2023

Understanding Financial Inclusion: A Comparative Analysis of Financial Mechanisms in Uganda

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submitted to
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by
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for
Senior Thesis
2022 – 2023
April 24, 2023

Acknowledgements

To my reader, Professor Uvin: thank you for all your support, recommendations, and conversations throughout my thesis-writing process. I am especially grateful to have taken the first class you taught at Claremont McKenna College over Zoom, which gave me an excellent introduction to development in international relations. Your feedback and insights helped me shape my ideas and arguments. Thank you for always pushing me to just write! and "chisel" it later, and hindsight is 20/20 as I should have taken that advice a lot sooner. Your insistence on focusing on the writing process and improving my skills has taught me invaluable lessons that I will carry with me throughout my academic and professional career. Lastly, thank you for being there every step of the way through my thesis. Your guidance and advice were essential, and I learned many lessons through the writing process itself. I am grateful for your contribution to my academic growth and success.

To the Keck Center for International and Strategic Studies and affiliated faculty: thank you to all my professors in international relations for each class I took in the major has pushed me to think differently and outside my comfort zone. Thank you to the Center for being my comfort space for getting my work done during my four years at Claremont McKenna College.

To my mom: thank you for always being there for me throughout my entire life and giving me words of encouragement while I was writing my thesis! Your hard work, persistence, and strength have inspired me to become the person I am today. Thank you for your unwavering confidence in me through everything!

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Abstract

Financial inclusion is a critical means of empowering individuals to improve their own lives, and Uganda provides an excellent case study for examining various financial mechanisms in a developing country context. This thesis investigates four such mechanisms: formal banks, microfinance institutions, mobile money, and contribution clubs. The analysis is conducted using five criteria to evaluate their level of inclusion: (1) quantitative coverage, (2) standard of living, (3) gender, (4) education, and (5) social capital. The findings of this research suggest that the examined financial institutions can be seen as steppingstones, with each leading to the next, from contribution clubs to microfinance institutions to formal banks. Furthermore, each of these mechanisms offers unique benefits to individuals, even when they have the option to use different mechanisms. Lastly, mobile money is found to act as a neutral multiplier to these existing dynamics. Overall, this research underscores the importance of financial inclusion and highlights the potential benefits of various financial mechanisms for individuals and communities in Uganda.

Acronym List

AMFIU – Association of Microfinance Institutions of Uganda

FINCAS – Foundation for International Community Assistance

FOCCAS – Foundation for Credit and Community Assistance

ICT – Information and Communications Technology

IMF – International Monetary Fund

MDI – Microfinance Deposit-Taking Institutions

MFI – Microfinance Institution

MNO – Mobile Network Operators

MTN – Mobile Telephone Network

NFIS – National Financial Inclusion Strategy

NGO – Nongovernmental Organization

PRIDE – Promotion of Rural Initiatives and Development Enterprises

ROSCA – Rotating Savings and Credit Association

SACCO – Savings and Credit Cooperatives

SME – Small-Medium Sized Business

UMU – Uganda Microfinance Union

UTL – Uganda Telecom

UWFT – Uganda Women's Finance Trust

VSLA – Village Savings and Loan Association

Chapter 1: Introduction

"Are we together?"

This word choice was one of my first observations in Uganda that has left a lasting impression on me. These three words express the same meaning in vernacular American English as "Do you understand me?" but this example of Ugandan vernacular is warmer, more welcoming, and illustrated an aspect of casual and ubiquitous equalness that has almost been erased from daily American life — at least the one I live today at a higher education institution where inequality is visible everywhere. These three words give me a sense of comfort, almost relief, and it's something that I hoped to find in answering questions about development.

While I was in Uganda, I learned about Village Savings and Loan Associations (VSLAs), and I have since wanted to learn more because it seemed to be a beacon of hope as a warm, welcoming, equalizing financial institution — in a world where I saw financial institutions as cold, sterile, and stern.

Aside from my personal interest in the country, Uganda is also an important area of study because it has one of Africa's largest populations and it is one of the fastest-growing countries, with a population of 35 million people.[1] Over half of its population is under the age of 15, making it one of the youngest countries in the world.[2] These demographics make the country particularly crucial for development right now because the changes in this country within the next few years will affect millions of people. At the same

[1] Carl Haub et al., "Uganda: At the Beginning of a Transition," PRB, accessed April 23, 2023, https://www.prb.org/resources/uganda-at-the-beginning-of-a-transition/.
[2] Haub et al.

time, because the population is especially young, it is ideally positioned to harness enormous potential that can have a far-reaching impact.

There are various financial institutions and tools that contribute to a population's financial inclusion — an important aspect of development. Thus, I seek to answer the question, how do different financial mechanisms affect financial inclusion, particularly in Uganda? And how do they affect people's livelihoods differently depending on who they are?

This thesis seeks to answer that question focusing on four financial mechanisms, which facilitate the way people interact with their assets including cash and property. These tools can shape people's abilities to change their quality of life. The three major functions of financial institutions include their ability to help people save their money, spend their money, and borrow others' money. Depending on their structure, different financial mechanisms also shape the way people partake in each of these activities. Financial institutions are a crucial aspect of raising domestic savings such that people can invest in projects, typically microbusinesses.[3]

In 2016, the Bank of Uganda and the Ministry of Financial Planning and Economic Development released the country's 2017 – 2022 National Financial Inclusion Strategy (NFIS) strategy. The Ugandan government has used this plan to focuses on five pillars to increase financial inclusion: (1) reduce financial exclusion and barriers to access financial services (2) develop the credit infrastructure (3) build the digital infrastructure (4) deepen and broaden formal savings usage and (5) protect and empower individuals with enhanced

[3] Clifford Geertz, "The Rotating Credit Association: A 'Middle Rung' in Development," *Economic Development and Cultural Change* 10, no. 3 (1962): 241–63.

financial capability.[4] This report seeks to increase financial inclusion in terms of quantitative coverage of formal institutions, and it acknowledges the importance of focusing on discrepancies in access for rural dwellers and women. The report also highlights the power of integrating technology like mobile money to reach the government's financial inclusion goals.

My thesis will also dive deeper into the challenges outlined in the NFIS. However, the NFIS report has only partially addressed certain crucial aspects, including semiformal and informal financial institutions, the effect of education and social capital on access, and the extent to which various financial institutions can substantially change someone's living circumstances.

This thesis seeks to compare the four most prominent financial mechanisms in Uganda: (1) formal banks, (2) microfinance institutions (MFIs), (3) contribution clubs, and (4) mobile money. Two other commonly discussed credit sources are private money lenders and friends and family, but they will not be included in this thesis. Private money lenders are sometimes described as a rising financial inclusion strategy. However, this paper excludes those actors because they make up a relatively insignificant proportion of financial services, as estimates suggest that only about 4 percent of people use private money lenders to access credit.[5] This paper also does not explore in depth the impact of borrowing from friends and family because there is little hard data to examine this method.

[4] "Bank of Uganda| Financial Inclusion," accessed December 30, 2022, https://www.bou.or.ug/bou/bouwebsite/PaymentSystems/inclusion.html.
[5] Paul Mpuga, "Constraints in Access to and Demand for Rural Credit: Evidence from Uganda," *African Development Review* 22, no. 1 (2010): 115–48, https://doi.org/10.1111/j.1467-8268.2009.00230.x.

Indeed, this is a common vehicle for borrowing and saving money, so excluding family and friends might be a limitation to this thesis.

Each of these institutions will be considered on a scale of the extent to which the system is *endogenous*, meaning the system and its success rely on the contributions of internal actors and their resources — both monetary and non-monetary. This scale is important because it contributes to explaining their utility and why some financial mechanisms are more accessible than others. In the following ascending order of *endogeneity*, this thesis will examine formal banking, MFIs, mobile money, and contribution clubs.

First, formal banks require the most external resources: money, physical location, bank tellers. The hierarchical relationship between the lender and borrower highlights that external actors entirely determine an individual's access to the bank's resources. Second, MFIs are the next most exogenous because they require both monetary and non-monetary resources that are also both external and internal from the MFI participants. For monetary resources, an institution that is usually organized by an NGO approves money for borrowers and microcredit group members must pool their resources together to make repayments. For non-monetary resources, MFIs provide group members with educational resources, and group members meet with each other regularly, sometimes sharing tips with each other. Third, mobile money is the second to most endogenous because it requires one external resource from an external actor: the mobile money network, including its system and tools. The tool itself is entirely external from the individuals who use it, but all the resources put into mobile money are entirely internal. Fourth, contribution clubs require the fewest resources from outside sources. Group members engender a reciprocal relationship as they rotate through being a both a debtor and creditor throughout the scheme. This scale is displayed in Figure 1.

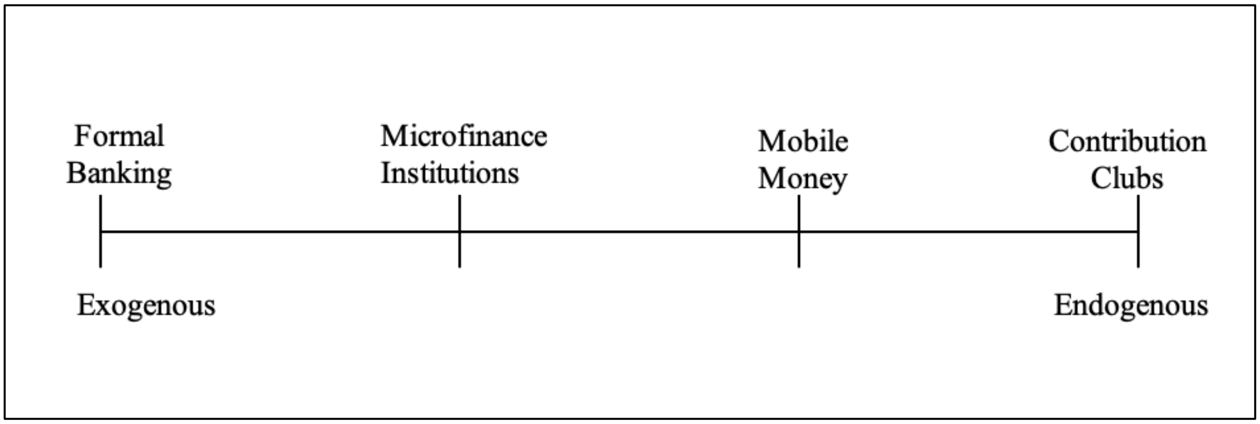

Figure 1: Exogeneity vs. Endogeneity

There are five key aspects that this thesis will use to compare the four financial mechanisms: (1) Quantitative Coverage, (2) Standard of Living, (3) Gender, (4) Education, (5) Social Capital. This thesis will use these five measurements to understand the different reasons that each of these four mechanisms are or are not accessible for different groups of people in Uganda. In the following section, I will give a brief overview and justification of the aspects of access that this paper seeks to examine.

First, this paper will examine how quantitative coverage, in terms of the number of people who are able to be captured by this type of financial institution. A person who does not have access is someone who seeks credit by making efforts to acquire it and fails.[6] Under this section, it is also important to consider differences in access for people in urban versus rural parts of the country. In fact, about 1.7 times more of the population in rural

[6]Stephen Korutaro Nkundabanyanga et al., "Lending Terms, Financial Literacy and Formal Credit Accessibility," *International Journal of Social Economics* 41, no. 5 (January 1, 2014): 342–61, https://doi.org/10.1108/IJSE-03-2013-0075.

Uganda is financially excluded than people in urban populations.[7] About 36 percent of people in rural areas just keep their money at home and are not included via any financial institution.[8] There are additional disparities that indicate that Central Uganda, where Kampala lies, has the highest level of welfare on nutritional and health care indicators, land ownership, and asset ownership.[9] While access to financial services might be more common in urban areas, we should pay particular attention to rural areas because it is a significant portion of the population and the country's economic activity. Uganda's agricultural sector makes up about 40 percent of the country's GDP, and surveys estimate of about 70 to 80 percent of the population works in the agricultural sector.[10]

Second, this paper will analyze the extent to which each of these financial mechanisms demonstrates evidence of changing the standard of living for people. Ultimately, the purpose of building social tools is so that people can live the lives that they have reason to value. In this section, I will consider whether there is evidence that demonstrates that each of these financial mechanisms substantially improves people's living circumstances — often measured in terms of income, access to healthcare, changes in diet, ownership of assets, and ability to respond to emergency circumstances.[11] This section will also examine a financial mechanism's power to empower people to start and/or grow their businesses. In fact, in 1999, microenterprise owners responded to a survey saying that irregular capital flows were the biggest challenge to growing their businesses.[12]

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[7] Sung Ho Kim and Jae Sung Kwak, "An Empirical Study on the Effects of Financial Inclusion Models for Rural Poverty Reduction in Uganda," n.d., 25.
[8] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[9] Mpuga.
[10] Mpuga.
[11] Mpuga.
[12] Gayle Morris and Carolyn Barnes, "An Assessment of the Impact of Microfinance: A Case Study from Uganda" 7, no. 1 (n.d.): 16.

Third, this paper will examine the relationship that gender has with financial institutions in Uganda. Generally, social pressures suggest or sometimes even force the roles that people are expected to play based on their expressed gender identity, and such social norms are applied in Uganda where they still tend to dictate work and income-related roles. Women tend to be responsible for household chores and farm activities, and men tend to be responsible for income-earning activities.[13] Overall, women are less likely to demand credit from financial institutions as compared to men, and it is important to note whether women tend to demand more credit from different types of financial institutions.[14]

Fourth, this paper will highlight whether variations in level of education increase or decrease the likelihood of access to the four different financial institutions. One measure of education is the level of schooling (primary, secondary, post-graduate etc.); another measure of education will be financial literacy. These are certainly correlated but still might produce slightly different results, as some financial institutions require training, along with access to its resources. Orton describes a financially literate person as someone who can "read, analyze, manage, and communicate personal financial conditions that affect his material well-being and should be able to discern financial choices, discuss money and financial issues without discomfort."[15]

Fifth, social capital is an important measurement as both an input and output for financial mechanisms, and development at large. Social capital in the context of financial inclusion will be defined as when the "membership of local and other organizations, has a

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[13] Paul Mpuga, "Constraints in Access to and Demand for Rural Credit: Evidence from Uganda," *African Development Review* 22, no. 1 (2010): 115–48, https://doi.org/10.1111/j.1467-8268.2009.00230.x.
[14] Mpuga.
[15] Korutaro Nkundabanyanga et al., "Lending Terms, Financial Literacy and Formal Credit Accessibility."

positive impact on household income and therefor reduces poverty."[16] Many studies demonstrate that social participation in group activities and being connected via social systems like associations are both positively associated with the early adoption of technologies, which will be particularly important to consider when examining the effect of mobile money.[17] In a paper that examines the relationship between social capital and poverty, Bird finds that social capital is an important form of capital, just like other forms of material capital and households that invest in social capital tend to be much better off than ones that do not.[18] Ultimately, community relationships constitute the fabric of people's daily lives in Uganda, so it will be an important measure for evaluating the inclusivity of financial mechanisms.

In this thesis, I will analyze each of the four financial institutions through those five key aspects. Chapter 2 will discuss the history of the formal banking system and their accessibility or lack thereof today. Chapter 3 will examine the different actors that play a significant role in microfinance institutions and how that affects financial inclusion, particularly its target towards women. Chapter 4 will analyze how mobile money contributes to financial access and how it is used by these institutions. Chapter 5 will explain how contribution clubs work and how most people in the country access them today. Finally, Chapter 6 will conclude by evaluating each of these mechanisms together and will determine that each of the three financial institutions act as steppingstones though each of

[16] Kate Bird and Isaac Shinyekwa, "Even the 'Rich' Are Vulnerable: Multiple Shocks and Downward Mobility in Rural Uganda," *Development Policy Review* 23, no. 1 (2005): 55–85, https://doi.org/10.1111/j.1467-7679.2005.00276.x.
[17] Bird and Shinyekwa.
[18] Bird and Shinyekwa.

the three institutions maintain their own unique utility even as people move to higher steppingstones and mobile money is a neutral multiplier.

Chapter 2: Formal Banks

A section of both Uganda's Poverty Eradication Action Plans and Poverty Reduction Strategy Papers of 2000 and 2004 are dedicated to strengthening the formal banking sector as a means of developing the private sector.[19] This objective is also included in the 2017 – 2022 NFIS.[20] Given that the formal banking sector is a crucial element of the government's plan to improve financial inclusion in Uganda, it is essential to examine its role in enhancing individuals' capabilities to improve their life circumstances.

In this chapter, I will examine formal banks, the category of financial institution that Americans are most likely familiar. Formal banks are the least *endogenous* of all the institutions examined in this thesis. They are *exogenous* because they require borrowers to seek resources and acceptance from the formal bank. Formal bank institutions handle resources that are entirely distinct from the individuals seeking access to their services, except of course the bank proprietors themselves. These resources comprise a range of physical and digital assets, including bank branches, account infrastructure, credit facilities, bank agents, and automated teller machines (ATMs). Consequently, formal banks wield significant power in determining the parameters that govern access to their resources.

To provide contextual information about the formal banking system in Uganda, it is clear that the current banking sector is a legacy of colonialism.[21] During the colonial era, formal banks were predominantly foreign owned, so they also tended to prioritize the needs

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[19] R. Pande et al., "Does Poor People's Access to Formal Banking Services Raise Their Incomes?" (DFID Systematic Review EPPI-Centre, Social Science Research Unit, Institute of Education, University of London, London, 2003).
[20] Matia Kasaija and Emmanuel Tumusiime-Mutebile, "National FInancial Inclusion Strategy 2017 - 2022," October 2017.
[21] Susan Johnson and Max Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda," *Journal of Development Studies* 47, no. 3 (March 2011): 475–96, https://doi.org/10.1080/00220388.2010.492857.

of foreigners living in Uganda over native Ugandans.[22] By establishing strict requirements such as "acceptable securities," which included land titles, life insurance policies, bills of exchange, amongst other formal documents, these initial foreign-owned banks discriminated heavily against Ugandans.[23] Of course part of what makes these institutions formal is the fact that they have strict standards, but this trend established a precedent for formal banks to impose specific documentation as a prerequisite for obtaining credit. This presents a challenge to many individuals seeking to access credit via this mechanism in Uganda today, even though there have been responses to these problems in past.

For instance, in the 1950s, the colonial government enacted the Uganda Credit and Savings Bank Act of 1950, which established the Public Sector Bank.[24] This legislation paved the way for a full-service commercial bank, the Uganda Commercial Bank, which was chartered in 1965 to take over the Credit and Savings Bank's operations.[25] Eventually, the Ugandan government deemed the Credit and Savings Bank insufficient because it failed to compete with other expatriate banks by offering higher rates of return on accounts or lower interest rates.[26] Following the end of Britain's imperialist rule in 1962, the newly independent Ugandan government established several government-owned banks in the 1960s and 1970s. In 1965, the Uganda Credit and Savings Bank came under the authority of the post-colonial government and transformed into the Uganda Commercial Bank; in 1966 the Ugandan government established the Bank of; and in 1972, the Co-operative

[22] B M Magaji, "Legal History of Banking in Uganda from Pre Independence to Present Day," *International Journal of Scientific Research in Humanities Legal Studies and International Relations* 5, no. 1 (July 2020).
[23] Magaji.
[24] Magaji.
[25] Gershenberg
[26] Gershenberg

Societies established the Co-operative Ban.[27] In an effort to improve financial inclusion for Ugandans, the post-colonial government aimed to transform the formal banking sector. By the 1970s, the government had acquired 49 percent of foreign-owned bank shares.[28] These actions were taken to accommodate Ugandans and to counteract the prior history of foreign-owned banks, which had prioritized the needs of foreigners; however, they have not been entirely successfully in meeting the people's needs.

A new regulatory framework for the establishment of new banks in Uganda was outlined in the Banking Act of 1955, which required new banks to have one million Uganda shillings upfront and to register a license with the Registrar of Companies Prudential Regulation and Supervision. However, this was ineffectively enforced because many banks were subsidiaries of foreign-owned banks, which were favored over local Ugandans who lacked the financial resources and legal support necessary to start private banks.[29]

The formal banking sector underwent another wave of transitions in the late 1990s. Today, the private sector largely dominates ownership of formal banks in the country due to the financial shortcomings.[30] Specifically, on May 19, 1999, the Co-operative Bank closed because of mismanagement, fraud, poor credit policies, among other reasons.[31] At the same time, the state-owned Uganda Commercial Bank privatized and became a part of Stanbic Bank, a South African owned bank.[32] The closure of the Co-operative Bank resulted in the closure of 14 branches, and the privatization of the Uganda Commercial

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27 Magaji, "Legal History of Banking in Uganda from Pre Independence to Present Day."
28 Magaji.
29 Magaji.
30 Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."
31 Johnson and Nino-Zarazua.
32 Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.

Bank, which had operated 65 branches and two agencies, further exacerbated the credit constraints in rural areas.[33] While the Centenary Rural Development Bank, founded by the Catholic Church in 1983, initially provided successful savings and lending services, it has been unable to offer lending services since 2002.[34] In addition, most foreign-owned banks closed their branches in rural areas.[35] Today, only two formal banks operate branches in rural parts of Uganda — the Uganda Commercial Bank and Centenary Rural Development Bank.[36]

Moreover, as a consequence of the economic liberalization initiatives of the early 1990s in Uganda, the cost of credit has remained prohibitively high, rendering it difficult for individuals to access formal credit.[37] To mitigate this challenge, the Ugandan government has implemented policies to attempt addressing these problems, such as the Entandikwa System, Rural Farmers Credit Scheme, and *Bona Baggagawale* "Prosperity for All" Credit Scheme.[38] The Bank of Uganda designed these initiatives to offer credit to underprivileged at interest rates that were subsidized by the government.[39] However, the following section will elaborate on how these programs failed to motivate people to save money and have been deemed unsustainable and ineffective.

