Savings groups and MFIs.

Informal sector dominates all other sectors, and it is prominent in rural areas. Most rural people use village savings associations.

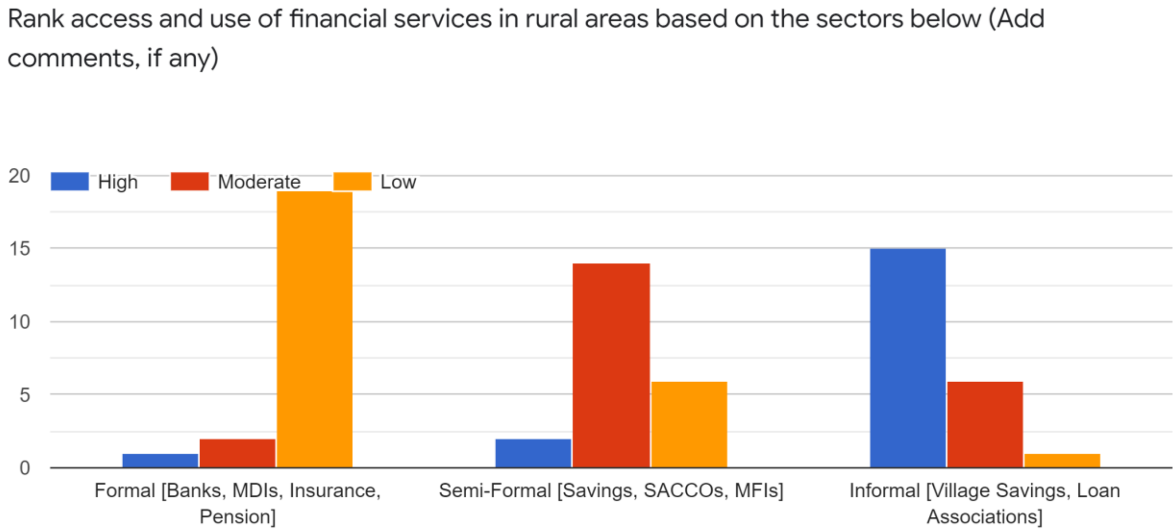


Figure 6: Experts' Feedback on access and use based on financial sectors in rural areas

4.5 Experts Ranking of Commonly Excluded groups

According to the feedback, poor rural people are excluded most from access and use of the financial services in the rank. It is reported by 72.7% of the respondents, followed by the youth (15-18 years) by about 40.9%, women who are uneducated (unable to read and write) by 36.4%, young entrepreneurs like bricklayers by 4.5% and the elderly about 50 years by 4.5% .

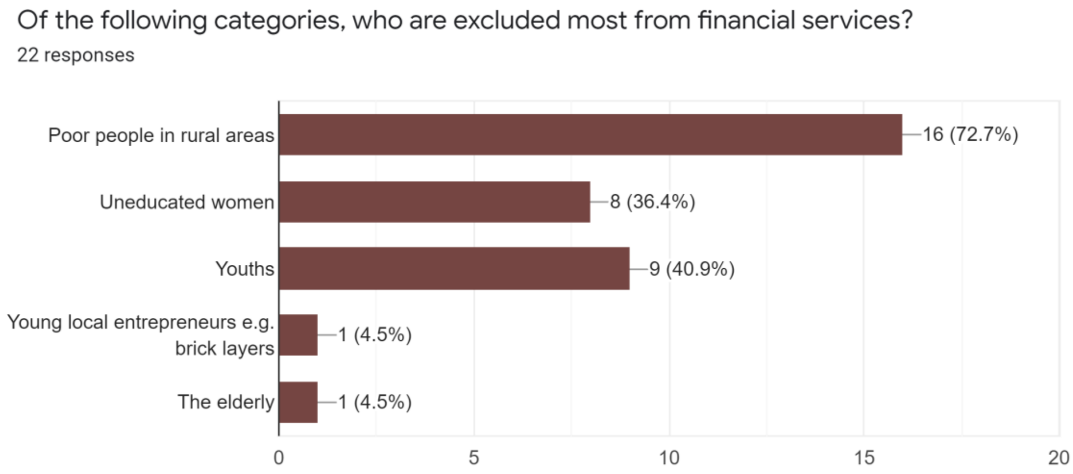


Figure 7: Experts' ranking of the commonly excluded groups.

However, according to their own additional views and comments, the following are excluded as well.

Table 2, Experts' response of other excluded groups.

