POLICY BRIEF

Enablers and Inhibitors for Access and Usage of Digital Financial Services in Uganda

EPRC

Isaac M. B. Shinyekwa

Dablin Mpuuga

Aida K. Nattabi

Enock W. N Bulime

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Key Messages

- There are existing significant gender differences in access and usage of digital financial services (DFS), in favor of men.
- The majority of Ugandans (54 percent) still save their money in secret places or at home.
- Over the years, the percentage of women with mobile money (MM) accounts has gradually increased, helping to narrow the existing gender gap
- There has been a significant increase in access to mobile money (MM) services among young Ugandans aged 15 to 24 years.
- Financial literacy, internet access and SACCOs/VSLAs are significant enablers of access and usage of DFS.

What is the issue?

Financial inclusion (FI) and specifically access to affordable financial services is very critical in reducing poverty, income inequality as highlighted in Sustainable Development Goals 1, 5 and 10; and accelerating economic growth. FI is therefore important for Uganda like any other country. Women and rural Ugandans are proportionately more included in informal financial groups, whereas men and urban dwellers have more access and usage of formal financial services. The low level of formal FI in rural areas is partly explained by the high cost of providing financial services. Commercial banks are faced with lack of the incentives, information, and sometimes the ability to mitigate the risks of operating beyond urban markets or with low-income clients. Consequently, a significant portion of rural and low-income Ugandans remain financially excluded. In this regard, DFS such as MM emerge as one of the ways to bridge the financial access gap between the financially included and excluded. It is however noted that little is known in Uganda's context concerning the critical enablers as well as inhibitors to access and usage of DFS.

The policy brief summarizes findings from the study titled, "Leveraging Digital Services and Market Development for Financial Inclusion: The Case of Uganda".

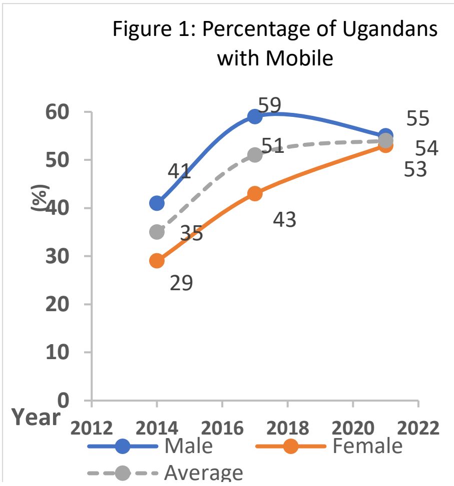
Why is it important?

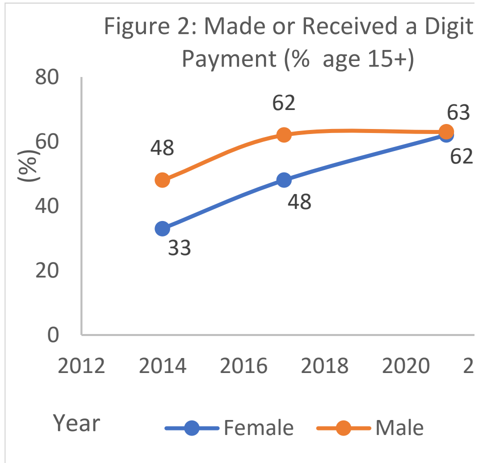
Majority of Ugandans still save their money in secret places or at home, and there are existing significant gender differences in mechanisms of saving: Findings indicate that whereas, more men (54%) and women (53.5%) still save money in secret places or at their homes, proportionately, more women do not save anything at all. Furthermore, even when buying animals is the other form of saving, it is observed that it attracts more men than women further demonstrating the disadvantage to the latter. Notably, more women save with Village Savings and Loans Associations (VSLAs), while comparatively more men save with commercial banks. This reflects a skewness towards informal forms of saving by women.

The identified inhibitors include a strong aversion to formal saving methods due to low financial literacy, limited proximity to banks, lack of trust in banks and digital financial services, and the negative impact of socio-cultural norms

There is a significant increase in access to MM services among young people aged 15 to 24 years: Mobile money accounts increased from 27 percent in 2014, to 52 percent in 2021 among Ugandans aged 15 to 24. This might be attributed to the increased penetration of mobile phones among the youth.

Figure 1: Percentage of Ugandans with Mobile Money Accounts (% age 15+)





Access and usage of digital financial services greatly increased amidst the COVID-19 Pandemic and contributed to narrowing of the gender gap and reduced financial exclusion: Findings indicate that the COVID-19 pandemic boosted the adoption of DFS. The advent of COVID-19 compelled many women to become relatively financially included and thus steadily narrowed the gender gap, especially in access to MM services. This re-affirms the importance of MM services in fostering FI.

Financial literacy, internet access and SACCOs are significant enablers of digital financial services usage and financial inclusion: Internet access and financial literacy as proxied by the ability to read and/or write foster usage of DFS. Similarly, membership in a SACCO, which is influenced by peer dynamics, is a critical enabler for the usage of digital financial services (DFS) and, consequently, financial inclusion (FI).

What should policy makers do?

- Enhance financial literacy and continued sensitization of the masses about alternative and digital mechanisms of saving and transacting such as MM to deter Ugandans from saving in secret places or at home.
- There is a need to engage women where they are concentrated in informal groups. The findings indicate that women are more likely to subscribe to informal groups such as VSLAs than men, yet they are more formally excluded. Interventions should include sensitization

about adopting digital financial products and services in their informal groups.

- Government and private sector stakeholders should continue to invest in internet infrastructure, and the government should pursue policies to provide internet at low cost, particularly to enhance access to and usage of digital financial services (DFS) in Uganda, with a specific focus on reaching remote and rural areas.

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Contact Us
African Economic Research Consortium
Consortium pour la Recherche Economique en Afrique
Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@aercafrica.org