In 1996, the Entandikwa System was established to target poor farmers to help them access credit by encouraging them to invest in agricultural production.[40] Unfortunately, the

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[33] Mpuga.
[34] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."
[35] Magaji, "Legal History of Banking in Uganda from Pre Independence to Present Day."
[36] Leonard K Mutesasira, "Use and Impact of Savings Services," n.d.
[37] Faisal Buyinza, John Mutenyo, and Anthony Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda," *Athens Journal of Business & Economics* 4, no. 4 (September 30, 2018): 405–24, https://doi.org/10.30958/ajbe.4-4-4.
[38] Buyinza, Mutenyo, and Tibaingana.
[39] Mpuga.
[40] Joughin and Mette Kjaer.

system was not successful, as the repayment rates were below 50 percent and it did not yield any significant increase in agricultural production.[41] There is an academic consensus that the Entandikwa System was an "inducement or rewards for political support," as opposed to a thoughtful credit system.[42] Local officials, who were responsible for approving loans, were perceived to be politically biased which led loan recipients to default.[43] There were also issues with low interest rates, insufficient institutional capacity, and lack of staff for monitoring and supervision.[44]

The Rural Farmers' Scheme was initiated in 1986 to provide loans to poor farmers without collateral.[45] The program utilized local council members to allocate loans to farmers who were deemed capable of using them productively.[46] Additionally, loans were targeted at rural women entrepreneurs who were excluded from property ownership.[47] However, the program had limited success due to insufficient credit and high transaction costs.[48] The process of meeting with bank officials, completing paperwork, and receiving technical assessments was too time-consuming and expensive for small farmers.[49] Consequently, people preferred informal credit systems over this scheme.[50]

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[41] Joughin and Mette Kjaer.
[42] Jossy R. Bibangambah, *Africa's Quest for Economic Development: Uganda's Experience* (Fountain Publishers, 2001).
[43] Bibangambah.
[44] A. Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation," 2001.
[45] Emmanuel Nabuguzi, "Peasant Response to Economic Crisis in Uganda: Rice Farmers in Busoga," *Review of African Political Economy* 20, no. 56 (March 1, 1993): 53–67, https://doi.org/10.1080/03056249308703985.
[46]Nabuguzi.
[47] Nabuguzi.
[48] Nabuguzi.
[49] Nabuguzi.
[50] Nabuguzi.

The Ugandan government introduced the *Bona Baggagawale* "Prosperity for All" Credit Scheme in 2007, aimed at establishing politically-driven Savings and Credit Cooperatives (SACCOs) to replace microfinance institutions.[51] This was due to the government's belief that MFIs were too difficult to control or influence, due to their international connections and well-established practices, which are further discussed in Chapter 3 *Microfinance Institutions*.[52] However, this program was marred by corruption, as those with close connections to the political elite were the main beneficiaries, while the poor were exclude.[53] Therefore, this historical background, in conjunction with the credit policies discussed, has laid the foundation for the existing formal banking system in Uganda, which will be examined in detail in this chapter.

1. *Quantitative Coverage*

As of 2015, Uganda had only 2.98 bank branches per 100,000 adults, whereas its neighboring country Kenya had almost twice as many with 5.85 bank branches per 100,000 adults.[54] In terms of the percent of the population that is served by formal banks, there are estimates that the formal bank sector has reached about 14 to 18 percent of the population for savings services and 2.4 percent of the population for credit services.[55] All estimates are still relatively low, as compared to other type of financial institutions that are examined in later chapters.

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[51] Nabuguzi.
[52] Nabuguzi.
[53] Nabuguzi.
[54] Kasaija and Tumusiime-Mutebile, "National FInancial Inclusion Strategy 2017 - 2022."
[55] Mutesasira, "Use and Impact of Savings Services."

A qualitative study conducted by MicroSave, a global consulting firm that promotes social, financial, and economic inclusion in the digital age highlights the challenges that people feel when deciding between various financial services that they use. Through their interviews, MicroSave found that poor people are unlikely to use formal banks and find them "unfriendly" because they require high opening balances, the minimum balances are too high, they appear intimidating, staff are unhelpful, the branches are far from poor neighborhoods, opening hours are inconvenient, have complicated transaction forms, and transaction costs are high.[56] For both institutional and psychological reasons, poor people find formal banks inaccessible, as one *boda boda* driver tells about his experience:

> Banks are for people who have "learnt properly" — who can speak good English and look smart and well-dressed. The manager does not allow us into that bank. Also, the policeman might want to know why we have come to the bank with small money. You see we do not have much money to deposit. The banks are for "serious" people who have bundles of money, not for people who have only Ush.1,000 or Ush. 2,000. That is why we prefer to place our money with the shopkeeper for safe keeping…You see, you can put money in the bank and fail to get it out when you need it. They can make you wait for a long time and later ask you to come back the next day. You cannot complain because you do not know how to complain in English, which is what the people in the banks speak[57]

Another interviewee Charles Ochwo, a bicycle and spare parts shop owner, elaborates on this idea that formal banks *feel* inaccessible to people who are financially less well-off and less educated.[58] Ochwo explains that he opened a deposit collector business in his shop when he wanted to create "an alternative for poor people because they were

[56] Mutesasira.
[57] Mutesasira.
[58] Mutesasira.

invisible to the banks."[59] Thus, one factor that contributes to the poor's limited engagement with formal banks is that they feel discouraged from entering such settings.

This next section will examine the quantitative coverage of micro-businesses which are Small and Medium Enterprises (SMEs) or Micro and Small Enterprises (MSEs) that are self-employment operations or employ a few workers. It is also important to include micro-businesses in this section because individuals often apply for loans or open an account under a micro-business.

In 2015, the Gender Enterprise survey data was collected and funded by the International Development Research Center.[60] This paper defined a micro-enterprise as a firm that employed between one to four paid non-family members, and a small firm was defined as a firm that employed between five to twenty paid non-family members.[61] The study surveyed 1,169 MSEs that had all been in business for at least three years, located in 18 districts.[62] Of all survey respondents, 30 percent of the MSE-owners were seeking credit.[63] Of the group of MSE-owners that did apply for credit, only 24 percent were approved for credit.[64] Many received less credit than they had originally applied for.[65] They also found that 76 percent of MSE-owners also owned a personal bank account.[66] The fact that MSEs attached to owners who also have a personal bank account are more likely to

[59] Mutesasira.
[60] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."
[61] Buyinza, Mutenyo, and Tibaingana.
[62] Buyinza, Mutenyo, and Tibaingana.
[63] Buyinza, Mutenyo, and Tibaingana.
[64] Buyinza, Mutenyo, and Tibaingana.
[65] Buyinza, Mutenyo, and Tibaingana.
[66] Buyinza, Mutenyo, and Tibaingana.

receive credit implies those who already have a good relationship with the bank are better positioned to be approved for credit.[67]

In addition, they found that the probability of receiving formal credit increased by 1 percent with every unit increase in sales, indicating the importance of firm performance in accessing credit.[68] This is consistent with the commercial nature of formal banks, who prioritized business success when assessing credit access. In summary, the findings suggest that MSEs, as well as their owners, need to be in a good financial position in order to access formal credit.

That is not to say that there is a bias against new businesses, which might suggest that markets are impermeable. In the same study, they found that there was an inverse relationship between firm age and credit access.[69] The research indicates that after a certain age, which was not specified by the researchers, one additional year of business experienced would reduce the amount of credit that a firm received by between 30 to 32 percent because of self-financing firms reducing their dependence on external financing.[70] Young MSEs with less business experience tended to be more ambitious which increased their likelihood of receiving formal credit, whereas old MSEs tended to respond that they received lower amounts of credit because they sought credit less as they became self-sustaining.[71] This means that there is space in the market for new firms to seek credit from formal banks. Thus, there is potential people to access formal banks if they are starting a new business or beginning to grow their business might find success at a formal bank. The

[67] Buyinza, Mutenyo, and Tibaingana.
[68] Buyinza, Mutenyo, and Tibaingana.
[69] Buyinza, Mutenyo, and Tibaingana.
[70] Buyinza, Mutenyo, and Tibaingana.
[71] Buyinza, Mutenyo, and Tibaingana.

potential for inclusion is not limited to those who are already financially well-off. However, still, I did not discover any evidence to suggest that the poor have access to formal banking services.

As will also be analyzed in later chapters, it is important to acknowledge the discrepancies in accessing formal financial services between rural and urban areas. In fact, 80 percent of formal banking operations are conducted in urban areas.[72] This is a commonly understood fact in Uganda, as the General Secretary of Uganda Co-operative Alliance, Ivan Asiimwe, said that "… the challenge is that the cost of credit for farmers is still so high. Farmers cannot borrow from commercial banks because of the strict procedures and high rates."[73] Moreover, formal banks are scarce in rural areas due to the perception that smallholders who are more prevalent in rural areas, pose a greater risk and thus are more costly customers.[74] Smallholders refer to people who diversify their sources of income through various activities instead of focusing on a single job.[75] Consequently, the shortage of physical bank locations decreases the access that many rural individuals might have to formal banks because the distance creates a significant barrier and opportunity cost to utilizing a formal bank for safekeeping and credit-seeking.

In a survey conducted in 1992/1993 and again in 1999/2000 by the Uganda Bureau of Statistics, they collected data on demand for credit.[76] In 1999, they found that about 2.3 percent of people in rural communities borrowed from formal banks, as compared to 12.3

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[72] Kasaija and Tumusiime-Mutebile, "National FInancial Inclusion Strategy 2017 - 2022."
[73] Simon Okitela, "UCA Wants Defunct Co-Operative Bank Revived," New Vision, accessed February 20, 2023, https://www.newvision.co.ug/articledetails/152265.
[74] Okitela.
[75] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."
[76] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.

percent of people in urban areas.[77] The variations are also underscored by region, where the Central region is urban: in the Central region about 40 percent of people, in the West about 23 percent of people, in the East about 18 percent of people, and in the North about 1.6 percent of people use formal banks.[78] It should be noted that the data for Northern Uganda is significantly lower than that of other regions in the country, which can likely be attributed to the prolonged violent conflict that has been ongoing in the region for over two decades.[79] The war has resulted in over one and a half million individuals being displaced and tens of thousands more have been killed, raped, or abducted.[80] As a result, the population in this region is particularly disadvantaged in comparison to other areas. Overall, more people access formal banks in urban areas than in rural areas.

The 2015 International Development Research Center survey also highlighted some insights on differences between urban and rural business-owners. MSEs that were based in urban areas were 5 percent more likely to receive credit from a formal bank as compared to MSEs in rural areas.[81] It appears that the difference in formal bank access in rural versus urban areas is larger between individual people than it is between MSE owners. A possible explanation for this is that in order to own an MSE, one must already have some level of capital, among other advantages, that empowers them to establish and sustain their businesses. In fact, about two-thirds of all the survey respondents had at least a secondary

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[77] Mpuga.
[78] Mpuga.
[79] Zachary Lomo and Lucy Hovil, "Behind the Violence: The War in Northern Uganda.," *Institute for Security Studies Monographs* 2004, no. 99 (March 2004): 87, https://doi.org/10.10520/EJC48753.
[80] Lomo and Hovil.
[81] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."

level of education.[82] This creates somewhat of an equalizing factor for MSE owners, but the same is not necessarily true for individuals in general.

Both above studies are consistent with the studies that conclude people in rural areas lack access to formal banks because of the high barriers to entry for formal banks in terms of distance from the bank, travel time to get to the bank, cost to open an account, and transaction costs.[83] For instance, Stanbic Bank requires people to have an account opening balance of 20,000 UGX (which is approximately $5.30 USD) and a continuous minimum balance of 20,000 UGX.[84] In addition, there are fewer than two dozen Stanbic Bank branches in rural parts of Uganda, which is a relatively small number of branches for a country of its size.[85]

Given this possible explanation for the low access to formal banks amongst rural individuals, a study was funded by the Bill and Melinda Gates Foundation. They started a program with households that were close enough to a branch of a formal bank to use it but had not yet chosen to open accounts on their own.[86] The Bill and Melinda Gates Foundation partnered with banks that offered basic savings accounts with substantial account opening and maintenance fees, and the Foundation paid for those fees for two years.[87] Among the households that were a part of the program, 54 percent of them opened an account.[88] Within

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[82] Buyinza, Mutenyo, and Tibaingana.
[83] Dupas et al.
[84] "Open a Personal Account Online," accessed April 3, 2023, https://www.stanbicbank.co.ug/uganda/personal/products-and-services/bank-with-us/bank-accounts/Open-a-Personal-Account-Online.x
[85]"Stanbic Bank Branches, ATMs and Agents," accessed April 23, 2023, https://www.stanbicbank.co.ke/kenya/personal/contact-us/branch-and-atms.
[86] Pascaline Dupas et al., "Banking the Unbanked? Evidence from Three Countries," *American Economic Journal: Applied Economics* 10, no. 2 (April 1, 2018): 257–97, https://doi.org/10.1257/app.20160597.
[87] Dupas et al.
[88] Dupas et al.

two years, they found that only 17 percent of households had made at least five deposits.[89] The mean total amount deposited was $527 (USD dollars), and the average income was $677 (US dollars) per year.[90] When participants in the program who did not use their free bank accounts were asked why they did not use their accounts, the second most common answer, accounting for roughly 80 percent of respondents, was that they save money in some other form.[91] The first most common answer will be expanded on in the next section of this chapter. The low uptake from this study shows that even when the physical barriers to entry such as high opening costs and distance from the bank were lowered, there was still a low uptake of free bank accounts. This suggests that people still prefer other methods for savings. Thus, formal banks might be less accessible to people because they might be influenced by factors such as emotional comfort and ease of transactions, as mentioned earlier in this section.

2. *Standard of Living*

Another important factor for analyzing financial institutions is the extent to which they might change people's standard of living. One proxy for measuring standard of living is income because it can be used to illustrate someone's ability to consume goods and services. The Uganda Bureau of Statistics survey found that having a higher income is positively correlated with having demand for credit from a formal bank.[92] For every 100

[89] Dupas et al.
[90] Dupas et al.
[91] Dupas et al.
[92] Dupas et al.

percent increase in asset value owned by a household, someone is 1.4 times more likely to demand credit from a formal bank.[93]

In the study funded by the Bill and Melinda Gates Foundation, when program participants who did not use their formal bank account were asked why they did not use their account, the most common response which included 96 percent of respondents was that they were too poor to save.[94] For a majority of respondents, the reason is because there still exists the root problem, which is that households do not generate enough income beyond subsistence expenditures to create savings. This shows that even when formal bank fees are subsidized, thus lowering the barrier to access these financial institutions, there is still low uptake on using a bank account. Over the course of the study, which lasted two years, it appears that people's incomes did not change enough such that it created a demand for them to put savings in their formal bank accounts. Another common reason why people did not use their bank accounts was because of the illiquidity of the bank account and the distance from the bank. In this study, they did not find any statistically significant effects on downstream outcomes, which they measured with the variables of assets, education outcomes, and health outcomes, net transfers to friends or relatives, and "regret" expenditures index.[95] Thus, increasing access to a bank account did not lead to usage of the access or a substantial increase in standard of living. We could conclude that these study results mean access to a formal bank account for poor individuals does not increase standard of living, but another possible explanation for the study's results is that a timeline of two years is too short to see drastic changes.

[93] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[94] Dupas et al., "Banking the Unbanked?"
[95] Dupas et al.

In 2007, a survey was conducted by the financial services research firm FinMark Trust, which is a non-profit trust that is based in South Africa and its surveys in Uganda were funded by a coalition of public and private agencies including the United Kingdom's Department for International Development.[96] They surveyed a nationally representative sample of 2,959 respondents, who were all adults over the age of eighteen.[97] The sample questions were provided by the national statistical offices in Uganda. They found that 18.1 percent of the respondents had access to a formal financial institution.[98] As mentioned in the introduction of this chapter, the closure of several formal bank chapters in the late 1990s has decreased access for people in rural areas. They also found that people who already have an income or sufficient assets to save are more likely to have access to formal banks. They found that people who run their own business are less likely to be excluded, and people who are employed in the formal sector are more likely to be included via the formal sector.[99] This demonstrates that people are more likely to seek financial inclusion via a formal bank if they already have a high enough income to encourage savings, but that having access to a formal bank does not necessarily increase someone's income.

Micro-businesses are also used as a unit of analysis for this thesis because they are essential components of economic opportunity and growth. SMEs and MSEs play a vital role in creating profit for an individual that could multiply into additional employment. A 2006 OECD Report found that MSEs provide 60 to 70 percent of net job creation and are

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[96] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."
[97] Johnson and Nino-Zarazua.
[98] Johnson and Nino-Zarazua.
[99] Johnson and Nino-Zarazua.

important for creating innovative products for improving people's livelihoods.[100] Micro-businesses are the backbone of Uganda's economy, constituting over 96 percent of the businesses in the country.[101] Ultimately, the most important aspect of this research is the extent to which each of these financial institutions affects people's ability to help themselves, and the ownership and wellbeing of someone's business, as their main source of income, can support evidence regarding each of the observed aspects. SMEs also borrow from diverse sources, including all the mechanisms analyzed in this thesis.

3. *Gender*

In general, there is a disparity between men and women with regards to financial inclusion in the formal banking sector, as women are less likely to be included. The Uganda Bureau of Statistics survey found that women tend to be more financially included via informal financial systems such as registered cooperatives like microfinance institutions and "self-help" cooperatives such as contribution clubs, and relatives and friends.[102] As compared to men, women tend to be excluded in the formal sector. It should be noted that several estimates in this survey demonstrate higher percentages compared to other survey results, and it is plausible that these variations could stem from potential biases in the government-conducted survey, which could lead to the presentation of inflated figures.

There are also three important intersections to note from this survey. First, the survey shows that women have increasingly had more access to financial services from

[100] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."
[101] Buyinza, Mutenyo, and Tibaingana.
[102] Buyinza, Mutenyo, and Tibaingana.

formal banks across time. In 1992, about 1.1 percent of all women who responded to the survey had access to a formal bank, and only seven years later in 1999, about 28.71 percent of all women who responded to the survey had access to a formal bank.[103] There was also an increase in access for women with assets: in 1992, 2.64 percent of all women who owned assets had access to a formal bank, and in 1999, 38.57 percent of all women owned assets had access to a formal bank.[104] Even though this survey did not capture the entire population, it shows that there was growth in access over time for women in the 1990s. These figures are quite high, showing a dramatic change in access for women over a relatively short period of time. Though the exact numbers might be inaccurate, this survey's results are consistent with the general trend that there is increasing financial inclusion, including in the formal sector for both men and women.[105]

Second, there are differences in formal bank access for women depending on whether they owned assets. In 1992, the percentage of women who had access to a formal bank and owned assets was over double the percentage of all women: 1.1 percent of women as compared to 2.64 percent of women.[106] Seven years later, it is still true that women who already own assets are more likely to have access to a formal bank: 28.71 percent of all women as compared to 38.57 percent of women who own assets.[107] This is consistent with the FinMark Trust study, which highlights that people who owned businesses are more

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[103] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[104] Mpuga.
[105] "Investing in Gender Equality in Uganda Is Smart Economics," World Bank, accessed November 29, 2022, https://www.worldbank.org/en/country/uganda/publication/investing-in-gender-equality-in-uganda-is-smart-economics.
[106] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[107] Mpuga.

likely to be financially included via formal banks — as women with assets are also more likely to be financially included than those without.[108]

Third, there are differences to highlight for women in rural versus urban parts of the country. In 1992, it is somewhat difficult to compare variations in access for women by region because the gathered percentages are all relatively low. However, in 1999, more discrepancies in women's access to formal banks across various regions becomes apparent. In Central Uganda, 41.6 percent of women have access to formal banks. Women have the most access in the region because it is the most urban part of the country where the capital city Kampala is located.[109] This is in line with the trend that there is more access in urban areas than rural areas overall. In Eastern Uganda, about 30.97 percent of all women and in Western Uganda, about 26.323 percent of all women who responded had access to a formal bank.[110] This is also consistent with other studies that conclude that people in urban areas have greater access to formal banks that people in rural areas.

There are many ways to explain why women do not receive as much credit from formal banks as men. Some evidence suggests that women lack sufficient collateral, but other evidence highlights social and cultural factors as a major cause of this discrepancy. In a 2009 study, they found that there are differences between men and women when it comes to bank loan negotiations and results.[111] They collected a randomized sample of 289 respondents who had ever applied for a loan from one Ugandan commercial bank between 1999 and 2005.[112] They surveyed 110 women: 57 had obtained loans and 54 had not

[108] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."
[109] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[110] Mpuga.
[111] Kibanja and Munene.
[112] Kibanja and Munene.

obtained the loans they had applied for.[113] They also surveyed 179 men: 112 had obtained loans and 67 had not obtained the loans they had applied for.[114] They found that on average women received lower amounts of loans than men. One explanation for this is the fact that men on average applied for loans twice as large as women.[115] However, another important part of the story is that there are prejudices against women who are trying to negotiate loans. In fact, 5.5 percent of the women said that being a woman is a weakness that affects them during a negotiation, but no men in the survey said that their gender was their weakness.[116] The survey results also showed that men perceived women in a negative light: male respondents stated that they saw women as "tricky because they want free things" and that "women do not think hard."[117] Even though formal bank loan processes are supposed to be standardized, these characterizations associated with negative traits still hinder women's negotiating abilities when applying for formal bank loans.

Women are also less likely to demand credit than men. The above study indicated that of all the people who applied for a loan from that particular bank, 33 percent were women and 67 percent were men.[118] This is corroborated by another study that found that compared to men, the odds ratio is 0.42 lower for women applying for credit from formal banks.[119] Some possible explanations for this are that women are more likely to be intimated by the formality of banks; women are limited by their lower access to education;

[113] Kibanja and Munene.
[114] Kibanja and Munene.
[115] Kibanja and Munene.
[116] Kibanja and Munene.
[117] Kibanja and Munene.
[118] Kibanja and Munene.
[119] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.

women tend to be limited by the social expectations of staying in the home as opposed to pursuing enterprises.

A 2015 study conducted by the International Development Research Center corroborates the observation that men are more likely than women to receive credit from formal banks and to receive larger sums of credit. In the study, approximately 35 percent of the micro and small enterprises (MSEs) that were analyzed were female owned. This study suggests that female microbusiness owners are comparatively better positioned than their non-business-owning counterparts.

In contrast to other literature that suggests that women are often expected to be responsible for family-related needs and therefore expected to allocate their money to support those needs, this study found 8.3 percent of both male and female MSE owners applied for credit to fund family-related expenses such as school fees.[120] This is a surprising result, but similar to a previous explanation regarding business-owners, one possible explanation for this survey result is that this survey consists of a more self-selecting group of only MSE-owners. Thus, the female survey respondents who are all MSE-owners might be in a more equal position to their male MSE-owner counterparts. This implies that access to a formal bank helps play a role in changing intra-household dynamics, as women are empowered to have a more equal voice in household decisions.

Still, there are important differences between male and female business owners such as their reasons for not applying for credit. They found that about 55 percent of female-owned MSEs as compared to 62 percent of male-owned MSEs who did not apply

[120] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."

for credit did so because they feared paying back debts.[121] Overall this was the most common reason for not applying for credit. While this is a shocking statistic, most of the other reasons why people did not apply for credit were dominated by women. They found that 5 percent of female-owned MSEs and 3.7 percent of male-owned MSEs reported a lack of collateral as a reason for not applying for formal credit; 11.3 percent of women as compared to 6.9 percent of men did not apply for formal bank credit because they feared making payments.[122]

Survey results showed that there is a statistically significant difference in likelihood to receive credit from a formal institution depending the gender of ownership of the MSE: male-owned MSEs were about 8 percent more likely to receive formal credit than female-owned MSEs.[123] Even amongst individuals who might be in a more similar position, as business-owners, there are significant differences in access to credit from formal banks between male and female credit-seekers. This is probably because male MSE owners still tend to be in more advantageous positions than their female peers. For instance, men might have larger MSEs or own more assets under their name. Overall female MSE owners have more access than their female peers who do not own MSEs, but they still have less access than their male MSE owner counterparts.