1. Uneducated citizens (unable to read and write)	6. Young entrepreneurial youth
2. Elderly (above 50 years)	7. Poor
3. Disabled	8. Uneducated rural women
4. Unemployed	9. Youth generally
5. Those without relatives or friends in higher positions in financial institutions	10. Underage children and people without National Identifications

4.6 Experts ranking of the hypothesized access barriers

The experts were provided with the list of the hypothesized access barriers in chapter 2, and these were to be ranked based on how they affect the citizens. The rankings were categorized as highly relevant, relevant and irrelevant. The access barriers that affect citizens most were considered as highly relevant, followed by relevant which showed that it was moderate and then irrelevant. This means that an access barrier that was ranked irrelevant had a low ranking and does not affect access and use of financial services as high as others do. This information is reflected by figure 8, on experts' ranking of the hypothesized access barriers.

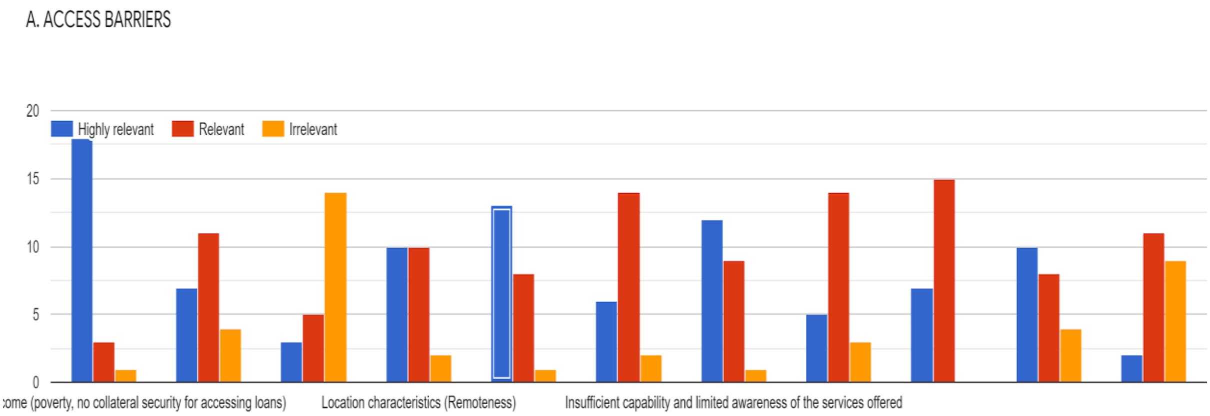


Figure 8: Experts' ranking of the Hypothesized access Barriers

- From figure 8 above, 18 experts highly ranked low level of income as a top access barrier that affects citizens.
- Poor Network Infrastructure, ICT and limited access channels were also highly ranked by 13 experts.
- Limited awareness and security risks were part of the high rankings by 12 and 10 experts respectively
- Other barriers such as low level of education, location characteristics (remoteness) as well affect access and use of financial services although not as high as the experts statistics reports.
- Poor product design, limited protection of consumer rights, distrust, low levels of education and remoteness were moderately ranked.
- Women are not a priority, if not at all, and has been ranked low by 14 respondents.

4.7 Experts Overall Feedback on Access Barriers

Expert feedback on access barriers in Uganda based on their opinions are presented below:

1. Long processes (bureaucracies) in accessing financial services

In Uganda, a lot of complaints have piled up about long processes and procedures encountered. The process of acquiring loans from formal financial institutions is long and cumbersome. The client must possess valid identification, enrol for a financial card with a financial institution to access his/her credit worth, submit a loan application, open a bank account, undergo assessment of the collateral, and finally complete the loan documents.

2. Many youth have been denied access from accessing financial services

Many youth have been denied access to financial services like credit and savings deposits. The reasons cited include lack of valid documentation, incapable guarantors, lack of collateral security for acquiring loans, underage applicants, bad borrowers who do not qualify for loans.

3. Limited knowledge on services offered by financial Institutions

Many citizens are still unaware of or do not have information on financial services offered such as insurance, payments, savings account types, credit products, many potential beneficiaries do not even know what insurance companies are about and what they offer .

4. Digital backwardness and low technological adoption by rural population

Many clients do not know how to use smartphones, they are ignorant about digital banking services and do not trust online transactions. They prefer physical transactions to online transactions.

5. Unemployment and poverty

Unemployment and poverty are prevailing issues in a low-income country like Uganda. Many citizens are poor, unemployed and have even failed to raise even a dollar in a day, most of them earn for survival with no or little savings. Such situations are even worse in rural areas. Inadequate sensitization about the financial services.

