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Why education is the key to improving financial inclusion in Uganda

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Key messages

- **Mass unemployment amongst young people in Uganda needs urgent attention.**
- **Making access to bank loans easier so that young people can start their own businesses is a key part of the solution.**
- **Financial institutions should reduce interest rates and cut banking fees to help give young people a start.**

High unemployment and low financial inclusion for youth in Uganda

Uganda has one of the youngest populations in the world. 78% of people are below the age of 30, and those aged 18-30 (approximately 7.8 million people) make up 23% of the population (UBOS, 2016[1]).

64% of the unemployed in Uganda are young people, meaning the country has one of the highest levels of youth unemployment in the world (UBOS, 2016).

There is a significant lack of jobs available for young people. To help resolve this, youths need to start their own businesses and become employers themselves. However, it's difficult for people to get the money they need to start a new company or expand an existing one. For instance, in Katakwi, only 14.5% of young entrepreneurs were able to access credit.

The World Bank (2014[2]) says that financial inclusion can boost self-employment, improve consumer spending, help the local economy, and reduce inequality. It's recognised as critical to reducing poverty and achieving economic growth.

However, financial inclusion still remains low, with about two billion people worldwide without bank accounts (The global findex database, 2014). Uganda has made improvements, however, a significant number of Ugandans remain excluded from financial services. The share of adults who only accessed loans from formal institutions in 2013 was 6%, whilst 25% of adults only saved through formal channels, and just 2% used formal insurance products.

The analysis

A local PEP team used the Community-Based Monitoring System (CBMS) to explore youth unemployment and entrepreneurship in Uganda. The use of CBMS[3] was expanded in 2018 to generate data for examining the determinants of financial inclusion amongst young people, whilst also exploring how well Uganda was performing in relation to the United Nations Sustainable Development Goals.

The 2018 CBMS survey covered 5210 households in two sub-counties of Katakwi and Akoboi in Katakwi district. The primary objective of the study was to find out the level to which young people had access to affordable and useful financial services, the barriers they faced, and the factors determining the opportunities open to them. Both descriptive analysis and a probit model were used.

Photo: Karin Bridger for USAID

[1] Uganda Bureau of Statistics (2016). The National Population and Housing Census 2014 - Main Report, Kampala, Uganda. [2] World Bank (2014).Global Financial Development Report: Financial Inclusion. [3] Kagugube, J., et al. (2019). Availing data for evidence-based decision-making the expanded Community Based Monitoring System (CBMS) in Katakwi District, Eastern Uganda. Development Research Training (DRT), Uganda

Key findings

14% of the population in Katakwi and Akoboi sub-counties are young people (18-30), with more women (57%) than men (43%).

- 38.4% of young people are unemployed.
- Though mobile phones have made it easier for people to access financial services, far more men have phones than women. This could be because it is easier for men to get casual work and then use their earnings to buy phones.
- Only 30.8 % of young people benefit from financial inclusion, and far more men than women.

The majority of young people (41.6%) do not have savings, and this is largely because they do not have any income.

- The rest save at home (34.2%), via ROSCAS and VSLA (12.4%), and on mobile phones (9.3%).
- More men than women save on mobile phones, and more women than men save at home and in ROSCAS.
- More women than men save in ROSCAS because saving is a requirement for getting a loan. This shows the role that VSLAs and ROSCAS play in enhancing financial inclusion.
- 70.7% of people who said they are not using mobile money said this was because they don't have a mobile phone.

Young people shared useful insight into the obstacles that prevent them from using banks.

- The main reason people said they didn't have a bank account was because they didn't have an income (49.3 %). Whilst this was an issue for men and women, significantly more women said this.
- Other people said they didn't have a bank account because of the distance to the bank (12.8%). Others said they didn't understand how accounts work (12.8 %), and other people said the high cost of operating an account (9.8%) was a barrier.

Where people said that they weren't trying to access a bank loan, this was because they said they didn't need it (31.5%).

- Others said they didn't apply because they didn't like debt (23.2%), because of inadequate security (11.9%) and because they were put off by high interest rates (10.2%).
- Young people said they didn't apply for loans because they didn't have the skills required to put the money to good use, so getting credit would only lead to further problems.

Whilst various agencies (government and others) have offered soft loans and grants to young people, this has not seen great results.

- This may be because young people do not all have the skills to use and manage money appropriately.

Men, people who are educated, people who understand how money works, people with jobs, and those who are married are most likely to use financial services in Uganda.

Photo: Fiona Graham/WorldRemit

Conclusions and **policy implications**

For the financial system in Uganda to become truly inclusive, financial institutions need to encourage those who face the greatest barriers to engaging with them to do so.

- Removing these obstacles is more important than providing formal financial services. Even with Automatic Teller Machines (ATM), an increase in bank branches, mobile money stalls and other financial services in many areas, if people do not have income, they do not know how accounts work, and they cannot afford banking fees, they still won't be able to benefit from them.
- Financial institutions should reduce costs associated with operating an account and reduce interest rates.

Educated young people who understand how money works are more likely to get access to the financial support and services they need.

- Katakwi District Education Department should work with financial institutions to introduce financial talks to schools so that young people appreciate the importance of saving from an early age.
- Financial Institutions should be given an opportunity to address the children (both in primary and higher levels) at least once a month at assemblies so they know which products are suitable for them.

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