4. *Education*

[121] Buyinza, Mutenyo, and Tibaingana.
[122] Buyinza, Mutenyo, and Tibaingana.
[123] Buyinza, Mutenyo, and Tibaingana.

Overall, Cole et al. found that higher financial literacy is significantly, positively correlated with formal bank usage.[124] One possible explanation for why people with higher degrees of financial literacy are more likely than those who are less financially literate to use a formal bank is that they have the financial knowledge to keep detailed financial records and therefore create and sustain their access to credit via creating a credit history.[125]

To illustrate this statistically, the Uganda Bureau of Statistics survey found that education has a positive relationship with demand for credit from formal banks.[126] Each additional year of education increases the odds ratio by 1.1 that an individual will demand credit from a formal bank.[127]

In a study published in 2014, researchers surveyed a sample of 384 small and medium enterprise (SME) owners or managers in Kampala.[128] About 54 percent of the respondents had at least a bachelor's degree.[129] They measured lending terms through collateral requirements, repayment periods, and interest rates; financial literacy through financial knowledge, skills, and abilities; and access to formal credit through the amount received and number of times they received the amount they requested.[130] In terms of financial literacy, they asked respondents to answer the degree to which they agreed with eleven statements, including for example: I know about managing personal finance, I have a working knowledge of financial institutions, I know the different sources from which my firm can borrow from etc.[131] They found that one unit increase in financial literacy is

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[124] Korutaro Nkundabanyanga et al., "Lending Terms, Financial Literacy and Formal Credit Accessibility."
[125] Korutaro Nkundabanyanga et al.
[126] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[127] Mpuga.
[128] Korutaro Nkundabanyanga et al., "Lending Terms, Financial Literacy and Formal Credit Accessibility."
[129] Korutaro Nkundabanyanga et al.
[130] Korutaro Nkundabanyanga et al.
[131] Korutaro Nkundabanyanga et al.

correlated with a 0.48 increase in access to formal credit.[132] The difference between this conclusion and the one above that surveyed people in general, not just business-owners, can probably be explained by the differences between business-owners and smallholders. It's possible that being a businessowner equips people with important skills that might help them with maintaining a formal bank account in ways that smallholders might not. This study also found that there were statistically significant differences in access for SMEs depending on the type of business and annual sales turnover of businesses.[133]

The 2015 International Development Research Center also found that MSE-owners who received training and were exposed to business management, record-keeping, market information, loan application procedures and requirements all increased the likelihood that they would receive credit from a formal bank.[134] This suggests that education targeted towards financial literacy specifically can be helpful in improving people's abilities to implement the necessary skills to open and maintain an account with a formal bank.

The United Kingdom's Department for International Development funded a study in 2006, which was conducted by the market research company The Steadman Group.[135] The study surveyed a sample of 2,959 adult respondents and found that having a primary or secondary education did not have a statistically significant effect on whether someone was able to access a contribution club — unlike formal banking institutions or semiformal banking institutions like MFIs.[136] In contrast, as compared to those without a primary or

[132] Korutaro Nkundabanyanga et al.
[133] Korutaro Nkundabanyanga et al.
[134] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."
[135] Johnson and Nino.
[136] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."

secondary education, people with a secondary education are eight times more likely to be included in the formal sector.[137] Additionally, individuals with a secondary education were twice as likely to be included in the formal sector compared to those with only a primary education.[138] One potential alternative explanation is that people with higher levels of education tend to have more stable and higher paying jobs, so the explanatory variable could be the higher income or job stability — not necessarily the level of education. To elaborate, a higher income-level would increase people's abilities to pay for the costs of maintaining and borrowing from a formal financial institution.

Returning to urban versus rural differences in financial services, people living in rural parts of Uganda typically have lower levels of education and therefore lower levels of literacy. This means by nature of needing to read and sign documents to open a bank account, formal institutions may be more challenging to "appreciate the whole concept of commercial credit" and the "legal consequences associated with issuing and recovering credit" for less-educated people, which is more common in rural areas than in urban areas.[139]

5. Social Capital

When it comes to formal banks, social capital is a less instrumental variable than it is for informal institutions like collaboration clubs because they are regulated via authoritative and coercive institutions. Formal banks can and do enforce regulations on who will have access to its resources via stringent requirements, and they completely rely

[137] Johnson and Nino-Zarazua.
[138] Johnson and Nino-Zarazua.
[139] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.

on these requirements to grant someone access. Someone's reputation in the community or relationships via associations is not recognized as a viable pathway to demonstrate trust or responsibility.

There is ample evidence that bank lending terms — such as collateral as a requirement, loan repayment period, and interest rates — affect the likelihood that someone will access credit. Nkundabanyanga et al. found that strict lending terms discourage borrowers to apply for credit from the bank, even when they are looking for large sums of money to finance projects for their businesses.[140] To illustrate, because there is information asymmetry between banks and borrowers, banks often require potential borrowers to provide a form of collateral in case they are unable to pay back their loan. This is supposed to assure the bank that if their loan is not paid back, they will still have a way to collect on their loan. A World Bank report found that banks usually provide larger loans, longer repayment periods, and lower interest rates for borrowers who can offer a collateral.[141] The same is not true for providing information about someone's reputation in a community, which might be the only source of proof some people have, if they do not have written documentation of their income or credit history.

In the same 2014 SME survey, researchers found that there is a positive correlation between favorable commercial lending terms and access to formal credit by SMEs.[142] Positive commercial lending terms are measured by the degree of agreement to the following statements: interest rates charged by commercial banks are usually lower than

[140] Korutaro Nkundabanyanga et al., "Lending Terms, Financial Literacy and Formal Credit Accessibility."
[141] Mehnaz Safavian, Heywood Fleisig, and Jevgenijs Steinbuks, "Unlocking Dead Capital" (Washington, DC: World Bank, March 2006), https://openknowledge.worldbank.org/handle/10986/11190.
[142] Korutaro Nkundabanyanga et al., "Lending Terms, Financial Literacy and Formal Credit Accessibility."

those of other financial institutions, my firm finds interest rates charged by commercial banks reasonable, and interest rates of commercial bank loans are very attractive.[143] These survey results show that low interest rates explain the significant variances in access to formal credit for SMEs. Formal banks in Uganda offer loans at high interest rates because SMEs are associated with high risk due to their lack of collateral and short firm history and therefore relationship with formal banks, and this decision on the part of formal banks decreases SMEs' access to credit.[144]

The 2015 International Development Research Center found that 20 percent of MSEs that they surveyed were registered members of a business associations.[145] Being a member of a business group had a positive correlation to access to credit from a formal bank: MSE-owners who were a member of a business association were about 2 percent more likely to receive credit from a formal institution.[146] This is not a large difference but it might suggest that there is some relationship between being a member of an association and accessing credit at a formal bank and therefore employing social capital might benefit business-owners who are seeking credit. Further research could be done on this.

Like Western formal banks, studies indicate that formal banks tend to approve loans to businesses that can offer collateral and have established long-term relationships with the bank. Banks use specific criteria to evaluate loan applicants, such as their ability to repay the loan and interest, past performance with the bank or other institutions, availability of sufficient security for the loan amount, the quality of their business proposal, their stake in

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[143] Korutaro Nkundabanyanga et al.
[144] Korutaro Nkundabanyanga et al.
[145] Buyinza, Mutenyo, and Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda."
[146] Buyinza, Mutenyo, and Tibaingana.

the business, and the nature of the business. These criteria are more objective and standardized compared to social capital, which will be explored further in this thesis as we examine less formal institutions.

6. Conclusions

Overall formal banks appear to offer sufficient financial services for individuals who are already financially better off than those who have lower incomes. However, formal banks are unlikely to reach the poorest of the boor in Uganda. Still, they provide an important financial service to help those who are seeking to expand their businesses. In the long run, this could increase employment for others as well and increase the standard of living for employees of firms that were granted access to credit by formal banks.

Some research suggests that there is popular demand for bringing back the Co-operative Bank that collapsed in 1998 because it was a more accessible formal institution for the country's poor, which encompasses much of the population. As early as 2009 and continuing to today, the then Minister of State for Trade, Nelson Gagawala Wambuzi, announced that the national government would attempt to re-open the Uganda Co-operative Bank.[147] Efforts in this direction might benefit people who currently are not financially included in the formal sector, particularly those in rural areas, as some say the revival of the Co-operative Bank would be a "game changer to financial needs of farmers."[148] However, this has been a slow process, and the Co-operative Bank has no physical signs of returning soon.

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[147] Okitela, "UCA Wants Defunct Co-Operative Bank Revived."
[148] Okitela.

Further research could enhance our understanding of how formal banking institutions facilitate financial inclusion, particularly in relation to fostering the growth of larger enterprises. However, current formal banking systems are not optimally equipped to serve the most vulnerable segments of society, including microbusinesses. Indeed, the exogenous nature of these institutions means that there will be stringent and standardized policies in loan request handling, yet more can be done to better serve marginalized populations. Formal banks could refine their policies to align with the specific needs of these communities, while also investing in the construction of more banking locations in rural areas, where access to financial services is often limited.

Formal banks' limitation in reaching the most marginalized groups presents itself in several ways in Uganda. It has also led to the emergence of alternative financial mechanisms, such as the rise of microfinance institutions (MFIs) that attempt to cater specifically to the financial needs of low-income income households and small businesses. In the next chapter, we will examine the roll of MFIs in promoting financial inclusion in Uganda and analyze their impact.

Chapter 3: Microfinance Institutions (MFIs)

Between 1998 and 2003, Uganda received an estimated $40 billion USD from international donor aid.[149] Uganda's microfinance sector is ranked second in Africa and eighth in the world, according to the Economist Intelligence Unit.[150] Uganda's microfinance sector has grown incredibly since its beginning in the early 1990s, and it has become a significant sector in shaping financial inclusion and economic access in the country.[151]

The basic principle of Microfinance Institutions (MFIs) is that they are financial institutions that are targeted towards helping people with few resources by giving them access to financial resources via enforcing little or no physical collateral, offering very small loans, and imposing alternative security mechanisms, such as group savings.[152] MFIs can exist in different forms, and the details of their structures are determined by the NGOs or private organizations that run them.

One security ensuring alternative is through the following group collateral method: (1) There is a formation of a group that receives credit.[153] (2) The group guarantees the credit by committing responsibility to repaying group members' loans if any individual defaults.[154] (3) MFIs decide on interest rates that support their administrative costs.[155] (4)

[149] Gashaw Tsegaye Ayele, "Microfinance Institutions in Ethiopia, Kenya and Uganda: Loan Outreach to the Poor and the Quest for Financial Viability," *African Development Review* 27, no. 2 (2015): 117–29, https://doi.org/10.1111/1467-8268.12128.
[150] Ayele.
[151] Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation."
[152] J.K. Solomon, J. Kirya, and S. Bongonzya, "The State of Microfinance in Uganda 2012/13," *Association of Microfinance Institutions of Uganda*, 2012.
[153] Morris and Barnes, "An Assessment of the Impact of Microfinance: A Case Study from Uganda."
[154] Morris and Barnes.
[155] Morris and Barnes.

Group members have mandatory savings requirements, sometimes among other requirements such as educational tasks.[156] (5) Group members must attend mandatory meetings for loan repayment.[157]

In the context of individual loans, MFIs often implement distinct, and at times more exacting, criteria to offset the absence of collateral. For instance, Uganda Women's Finance Trust (UWFT) mandates that applicants have been saving with the institution for a minimum of six months, reside within a 25-kilometer radius of the branch office, and furnish 30 percent of the loan amount as security. Furthermore, UWFT exhibits a preference for individuals who have successfully adhered to their group-based lending model and repaid their prior loans in full. Similar prerequisites or even employer-provided collateral are also commonly required by other MFIs that extend individual loans.

Whether group savings or otherwise, MFIs use alternative methods to ensure loan security and achieve their objective of providing credit accessibility to individuals with limited financial resources who seek small loans. Overall, like formal financial institutions, MFIs offer credit, savings, insurance, and transfer payment services.

The rise in global attention for microcredit prompted the inception of the first Microcredit Summit in Washington DC in 1997. The Summit created a space for practitioners, advocates, educational institutions, donor agencies, international financial institutions, and NGOS to achieve the goal of alleviating world poverty through microfinance to convene and collaborate towards a shared goal of poverty alleviation

[156] Morris and Barnes.
[157] Morris and Barnes.

through microfinance. By 2009, the Microcredit Summit announced that over 100 million of the world's poorest families have been provided with a microloan.[158]

Around the same time in the 1980s, non-governmental organizations (NGOs) started developing microfinance departments in Uganda in response to the bank failures and closures that were mentioned previously in Chapter 2 *Formal Banks*. To organize the proliferation of many MFIs in Uganda, the Association of Microfinance Institutions of Uganda (AMFIU) was established in 1997, the same year as the first Microcredit Summit in Washington DC that brought Its primary purpose is to provide a practitioner platform that facilitates the exchange of experiences and technologies, as well as a lobbying body for MFIs in Uganda.[159]

One year after the AMFIU was established, the Microfinance Forum was created to meet monthly to exchange information, share ideas and initiate collaborative efforts.[160] It is chaired and hosted by the Ministry of Finance, Planning, and Economic Development, and on average it has 60 participants from stakeholder parties.[161]

Another group of key actors are donors that construct and maintain MFIs. Donors also determine entry and exit strategies to eventually make MFIs self-sustaining, though this presents a dilemma in which withdrawing from subsidizing individual MFIs gives a competitive edge to others. Due to their large role in this field, the Private Sector Donor Group (PSDG) was established in 2000 to discuss suggestions from the Ugandan government and coordinate donors, among the most prominent include the United States

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158"Microcredit Summit Campaign," *RESULTS* (blog), accessed April 23, 2023, https://results.org/mcs.
159Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation."
160 Carlton et al.
161 Carlton et al.

Agency for International Development (USAID), German Agency for Technology (GTZ), UK Department for International Development (DfID), and Austrian Development Cooperation (ADC).[162] Accordingly, international organizations have played a crucial rule in constructing many of today's MFIs because they are able to use lessons learned from MFIs in other countries and apply what they had learned to Ugandan microfinance development.[163] Indeed, as will be examined in greater detail, there exists a wide range of MFIs with varying degrees of effectiveness.

Today, MFIs are legally considered semi-formal financial institutions because they are registered at the national level but are not necessarily regulated by the Central Bank. As established by the Microfinance Deposit-taking Institutions Act of 2003, MFIs are regulated by the Bank of Uganda.[164] The Bank of Uganda currently regulates seven MFI programs that are run by various institutions including two commercial banks (Centenary Bank and Equity Bank), two credit institutions (Opportunity Uganda and Post Bank Uganda), and three micro-deposit taking institutions (Finance Trust, FINCA, and PRIDE Microfinance).[165] These seven formally regulated institutions will be considered Microfinance Deposit-Taking Institutions (MDIs) because they also all have savings services in addition to loan services.[166]

In addition to the seven MFIs that are regulated by the Bank of Uganda, the AMFIU also recognizes 30 unregulated MFIs as its members and providers of MFIs in the

[162] Carlton et al.
[163] Carlton et al.
[164] Carlton et al.
[165] Ayele, "Microfinance Institutions in Ethiopia, Kenya and Uganda."
[166] Ayele.

country.[167] Aside from these, there are also a multitude of other smaller MFIs that might not be part of the AMFIU yet.[168] Of the AMFIU-recognized MFIs, 93 percent offer credit for commercial enterprises and 91 percent offer loans for agricultural purposes.[169] As such, these programs employ diverse strategies and techniques, each with distinct objectives and intended impact on the impoverished communities. MFIs cater to different needs of their target demographic, so they aim to promote upward mobility in disadvantaged communities.

To clarify the scope of this chapter, even though Savings and Credit Co-operative Societies (SACCOs) and MFIs are both legally Tier IV financial institutions that are regulated by the national government, they are distinct financial institutions, and only MFIs will be analyzed in this chapter.[170] MFIs are registered companies and are usually funded by external actors, commonly non-governmental organizations. Unlike MFIs, SACCOs are completely owned, governed, and managed by their group members; also, unlike contribution clubs (which will be examined in Chapter 5 *Contribution Clubs*) SACCOs are semi-formal institutions that require registration with the Ministry of Trade and Cooperatives. Thus, for the purposes of this thesis, this chapter will only discuss formal MFIs and semi-formal MFIs and excludes SACCOs because of their difference in degree of exogeneity as "mainly community based."[171]

MFIs are considered the second most *exogenous* of all the financial institutions that will be examined in this thesis. MFIs are relatively *exogenous*, as compared to

[167] Solomon, Kirya, and Bongonzya, "The State of Microfinance in Uganda 2012/13."
[168] Solomon, Kirya, and Bongonzya.
[169] Solomon, Kirya, and Bongonzya.
[170] Solomon, Kirya, and Bongonzya.
[171] Solomon, Kirya, and Bongonzya.

contributions clubs and mobile money services, because they usually require an external entity to bring in resources which include but are not limited to the structure of the saving and borrowing agreements, the starting capital itself that becomes credit, and sometimes educational resources. In fact, as mentioned earlier in this introduction, many MFIs are at least initially funded by donations from abroad or gain resources from private organizations. Many MFIs are becoming self-sustaining by charging viable interest rates, but still, the ownership of MFI resources remain separate from the individuals who seek their services. Due to their inherent organizational framework, MFIs possess both tangible external resources, such as capital, as well as intangible ones, including institutional knowledge and ideas.

1. *Quantitative Coverage*

MFIs have experienced a significant growth in number of clients since their introduction to Uganda in the 1980s.[172] By 2012, three of the largest MFIs in the country BRAC-Uganda (Bangladesh Rural Advancement Committee), Equity Uganda, and FINCA-Uganda (Foundation for International Community Assistance) each serve more than 50,000 clients.[173] In 2011, PRIDE-Uganda (Promotion of Rural Initiatives and Development Enterprises) served about 24 percent of all MFI clients, and BRAC-Uganda

[172] Solomon, Kirya, and Bongonzya.
[173] Marcella Corsi and Marina De Angelis, "Gender Discrimination in Microfinance? Some Evidence from Uganda," *The Journal of Development Studies* 53, no. 5 (May 4, 2016): 723–40, https://doi.org/10.1080/00220388.2016.1205733.

served about 15 percent of all MFI clients.[174] By 2012, MFIs reached a total of 1,381,532 depositors and 553,326 borrowers.[175]

In 2012, the average loan disbursed to an individual client was 1,665,592 shillings (about $659.37 USD) by regulated MDIs and 923,394 shillings (about $365.24 USD) by unregulated MFIs.[176] During this same time, the average amount that people had deposited in an MDI savings account was 116,473 shillings (about $46.05 USD).[177] On average, MDIs offer interest rates that range from 2 percent to 5 percent annually.[178]

Gayle Morris and Carolyn Barnes conducted a study from 1997 to 1999 on three MFIs: (1) FINCA, (2) FOCCAS (Foundation for Credit and Community Assistance), and (3) PRIDE. To be eligible for services from these MFIs, clients were required to attend weekly meetings and have owned and operated their microenterprise for at least two months.[179] For all three MFIs, clients must meet each week and must own and operate their own microenterprise that has been active for the past two months. (1) FINCA operates on a village banking model, lending money to and accepting savings from groups of low-income women who were in Kampala and Masaka.[180] In 1997, FINCA had 9,000 clients, and by 1999, FINCA had 20,800 clients.[181] (2) FOCCAS provided savings and credit services — in addition to education on health, nutrition, family planning, HIV/AIDS prevention, and business management — to women from rural Mbale.[182] In 1997, FINCA

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[174] Ayele, "Microfinance Institutions in Ethiopia, Kenya and Uganda."
[175] Solomon, Kirya, and Bongonzya, "The State of Microfinance in Uganda 2012/13."
[176] Solomon, Kirya, and Bongonzya.
[177] Solomon, Kirya, and Bongonzya.
[178] Solomon, Kirya, and Bongonzya.
[179] Morris and Barnes, "An Assessment of the Impact of Microfinance: A Case Study from Uganda."
[180] Morris and Barnes.
[181] Morris and Barnes.
[182] Morris and Barnes.

had 3,297 clients, and by 1999, FINCA had 6,671 clients.[183] (3) PRIDE provided financial services to both male and female clients in urban areas. Each of their clients must also have a savings account with a commercial bank.[184] In 1997, PRIDE had 3,700 clients, and by 1999, PRIDE had 16,500 clients.[185] They conducted a survey 1,332 total people, which included both clients of each of these MFIs and nonclients that were in the same region (Kampala, Masaka, and Mbale).

During the 2000s, MFIs experienced heightened commercialization, leading to greater interest in competition.[186] Proponents of this trend assert that this trend will encourage MFIs to diversify their offerings, catering to a broader client base, while the licensing will instill confidence in prospective clients.[187] Conversely, others argue that heightened competition could divert MFI focus away from marginalized communities.[188] Presently, the Ugandan government has introduced a new policy mandating that MFIs must demonstrate self-sufficiency to obtain a license as a deposit-taking institution.[189] Alongside that, donors have demonstrated an increased interest in self-sustaining MFIs. Consequently, MFIs face mounting pressure to transition from NGOs to licensed MFI providers.[190]

As previously noted, the microfinance industry is diverse. In 1997, the Uganda Microfinance Union (UMU) emerged, founded by an American and a Ugandan, with the intent of revolutionizing the MFI landscape by offering a wider array of products, including working capital loans, fixed deposits, individual lending with employer guarantees, current

[183] Morris and Barnes.
[184] Morris and Barnes.
[185] Morris and Barnes.
[186] Morris and Barnes.
[187] Morris and Barnes.
[188] Morris and Barnes.
[189] Morris and Barnes.
[190] Morris and Barnes.

accounts, and capital asset loans.[191] In contrast to numerous other MFIs, UMU does not necessitate group savings or meetings, enabling individuals to customize their borrowing amount and repayment duration.[192] The UMU model utilizes employer collateral in lieu of group collateral, and monthly group discussions and forums rather than weekly group meetings.[193] Within four years, UMU amassed 10,000 clients.[194] Although this approach may appeal to individuals seeking to avoid group savings and tailor borrowing habits to their unique requirements, it constitutes a borrowing scheme with a higher threshold for entry, excluding the most impoverished populations. Still, creative MFI pioneers like UMU introduce diverse product offerings to address the needs of distinct populations and individual circumstances. Over the years, MFIs might be well-suited to give access to a larger quantity of people, as they adapt to different communities.