6. Limited financial support for local entrepreneurs especially the youth

Many youth feel left out and priority is being given to women. Some banks have failed to come up with strategies of designing products like business loans and agriculture loans to empower the youth.

7. Financial institutions are dominated by adults, especially women

Formal financial institutions commonly practice this, some institutions such as Pride microfinance, FINCA, Brac Uganda Bank Limited among others are dominated by less educated adults, most especially women. This causes gender inequality.

8. **Most financial institutions are located in urban areas (Uneven distribution)**

Notably, most of the formal, semi-formal financial institutions in Uganda are located in urban centres and towns that target the educated and large businesses.

10. Poor customer service and relations

Some financial service providers are so rude to clients, they lack professional conduct and customers often feel mistreated. There are delays in service delivery and sometimes customers fail to get the services they want after following long queues.

11. High transaction costs

High charges for opening bank accounts, high loans charges, and high charges for other requirements. Different banks have their own rates they charge for services offered.

12. Use of unregistered communal land in rural areas that is rejected as collateral

Most banks require registered land titles, buildings as collateral security yet most citizens in rural areas have unregistered land.

13. Failure to possess vital legal documents

Many citizens lack mandatory requirements like national IDs, some registered but have not collected, and others lost their IDs and failed to be replaced with NIRA. Other verification documents include passports, affidavit for changing names, and certificate of registration of business or memorandum of association for savings groups.

14, Poor ICT Infrastructure and Network

Some financial institutions are located in areas with poor internet connection, and this delays service delivery. Some banks have few computers for serving customers, and many banks are still developing their digital financial infrastructure like BRAC Uganda Bank Limited.

15. Limited financial literacy

Many citizens in rural areas lack the ability to understand and effectively apply various financial skills, for instance managing personal finances, saving, how to budget and invest.

16. Low levels of education

Uneducated and less educated people feel left out in the formal financial services offered.
The uneducated are prominent in informal institutions as compared to the educated.

17. Limited financial services offered

Some financial institutions offer limited financial services to particular segments, yet they are conveniently located across the country. Some banks do not offer special products like agricultural loans, business loans which limit many citizens.

From the analysis drawn from the expert's feedback, the majority of the financially excluded are the poor, uneducated (unable to read and write), women and youth in rural areas. Low levels of income affects citizens a lot based on the feedback because people do not have money. However, the experts have suggested measures below to address financial inclusion in Uganda.

4.8 Experts Feedback on Policy Measures to Improve Financial Inclusion

Experts Feedback on measures to improve financial inclusion in Uganda are the following categories:

1. **Financial institutions need to ensure that customers are aware of consumer rights**

They need to be treated with respect, dignity and make informed decisions on the services they wish to acquire. This attracts customers to transact in financial institutions.

2. **Provision of affordable and accessible financial services**

The financial institutions need to provide affordable, quality and accessible financial products.

More branches and outlets should be established in different locations and adoption of financial services should be ensured for easy access.

3. **Provision of financial products designed to suit every category**

Financial services providers need to ensure that the services offered are flexible and can be accessed by any legible citizen from any segment of the country.

4. **The government needs to ensure land registration so that people can use their land titles as collateral security**

Every citizen needs to register their assets like plots of land, buildings to access financial services that involve large amounts.

5. **Massive sensitization and financial literacy need to be taken in consideration**

Financial institutions need to ensure that the customers have knowledge on all the financial services offered, provide brochures, flyers to get more information, where necessary such information needs to be written and conveyed in native languages that they clearly understand.

6. **Citizens less than 18 years need to be given the opportunity to their own account**

Banks need to provide special financial services that target children and youth below 18 years for instance junior accounts.

7. **Financial institutions need to equip customers with savings skills**

Financial institutions need to avail customers with saving skills, for instance setting savings targets for customers who save with them or borrowers so that they are able to invest, start their own businesses, expenses and improve their welfare.

Chapter 5

Overall Policy Implications of Research Findings

In view of the current situation that many Ugandans have limited, if not at all, knowledge of and access to existing financial services in the country, the study sought to find out what are the existing financial services and whom they are meant for. The research findings will improve financial inclusion in Uganda, particularly policy measures to incorporate the financially excluded.

The latter to be possible the key objectives in the study has been to identify access barriers to financial services and the citizens who encounter such barriers. This chapter summarizes the research findings, particularly the ones that have been generated from analysis of expert survey feedback. These findings and associated policy implications are presented below.