2. *Standard of Living*

MFIs tend to improve people's lives by providing insurance money during emergency circumstances, sometimes for consumption, and for business expansion. MFIs tend to seek clients with certain indictors, such as income and gender, so their coverage reflects those characteristics. For instance, FINCA, FOCCAS, and PRIDE, which are all relatively large MFIs, in terms of the number of clients, all tend to seek clients who own microenterprises and generate a biweekly cash flow.[195] As a result, about one half of the

[191] Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation."
[192] Carlton et al.
[193] Carlton et al.
[194] Carlton et al.
[195] Carolyn Barnes, Gary Gaile, and Richard Kibombo, "The Impact of Three Microfinance Programs in Uganda," n.d., 154.

survey respondents earned their incomes from crops and livestock, one half of clients grew crops, and one third earned a wage or were salaried employees.[196] This is not to say that MFI clients tend to be wealthy, but potential clients are typically required to demonstrate a steady flow of income.

Individuals who are considered "extremely poor" — having irregular employment and lacking sufficient capital to start a business — are usually too resource scarce to access MFI loans.[197] MFIs tend to target those who are considered "moderately poor," which includes people who have some savings and consumer durables, have low-paying but steady work, and have small amounts of capital for microenterprises.[198] They also occasionally reach those who are considered "vulnerable non-poor:" households where both the husband and wife work and who own high-quality assets including private transport, steady income from multiple sources, and have larger amounts of capital for enterprises.[199]

Most MFI clients have relatively stable income sources but are still vulnerable to shocks, as moving across both sides of the poverty line is incredibly dynamic in Uganda. Households can be hit by severe crisis (theft, natural disaster, illness like HIV/AIDS) and then become poor quickly, which is why MFIs, which are helpful for emergencies are so important.[200]Access to MFIs help reduce that vulnerability.

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[196] Barnes, Gaile, and Kibombo.
[197] Barnes, Gaile, and Kibombo.
[198] Barnes, Gaile, and Kibombo.
[199] Barnes, Gaile, and Kibombo.
[200] Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation."

MFIs tend to exclude the poorest of the poor for 5 reasons: (1) exclusion by MFIs due to their focus on microentrepreneurs with sufficient repayment capacity (2) exclusion by groups unwilling to take responsibility for the poor in case of delinquency (3) self-exclusion due to a fear of credit (4) product exclusion where there is a "one-size-fits-all" working capital loan on offers that do not meet their needs (5) emphasis on credit delivery and little attention to the needs of the poorest for safe and accessible savings services.[201]

Moreover, although not the primary and original reason for the spawn of MFIs, there are some MFIs that also offer "consumption loans" to be used for goods or services, unlike formal banks that predominantly give loans meant for expanding a person's ability to increase their income. To illustrate, 69 percent of MFIs provide credit to pay for education and school fees, 58 percent offer loans for "emergency" uses such as health and funeral expenses.[202] These sorts of loans might offer short-term benefits that can ease the expenses and burden of financial shocks that many households experience. Other "consumption loans" also enable people to purchase durable assets that increase the value of a house such as solar and rainwater harvesting. About 49 percent of MFIs offer these sorts of loans, and about 29 percent of MFIs offer long-term planning loans for housing.[203]

The research concluded that MFIs help the poor by providing access to "chunks" of money that protect them against risk and shocks[204] Women build savings or receive emergency loans to draw upon, and UWFT helped many women build assets that they

[201] Carlton et al.
[202]Solomon, Kirya, and Bongonzya, "The State of Microfinance in Uganda 2012/13."
[203] Solomon, Kirya, and Bongonzya.
[204] Ayele, "Microfinance Institutions in Ethiopia, Kenya and Uganda."

could sell and social assets that they could continue to employ in the future.[205] A widow whose husband had been killed talks about her experience joining UWFT

> I heard that one could get a business loan and pay overtime. I applied and was able to join… I was able to obtain a business loan, which I invested. I made a profit and was able to pay back the loan… The group and the UWFT became my father, mother, sister, brother, and everything in this dark part of life[206]

This is just one of many stories in which people harnessed the resources they gathered from MFIs to improve their life circumstances. In fact, the study presented another story of an individual who took out a loan to buy only a few chickens, which make quick monetary returns. Later, they bought more chickens who also laid eggs, and they are now investing in their own land for agricultural use and repurposing their chicken waste for fertilizer.[207]

The outcomes of client's businesses are also an important indicator of changing standard of living because business success determines income, which increases someone's ability to spend money on basic needs and other wants that improve their lives. Gayle and Morris found that 30 percent of MFI clients added new products or services in the last two years, whereas 21 percent of nonclients added new products or services to their businesses.[208] They also found that 25 percent of clients improved or expanded their businesses' premises, as compared to 15 percent of nonclients that managed to do the same.[209] MFI clients were almost twice as likely to own a second business by 1999 than

[205] Graham AN Wright et al., "Vulnerability, Risks, Assets and Empowerment–the Impact of Microfinance on Poverty Alleviation," *September). Final Report. Kampala, Uganda: MicroSave-Africa and Uganda Women's Finance Trust*, 1999.
[206] Wright et al.
[207] Wright et al.
[208] Morris and Barnes, "An Assessment of the Impact of Microfinance: A Case Study from Uganda."
[209] Morris and Barnes.

nonclients.[210] This suggests that clients were able grow their first microenterprise enough to have the means and incentive to start a second business. This might not be the most profitable business decision as one might make a larger income by growing the first business, but diversifying streams of income may also be an economical decision in a volatile market like Uganda's.

Measuring durable assets, in terms of ones that people were able to purchase due to more disposable income, is another important proxy for standard of living because items change the way that people live their day-to-day lives, as they have increased access to more basic needs or conveniences. Survey results showed that MFI clients were able to make purchases of durable assets that were valued at twice that of nonclients. Such durable assets include items like mattresses, radios, stoves, and beds.[211]

Another important measure of changing standard of living is landownership. Let's first consider land ownership as a fundamental asset for accumulating long-term wealth. In 1999, surveyed MFI clients demonstrated a substantially higher rate of homeownership compared to nonclients, with 10 percent of clients and merely 1 percent of nonclients possessing a residence.[212] A significant and positive correlation was observed between participation in an MFI and homeownership.[213] Secondly, we shall investigate the size of cultivated land as it facilitates access to a revenue stream via crop production and agricultural potential. Between 1997 and 1999, clients increased their land size by an average of 25 percent, in contrast to nonclients, who could only increase their land size by

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[210] Morris and Barnes.
[211] Morris and Barnes.
[212] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."
[213] Barnes, Gaile, and Kibombo.

19 percent.[214] Additionally, 32 percent of clients, in comparison to 23 percent of nonclients, expanded their cultivated land size.[215] This highlights that participation in MFIs can have a positive impact on landownership and cultivated land size, which are critical indicators of long-term wealth accumulation and access to a sustainable source of income.

Respondents of these three MFIs (FINCAS, FOCCAS, and PRIDE) were also asked about the main positive result of participating in their credit programs. Only 10 percent of respondents said that there were no positive results to the program at all, but most respondents found that the program benefited their lives in some way.[216] Consistent with the above-mentioned benefit of MFIs, participating in the MFI program helped 34 percent of respondents meet basic family needs.[217]

In this study, they found that geographical differences were also an important factor in determining access to a loan. This is because there are fewer physical MFI locations in rural areas, and there is a lower concentration of people who can form groups that fulfill MFIs' requirements.[218] In addition, the distance that loans could go in terms of expanding a business differs. Morris and Barnes found that those who owned microenterprises in Masaka, a small town, and Kampala, an urban city, were more likely to experience increased competition, which encouraged them to make more strategic changes to their businesses.[219] On the other hand, those who were living in Mbale, which is a rural region, had fewer options and less incentive to make changes.[220]

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[214] Barnes, Gaile, and Kibombo.
[215] Barnes, Gaile, and Kibombo.
[216] Barnes, Gaile, and Kibombo.
[217] Barnes, Gaile, and Kibombo.
[218] Barnes, Gaile, and Kibombo.
[219] Morris and Barnes, "An Assessment of the Impact of Microfinance: A Case Study from Uganda."
[220] Morris and Barnes.

A 1999 qualitative study that interviewed 447 clients found results that corroborated that people employed MFIs for emergency circumstances and business expansion. They interviewed women from UWFT, an MFI that was founded in 1984 with the mission to economically empower disadvantaged women in Uganda.[221] by December 1998, UWFT had 9 branches serving 34,363 clients who had deposited a total of $1 million in savings. In order to take out a loan from UWFT, members are required to save 30 percent of their request.[222] Note that this was not part of any of the Ugandan government's policies for formal bank credit access in the 1980s and 1990s, and it was often cited as a major reason for the credit failures. This again also shows that MFIs sometimes address the shortcomings of formal banks.

While there are many improvements to people's standard of living, MFIs have some drawbacks. For instance, they are less efficient because they often charge higher interest rates on loans and have a shorter repayment schedule than banks.[223] As a result, MFIs are not as well-equipped as formal banks in providing large, long-term loans.

3. *Gender*

When MFIs started to arise, many of them were established for the purpose of giving female microentrepreneurs access to funds that formal banks excluded them from. As such, many MFIs focus on women because lending to women is thought to benefit society as a whole and empower women in the society.[224] There is a strong belief within

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[221] Morris and Barnes.
[222] Morris and Barnes.
[223] Ayele, "Microfinance Institutions in Ethiopia, Kenya and Uganda."
[224] Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation."

MFI actors that putting capital in women's hands can empower women to generate their own income and raise their self-esteem.[225] In addition, there is ample evidence that women's repayment rates are much better than those of men.[226] There is also evidence that men are more likely to spend their resources on socializing activities like drinking.[227] Thus, many MFIs prefer providing their services to women over men.

In a study that was published in 2016 on clients of Wekembe, one of the first MFIs that was established in Uganda, they found that there was a notable difference in the loan size that women received as compared to their male peers. Wekembe was originally founded to improve the standard of living for women in Uganda, but today 30 percent of their clients are men.[228] As of 2016, Wekembe served about 3,000 clients, which included about 250 groups.[229] Group members are trained for seven days on the rules and procedures of the credit scheme, leadership, group dynamics, and financial literacy, and only members who passed an exam on these topics were able to access credit.[230] Loans are disbursed individually, and credit officers continue to mentor group members. Wekembe's services are available in Kampala, Mpigi, Wakiso, Luweero, and Mukono.[231] For this study, they observed four loans for each client.

To illustrate men's privilege in this society, before taking part in Wekembe, the male clients were already more privileged than their female peers: on average men had a

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[225] Richard Akisimire, Ernest Abaho, and Edith Mwebaza Basalirwa, "Microfinance and Entrepreneurial Empowerment of Women: The Ugandan Context," *International Journal of Economics, Commerce and Manangement* 3, no. 1 (2015): 1–11.
[226] Akisimire, Abaho, and Basalirwa.
[227] D. E. William, "Microfinance for Small Enterprises: A Case from Uganda," 2014.
[228] Corsi and De Angelis, "Gender Discrimination in Microfinance?"
[229] Corsi and De Angelis.
[230] Corsi and De Angelis.
[231] Corsi and De Angelis.

longer education than women by three years, and on average men had a larger savings than women by 7,635 shillings ($3.03 USD).[232] In addition, women tend to work in the agricultural sector, whereas men tend to work in business, which is more profitable.[233]

From 1997 to 1999, there was an increase in the amount of money that clients who were women spent on purchasing assets that specifically belong to them and that they had control over. There was an increase in money spent on durable assets for both clients and nonclients, but there was a 21,007 shilling (about $5.77 USD) larger increase for clients as compared to nonclients.[234] It appears that by 1999, women in general had significantly enhanced financial capabilities to make independent purchases, albeit over a relatively brief period. It is noteworthy, however, that the more substantial increase in the quantity of money spent can be largely attributed to the assistance provided by MFIs, as there was a discernible difference in spending patterns between clients and nonclients.

On average, they found that for the first loan, women applied for lower amounts than men. On average men applied for 500,000 shillings ($186.92 USD), and women applied for 400,000 shillings ($149.53 USD).[235] However, taking a longitudinal study of the data, we find that there is a higher growth rate of loan amount requested for women than men: from the first to second loan there was a 0.54 growth rate for men and a 0.63 growth rate for women, and from the first to the third loan there was a 0.4 growth rate for men and a 0.5 growth rate for women.[236] This demonstrates that women were likely to see a higher change in loan amount as they requested more money.

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[232] Corsi and De Angelis.
[233] Corsi and De Angelis.
[234] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."
[235] Corsi and De Angelis, "Gender Discrimination in Microfinance?"
[236] Corsi and De Angelis.

One explanation for this change is that, over time, women became more confident and therefore request larger loans. Many MFI programs gave women clients access to leadership training programs. In addition, the structure of MFI programs put women in leadership positions such as elected offices of treasurer, secretary, and chair.[237] Women were also expected to take on additional responsibilities such as setting group meeting agendas.[238] Of the clients, 13 percent answered that they gained leadership experience through the MFI program, which makes sense given the typical size of these groups.[239] Another similar explanation is that when women participate in MFIs, they also begin to shift their household dynamic as they gain more respect from their husbands. In the 1999 qualitative study, one husband told interviewers, “Now we have learnt that women have a right to make some decisions in the household and that she can make financial contributions and take some responsibility.”[240] Another source suggests that MFI groups provide women with status and prestige in the community, which makes them less dependent on their spouses, and increases their influence and bargaining power within the household, and improves their self-confidence.[241]

A third possible explanation could be that women gained experience with the sometimes-intimidating formal process of making loan requests or learned from their male peers to ask for larger loans, among others.

[237] Corsi and De Angelis.
[238] Barnes, Gaile, and Kibombo, “The Impact of Three Microfinance Programs in Uganda.”
[239] Barnes, Gaile, and Kibombo.
[240] Wright et al.
[241] Carlton et al., “Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation.”

Women are 2.1 times more likely to demand credit from NGOs and cooperatives than formal banks.[242] One possible explanation for why NGOs and cooperatives are a major source of credit for women is that many of these institutions have special credit arrangements where a specified proportion of all loans are reserved for women.[243] MFIs tend to target women because they are better at repaying loans than men, and many MFIs were established with the goal of increasing access for women in mind. There are two possible conclusions to draw from these findings: (1) NGOs/cooperatives and other outside organizations might have information or a type of understanding such that they are more likely to give credit to women (2) formal banks in Uganda should adopt similar systems such that they also reserve a proportion of their credit funding for women.

In sum, the research concludes that there is a positive relationship between microcredit access and women's abilities to operate their businesses.[244] Women have indicated that MFI services enabled them to access small loans, increase credit assistance, ability to split or partially pay loans, and ability to reschedule loans.[245] MFIs offer financial flexibility and resources for consumption needs and business expansion, but predominantly for women who already have their own stream of income, often a microbusiness.

4. *Education*

The 2015 FINCA/UWFT study on female clients in Central and Eastern Uganda found that one third of the clients had attained a secondary level of education. Conversely,

[242] Mpuga, "Constraints in Access to and Demand for Rural Credit," 2010.
[243] Mpuga.
[244] Corsi and De Angelis, "Gender Discrimination in Microfinance?"
[245] Corsi and De Angelis.

4.4 percent had not attained any formal education at all.[246] In a study that was conducted on the MFI BRAC between 2008 and 2009, they found that there was no statistical difference in level of education between those who participated in the MFI and those who did not participate in the MFI.[247] It appears that there is a range of MFI clients with varying degrees of formal education, and overall, the education requirement for MFIs is relatively low.

This makes sense because MFIs often require clients to take part in educational programs, which can supplement a lack of formal education. Thus, unlike the other financial institutions that are examined in this thesis, MFIs offer the unique value of increasing financial literacy amongst clients. In fact, 34 percent of respondents of the FINCA, FOCCAS, and PRIDE found that participating in the MFI program helped them learn savings skills, and 23 percent of respondents found that business-related training was helpful.[248] The extent to which business training was helpful varied depending on the region: 16 percent in Masaka, 28 percent in Mbale, and 34 percent in Kampala. Because there is variance in response to training, it is possible that MFIs need to adapt their educational services to better suit the needs of their clients — maybe clients in some regions need to learn how to save during drought season while others need to learn how to bargain more effectively for their crop. Thus, more research can be done to generate more

[246] Akisimire, Abaho, and Basalirwa, "Microfinance and Entrepreneurial Empowerment of Women: The Ugandan Context."
[247] Rifat Afroze, "An Early Assessment of BRAC Uganda Microfinance Programme: Estimate the Changes of Living Standard," SSRN Scholarly Paper (Rochester, NY, December 23, 2012), https://papers.ssrn.com/abstract=2193325.
[248] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."

precise training. Though not an overwhelming majority, a significant proportion of clients respond positively to MFIs' educational resources.

5. *Social Capital*

There are two potential avenues for harnessing social capital: staff-client relationships and peer-to-peer group relationships. First, for staff-client relationships, the 2016 Wekembe study highlighted that the staff of the MFI showed "great dedication to their jobs, which represent for most of them more than a simple profession, since some of the credit officers also volunteer in organizations involved in training for financial and socially excluded people."[249] MFI staff are predisposed to be interested in helping potential clients and therefore building personal understanding them, whereas the same is not true for formal banks where the institution is more interested in making profitable returns than helping their clients.

They also found that even though characteristics such as education level or marital status were important to staff in earlier rounds of loan requests, over time, these characteristics carried less weight.[250] This is likely because MFI loan officers acquired trust in a person's track record after at least one round of borrowing and reimbursing. In a sense, there is a reliance on built social capital that helps determine the ease of approval for another loan, which is even more crucial for those seeking individual loans as opposed to group loans because that is often the only criteria staff can use to judge clients' likelihood of repayment.

[249] Corsi and De Angelis, "Gender Discrimination in Microfinance?"
[250] Corsi and De Angelis.

Second, social capital is built within MFI groups. In a 2015 survey of 400 poor households from all over the country, they found that there was a significant positive correlation between financial inclusion, financial literacy, and social network in MFIs. All variables showed a strong correlation: between financial literacy and financial inclusion ($r = 0.297$, p-value < 0.01); between social network and financial inclusion ($r = 0.461$, p-value < 0.01); and between financial literacy and social network ($r = 0.253$, p-value < 0.01).[251] Thus, they conclude that financial literacy is important but people can be helped by their peers, as a strong social network can act as a "channel through which financial knowledge and skills flow in order to help the poor make wise and sound financial decisions and choices."[252] They found that a combination of financial literacy and social network explains 20 percent of the variation in financial inclusion of the poor by MFIs.[253]

In support of the idea that MFI groups create social capital, another finding of the FINCA, FOCCAS, and PRIDE program was that 19 percent of respondents answered that the main positive result of participating in credit programs was that they enjoyed weekly meetings because they socialized with friends.[254] The experiences surrounding meetings in the context of contributions clubs will also be compared to MFI meetings in Chapter 5 *Contribution Clubs*. The women mentioned that being members of these groups were an opportunity for them to find people to talk about socioeconomic issues, health or nutrition, and business decision-making practices.[255] However, at the same time, 19 percent of

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[251] George Okello Candiya Bongomin, Joseph Mpeera Ntayi, and Charles Akol Malinga, "Analyzing the Relationship between Financial Literacy and Financial Inclusion by Microfinance Banks in Developing Countries: Social Network Theoretical Approach," *International Journal of Sociology and Social Policy* 40, no. 11/12 (January 1, 2020): 1257–77, https://doi.org/10.1108/IJSSP-12-2019-0262.
[252] Okello Candiya Bongomin, Mpeera Ntayi, and Akol Malinga.
[253] Okello Candiya Bongomin, Mpeera Ntayi, and Akol Malinga.
[254] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."
[255] Barnes, Gaile, and Kibombo.

women disliked the weekly meetings because they saw these meetings as a loss of time that they could have used to tend to their businesses or other pressing responsibilities.[256] Another example of the use of social capital in the context of MFIs is that client households were significantly more likely than nonclient households to help pay for school fees of children who were not their own offspring, who were typically grandchildren, nieces, and nephews.[257]

Because MFIs particularly target women, their impact on women's social capital is also important to highlight. The 2015 FINCA/UWFT study also found that there was a statistically significant correlation between women's entrepreneurial empowerment and their measures of "networking," which the researchers categorize as bridging social capital.[258] They attribute the generating of bridging social capital to lending group members' "willingness to share information about markets and new business opportunities thus being able to make profits and increase their net worth."[259] One widow who described her experience in her first MFI group expressed, "I now have more friends I can trust who comforts me and advises me when I get problems."[260] There are a multitude of others who have built social relationships through their MFI groups, in addition to financial access, which demonstrates that MFIs have an additional benefit to their usage aside from monetary ones.

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[256] Barnes, Gaile, and Kibombo.
[257] Barnes, Gaile, and Kibombo.
[258] Akisimire, Abaho, and Basalirwa, "Microfinance and Entrepreneurial Empowerment of Women: The Ugandan Context."
[259] Akisimire, Abaho, and Basalirwa.
[260] Wright et al.

However, because the success of someone's loan in MFIs that rely on group-based collateral, the abilities of group members is essential. MFI groups can suffer from defaulting individuals, similarly to contribution clubs. However, this appears to be a lower percentage of participants than will be revealed in Chapter 5 *Contribution Clubs*: FINCA, FOCCAS, and PRIDE survey found that 11 percent of participants had to repay for others in their group.[261] Thus, MFIs are significantly more likely to build social capital through staff-client relationships and peer-to-peer engagements.

6. *Conclusions*

The research concludes that the average MFI client is female, sufficiently literate, and most likely works in commerce followed by agriculture, services, and manufacturing. MFIs tend to target marginalized populations by focusing their attention on recruiting female clients and being relatively impartial to level of education. Nevertheless, MFIs also target people with a steady stream of income, which is usually a microbusiness; thus, they typically do not concentrate on the poorest of the poor. Instead, they provide options for people to use their resources on consumption, emergency circumstances, or business expansion — a decision that MFI participants are empowered to make for themselves.

Moreover, in the FINCA, FOCCAS, and PRIDE, it is interesting to note that everyone who participated in one of the MFI programs also had a savings account with a formal bank institution by 1999 at the end of the study, even though only 10 percent of clients had a savings account with a formal bank institution at the start of the study in

[261] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."

1997.[262] To compare to nonclients, only 12 percent had a savings account with a formal bank institution by 1999.[263] This demonstrates that MFIs are an effective tool for elevating individuals to later access more formal institutions.

Unfortunately, MFIs in Uganda are starting to shift their focus away from social issues as they seek to be less dependent on donors.[264] Today, as recent as February 2023, the AMFIU has been advocating for MFIs to become even more formalized by giving them recognition as banks. The executive director of the AMFIU Ms. Jacqueline Mbabzi believes that this would give MFIs an opportunity to mobilize resources to lower interest rates and increase customer confidence in MFIs, which would increase client coverage.[265]

Some argue that this is beneficial because it means that there will be more growth in the industry overall, but others argue that this failure to target marginalized groups now will only leave more people behind. There is still a large market for micro-loans, especially for those in marginalized positions in Uganda, and only time will tell if MFIs will continue to be their anchor of support in a challenging economy.

As a relatively *exogenous* financial mechanisms, MFIs are at the whim of external actors — like donors or policymakers — who might not understand the needs of or have aligned incentives with local people. The next two chapters, on mobile money and contribution clubs, will examine financial mechanisms that are more *endogenous*.

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[262] Barnes, Gaile, and Kibombo.
[263] Barnes, Gaile, and Kibombo.
[264] Carlton et al., "Microfinance in Uganda. Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation."
[265] "Microfinance Institutions Demand Bank Status," Monitor, February 3, 2023, https://www.monitor.co.ug/uganda/business/finance/microfinance-institutions-demand-bank-status--4108778.

Chapter 5: Mobile Money

Across the continent of Africa, mobile device access has skyrocketed. In 2000, 1.9 percent of people on the continent had a mobile phone.[266] In 2017, 77.8 percent of people on the continent had access to a mobile phone subscription.[267] However, despite being the first developing country in Sub-Saharan to liberalize the communications sector, Uganda still has lower mobile phone penetration compared to the rest of Sub-Saharan Africa.[268] From 2000 to 2008, phone subscription penetration increased from 0.5 percent of people to 26.8 percent of people.[269] As of 2017, 70.9 precent of Ugandans have their own phone, and this number varies by region.[270] By 2021, the number of phone subscriptions has risen to 66 per 100 people.[271]

In 2009, mobile money was introduced to Uganda.[272] Initially, the United Kingdom's Department for International Development, via the mobile network operator Safaricom, introduced mobile money with the intention to promote financial inclusion "as an ICT (information and communications technology) solution to microfinance."[273] Safaricom's M-Pesa, a mobile payments system that spread throughout East Africa, gave

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[266] Johann Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda," *SSRN Electronic Journal*, 2013, https://doi.org/10.2139/ssrn.2323429.
[267] Dhruv Gandhi, "Figure of the Week: Gap in Universal Mobile Phone and Internet Access in Africa," *Brookings* (blog), April 12, 2019, https://www.brookings.edu/blog/africa-in-focus/2019/04/12/figure-of-the-week-gap-in-universal-mobile-phone-and-internet-access-in-africa/.
[268] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[269] Maree et al.
[270] Christina Wieser et al., "The Impact of Mobile Money on Poor Rural Households: Experimental Evidence from Uganda," SSRN Scholarly Paper (Rochester, NY, June 25, 2019), https://papers.ssrn.com/abstract=3430525.
[271] "Mobile Cellular Subscriptions (Per 100 People) - Sub-Saharan Africa," World Bank Open Data, accessed April 24, 2023, https://data.worldbank.org.
[272] Laura Bierer et al., "The Impact of Mobile Money Taxation in Uganda," accessed March 6, 2023, https://www.uncdf.org/article/7313/the-impact-of-mobile-money-taxation-in-uganda.
[273] Donatus Rulangaranga, Eva Mpaata, and Joshua Muwema, "Mobile Money Regulations and Protection of Users of Mobile Money in Uganda," *International Journal of Management and Economics Invention*, October 30, 2016, https://doi.org/10.18535/ijmei/v2i10.03.

customer's the ability to store their money in a server that was established by the telecom provider, and customers could manage their money through their mobile phones.[274]

Because mobile money is a relatively new service, it is necessary to clarify the various actors that are necessary for mobile money to function. (1) Mobile network operators (MNOs) like Mobile Telephone Network (MTN), Airtel, Warid, and Uganda Telecom (UTL) provide the mobile infrastructure for customers to use its communication, including financial, services.[275] Though MNOs are the most prevalent providers for mobile money services, there are also non-MNO mobile payment providers, like M-Cash, Ezee Money, and Micro-pay.[276] (2) Stanbic Bank provides and regulates the infrastructure in compliance with the Bank of Uganda Communications Commission that enables the exchange of money between mobile service customers.[277] (3) Mobile network agents convert between cash money and mobile money for customers.[278] (4) Businesses accept mobile money as a payment method.[279] (5) Companies build the necessary infrastructure to use mobile services.[280] (6) Mobile money customers.[281]

Mobile money is the second most *endogenous* of the four financial mechanisms because most of the financial resources themselves come from the customers who use the mobile money. Individuals can receive loans from the other three institutions via mobile money, but the tool itself is not a creditor. Instead, the external aspects of mobile money are composed of the five above mentioned actors that make up the mobile money

[274] Rulangaranga, Mpaata, and Muwema.
[275] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[276] Wieser et al., "The Impact of Mobile Money on Poor Rural Households."
[277] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[278] Maree et al.
[279] Maree et al.
[280] Maree et al.
[281] Maree et al.

infrastructure. Thus, mobile money is a predominantly endogenous financial mechanism, in which individuals for the most part have autonomy over their usage of the tool.

At first, the Bank of Uganda allowed telecommunications companies to start and operate their mobile money services outside of existing banking laws, as the government worked out laws to regulate this new branchless banking.[282] In 2018, the Excise Duty Amendment Act established a 0.5 percent tax on withdrawals from mobile money accounts.[283] In 2020, the National Payments Systems Act was enacted to "promote the safety and efficiency of payment systems in Uganda, with a view to foster financial sector stability and economic growth."[284]

Mobile money provides three main services, like the other financial institutions examined in this thesis, including transfers, withdrawals, cash deposits, savings, and payments of goods and services and recurring bills.[285] The most common uses of mobile money include fund transfer to family and friends, cash withdrawals, and payment of bills including water and electricity.[286] In terms of payments, mobile money is often used to pay for airtime, school fees, utility providers, and businesses.[287] A prominent usage of mobile money is "transfer payments," which is when an account holder moves money into another user's account where the transfer of goods or services does not occur.[288] This is often used for international transfers, remittances, and exchanges among friends and family. Domestic

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[282] W. Quisenbery, Ted Sun, and P. Orotin, "A Study on Factors Facilitating Access to Mobile Phone Money in Uganda," *Greener Journal of Business and Management Studies* 3, no. 6 (August 20, 2013): 279–91, https://doi.org/10.15580/GJBMS.2013.6.071213722.
[283] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."
[284] Bierer et al.
[285] Wieser et al., "The Impact of Mobile Money on Poor Rural Households."
[286] Quisenbery, Sun, and Orotin, "A Study on Factors Facilitating Access to Mobile Phone Money in Uganda."
[287] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[288] Maree et al.

remittances most often occur from urban areas to rural areas, as people send money to support their extended families.[289] This financial service is most employed via mobile money, as opposed to any of the other financial institutions examined in the other chapters; thus, mobile money provides a unique tool in people's daily lives that is otherwise mostly untapped from the three major financial institutions.

To note, mobile money is not a financial institution in the same sense that formal banks, MFIs, or ROSCAs are institutions. Unlike those three institutions, mobile money does not establish another actor as a creditor. Instead, it should be considered a technological tool that enhances each of these three institutions. Since mobile money plays an incredible and crucial part in shaping financial inclusion in Uganda, we will examine it is essential component of explaining the financial environment of the country today.

1. *Quantitative Coverage*

Since its introduction in 2009, the uptake of mobile money has grown immensely. After mobile money was first introduced in March 2009, by the end of the year there were 552,047 registered mobile money users.[290] By June 2021, the number of registered mobile money accounts was 31.3 million.[291] In addition, the value of transactions has increased since 2009, from $37.3 million USD to $18.7 billion USD in 2020; the balance in customers' accounts has also increased from approximately $1 million USD to $144.2

[289] Maree et al.
[290] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."
[291] Bierer et al.

million USD in 2020.[292] This shows that many people have active accounts, and they use their accounts to transfer significant sums of money.

The two companies with the largest market share of mobile money users, MTN and Airtel, have both expanded their coverage to include international transfers. MTN allows people to transfer money to any country where Western Union operates, which gives customers access to 450,000 Western Union locations in 200 countries and territories.[293] Airtel allows people to receive money from Rwanda, Tanzania, Malawi, South Africa, Zambia, Kenya, United Kingdom, United States, United Arab Emirates, Qatar, Oman and Saudi Arabia for free, and send money to people in Rwanda, Zambia, Tanzania, Malawi, Burundi, Zimbabwe, Ethiopia, Botswana and Kenya for a small to moderate fee.[294] This expands the usages of mobile money, which makes it a tool that is more convenient and cheaper than other financial institutions.

Mobile money has the power to increase financial inclusion because it offers an avenue for financial services that they otherwise cannot access from formal bank institutions. As mentioned previously in Chapter 2 *Formal Bank* and Chapter 3 *Microfinance Institutions*, two main reasons they are inaccessible is because (1) they require people to be near a physical bank branch and (2) they require account fees or income levels to open an account for saving and borrowing. Mobile money does not suffer from these challenges.

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[292] Bierer et al.

[293] Quisenbery, Sun, and Orotin, "A Study on Factors Facilitating Access to Mobile Phone Money in Uganda."

[294] "Uganda's Leading Provider of Prepaid, Postpaid Mobile, & 4G Services. Recharge Your Prepaid Mobile & Pay Your Postpaid Bills Online.," Airtel, accessed April 24, 2023, http://www.airtel.co.ug.

First, in terms of geographical constraints, mobile money does not necessitate the opportunity costs of time and money that come with traveling to a physical branch location in the same way that formal banks and MFIs require, especially in rural areas where someone might live far away from a bank branch. Unlike MFIs and formal banks that require an entire branch building, mobile network outlets only require an individual network agent and a retail space that could be as minimal as a verandah or cart.[295] In Uganda, there were 540 mobile money agent outlets per 100,000 adults in 2015. This indicator is like its neighboring country Kenya, which has 538.09 mobile money agent outlets per 100,000 adults. These numbers show excellent progress and potential for digital financial services expansion, especially for Uganda's rural areas.[296]

As such, there are plenty of mobile network agents throughout most of the country. Becoming a mobile network agent is simple. There are two common methods: directly from a mobile network operator or through a master agent/aggregator.[297] The process of becoming a mobile network agent varies a little depending on the company. For MTN, potential agents are required to have a startup capital of 1.5 million UGX (about $410 USD), be registered as a limited company or sole proprietorship for at least one month, have a Certificate of Incorporation or sole proprietorship registration documentation, have a physical at least semi-permanent premises for operating business, Certified Memorandum and Articles of Association, one month Company Bank Statement, valid ID, letter of

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[295] "Uganda's Leading Provider of Prepaid, Postpaid Mobile, & 4G Services. Recharge Your Prepaid Mobile & Pay Your Postpaid Bills Online."
[296] Matia Kasaija and Emmanuel Tumusiime-Mutebile, "National FInancial Inclusion Strategy 2017 - 2022," October 2017.
[297] Warren Sakwa, "Everything You Need to Know to Start a Mobile Money Agent Business in Uganda," *Ug Tech Mag* (blog), February 15, 2022, https://ugtechmag.com/everything-you-need-to-know-to-start-a-mobile-money-agent-business-in-uganda/.

introduction from the local council, map and photos of the agent premises, business turnover of at least 5 million UGX per month, registered board resolution to start, official contact information including an email address, and proposed outlets to be inspected by MTN's regional representative.[298] The application process for the second biggest mobile network operator Airtel is similar, except the required startup capital is higher at 2 million UGX.[299]

Mobile money agents work as "authorized dealers" or "retailer shops" — both of which work for a particular mobile network operator.[300] "Authorized dealers" usually handle large amounts of money and are well-guarded by security personnel, and "retailer shops" usually deal with smaller amounts of money and are located near petrol stations and/or banks to deposit transactions throughout the day.[301] Retailer shops are permitted to sell for more than one mobile network operator, which increases competition and the availability of services — regardless of which company someone's mobile network is on.[302] In Kampala, as one mobile money user who was interviewed, mobile network agents are commonplace: "one would not walk past 2 or 3 shops without seeing a sign post reading 'Mobile Money services available here.'"[303]

Mobile money has also become increasingly accessible, as the number of mobile network agents has grown about seven-fold: in 2013, there were 53,550 and in 2020, there were 376,111 mobile network agents.[304] The increase of locations for these mobile network

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[298] Sakwa.
[299] Sakwa.
[300] Sakwa.
[301] Quisenbery, Sun, and Orotin, "A Study on Factors Facilitating Access to Mobile Phone Money in Uganda."
[302] Quisenbery, Sun, and Orotin.
[303] Quisenbery, Sun, and Orotin.
[304] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."

agents makes it easier for customers to sign up for a mobile money account, deposit money, and withdraw from their accounts. In addition, the mobile network companies' interests in increasing their mobile network agents employs hundreds of thousands of people. This increase in jobs in turn also increases the financial position of many people such that they might gain further access to various financial institutions, although as described above, it is possible that people can only become mobile money agents with some level of existing wealth because people must have access to 1.5 million to 2 million UGX as startup capital in order to become a mobile money agent. Indeed, it is likely that some people pool together money to meet mobile network requirements, and it is also likely that people employ one of the other financial institutions to borrow money to become a mobile network agent.

Second, in terms of minimum requirement constraints, unlike formal banks, mobile money accounts do not have such requirements at all — mobile money users can deposit any amount of money into their mobile money account, with no minimum deposit or income requirement. This low barrier to entry makes mobile money a good mechanism for including large numbers of people.

However, one survey found that only 3 percent of respondents keep their savings in mobile money.[305] One possible explanation for this is that mobile money users may be using their accounts predominantly for transactions as opposed to savings. This could be due to security concerns, withdrawal costs, or a longstanding practice of keeping savings at home or with a shopkeeper, as explained in Chapter 2 *Formal Banks*.

Many customers of mobile money services still have concerns over the security of this technology because it is relatively novel, and there are real concerns about their

[305] Kasaija and Tumusiime-Mutebile, "National FInancial Inclusion Strategy 2017 - 2022."

safety.[306] To illustrate, in October 2022, Airtel's mobile money system was hacked, and 8 billion UGX (about $2.1 million) was stolen.[307] This shows that there is a lack in the security of the mobile money network, but the account owners themselves do not have too much to worry about because financial institutions themselves bore the brunt of the hacking.[308] Incidents like these still reasonably concern potential clients and may discourage people from using it.

Savings is not the most popular usage for mobile money, but about 39 percent of people in Uganda have used mobile money services to make transactions.[309] There are other estimates that mobile money penetration has reached a higher percentage of the population at around 44 percent.[310] These estimates are all significantly higher than estimates for formal banks and MFIs. This shows that mobile money gives a significant financial service to many more people than formal banks are currently able to provide.

In many ways, mobile money has increased financial inclusion for millions of people in Uganda, but the story of mobile money is not entirely inclusive. In 2018, the Excise Duty Amendment Act established a 1 percent tax that was later lowered to a 0.5 percent tax on withdrawals from mobile money accounts.[311] To understand the impact of the new tax, a study was conducted in March 2021 in Central and Western Uganda by

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[306] Quisenbery, Sun, and Orotin, "A Study on Factors Facilitating Access to Mobile Phone Money in Uganda."
[307] "How Hackers Used Betting Site to Access Airtel Money in Uganda," The East African, November 21, 2022, https://www.theeastafrican.co.ke/tea/business/how-hackers-used-betting-site-to-access-airtel-money-in-uganda-4027746.
[308] "How Hackers Used Betting Site to Access Airtel Money in Uganda."
[309] Alison Gillwald et al., "The State of ICT in Uganda," May 2019.
[310] Rulangaranga, Mpaata, and Muwema, "Mobile Money Regulations and Protection of Users of Mobile Money in Uganda."
[311] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."

interviewing a sample of 303 individuals in 52 locations.[312] Respondents were evenly distributed with diverse incomes, ranging from less than 100,000 UGX (about $27 USD) to over 1 million UGX (about $410 USD).[313] The implementation of this tax changed the way that people interact with mobile money services in two ways. The second change will be discussed in Section 4, Education.

In general, people want to use mobile money less. Some argue that such a tax should encourage people to keep their money circulating in a mobile money system by discouraging withdrawals, but that is not how people have responded in reality.[314] Instead, it discourages people from putting money into their mobile wallets in the first place because they are concerned about losing money when they want to withdraw cash.[315] After researchers explained how the tax is applied, 62 percent of respondents said that they believed the tax is unreasonable because the tax is too high.[316] In fact, one respondent said that the tax is "expensive for poor people. The little money deducted can do a lot here."[317] Moreover, with this newfound knowledge, 38 percent of respondents said they would use mobile money less, 44 percent said they would use it with the same frequency, and 17.8 percent said they would use it more.[318] Many respondents who said they use mobile money less switched back to cash. One respondent even explained that "the tax is so high that sometimes I have to get a boda-boda to deliver the cash physically."[319] Substantively, the

[312] Bierer et al.
[313] Bierer et al.
[314] Bierer et al.
[315] Gillwald et al., "The State of ICT in Uganda."
[316] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."
[317] Bierer et al.
[318] Bierer et al.
[319] Bierer et al.

government policy has led to a decrease of between 50 percent to 60 percent of the amount of value transacted via mobile money.[320]

Conversely, many of the respondents who claim to use mobile money the same or more explain that they have no other options: "we can't move away from it because we don't have banks here and it's what people use to pay." [321] Overall, this tax is counterproductive because it negatively affects poor people's abilities to use mobile money as a financial tool and it is ineffective at generating revenue for the government, as people decrease their mobile money usage to circumvent paying a tax. [322] The excise tax undermines the positive impact that the technology of mobile money could have on increasing financial inclusion in Uganda.

A field experiment that was conducted by the International Finance Corporation in collaboration with Airtel Uganda interviewed 4,000 households from 2017 when there were only a few MTN mobile money agents and no Airtel mobile money agents to 2018 after they had rolled out Airtel mobile money agents.[323] This study was conducted in the rural areas of Northern Uganda, where there were previously no Airtel mobile money agents.[324] In this region, people might be too poor to save and receive few remittances — 15 percent as compared to 65 percent in other parts of rural Uganda. [325] In the study, people's median distance from a bank branch was 25.2 kilometers. [326] All these factors mean that people are likely to be financially excluded via formal bank institutions, even

[320] Gillwald et al., "The State of ICT in Uganda."
[321] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."
[322] Gillwald et al., "The State of ICT in Uganda."
[323] Wieser et al., "The Impact of Mobile Money on Poor Rural Households."
[324] Wieser et al.
[325] Wieser et al.
[326] Wieser et al.

more so than other rural areas in Uganda.[327] For further context, in rural Northern Uganda, only 27.6 percent of households own a mobile phone, as compared to the national average of 70.7 percent of households.[328] Only 3 percent of all mobile money agents in the country are in Northern Uganda.[329] In June 2017, with the help of a professional services firm, they identified and hired 400 agents for Airtel, 370 of which were active during the experiment period from 2017 to 2018.[330] After the rollout, the average distance to the closest agent was 8 kilometers for the treatment groups.[331]

One year after the rollout of more mobile money agents, they found that there was a 4.2 percentage point increase in households using mobile money, from 12.6 percent in the control group to 16.8 percent in the treatment group for areas that were at least 25.2 kilometers away from a formal bank branch.[332] However, there was no statistically significant increase in the percentage of mobile money users for those who lived closer to a formal bank branch.[333] One potential explanation for this is that regions that had access to a formal bank branch were also more likely to already have access to mobile money agents, as the closest mobile money agent was on average 6.6 kilometers away in comparison to those who did not have access to a formal bank branch, the closest mobile money agent was on average 9.8 kilometers away.[334] Another possible explanation for the seemingly insignificant data is that Northern Uganda is an extremely war-torn region with

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[327] Wieser et al.
[328] Wieser et al.
[329] Wieser et al.
[330] Wieser et al.
[331] Wieser et al.
[332] Wieser et al.
[333] Wieser et al.
[334] Wieser et al.

generations of destruction. Unfortunately, one rollout of many mobile money agents is likely to have insignificant results in such a region.

Of those who started using mobile money, 97 percent reported using mobile money to send or receive money; 41 percent reported using it to buy airtime; 4 percent people reported using it in their business; and 3 percent reported using it to pay bills.[335]

2. *Standard of Living*

Evidence suggests that mobile money has the power to help improve people's standard of living for a multitude of different reasons. The 2017 International Finance Corporation study also found that increased access to mobile money agents also led to a decrease in transactions costs for receiving remittances. A plausible rationale for this phenomenon could be attributed to the cost-effectiveness of mobile money transactions as compared to cash transfers, which necessitate transportation expenses. To illustrate, individuals were inclined towards availing the option of mobile money despite the median withdrawal fee of 2,000 UGX (approximately $0.55 USD), which was more economical than the median transportation cost of 4,000 UGX (around $1.10 USD) associated with physical remittance delivery.[336] Another possible explanation is that to send remittances, people are able to walk or bike for free because the distance to mobile money agents was shorter than the distance to physically delivering remittances, which might be a longer distance that would require paying for transportation costs.[337] In fact, they found that

[335] Wieser et al.
[336] Wieser et al.
[337] Wieser et al.

people were 13 percentage points less likely to pay for transportation costs like a boda-boda or mini-bus taxi fee to receive remittances.[338]

Even though there were no statistically significant change in amount in savings, ownership of livestock, or agricultural outcomes, there was a higher percentage of people working in non-farm self-employment in the treatment group, which means people are likely better off. There was a 3-percentage point difference between those in the treatment group (6.4 percent of households) as compared to those in the control group (3.4 percent of households).[339] One possible explanation for this is that the increased liquidity from lower transaction costs for remittances allowed people to choose a different employment option, as households were able to save about 10 percent of their daily consumption via lower transaction costs, which makes a substantial difference.[340] Another possible explanation is that this experiment directly increased self-employment by giving people the opportunity to become Airtel agents. Although this was not found to be the case in this experiment, MNOs seeking to expand their customer base will likely have a positive impact on employment in the new regions that MNOs are looking at expanding to. A third possible explanation is that people who were able to pay for mobile phones and access mobile money were also the ones that were already better off, and those are also people who are more likely to have non-farm employment. It is possible that the treatment group already had more people working non-farm employment, as the percentage difference is relatively small.

[338] Wieser et al.
[339] Wieser et al.
[340] Wieser et al.

There was a strong positive association between the agent rollout and food security: in the treatment group of respondents far away from a bank branch, there was an 11.8 percentage point drop in the probability of having to reduce the number of meals in the last seven days.[341] During shocks, households typically borrow from family or friends, rely on savings, or sell their assets. Those with mobile money access continued using those coping mechanisms, but it also increased the likelihood that people take up more work to adjust for the shocks instead of changing their diets.[342] For households in the treatment group, 36.8 percent reported having to reduce meals; whereas for households in the control group, 48.6 percent reported the same.[343] One possible explanation for this is easier to pay those who use mobile money, so the ease of transaction encourages people to give odd jobs to mobile money users over non-users.

Indeed, people's lives changed in each of these respects by stimulating self-employment and increasing food security in rural Northern Uganda, but there was still not a statistically significant relationship between the agent rollout and their measure of poverty, which they measured using the World Bank's approach, Survey of Well-being via Instant and Frequent Tracking.[344] One possible explanation for this might be that the fact that Northern Uganda has a particularly violent history, as mentioned in a Chapter 2 *Formal Banks*, Section 1 *Quantitative Coverage*.[345] Overall, this study demonstrates that increasing the number of mobile money agents can positively impact people's lives, even in rural areas where people do not already have a high income.