5.1 Research Findings with Policy Implications

1. Provision of affordable rural credit/loans as start-up capital to ensure inclusiveness.

One expert observed that rural empowerment is a prerequisite for residents of rural areas to access financial services. The majority of Ugandans live below the poverty line in rural areas. The expert ranking of low levels of income as the highest access barrier. Because one is poor or of low-income status, he or she cannot access financial services that could allow pursuing economic activities and thereby increase income to move out of poverty.

2. Financial literacy

Literacy programs need to be designed by financial institutions to improve consumers' knowledge on financial products, risk and provide them with information of where they can report to in case they get issues, and actions they can take to improve their wellbeing.

3. Developing digital infrastructure

The study found out that many citizens are left out because they lack basic knowledge on digital financial applications, they lack handsets for use among others. Customers need to be trained and adopt the use of new technologies in the financial sector such as Mobile money, online banking services to avoid delays, long queues and cut travel costs.

4. Financial access to all excluded groups

From the study, it is found out that certain categories of people such as the poor, rural communities, women, and youth are excluded from the financial system, products are being designed for particular groups of people among others. Therefore, a broad range of financial services need to be available to everyone, the government needs to consider youth between 15-18 years who are capable of making informed financial decisions.

6. Distribution of financial service points and infrastructure

Financial institutions need to ensure even distribution of access points such as ATMs points, Mobile money outlets and branches for financial access. From the study, the respondents noted that informal financial institutions are more prominent in rural areas than urban areas and the majority of them are poor.

7. Strengthen the capacity of women and poor people

The government and financial institutions need to strengthen the capacity of women and poor people by providing affordable financial services to them and review of pricing of financial services and tax reforms to ensure that the excluded are incorporated into the financial system.

8. Legal and regulatory reforms

The Ministry of Justice and the parliament of Uganda need to ensure that legal laws are passed to financial services and are observed to avoid security risks such as fraud, forgery, hackers.

9. Strengthening the capacity of SACCOs and MFIs

Notably, it has been found out that financial services that are mostly used in rural areas are informal as compared to urban areas. Therefore, the responsible authorities need to strengthen the financial capacity of SACCOs and MFIs so that they are able to have wide coverage.

10. Increasing formal savings capacity, investment and ensure use of insurance products

These services ensure that consumers accumulate, grow and protect their assets. Expert responses and previous literature show that most Ugandans are unaware of the available insurance policies. Majority of the people who use insurance products in Uganda are rich people with stable income and the few who are aware.

5.2 Policy Recommendations

The government needs to provide the citizens with start-up capital for businesses, start-up rural development projects like agriculture and support new innovations of entrepreneurs in the market to generate income for people to improve their welfare and productivity. Some of these services are available but not accessible to those who need them most. With this in view, specific recommendations of this study are as follows.

i. Loans/credit needs to be provided to the rural citizens as start-up capital to ensure inclusiveness.

ii. Dissemination of information on available financial services

iii. Financial literacy

iv. Developing digital infrastructure.

v. Designing (customizing) credit application documents such as loan Application forms for the excluded groups.

Chapter 6

Conclusion

This chapter summarizes the findings of the study and concludes it by noting the limitations and scope for the research in the area of financial inclusion and access barriers.

6.1 Summary and Conclusion

Many Ugandans are excluded from the financial system and the objectives of the study have been to identify the excluded, the access barriers to financial inclusion in Uganda, identify measures to improve financial inclusion and policy measures to incorporate the financially excluded into the financial system.

The study finds that households and businesses have failed to access finances for doing productive activities and to improve their economic condition and welfare because of certain barriers. Key discussions in the study focused on the financial sector, financial services, financial inclusion, access barriers, and financial exclusion. The study initially identified both supply and demand side factors operating as access barriers. This was done on the basis of secondary sources on financial institutions and services.

Then an online survey was designed for an expert group who were requested to provide feedback on access barriers to financial services, and knowledge on financial services. The financially excluded individuals were identified, access barriers were ranked. The respondents also provided feedback on measures and policy recommendations to incorporate the financially excluded.

From analysis of the compiled information, particularly the feedback of the experts, it is found that the majority of the financially excluded live in rural areas, they are the poor, uneducated, women and youth. Low level of income, illiteracy and limited awareness of the available services serve as commonest access barriers that affect most Ugandans. This is very prominent in rural areas. Therefore, there is a need for information dissemination by financial institutions to all citizens with the main focus being on rural areas, provision of a broad range of affordable financial services across the country and easy credit access.