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[341] Wieser et al.
[342] Wieser et al.
[343] Wieser et al.
[344] Wieser et al.
[345] Wieser et al.

A 2015 study conducted by the International Development Research Center found that about 68 percent of the sampled MSEs used mobile money for their businesses.[346] This same survey also found that MSEs that used mobile money accounts were about 6 percent more likely to receive credit when they applied.[347] One reason for this could be that those who have access to a mobile phone and use mobile money are therefore more likely to already have a higher income or more wealth, such that they would be more likely to fulfill the formal bank's requirements for credit.

Before the implementation of the 2018 withdrawal tax, a 2010 survey of 463 respondents, which consisted of mostly young male respondents thought that the cost of sending or receiving money transfers was average or cheap.[348] A partial explanation for the survey respondents' belief is that 56 percent of respondents had completed a post-secondary degree, which is correlated with a higher income.[349] People who already have access to some resources might find mobile money transactions more affordable.

For rural areas, estimates suggest that 40 percent of the reason for increase in agricultural income can be attributed to mobile money services.[350] A study that interviewed 419 Robusta coffee-producing households in Luwero and Masaka District in 2012 and again in 2015 provides some plausible explanations.[351] This study compared those who took up mobile money by 2015 against those who did not. They found that there was a

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[346] Faisal Buyinza, John Mutenyo, and Anthony Tibaingana, "Factors Affecting Access to Formal Credit by Micro and Small Enterprises in Uganda," *Athens Journal of Business & Economics* 4, no. 4 (September 30, 2018): 405–24, https://doi.org/10.30958/ajbe.4-4-4.
[347] Buyinza, Mutenyo, and Tibaingana.
[348] Buyinza, Mutenyo, and Tibaingana.
[349] Buyinza, Mutenyo, and Tibaingana.
[350] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[351] Haruna Sekabira and Matin Qaim, "Mobile Money, Agricultural Marketing, and Off-Farm Income in Uganda," *Agricultural Economics* 48, no. 5 (2017): 597–611, https://doi.org/10.1111/agec.12360.

strong relationship between the usage of mobile money and increased standard of living in terms of household welfare, off-farm income, and agricultural marketing.[352] One demographic aspect of note is that interviewees who used mobile money were those who already had a higher household income and consumptions levels than those who did not use mobile money.[353] This suggests that there might be a certain level of income that is required to see the benefits of mobile money.

First, they found that mobile money usage improved household welfare. There is a positive relationship between using mobile money and household income: households that used mobile money had increased annual household income by 493,000 UGX (about $135 USD) since 2012 which is an increase of 19 percent as compared to non-users of mobile money.[354] In addition, the usage of mobile money is also correlated with a 261 UGX (about $0.07 USD) increase in per capita consumption, which is a 7.5 percent increase of mean consumption levels of non-users.[355] As such, it shows a correlation, though not causation, between mobile money usage those had a higher income and per capita consumption than those who did not, but it does not show a causation relationship between mobile money usage and those two variables.

Second, they also found a positive relationship between mobile money usage and off-farm income, excluding remittances. For mobile money users, there was an increase in off-farm income, excluding remittances, by 303,000 UGX (about $83 USD) which is a 47 percent higher income from off-farm activities than non-mobile money users.[356] This

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[352] Sekabira and Qaim.
[353] Sekabira and Qaim.
[354] Sekabira and Qaim.
[355] Sekabira and Qaim.
[356] Sekabira and Qaim.

suggests that mobile money has a more significant impact on off-farm income by helping people save and transfer money for their other sources of income such as small-scale businesses in trade, transportation, and handicrafts.[357]

Third, mobile money users made a larger profit off their harvest than non-users, as measured in two ways. They measured coffee sold as shelled green beans because it is used as a proxy for selling in higher-value markets because it requires more processing than selling immediately after harvest.[358] There was a strong positive relationship between mobile money usage and the sale of shelled green beans: non-users sold 23 percent of their coffee as shelled beans and users sold 35 percent of their coffee as shelled beans.[359] Mobile money users received 231 UGX (about $0.06 USD) more per kilogram of shelled green beans than non-mobile money users.[360] This translates to a 5 percent higher mean price received per kilogram of shelled coffee for mobile money users than non-users.[361] Some possible explanations are that coffee bean sellers are less cash-constrained so they do not need to sell immediately after harvest and selling to buyers outside the local region is made easier by mobile money.[362]

Additional support of the above research results is found in another study that was conducted between 2009 and 2012. Researchers concluded that mobile money has positively contributed to the livelihoods of those living in rural areas by increasing the ease

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357 Sekabira and Qaim.
358 Sekabira and Qaim.
359 Sekabira and Qaim.
360 Sekabira and Qaim.
361 Sekabira and Qaim.
362 Sekabira and Qaim.

of sending remittances.[363] After interviewing 846 households in rural parts of Uganda, they found an increase in number of remittances and amount in remittances. Households that had at least one mobile money subscriber were 20 percentage points more likely to receive remittances from their family or friends in urban areas than those who did not.[364] It is possible that there was selection bias in this survey: people who have family members in the city or abroad are more likely to invest in mobile money because it is easier to access remittances. This still shows that people are opting for mobile money to receive their remittances as opposed to other options because they have decided for themselves that it is the best option.

These households were also likely to receive remittances that were 33 percent higher compared with households that did not have mobile money users.[365] They argue that the increased welfare due to remittances via mobile money can largely be explained by the decrease in transaction costs to sending remittances, though this was not confirmed by asking survey respondents.

Moreover, the 2015 study by the International Development Research Center also found that MSEs that used mobile money had about a 6 percent higher chance of getting credit from a formal bank compared to MSEs that did not use mobile money.[366] One possible explanation for this is that mobile money makes it easier for people to utilize the resources of other financial institutions because mobile money acts as a vessel for

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[363] Ggombe Kasim Munyegera and Tomoya Matsumoto, "Mobile Money, Remittances, and Household Welfare: Panel Evidence from Rural Uganda," *World Development* 79 (March 1, 2016): 127–37, https://doi.org/10.1016/j.worlddev.2015.11.006.
[364] Munyegera and Matsumoto.
[365] Munyegera and Matsumoto.
[366] Buyinza et al.

delivering credit, which is easier and reduces costs for the financial institution. Another possible explanation for the difference is that mobile money users already have higher incomes or have an additional asset, a mobile phone, such that they are already more likely to become approved.

Overall, across different research papers, there is variation as to whether mobile money has a statistically significant impact on people's standard of living. However, all the studies document a positive relationship between mobile money usage and standard of living, though not always statistically significant. This makes the evidence somewhat inconclusive. One possible explanation for insignificant survey results is that there was insufficient time between surveys in a singular longitudinal study, as those that cover at least three years show more significant results.

3. Gender

A study that was funded by the IFC and the Mastercard Foundation, which was conducted in the Democratic Republic of the Congo, Ghana, Kenya, Senegal, Tanzania, Zambia, and Uganda from 2014 to 2018, shows that men and women use digital financial services differently. Specifically in Uganda, the survey evidence showed that 18 percent more of men than women responded that they would use mobile money for financial transactions and 14 percent more of men than women responded that they would save using mobile money.[367] This is consistent with survey results from the other six studied countries in that men were more likely to use mobile money services than women, but the percent

[367] Chamboko Heitmann and Soren Van Westhuizen, "Women and Digital Financial Services in Sub-Saharan Africa: Understanding the Challenges and Harnessing the Opportunities," January 2019.

difference was the highest in Uganda.[368] This is likely because men are likely to be able to hold the power of who has access to the mobile device in the home. It is possible that women are more likely to keep their money safe in a contribution club or MFI.

In Sub-Saharan Africa overall, they found that men were 5 to 7 percentage points more likely to own a smartphone than women.[369] However, the disparity is even greater in Uganda. Women are about 7 to 8 percentage points less likely to own a mobile device than men in urban areas, and they are about 15 percentage points less likely to own a mobile device than men in rural areas.[370] In addition, even when women have some sort of access to mobile money services, their quality of access is still lower. For example, even when women own their own phone, their devices tend to be older and cheaper than those used by men.[371]

An aspect of mobile money service that creates a barrier to access in a way that the other financial institutions do not is that it is a financial service that requires the use of technology that women often physically do not have access to and/or may not have the knowledge to use it. To illustrate, women are less likely to have access to internet including at work, at home, and on their phones.[372]

A second potential barrier to women's access of mobile money services is gaining knowledge about all the services offered by mobile providers: while 64 percent of male respondents know about mobile money services, about 52 percent of women knew about

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[368] Heitmann and Van Westhuizen.
[369] Heitmann and Van Westhuizen.
[370] Heitmann and Van Westhuizen.
[371] Heitmann and Van Westhuizen.
[372] Heitmann and Van Westhuizen.

these services.[373] Men are also more likely to learn about mobile money services through advertisements on the radio or TV, whereas women are more likely to rely on their social networks, which will be expanded on later in Section 5 Social Capital part of this chapter.

Several studies conclude that having an account in one's own name results in different usage than using someone else's account, and men are more likely to have an account in their own name than women.[374] Due to gendered household dynamics, many women still have limited access to mobile money services, even if there is a mobile device in their households because some men prevent their wives from accessing technology. One interviewee said that some women are not allowed to access mobile phones because their husbands argue that it would "break balance in the house."[375]

4. *Education*

In 2016, a survey was conducted of 438 respondents in Kampala about their usage of mobile money. This study found that a statistically significant aspect that contributes to the uptake of mobile money usage is education surrounding mobile money application and its security features.[376] In addition, the study found that 63 percent of mobile money users were aged 18 to 30 years old.[377] Of these respondents, 55 percent had a secondary school education and 36 percent had a university education, which suggests that mobile money users tended to be on the more educated side.[378] This suggests that people who are more

[373] Heitmann and Van Westhuizen.
[374] Heitmann and Van Westhuizen.
[375] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[376] Ronald Baganzi and Antonio K. W. Lau, "Examining Trust and Risk in Mobile Money Acceptance in Uganda," *Sustainability* 9, no. 12 (December 2017): 2233, https://doi.org/10.3390/su9122233.
[377] Baganzi and Lau.
[378] Baganzi and Lau.

educated are more likely to use mobile money services than someone who has had fewer years of education. One possible explanation for this difference is that people with more years of education are more likely to gain trust in the service, like many new technologies.[379] People who had more years of education are more likely to be surrounded by similar tools and therefore have trust in the system's security.[380]

Conversely, another study conducted in only rural areas of Uganda found that education was an insignificant factor in the usage of mobile money.[381] Indeed, this is also plausible because mobile money usage is relatively simple, and people can easily learn from other community members on how to use the devices and system, although there might still be some psychological aversion to the new tool.

As mentioned earlier in Section 1, Inclusion, the Excise Duty Amendment Tax changes the way people interact with mobile money because the transparency of the tax is not accessible, and many people do not understand how it works. The March 2021 study found that 85 percent of respondents were aware that their mobile money withdrawals were being taxed by the government.[382] This is a substantial proportion of respondents, but there was a positive correlation between knowing about the excise tax and income: as income was higher, respondents were more likely to know about the tax.[383] To illustrate, 98 percent of those who have an income of more than 1 million UGX knew about the tax, whereas 74 percent of those who have an income of less than 100,000 UGX knew about the tax.[384]

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[379] Baganzi and Lau.
[380] Baganzi and Lau.
[381] Sekabira and Qaim, "Mobile Money, Agricultural Marketing, and Off-Farm Income in Uganda."
[382] Bierer et al., "The Impact of Mobile Money Taxation in Uganda."
[383] Bierer et al.
[384] Bierer et al.

Even out of those who knew that there was a tax on mobile money transactions, only 13 percent correctly understand how the tax was applied.[385] Policy complications might make the usage of mobile money more confusing than simple cash transfers, that are less regulated by the government, and this may affect some people's usage of the tool. Overall, it appears that education is not an immense factor that determined mobile money usage, which makes it a more accessible mechanism.

5. *Social Capital*

Many people gain mobile money access via shared technological devices, which refers to any arrangement where a device is made available to multiple users.[386] In his 2004 paper "On Sharing Nicely," Yochai Benkler defined "social sharing" as "productive cooperation centered around a useful good that is based neither on price systems nor managerial command… fully outside of the market."[387] In the study conducted to analyze mobile phone sharing, Jenna Burrell defines five distinct roles: (1) purchaser which consists of the individual or group who pooled their money to make the financial payment for a phone (2) owner which is someone who has the authority to decide who can use the phone, where it is kept, and how others interact with the device (3) possessor which is the person who carries the phone (4) operator which is anyone who physically manipulates the phone (5) user is anyone who makes use of the phone.[388] Sometimes the user is not also

[385] Bierer et al.
[386] Jenna Burrell, "Evaluating Shared Access: Social Equality and the Circulation of Mobile Phones in Rural Uganda," *Journal of Computer-Mediated Communication* 15, no. 2 (January 1, 2010): 230–50, https://doi.org/10.1111/j.1083-6101.2010.01518.x.
[387] Burrell.
[388] Burrell.

operator, as many women reported that their husbands did not permit them to handle the phone on their own and instead made himself the proxy user.[389] This also occurs often on behalf of younger family members or elderly community members.[390] Mobile money users do not necessarily need to own a phone at all to use the services because some people just own a SIM card and use a shared mobile device, and they can insert their SIM card into a Yellow Easy Talk Machine to receive money from agents at mobile money locations.[391]

After interviewing 52 people about their mobile phone sharing, Burrell found that there were significant reasons to share phones, beyond financial necessity.[392] For one, mobile phones are sometimes gifted as "surrogates" from husbands to wives so that women can contribute to taking care of themselves financially, as an "income generating object for a woman in lieu of her husband's labor."[393] Another motivation for phone sharing is "lure," for which men allow women to borrow their phones in exchange for "payments in kind," meaning sexual favors.[394]

There is some consideration as to a person's social capital within a community that determines people's interest in sharing their mobile device. One hesitation that people have with sharing their mobile phones is the protection of "secrets" in terms of "social reputation management in relation to intimate and proximate others, to reaffirm the exclusivity of certain social bonds, and to manage competition over resources."[395] For instance, business owners may not want to reveal their personal business contacts by allowing someone else

[389] Burrell.
[390] Burrell.
[391] Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."
[392] Burrell, "Evaluating Shared Access."
[393] Burrell.
[394] Burrell.
[395] Burrell.

to borrow their phone.[396] Other stories indicate that those who have been burned by a careless borrower are more likely to refuse to lend their device, and other stories show that people are less interested in sharing with people who have a lower social status, such as the second-wife of a polygamous husband.[397]

In the 2010 survey of 463 respondents, they found that almost 70 percent of respondents shared ownership of their mobile device.[398] It is also important to note that even among a sample size that was composed of a group of individuals who were more educated and had more access to other formal financial services than the national average, many people still share mobile devices to use mobile money.[399] Especially in rural areas, it is very common for people to share mobile devices between families, partners, friends, or neighbors.[400]

Evidence also suggests that women tend to rely more on their social networks than men in order to access mobile money. The IFC and Mastercard Foundation research report found that about 40 percent of women respondents relied on their friends and family to learn about mobile money services, whereas the same was true for about 25 percent of men.

6. Conclusions

Mobile money is a technological advancement that can be used to enhance the other three financial institutions that are discussed in this thesis. As a technology, mobile money

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396 Burrell.
397 Burrell.
398 Ali Ndiwalana, Olga Morawczynski, and Oliver Popov, "Mobile Money Use in Uganda: A Preliminary Study," 2010.
399 Ndiwalana, Morawczynski, and Popov.
400 Maree et al., "Developmental Uses of Mobile Phones in Kenya and Uganda."

can multiply the benefits of existing financial institutions. In fact, 25 percent of people who received credit had received their loan via mobile money.[401] Existing financial institutions are the ones that provide capital and resources to individuals, and mobile money technology increases people's ability to access those resources across wide geographical barriers by decreasing transaction costs.

Another interesting aspect to note is that mobile money services are inextricably tied to the Bank of Uganda, which is a formal bank institution, because it facilitates regulation and provides the base infrastructure needed for money transfers via mobile accounts. However, mobile money can be used separately from a formal bank because people do not need a bank account nor a physical bank branch to deposit and withdraw money from their mobile device.

One interesting suggestion made by a World Bank report, based on evidence from the IFC and Mastercard Foundation surveys, is that mobile money should be used to emulate the benefits of existing social dynamics. For instance, women tend to use informal institutions more frequently and to a greater degree than formal institutions. As such, to increase financial inclusion among women, mobile money providers should try to incorporate their usage in the contexts of informal institutions like MFIs, which were discussed in the previous chapter, and contribution clubs, which will be discussed in the following chapter.[402]

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[401] Gashaw Tsegaye Ayele, "Microfinance Institutions in Ethiopia, Kenya and Uganda: Loan Outreach to the Poor and the Quest for Financial Viability," *African Development Review* 27, no. 2 (2015): 117–29, https://doi.org/10.1111/1467-8268.12128.

[402] Heitmann and Van Westhuizen, "Women and Digital Financial Services in Sub-Saharan Africa: Understanding the Challenges and Harnessing the Opportunities."

Chapter 4: Contribution Clubs

In this chapter, I will examine contribution clubs; this is the group of financial institutions that are the most *endogenous* out of all the institutions that will be examined in these chapters. Contribution clubs have also been characterized as "reciprocal lending arrangements, whereby [members] save by lending."[403] It might be important to note that there are a few variations of this concept of informal financial institutions that predominantly rely on the existing resources of members, including rotating savings and credit associations (ROSCAs), village savings and credit associations (VSLAs), accumulating savings and credit associations (ASCAs), savings clubs, welfare funds, and investment clubs. This paper focuses on ROSCAs and VSLAs because there is the most research done on these institutions. For this paper, I will use the term "contribution club" to refer to these variations of financial institutions, because their resources exclusively come from members' own contributions, unlike the other mechanisms examined in this thesis. Contribution clubs are informal financial institutions that are both the most *endogenous*, as compared to the other three financial mechanisms that will be reviewed in this thesis.

First, to begin by describing ROSCAs in greater detail, the exact contribution amount, rotation order, meeting frequency, and the methods used to determine the attributes of a ROSCA can differ from group to group because of the nature of their creation, but the basic principle of a ROSCA is a lump sum fund that is composed of fixed

[403] Graham AN Wright et al., "Vulnerability, Risks, Assets and Empowerment–the Impact of Microfinance on Poverty Alleviation," *September). Final Report. Kampala, Uganda: MicroSave-Africa and Uganda Women's Finance Trust,* 1999.

contributions from each member of the association and is distributed at fixed intervals to each member of the association.[404] The construction of a ROSCA is flexible as it depends on its members — meaning that the final structure of any given association varies to accommodate the different needs and purposes of the group members. All members collectively agree on the arrangements before an association's rotation can be initiated; in theory, each member has equal power to provide their input on the creation of the institution that is expected to give them access to a financial mechanism to save and borrow money. It is also important to note that all members of an association may not be viewed identically because the group still has leaders or "officials" who organize the ROSCA's execution.[405] For instance, sometimes there is a president, secretary, treasurer, food-taster etc. to help facilitate the organization and sentiment of meetings.[406]

ROSCAs are informal institutions: the rules that an association agrees upon are not codified in official law; instead, social norms facilitate the pressures that bind people to these contracts.[407] The success of a ROSCA can be considered as the completion of one full rotation (or cycle) through all members in which each member both receives and contributes the initially agreed upon amount. Thus, ROSCAs are *endogenous* because the funds primarily consist of the individual members' resources.

Although ROSCAs are the least hierarchical financial institution that this thesis examines, the benefits conferred to individual members are not identical. The order in

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[404] Shirley Ardener, "The Comparative Study of Rotating Credit Associations," *The Journal of the Royal Anthropological Institute of Great Britain and Ireland* 94, no. 2 (1964): 201–29, https://doi.org/10.2307/2844382.
[405] Ardener.
[406] Ardener.
[407] "On the Origin of the Species / ROSCA: Sur L'Origine Phenomene," accessed November 21, 2022, https://www.jstor.org/stable/25830410#metadata_info_tab_contents.

which members receive the association's fund can have a substantial impact on a person's financial outcomes, depending on factors like luck or interest. The first member to receive the fund becomes a debtor to all other members until the last contribution has been made; the last member to receive the fund becomes a creditor to all other members throughout the rotation; all other members move in turn from being creditors to debtors until the full rotation has been completed.[408] Aside from the last person to receive the fund, every member of the association receives "interest-free loans of decreasing magnitude for decreasing periods" in order from first to last person to receive the fund; every member of the association except the first gives "interest-free loans of increasing magnitude."[409]

There are various approaches to address the advantages gained by receiving the pot earlier in ROSCAs, including bids, tenders, and creating a "sliding scale of payment."[410] A bid system operates like an auction for receiving the pot first or next.[411] Members can bid by offering to contribute a higher amount later or accepting a lower total pot to receive it first. To illustrate, if the initial nominally agreed upon total pot is 100,000 UGX, Member A who wants the pot sooner might propose taking the pot for a lower amount of 90,000 UGX instead. Member B may bid against Member A by taking the pot for even less, let's say 80,000 UGX. If the accepted pot is less than the nominal agreement, then members will contribute lower amounts by adjusting accordingly. Thus, those who receive the pot of money in the beginning will receive less than they contribute, and those who receive the pot of money at the end will receive more than they contribute. A tender system operates

[408] Ardener, "The Comparative Study of Rotating Credit Associations."
[409] Ardener.
[410] Ardener.
[411] Ardener.

as a silent auction: members write down their offers and submit discrete bids for the pot, without knowledge of the offers submitted by their peers.[412]

A sliding scale of payment is when an association agrees in advance that members who receive the pot at the beginning of the rotation consistently contribute larger amounts as the rotation progresses.[413] Even when interest fees are built into the order of contribution, such rates tend to be lower than those from formal banks or money-lenders.[414] These variations in ROSCA rotation mechanisms have implications for the distribution of benefits are to each member, but the fact that the order of receiving the fund is agreed on by all members remains a fundamental aspect of the ROSCAs framework.

The other variation of contribution club that I will include in this chapter is Village Savings and Loan Associations (VSLAs), which differ slightly from ROSCAs. In 1991, the nonprofit organization CARE International first devised and applied the VSLA model in Maradi, Niger.[415] Today, there are also many VSLAs that operate independently of CARE International.[416] They arise with the support of other nonprofit organizations, including Oxfam USA, Plan International, Freedom from Hunger, CRS in Africa, and other nongovernmental organizations.[417] VSLAs have also organically emerged from local people following the example and pattern of other community members.[418]

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[412] Ardener.
[413] Ardener.
[414] Ardener.
[415] Hugh Allen, "Village Savings and Loans Associations — Sustainable and Cost-Effective Rural Finance," *Small Enterprise Development* 17, no. 1 (March 2006): 61–68, https://doi.org/10.3362/0957-1329.2006.009.
[416] "Village Savings and Loan Associations (VSLAs) in Emergencies," CARE, accessed November 22, 2022, https://www.care.org/our-work/education-and-work/microsavings/vsla-in-emergencies/.
[417] Allen, "Village Savings and Loans Associations — Sustainable and Cost-Effective Rural Finance."
[418] Allen.

VSLAs require group members to commit to a specified period, called a cycle. At the beginning of the cycle, group members will decide how much money constitutes a "share," which is the fixed minimum sum that each group member is expected to contribute at each meeting.[419] Group members typically deposit an amount between one to five shares at each meeting.[420] At the end of the cycle, savings are redistributed in proportion to the net amount that each individual contributed to the fund.[421] In order to borrow money from the VSLA, a group member must make a public request to the association, and the group is responsible for the approval of the request.[422] In addition, group members who borrow money are expected to repay the benefits conferred from the loan by depositing larger shares as interest.[423] At the onset, VSLAs agree upon a set of fixed rules or guidelines for loan approval, interest rate, and repayment timeline. Like ROSCAs, VSLAs do not receive any money from external resources, group members pool their resources together, members self-select each other, and the association meets on a regular basis. Due to these similarities, I group ROSCAs and VSLAs together under contribution clubs and will discuss both in this chapter.

However, there are four meaningful differences between ROSCAs and VSLAs that are important to highlight. First, VSLAs offer greater flexibility regarding timing of when people receive the benefits of their member association. One complete ROSCA cycle requires each person to receive the pot of money once and for each person to input the same agreed upon amount on a consistent basis. Alternatively, a VSLA requires group members

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[419] Allen.
[420] Allen.
[421]Allen.
[422] Allen.
[423] Allen.

to remain part of the association for a set period and contribute at least one share on a consistent basis. VSLAs allow group members to decide when and how many times they wish to borrow money from the association, if at all. Members can deliberate borrowing decisions independently of other group members. This makes VSLAs more advantageous for emergency circumstances because group members can request loans at any point.

Second, unlike ROSCAs, VSLAs often require education or organizational tools from a nongovernmental organization because they tend to be more procedurally complicated than ROSCAs.[424] In fact, much of the literature on ROSCAs is written by NGOs. The often non-monetary but still usually essential resources to the creation of a VSLA make them slightly less endogenous than ROSCAs. Third, VSLAs are more likely to encourage longer-term savings because people are required to consistently input money into the savings pot, but they are not required to borrow money from the group. This might make it easier for people to accumulate larger savings to purchase household or business assets in a VSLA than a ROSCA. Fourth, there is a potential for group members in a VSLA to finish the cycle with more money than they had put into the association's savings due to interest from loans. These institutional differences are noteworthy because they might alter people's behaviors, which could result in variations of financial outcomes. Overall, VSLAs are slightly different from ROSCAs because they allow association members flexibility, often require some external knowledge, encourage more savings, and raise the potential to receive higher rates of return on their savings.[425]

[424] Allen.
[425] Allen.

1. Quantitative Coverage

There are several theoretical reasons that suggest that contribution clubs have the highest capacity to reach the greatest number of people, as compared to the other two financial institutions that will be analyzed. First, the reach of contribution clubs is not as limited by geographic location in the same way that formal bank institutions and MFIs are limited by the number of bank locations they operate.[426] A physical location requires someone to make the trek to a physical location, which affects a significant portion of the population who live in rural areas.[427] While there are a finite number of bank branches, there are infinitely different combinations of group members that could form contribution clubs. The endogenous nature of contribution clubs empowers their potential reach such that they are only limited by the quantity and quality of the people already living within any given community.

Second, unlike formal banks and some MFIs, the barrier to entry is low in two distinct ways. Contribution clubs do not require written or documented credit scores, so they have the capacity to reach people who do not have those documented credit histories. This includes about 93 percent of the adult population in Uganda.[428] Instead of requiring credit histories to determine the riskiness of a potential borrower, contribution clubs rely on an individual's reputation in the community — existing social capital — which will be expanded on in Section 5 of this chapter.

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[426] Dean Karlan et al., "Impact of Savings Groups on the Lives of the Poor," *Proceedings of the National Academy of Sciences* 114, no. 12 (March 21, 2017): 3079–84, https://doi.org/10.1073/pnas.1611520114.
[427] Karlan et al.
[428] "The Data Effects of Mobile Money in Uganda - UN Capital Development Fund (UNCDF)," accessed January 30, 2023, https://www.uncdf.org/article/2045/the-data-effects-of-mobile-money-in-uganda.

Contribution clubs are also flexible on the agreed-upon fund size for the full rotation. In other words, there are no concrete income requirements that individuals must meet to join a contribution club; instead, members of the group collectively come to an agreement. For instance, a contribution club could agree that each member is required to contribute only a few hundred shillings per week, which means people with access to fewer funds can still be a member of a contribution club. In comparison, formal bank institutions have concrete requirements to hold an account.

As mentioned in a previous chapter, for instance, Stanbic Bank requires people to have an account opening balance of 20,000 UGX (which is approximately $5.30 USD) and a continuous minimum balance of 20,000 UGX.[429] Contribution clubs have no such requirement. Overall, contribution clubs' barrier to entry is relatively low, as compared to the other types of financial institutions. These reasons suggest that contribution clubs may increase access — in terms of the number of people who use contribution clubs to borrow, lend, or save money — more so than the other financial institutions discussed in earlier chapters. This is reflected in the real choices that people make about where to save and borrow.

A 2009 research paper estimates that about 2.2 million Ugandans participate in ROSCAs specifically, and about 27 percent (11-12 million Ugandans) of the population in Uganda saves via contribution clubs.[430] In another survey conducted in 2018, about 23

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[429] "Open a Personal Account Online," accessed April 3, 2023, https://www.stanbicbank.co.ug/uganda/personal/products-and-services/bank-with-us/bank-accounts/Open-a-Personal-Account-Online.

[430] Lisa Peterlechner, "Roscas in Uganda - Beyond Economic Rationality? -," *African Review of Money Finance and Banking*, 2009, 109–40.

percent of respondents stated that they participate in ROSCAs.[431] There are various estimates of the number of people who participate in contribution clubs because it is difficult to measure exact numbers for informal institutions/activities, but most estimates find that anywhere from around 20 to 50 percent of the Ugandan population is a member of a contribution club.[432]

In addition, a household survey conducted in 1992-1993 and again in 1999-2000 by the Uganda Bureau of Statistics found that most of the population in rural Uganda receives credit from friends and relatives, as opposed to financial institutions of any kind.[433] Almost half of all those respondents found that family and friends are the most available source of financial services.[434] It is possible that if people are a part of a close group of friends and/or family members who they are comfortable borrowing from, they could also form a contribution club. This could be more beneficial than simply borrowing from a friend or family member because the contribution club borrowing system is more structured and provides additional benefits, such as encouraging people to save, the potential to make interest on loans in VSLAs, and building social capital with members of the community. Although borrowing from family and friends falls under the category of informal borrowing and is not equivalent to joining a contribution club, it does indicate a potential interest in engaging in financial interactions with peers. In fact, there is evidence that in some regions, up to 95 percent of the adult population is part of a contribution club,

[431] Pascaline Dupas et al., "Banking the Unbanked? Evidence from Three Countries," *American Economic Journal: Applied Economics* 10, no. 2 (April 1, 2018): 257–97, https://doi.org/10.1257/app.20160597.
[432] Florence Wakoko and Linda Lobao, "Reconceptualizing Gender and Reconstructing Social Life: Ugandan Women and the Path to National Development," *Africa Today* 43, no. 3 (1996): 307–22.
[433] Paul Mpuga, "Constraints in Access to and Demand for Rural Credit: Evidence from Uganda," *African Development Review* 22, no. 1 (2010): 115–48, https://doi.org/10.1111/j.1467-8268.2009.00230.x.
[434] Mpuga.

and many of these very likely contain friends and family members.[435] Thus, this interest has the potential to translate into creating contribution clubs.

The longitudinal survey conducted between 1992 – 2000 also assessed the availability of credit services by asking respondents to identify what they considered to be the most available source of financial services. Results indicated that approximately 15 percent of respondents considered self-help savings and credit groups as the most easily available means of obtaining credit services.[436]

As discussed in Chapter 2 *Formal Banks*, the closure of the Co-operative Bank has compounded the difficulties for people living in rural areas to access formal and semi-formal financial institutions for two main reasons.[437] First, the establishment of Stanbic Bank elevated the threshold for entry for people in rural areas to access semi-formal or formal credit because Stanbic is a more structured banking institution that has stricter requirements for opening an account and receiving credit. This is especially daunting for people in rural communities who lack a formal credit score or documented history of their credit history. Second, since the Co-operative Bank's closure, the number of banking institutions in rural areas has decreased, and there is still a need for Stanbic Bank to establish more branches. This has resulted in increased costs associated with accessing to a physical bank location — including transportation costs and the loss of potential income while travelling that someone would have to incur to access some sort of formal or semi-

[435] Peterlechner, "Roscas in Uganda - Beyond Economic Rationality?"
[436] Mpuga, "Constraints in Access to and Demand for Rural Credit."
[437] Mpuga.

formal banking institution.[438] Consequently, people have increasingly relied on informal institutions, like contribution clubs.[439]

Another limitation of contribution club's inclusivity in providing financial access to a population is that they do not adequately serve as emergency funds and their participation carries certain risks. If someone needs to borrow money urgently, ROSCAs may not be a viable option because members only receive the pot of money once, and they do not have full control over the timing of distribution. When asked if they needed to borrow $5 or $25 urgently, in both instances, less than 5 percent of respondents said they would borrow from a ROSCA; instead, most respondents stated that they would borrow from friends or family members.[440] Unlike ROSCAs, people could obtain emergency funds from a VSLA by making a request to the group. In fact, according to the Impact Assessment Savings Group report, 93 percent of VSLA members had a "social fund," which was used for emergency loans. In this same survey, 61 percent of members had received a loan from the social fund.[441] Still, this is not as quick as borrowing money from a friend or family member, nor is it as quick as using a credit card but few people have access to such a tool from a formal bank.

Moreover, there is no guarantee that a contribution club will successfully complete its cycle, which means that people do not truly have access to the resource because their financial needs are not met. In fact, a survey conducted in 2001 found that 27 percent of those who participated in a ROSCA had lost money through their membership, which is

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438 "The Data Effects of Mobile Money in Uganda - UN Capital Development Fund (UNCDF)."
439 Mpuga, "Constraints in Access to and Demand for Rural Credit."
440 Dupas et al., "Banking the Unbanked?"
441 Karlan et al., "Impact of Savings Groups on the Lives of the Poor."

almost three higher than defaults between group MFI loaners.[442] Thus, in both instances, one could argue that a person is not being financially included at all, because contribution clubs failed to meet their needs.

2. *Standard of Living*

One way to examine income is through someone's occupation and a financial institution's ability to help contribute to a business. Let's look at contribution clubs and entrepreneurs. The main source of financing informal businesses is through contribution clubs, particularly ROSCAs, because entrepreneurs are easily able to access them, and they can access low amounts to borrow.[443] Unfortunately, even though contribution clubs are often the only resource that the poor have the opportunity to borrow from, the amounts that entrepreneurs can borrow are usually too low to expand their businesses.[444] It is challenging and unlikely, but there are some success stories if the individual has the will to capitalize their resources by joining more than one contribution club.

The following example illustrates how this might happen. Dunstan Najeeza held an official position in the country administration, which granted him an extensive network of affiliations throughout several localities.[445] Within a span of three months, he joined five ROSCAs situated across the county. With this, he collected a total of 4 million UGX (about

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[442] Graham Wright and Leonard Muteesassira, "The Relative Risks to the Savings of Poor People," *Small Enterprise Development* 12, no. 3 (September 2001): 33–45, https://doi.org/10.3362/0957-1329.2001.031.
[443] Wright and Muteesassira.
[444] Winnie V Mitullah, "Street Vending in African Cities: A Synthesis of Empirical Finding from Kenya, Cote d'Ivoire, Ghana, Zimbabwe, Uganda and South Africa," n.d., 20.
[445] Richard Vokes and David Mills, "'Time for School'? School Fees, Savings Clubs and Social Reciprocity in Uganda," *Journal of Eastern African Studies* 9, no. 2 (April 3, 2015): 326–42, https://doi.org/10.1080/17531055.2015.1042627.

$1,000 USD).[446] With the acquired funds, Dunstan settled his brother's children's tuition and fees and launched a new hotel venture.[447] Although Dunstan was obliged to pay back approximately 200,000 UGX each month for several years after receiving loans from the five ROSCAs, his story demonstrates a successful story of income and standard of living growth through contribution clubs.[448] Dunstan was able to pay back his loans via his existing job in the county administration and his new hotel ownership.[449] By joining contribution clubs, Dunstan positively impacted his family's life through paying for school fees and created jobs from the growth of his business.

Second, most studies on contribution clubs, including both ROSCAs and VSLAs, find that these informal financial institutions do not have significant effects on income level. However, some studies do find that contribution clubs are likely to improve people's ability to access basic needs including food security and health conditions due to behavioral changes unrelated to income growth.[450] To expand, people in contribution clubs are required to give money to an association member or contribute to a pot of savings on a consistent basis, so their spending and saving behavior changes. Economic theorists Stefan Ambec and Nicolas Treich argue that ROSCAs can be seen as a "commitment device which helps people to cope with their own self-control problems… people want to avoid

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[446] Vokes and Mills.
[447] Vokes and Mills.
[448] Vokes and Mills.
[449] Vokes and Mills.
[450] Kim and Kwak, "An Empirical Study on the Effects of Financial Inclusion Models for Rural Poverty Reduction in Uganda."

spending too much money in the future purchase of a 'superfluous' good", so they commit to fixed monetary commitments at regular intervals.[451]

Furthermore, there is substantial evidence that suggest that contribution clubs are more likely to benefit those who are socioeconomically disadvantaged. In 2012, a survey was conducted on 741 VLSAs that were supported by SCORE, which had a total of 20,818 members. The findings of the survey indicate that VSLAs can include the most critically vulnerable members of the community in their socioeconomic activities, resulting in a significant margin for change.[452] SCORE specifically targeted vulnerable households using a standardized score known as the Vulnerability Assessment Tool (VAT).[453] The average monthly household income of SCORE's focus was 43,688 UGX (less than $20 USD).[454] After implementing the usage of VSLAs for two years, they found that average savings per capita was 53,754 UGX (around $25 USD).[455] In addition, child labor decreased from 29.2 percent to 13.1 percent, and drug/substance abuse decreased from 7.1 percent to 3.7 percent.[456] Overall, it is evident that encouraging households with socioeconomically vulnerable circumstances can lead to successful VSLAs, and their returns are comparatively larger than those of more well-resourced individuals, given the significant potential for their marginal positions increase significantly.[457]

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[451] Stefan Ambec and Nicolas Treich, "Roscas as Financial Agreements to Cope with Self-Control Problems," *Journal of Development Economics* 82, no. 1 (January 2007): 120–37, https://doi.org/10.1016/j.jdeveco.2005.09.005.
[452] Massimo Lowicki-Zucca et al., "Savings Groups as a Socioeconomic Strategy to Improve Protection of Moderately and Critically Vulnerable Children in Uganda," *Children and Youth Services Review*, Economic Dimensions of Child Protection and Well-being, 47 (December 1, 2014): 176–81, https://doi.org/10.1016/j.childyouth.2014.08.011.
[453] Lowicki-Zucca et al.
[454] Lowicki-Zucca et al.
[455] Lowicki-Zucca et al.
[456] Lowicki-Zucca et al.
[457] Lowicki-Zucca et al.

3. *Gender*

Overall, research shows that women are more likely than men to face financial exclusion from formal financial institutions, but they are considerably more likely to be financially included through informal institutions like contribution clubs.[458] In 1993, estimates suggest that about 24 percent of men and 17 percent of women were members of ROSCAs.[459] Indeed, it is likely that there are still more men than women who use ROSCAs because men have more access to resources in general.

Historically, a popular method for raising capital for small-scale female entrepreneurs in many developing countries has been through contribution clubs.[460] A study conducted in 2002 examined women's entrepreneurship and their role in the informal economy in Kampala.[461] The study interviewed a sample of five women who were members of ROSCAs. Although none of the women joined a ROSCA specifically to raise startup capital for a new business, they were members of ROSCAs to help them save money.[462] A distinction should be made between startup capital and business expenses in general: the surveyed women often used the savings from their ROSCAs to purchase relatively large expenditures to grow their businesses.[463] Another important note is that like

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[458] Susan Johnson and Max Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda," *Journal of Development Studies* 47, no. 3 (March 2011): 475–96, https://doi.org/10.1080/00220388.2010.492857.
[459] Wakoko and Lobao, "Reconceptualizing Gender and Reconstructing Social Life."
[460] Siri Lange, "When Women Grow Wings: Gender Relations in the Informal Economy of Kampala," n.d.
[461] Lange.
[462] Lange.
[463] Lange.

much existing literature on differences between men and women's spending, the surveyed women tended to spend money on family needs, particularly their children's school fees.[464]

Furthermore, there exist additional benefits that women should consider when choosing between joining a contribution club or attempting to apply for formal credit. First, women are more likely than men to be denied or given worse services from formal banks, so taking advantage of contribution clubs for credit is even more crucial. When women are approved for credit at formal institutions, they are likely to receive smaller amounts of credit compared to the amount of credit that men in similar positions, applying for similar amounts of credit.[465] However, it is important to consider that since women are most likely to join contribution clubs with other women, they may still be at a disadvantage in comparison to men because they participate with other people who also have fewer resources than other men.

Second, another advantage that contribution clubs have over other financial institutions, particularly for women, is that they effectively compel members to save a predetermined amount of money and allocate these funds toward the association. In many other instances, women are burdened with the pressure of social responsibilities, such as catering to the various needs of their families.[466] Other times, women are socially pressured or even violently forced to split all or a portion of their income with their husbands.[467] As such, by their nature, contribution clubs empower women to set aside fixed amounts, enabling them to accumulate sufficient wealth to purchase goods that could expand their

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[464] Lange.
[465] Mpuga, "Constraints in Access to and Demand for Rural Credit."
[466] Lange, "When Women Grow Wings: Gender Relations in the Informal Economy of Kampala."
[467] Wakoko and Lobao, "Reconceptualizing Gender and Reconstructing Social Life."

businesses instead of being pressured to use their savings on immediate family needs or their husband's wants.

Third, contribution clubs have the potential to empower women in ways that go beyond purely monetary gains, like any other social network. As briefly mentioned earlier, contribution clubs tend to be organized among individuals who share similar characteristics. Two common examples of shared characteristics are gender and occupations. As such, women are more likely to join clubs that comprise of other women with similar professions because it enables them to access business contacts, informal training, and professional socialization that they are unlikely to acquire through other means.[468] Contribution clubs are a method of empowering women through "social networks and mutual development," which has been argued to be an important element of transforming women's position in society because it gives them crucial tools to better help themselves.[469]

An example of how social relationships can elevate women's positions in a household can be found in an ethnographic study that was conducted from 2012 to 2014. Researchers interviewed 91 people (36 men and 55 women) and 42 focus groups, and they found that participation in VSLAs was often motivated by wanting to change pre-existing social relationships.[470] Musinguzi conducted the study in Luwero District, which is just 60 kilometers north of Kampala, where the NGOs Plan Uganda and Community Vision, two local organizations, introduced VSLAs into the community between 2006 and 2007. Jane, a 30-year-old woman who ran a hair salon, expressed her interest in joining a VSLA for

[468] Wakoko and Lobao.
[469] Wakoko and Lobao.
[470] Laban Kashaija Musinguzi, "The Role of Social Networks in Savings Groups: Insights from Village Savings and Loan Associations in Luwero, Uganda," *Community Development Journal* 51, no. 4 (October 4, 2016): 499–516, https://doi.org/10.1093/cdj/bsv050.

financial independence from her husband, who prevented her from controlling the income generated by the salon. She explained, “I joined the savings group because whenever I want the money, no one will ask what I am going to use it for… There is no one putting pressure on me because I know it is my personal savings. What do I need from a man? I can live on my own.”[471]

While there are many stories of empowerment just like this one, there are also other instances where VSLAs engender unintended consequences, particularly for women who do not have a steady stream of income. Some women feel social pressure or have a desire to sustain their membership in a VSLA for relationship-building reasons but do not have the means to do so, and they resort to activities like selling their own possessions or prostitution.[472] This shows that VSLAs have the power to uplift women, but it is possible that women who already have some level of autonomy, such as their own steam of income, are more likely to reap the benefits than women in worse positions. Another potential drawback is that due to cultural norms, sometimes contribution clubs require that women join the group with their husbands as guarantors to act as collateral in case she defaults.[473] In households where husbands are already incredibly dominating and controlling over their wives’ actions or in communities where the culture is overall more restrictive of women, contribution clubs still may not have the power to change the degree of a woman’s individual liberty. In other words, contribution clubs cannot be wholly responsible for changing all aspects of women’s autonomy.

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471 Musinguzi.
472 Musinguzi.
473 Karlan et al., “Impact of Savings Groups on the Lives of the Poor.”

4. *Education*

Contribution clubs spontaneously arise all around the world in many developing countries — some estimates even suggesting that there are developing communities where 99 percent of the adult population participates in contribution clubs.[474] Thus, it has been suggested that contribution clubs inherently require lower levels of education than formal institutions, which often require literacy with complex and confusing regulations, customs, or procedures.[475]

Recall that the 2006 Steadman Group study surveyed a sample of 2,959 adult respondents and found that having a primary or secondary education did not have a statistically significant effect on whether someone was able to access a contribution club — unlike formal banking institutions or semiformal banking institutions like MFIs.[476]

Other research suggests contrasting conclusions. From April to June 2009, a randomized control trial was conducted on 4,539 households in 391 villages. After two months of disbursing information and sharing training sessions, researchers surveyed households that had joined VSLAs and those that did not.[477] They found that member households were 12 percentage points more likely to be literate than non-member households. In addition, 51 percent of members had attended school for at least five years, whereas 40 percent of non-members had done the same.[478] This demonstrates that there is a relatively low level of education associated with joining contribution clubs, as the

[474] Karlan et al.
[475] Ardener, "The Comparative Study of Rotating Credit Associations."
[476] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."
[477] Karlan et al., "Impact of Savings Groups on the Lives of the Poor."
[478] Karlan et al.

difference between entirely uneducated and barely uneducated is essentially indistinguishable.

In concrete terms though, this experiment shows that disseminating information can contribute to increasing the percentage of people who attempt to use financial institutions by approximately half.[479] In the experiment, they worked directly with people in primary villages and simply disseminated information in secondary villages, and there was a relatively high take-up rate even in the secondary village, at 29.8 percent of the people in those regions.[480] Thus, even if there is no conclusive evidence to prove that previous general education changes people's abilities to access financial resources, there has been ample evidence throughout this thesis that show that financial education improves people's abilities to help themselves navigate financial situations.