6.2 Limitations of the study

Due to the current situation associated with COVID-19 and technological backwardness, the rural communities with no or limited education could not be interviewed in the study. Obtaining secondary data was quite difficult because some data sources were also restricted. Yet the cooperation of the expert respondents served the researcher's need for some primary data. This has indeed been a good learning experience - developing a survey instrument on access barriers and contacting and obtaining feedback on the author's list of hypothesized access barriers.

The study could not undertake statistical analysis in the study.

6.3 Scope of Further Research

A future study in access barriers to financial inclusion needs to consider designing a questionnaire for financial institutions, experts as well as the rural communities. Then in depth face to face interviews need to be conducted in all segments. Questionnaires need to be printed out, if possible translated in local languages so that it is understandable to rural communities with limited education and income.

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Appendix

Questionnaire

https://docs.google.com/forms/d/1vHTiauXp3gzefiPNC7mkS1zwmJGmcumbc61XyQpxO2Q/edit?usp=sharing

Dear respondent,

My name is Judith Eyoa Onzia, a student pursuing a Master of Science in Applied Economics. I am conducting a study on access barriers to Financial Inclusion in Uganda mainly focusing on the access barriers to use and availability of financial services.

You have been selected for this academic study as one of the knowledgeable respondents and the information you give will be treated with utmost confidentiality. The findings and recommendations from this study will be beneficial to the government, financial institutions, communities and academic institutions.

I kindly request for your valuable time to participate in this survey.

1. Gender *

   Mark only one oval.

   - Female
   - Male

2. Age *

3. Highest level of Education *

   Mark only one oval.

   - Bachelors
   - Masters/Postgraduate
   - PhD
   - Other

4. Organization/Institution *

5. Position/Designation *

6. Department/Area of expertise *

7. What best describes your knowledge about services offered by Financial Institutions? *

Check all that apply.

- [ ] Credit/Loans access
- [ ] Savings schemes/Deposits
- [ ] Insurance policies
- [ ] Digital payment systems

Other: [ ] ______

8. How do you rate access and use of financial services in rural areas? *

Mark only one oval.

- ( ) High
- ( ) Moderate
- ( ) Low

9. Rank access and use of financial services in rural areas based on the sectors below (Add comments, if any) *

Mark only one oval per row.

	High	Moderate	Low
Formal [Banks, MDIs, Insurance, Pension]	( )	( )	( )
Semi-Formal [Savings, SACCOs, MFIs]	( )	( )	( )
Informal [Village Savings, Loan Associations]	( )	( )	( )

10. Of the following categories, who are excluded most from financial services? *

Check all that apply.

- [ ] Poor people in rural areas
- [ ] Uneducated women
- [ ] Youths

Other: [ ] ______

11. A. ACCESS BARRIERS *

Studies and research on financial inclusion suggests that certain groups of citizens cannot access the various financial services that are meant for all citizens but in practice many or some groups of citizens do not have access to those services. In this regard, I would like to get your feedback on the following as to their validity or importance as access barriers to financial support provisions Uganda has. Please rank and add your observation/comments based on your knowledge, experience or information regarding barriers considered here.

Mark only one oval per row.

	Highly relevant	Relevant	Irrelevant
Low levels of income (poverty, no collateral security for accessing loans)	◯	◯	◯
High transaction costs (bank charges, interest rates etc)	◯	◯	◯
Women are not a priority, if not at all	◯	◯	◯
Location characteristics (Remoteness)	◯	◯	◯
Limited ICT & access channels(few branches and mobile money outlets, online banking and Network challenges, limited ATM points)	◯	◯	◯
Poor interest in financial services (Distrust)	◯	◯	◯
Insufficient capability and limited awareness of the services offered	◯	◯	◯
Limited protection of consumer rights (Issues related to consumer safety,fraud are often taken for granted e.g Mobile money fraudsters)	◯	◯	◯
Poor product design that does not suite customers & limited products offered (Limited range of financial products offered by some banks, children <18 not able to open individual accounts)	◯	◯	◯
Security risks for customers, payments and digital financial service providers (Fraud, threats etc)	◯	◯	◯
High education requirement (certain financial services require a higher level of education, People's Perception that issues to	◯	◯	◯

do with formal financial institutions are for
the highly educated, illiteracy)

12. B. Comment on the access barriers stated above (Additional feedback please) *

13. C. What other access barriers do you think limit the use and access of financial services in Uganda? * *

14. D. Who are, to your knowledge, are usually excluded from the financial services of the country? *

15. E. Your overall comments and policy recommendations to incorporate the financially excluded people in the financial support system Uganda has.