5. *Social Capital*

There is a vitally social aspect to contribution clubs. One built-in aspect of contribution clubs that generates social capital is set of rituals that are part of the contribution club process. As mentioned in the introduction of this chapter, there are often food tasters or meeting organizers, who are responsible for leading the provision of food, facilitating the singing of music, or leading a customary activity such as a dance.[481] Thus, contribution club meetings are often thought about as "a feast, a small gathering of friends,

[479] Karlan et al.
[480] Karlan et al.
[481] Ardener, "The Comparative Study of Rotating Credit Associations."

neighbors, and kin…" which suggests that contribution club meetings are more intimate and enjoyable than MFI group meetings.[482]

Anthropologist Shirley Ardener argues that ROSCAs are inherently "less impersonal" than formal institutions because each actor has essentially the same or very similar stake in a contribution club, and the very structure of a contribution club fundamentally means people socialize with each other.[483] To tap into this financial resource, people must interact with each other face to face on a consistent basis. In theory, the structure of contribution clubs is designed to help prevent members from defecting by failing to pay into the pot at the agreed upon amounts because of social constraints. Concern for an individuals' social connectedness in local communities should discourage people from failing to uphold promises — these impacts are amplified in communities with high social capital.[484] However, this is not always true in practice, as mentioned earlier in this chapter that almost 30 percent of people who participated in a ROSCA had lost money through their membership.[485]

Contribution clubs serve to leverage existing social capital in present-day Uganda. In describing the institution of ROSCAs across several developing economies in Asia and Africa, not uniquely in Uganda, anthropologist Clifford Geertz describes them as "traditionalistic forms of social relationships [that] are mobilized so as to fulfill non-traditionalistic economic functions."[486] Moreover, if there already exist high levels of

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[482] Clifford Geertz, "The Rotating Credit Association: A 'Middle Rung' in Development," *Economic Development and Cultural Change* 10, no. 3 (1962): 241–63.
[483]Ardener, "The Comparative Study of Rotating Credit Associations."
[484] Timothy Besley, Stephen Coate, and Glenn Loury, "The Economics of Rotating Savings and Credit Associations," *The American Economic Review* 83, no. 4 (1993): 792–810.
[485] Wright and Muteesassira, "The Relative Risks to the Savings of Poor People."
[486] Geertz, "The Rotating Credit Association."

social capital within a community, it can be an important tool that helps members keep each other accountable and meet their promised contributions to the association they had joined. Because contribution clubs are informal institutions, there are typically no legal arrangements to keep people accountable to their initial agreements. As such, the ability for social ramifications to significantly influence people's behaviors from a financial standpoint is essential for the success of a contribution club. Defaulting from one's expected contribution to the association can be prevented by the "acknowledged social obligation between relatives" and the social norm that contribution payments are considered a "solemn duty."[487] These sorts of social obligations are arguably even stronger than legal ones.

For example, Musinguzi tells the story of Sanyu, a woman who was unhappily married to a man who did not financially support their daughter's education and accused her of adultery.[488] Eventually through her secret participation in a VSLA, Sanyu was able to save sufficient resources to build a home for herself and her daughter, away from her husband. This example demonstrates how a person can leverage their existing social capital and trust her friends to keep her secret and administer her savings for her.[489]

Geertz also notes that previous attempts at introducing savings and credit institutions, such as setting up Western savings institutions like banks and savings cooperatives, have been unsuccessful because "the impersonality, complexity, and foreignness of the mode of operation of such 'capitalist' institutions tends to make

[487] Ardener, "The Comparative Study of Rotating Credit Associations."
[488] Musinguzi, "The Role of Social Networks in Savings Groups."
[489] Musinguzi.

traditionalistic peasants, small traders, and civil servants suspicious of them."[490] As discussed in Chapter 2 *Formal Banks*, this is certainly true concerning the history of formal banks in Uganda. In terms of contribution clubs' long-term impact on development, Geertz concludes that they are a limited "middle-rung to development," as contribution clubs act as an important intermediate institution that are the product of a country's shift towards a more commercial economic system.[491]

Contribution clubs also have the potential to create social capital where it previously did not exist. In the Lowero District study, researcher Musinguzi provides an example of an immigrant from the Busoga region in Eastern Uganda: Jalia at first felt alienated from the community and a few months after joining a VSLA "realized that in addition to helping her save money, the meetings offered her a space to confide in trusted friends, providing her 'counselling'" on her marriage problems.[492] Consistent with other studies, Musinguzi found that the required meetings offer a space for people to discuss not only financial activities but also "common problems affecting the community and family."[493] Thus, these consistent and required meetings facilitate social environments that grow group trust, which generates more social capital for contribution club members. This in turn makes contribution clubs stronger.

Holding members accountable through social implications of fulfilling contribution club duties is more likely when members know the circumstances and characteristics of the other members well.[494] Due to this reason, as mentioned earlier in this chapter, people tend

[490] Geertz, "The Rotating Credit Association."
[491] Geertz.
[492] Musinguzi, "The Role of Social Networks in Savings Groups."
[493] Musinguzi.
[494] Besley, Coate, and Loury, "The Economics of Rotating Savings and Credit Associations."

to form contribution clubs with people who share similar characteristics with them, such as gender or occupation. Contribution clubs typically consist of relatively homogenous groups in which people typically belong to the same village, have similar incomes, work in the same office, and have similar occupations.[495] Groups consisting of individuals with similar characteristics naturally form, which demonstrates that there is an intuition for bonding social capital to exist as an input that would contribute to the success of a contribution club. Another example of association due to similarities is some cases in which burial societies organize themselves into ROSCAs; this might stem from the fact that when families expect a loss, they might also seek both financial and community support to make up for the loss of a previous dependence.[496]

From a financial standpoint, failing to uphold one's promise to a given association taints an individual's reputation and may prevent someone from future acceptance into another association.[497] Especially in communities where credit histories are rarely formally tracked nor written down such that formal institutions may never or at least not yet accept such an individual, reputation is everything. When association agreements fall apart, they can reduce social capital, creating long lasting conflict and animosities. Another type of defecting is corruption, when group leaders do not uphold their agreed upon responsibilities due to their social relationships. To illustrate, Musinguzi reports that there were examples

[495] Stefan Ambec and Nicolas Treich, "Roscas as Financial Agreements to Cope with Self-Control Problems," *Journal of Development Economics* 82, no. 1 (January 2007): 120–37, https://doi.org/10.1016/j.jdeveco.2005.09.005.
[496] Ambec and Treich, "Roscas as Financial Agreements to Cope with Self-Control Problems."
[497] Ardener, "The Comparative Study of Rotating Credit Associations."

of group leaders allowing their closer friends to take out loans without the approval or meeting the agreements of the association.[498]

One example of a defaulting contribution club member can be found in Kayongo Fred, who was part of a ROSCA that consisted of 25 participants who each paid 5,000 UGX (about $1.30 USD) every two weeks.[499] The regular payout was 100,000 UGX. When it was Kayongo's turn to receive the pot of money in the fifth round of the cycle, he used it to pay for his son's school fees of 90,000 UGX (about $20 USD).[500] However, Kayongo was unable to meet his biweekly repayments, two rounds later.[501] In response, the group placed additional fines and communicated with Kayongo to resolve this issue to place pressure on him, but he was unable to make the payments on his own and had to rely on relatives.[502] Even though Kayongo, like each other association member, had the necessary initial social capital to join the group, he failed to uphold his promised contribution.[503] Kayongo's social capital took a hit, as he was only able to join another contribution club with the committed collateral of his brother.[504]

6. *Contribution Clubs as Transitionary*

Individuals are more likely to use formal savings institutions after they have accumulated sufficient wealth such that they find a need to use their accounts, but many

[498] Musinguzi, "The Role of Social Networks in Savings Groups."
[499] Musinguzi.
[500] Vokes and Mills, "'Time for School'?"
[501] Vokes and Mills.
[502] Vokes and Mills.
[503] Vokes and Mills.
[504] Vokes and Mills.

individuals in Uganda are not yet at that stage. Indeed, there is ample evidence that people use the money they saved in contribution clubs to participate in MFIs.[505] There are also instances of people using contribution clubs while simultaneously being a part of an MFI with the same people, as one woman explains her plan as a group member of a microloan in UWFT:

> We are too far behind … Our incomes are too low. The loans are too small. However, when we get more money, we will buy bigger assets… We will form smaller groups (ROSCAs) within our UWFT group…We would then continue to repay the bank loan individually from other sources until it is our turn to get the Ush. 2 million. We shall do this for all subsequent loans until we all have had a chance to get a big chunk of money. This is the only way I can see us helping each other using UWFT credit to develop faster[506]

To meet their financial needs, some people employ the use of one financial mechanism to complement the other.

To elaborate with another similar example, in a study conducted in Mpigi District researchers wanted to find the effect of transitioning a VSLA into a Saemaul Geumgo, which is a system of a more formalized cooperative bank and its resources from South Korea.[507] Saemaul Geumgo comes from the Korean Federation of Community Credit Cooperatives (KFCC), which is a formalized cooperative in which every person who makes an account with the KFCC has an equal say in the investments and decisions of the bank.[508] While this system has some similarities to the contribution clubs discussed earlier in this

505 Wright et al., "Vulnerability, Risks, Assets and Empowerment–the Impact of Microfinance on Poverty Alleviation."

506 Wright et al.

507 Sung Ho Kim and Jae Sung Kwak, "An Empirical Study on the Effects of Financial Inclusion Models for Rural Poverty Reduction in Uganda," n.d., 25.

508 "KFCC Promotes Financial Inclusion in Uganda | International Cooperative Alliance - Asia and Pacific," accessed January 29, 2023, https://www.icaap.coop/icanews/kfcc-promotes-financial-inclusion-uganda.

chapter, it is distinct because the system is not as *endogenous*. The rules and customs of the Saemaul Geumgo are established by and formalized by another bank in a foreign country — making it more similar to MFIs than contribution clubs.[509] Kim and Kwak found that the average monthly income increased by 129,294 UGX (about $35 USD) for individuals who transitioned from their VSLA to the Saemaul Geumgo bank; the average monthly savings increased by 24,158 UGX (about $6 USD) for those same individuals.[510] They also compared these statistics to those who joined the same Saemaul Geumgo but were previously not part of a VSLA. They found that those individuals also increased their income, but by 58,172 (about $16 USD) which is much less and increased their savings by about the same extent of 25,845 UGX (about $7 USD).[511]

Indeed, accessing an informal institution, including contribution clubs or MFIs, can be a beneficial intermediate step towards accessing more formal financial institutions. These informal institutions can help individuals build financial skills, establish a track record of reliable payment, and accumulate savings that can be used to access formal financial services. Additionally, the social networks and trust that are built within these cooperatives can help individuals access credit and financial resources outside of the formal system, increasing financial inclusion. This suggests that people benefit from being part of some sort of informal or semi-formal institution, that is in between a contribution club and a microfinance institution, as opposed to moving directly to the resources of a more formal financial institution.

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[509] "KFCC Promotes Financial Inclusion in Uganda | International Cooperative Alliance - Asia and Pacific."
[510] Kim and Kwak, "An Empirical Study on the Effects of Financial Inclusion Models for Rural Poverty Reduction in Uganda."
[511] Kim and Kwak.

7. *Conclusions*

Contribution clubs are a crucial financial institution that significantly contributes to enhancing financial inclusion in Uganda, especially for the most marginalized segments of the population. As the most endogenous financial institution that this thesis examines, individuals can work together with their peers to financially include themselves and improve their quality of life. Contribution clubs are particularly beneficial for individuals who lack privilege in terms of income, gender, and education — as they provide a unique opportunity to pool together resources and change spending habits. VSLAs also enable vulnerable communities to create emergency funds, which are critical in economic conditions in which poverty is volatile. Contribution clubs also serve as an essential step towards accessing more formal financial institutions, while also providing an alternative form of support in a developing economy.

Chapter 6: Conclusion

By comparing the existing research on the three most prominent financial institutions — contribution clubs, MFIs, and formal banks — there are three main conclusions to note. First, the institutions can be thought of as *steppingstones*. Contribution clubs constitute the initial tier, followed by MFIs, and finally formal banks represent the highest tier — with the latter being the most difficult to obtain. Employing the usage of informal mechanisms facilitates access to more formal mechanisms, and this is important because higher tier financial mechanisms can provide larger sums of credit and more security protections against loss of money from depositing.

Contribution clubs are the first *stone* because they have the lowest barrier to entry. They are entirely *endogenous*, so they can and do arise spontaneously in communities all over the world — regardless of external support from NGOs or physical financial institution locations. In addition, the most important deciding factor of someone's access to a contribution club is their level of social capital. In a sense, social capital as the main determinant for the first *stone* of financial access is a great equalizer because everyone has some amount of social capital — simply by interacting with others. Also, anyone can increase their social capital through their own behaviors.

Ultimately, people want access to formal banks for larger loans and a more secure infrastructure. People seek to acquire larger sums of credit that will enable them to grow their businesses, expand their streams of income, and purchase more costly physical assets. Additionally, higher tier financial institutions offer more security. As mentioned in Chapter 4 *Contribution Clubs*, almost one third of people who were part of a ROSCA had lost money through their membership.[512] There is a trade-off between low barrier to entry and the high level of risk that individuals must be willing to incur when joining a contribution club. Instead of a monetary barrier to entry for contribution clubs, one might interpret that a potentially high barrier to entry comes from time required to conduct the necessary due diligence to lower the associated risk with joining a reciprocal lending scheme. While contribution clubs are an incredible resource for the poor, they would benefit from increasing access to other financial mechanisms that are less risky.

Indeed, there is evidence of such a steppingstone framework in the way people employ these financial mechanisms. Recall in Chapter 5 *Contribution Clubs*, survey respondents stated that they saved up money in their contribution club to have sufficient funds to join an MFI.[513] Moreover, one survey that was conducted on the three most widespread MFIs in Uganda (FINCA, FOCCAS, and PRIDE) found 100 percent of clients that they surveyed between 1997 and 1999 graduated to accessing formal banks accounts.[514] Thus, the transition from one financial institution to the next occurs in real life, and the Ugandan government's NFIS should focus more on supporting pathways for people to launch themselves from one *stone* to the next, by considering informal institutions as part of their approach.

Moreover, contribution clubs might become more effective, as they become a more competitive resource for the poor. With accessible alternatives, people may only join a contribution club, and can be more selective with group membership, if they can be more certain of tapping into their benefits without risking losing valuable resources. Thus,

[512] Wright and Muteesassira, "The Relative Risks to the Savings of Poor People."
[513] Wright and Muteesassira, "The Relative Risks to the Savings of Poor People."
[514] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."

ideally, one would want to be on the last steppingstone, with the freedom to move between *stones* at their own discretion — rather than at the restriction of their circumstances.

The second key takeaway from this thesis is that mobile money is a neutral multiplier of existing dynamics. On its own, mobile money does not offer credit services, which is a crucial aspect of financial access. However, mobile money acts as a vessel for any of the three financial institutions to employ it for expanding access to people. As a technological tool, individuals can employ mobile money in any way they see fit — sharing it with others with or without criteria or prohibiting usage from others. Mobile money itself does not change existing dynamics on its own, but it does flatten the steepness of those challenges. The following section will elaborate on these two conclusions using the five criteria in this thesis.

First, regarding quantitative coverage, contribution clubs currently have the widest reach in the country, especially rural communities where approximately 80 percent of the Uganda's population resides.[515] Unlike MFIs and formal banks, contribution clubs are not limited by the need for physical institutional locations, and they can arise spontaneously so long as there are people within a community who are interested in working together. Some estimates suggest that today contribution clubs serve up to 12 million people in Uganda.[516] Moreover, the costs associated with using MFIs or formal banks outweigh the benefits for the poor: fees associated with usage and traveling long distances to branch locations. Many of the poor lack sufficient funds to save in or are not requesting high enough loans to justify using a more formal service. Recall in Chapter 2 Formal Banks that even when account

[515] "Population Total — Uganda," World Bank Open Data, accessed April 24, 2023, https://data.worldbank.org.
[516] Solomon, Kirya, and Bongonzya, "The State of Microfinance in Uganda 2012/13."

fees were paid for, people did not use their formal bank accounts because they were "too poor to save."[517] Mobile money plays an important role in expanding quantitative coverage by mitigating these barriers that are mentioned. Mobile money accounts entail fewer fees, and there is a shorter distance to mobile money agents as opposed to a bank branch. In addition, the expenses of establishing additional mobile money agents are low, and agents are continuously recruited. Thus, as more Ugandans become affluent and migrate to urban areas, MFIs and formal banks will become more relevant, and mobile money will undoubtedly facilitate access to these institutions.

Second, gender disparity has a significant influence on financial accessibility, with women being disproportionately disadvantaged in comparison to men. Despite the greater utilization of informal financial institutions by the general populace, women are more likely to rely on contribution clubs and MFIs for their financial needs, while men have more access to formal banks. Women benefit from the access to savings and borrowing provided by contribution clubs and MFIs, as these institutions enable them to bypass social and cultural barriers and instead leverage their social networks with other women. Additionally, many VSLAs and MFIs are specifically established with the goal of targeting women. In contrast, formal banks prioritize loan profitability, thereby employing approval criteria that favor men who are more likely to meet existing income and business standards. There is a minority of women in Uganda who own microbusinesses, and they do stand to benefit from formal bank access by attaining greater economic autonomy and further advance their empowerment. Moreover, mobile money has the potential to facilitate

[517] Solomon, Kirya, and Bongonzya.

resource sharing within households. However, it can also be wielded by husbands to restrict their wives' access to household finances.

Third, the impact of education on accessing financial institutions is limited and varies across different tiers. In Chapter 4 *Contribution Clubs*, the number of years of education was statistically insignificant in determining individuals' participation. However, in Chapter 3 *Microfinance Institutions*, having some level of education was found to be important though not a prohibitive factor, as most participants had attained at least a secondary level of education. Both these institutions have a low educational requirement since they do not demand high levels of financial literacy, and their processes are relatively straightforward — with contribution clubs spontaneously emerging, and MFI processes being explained by dedicated staff. Moreover, VSLAs and MFIs, often funded by NGOs, frequently offer educational resources along with their financial services. In contrast, formal banks may pose a barrier to entry for individuals with limited education, as access is significantly more likely for those with secondary education.

Fourth, as individuals transition to more formal financial institutions, social capital's significance in financial access diminishes. While contribution clubs rely entirely on social capital for formation and accountability, formal banks and microfinance institutions highlighted in Chapters 2 and 3 respectively, have relatively rigid criteria for determining access, instead of relying on social capital. As stated in the thesis introduction, Ugandan is vibrant with social capital, which should be leveraged to expand financial inclusion. However, as individuals build financial reputations based on credit history rather than general social interactions, social capital's importance in determining financial access will decline. Mobile money’s utility expands with existing social capital, as those who have friends or family do share mobile money resources, but the technology does not generate new social capital. Nevertheless, for now, social capital remains crucial for the impoverished, who constitute most of the population.

Fifth, access to higher-tier financial institutions is associated with an improvement in standard of living. Each level of financial institution has demonstrated the ability to enhance living conditions, albeit in different ways. Contribution clubs are primarily utilized to fulfill basic needs such as food and school fees and in the case of VSLAs provide emergency funds, while formal banks are mainly used to expand microbusinesses. MFIs, on the other hand, occupy a middle ground, as they are also used to fund microbusinesses and they often also reduce vulnerability, particularly in emergency situations, and funding microbusinesses. However, exceptions exist to this trend, as some individuals are more adept at leveraging available resources for more advanced purposes than others. Given the observed improvements in the standard of living, it is reasonable to assume that individuals can graduate from one financial tier to the next.

The third conclusion to highlight is that people at the highest *stone* can always walk back to the lowest *stone* if they wish — and people do. As noted in Chapter 4 *Contribution Clubs*, over half of people who use a formal bank also continue to participate in contribution clubs.[518] Thus, various types of financial institutions maintain their own utility. There are a few possible explanations for this.

Informal institutions offer the non-financial benefit of social capital that formal institutions do not. Recount that in Chapter 3 *Microfinance Institutions*, surveys show that

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[518] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."

about 20 percent of women who received loans from MFIs said that the main positive result of participating in credit programs was the weekly meetings because they were able to socialize with friends and learn from their peers.[519] Moreover, there is ample evidence to show that contribution clubs both employ and can build social capital, as consistent face-to-face interactions cause people learn from each other and build trust over time.

Similarly, contribution clubs generate a unique non-monetary benefit for participants. In fact, over half of those who have access to and use formal banks also continue to use contribution clubs, which shows that there are additional benefits to being a member of a contribution club, aside from the clear formal access of a bank.[520] Specifically, it is possible that the social aspects of a contribution club, especially during times of crisis, are valuable enough to individuals such that they continue to take part in such organizations, even after gaining formal financial inclusion. Informal institutions and formal institutions offer different types of loans. Formal institutions tend to seek productive loans, whereas informal institutions tend to be more flexible, allowing for small and regular loans. The most cited reason for borrowing from contribution clubs include consumption needs like school fees, whereas the most common reason for formal loans is business expansion.[521] Comparatively, MFIs participants tend to use their loans to both meet the family's basic needs and grow their businesses.[522] Different institutions are better suited for different needs.

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[519] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."
[520] Johnson and Nino-Zarazua, "Financial Access and Exclusion in Kenya and Uganda."
[521] Wright and Muteesassira, "The Relative Risks to the Savings of Poor People."
[522] Barnes, Gaile, and Kibombo, "The Impact of Three Microfinance Programs in Uganda."

Another possible explanation is that household usage is segmented. Family members within a single household may have different sources of income and expenditure priorities. As discussed in earlier chapters, women often prioritize spending their money on family needs, and may therefore continue to participate in contribution clubs and MFIs to obtain smaller amounts of funding, while using their formal bank loans to launch their business ventures. Also, in Chapter 4, it was noted that many women became members of contribution clubs to establish their own pool of money, independent of their husbands' control. As women gain access to their own income and credit, household dynamics shift, granting women more leverage over expenditures.

As for the question I started my thesis with: are we together?

These three financial institutions are like *steppingstones* for people to gradually access more financial resources, but most people in the country are still on the first *stone*. They enjoy few financial freedoms and do not yet have the resources to access the tools to launch themselves onto the next stone. Further research could be done to examine the impact of borrowing from friends and family, as they are the most frequent avenue that people use to gain credit — this financial mechanism could be the first stone, before contribution clubs. Thus, instead of only focusing on formal institutions, the Ugandan government needs to find a more holistic approach to financial inclusion that elevate informal financial institutions and mobile money to support its most disadvantaged population. Some of the financial institutions in this thesis might inherently mean we are together, but if we move strategically to empower more people to graduate into the more *exogenous* financial institutions while simultaneously maintaining their access to informal financial institutions, people can *be* together.

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