RESEARCH PEARLS | FEDU PEARL #10

In our series "Research Pearls" we are providing first-hand insights into our dynamic and powerful diaries research. Nowadays we believe that saving and responsible loan repayment is not the stronghold of the wealthier. Through microfinance and other financial inclusion actors we have been hearing that low-income people can be excellent savers and reliable borrowers. What do we see in our Baseline data for the FEDU research?

Financial inclusion patterns according to wealth bands

Well, the pattern is clearly that poorer segments are considerably less likely to save, even through informal methods. They are definitely less financially included than others, which may be the cause or the result of the lower savings patterns.

The baseline survey that we conducted across 2109 people, included the 10 PPI score questions for Uganda. This resulted in a PPI score for each respondent. PPI scores range from 1 to 100 points. To divide our sample in wealth bands, we have simply split them in five groups: lowest wealth, score 1-20, second lowest, score 21-40, middle wealth, score 41-60, one but highest , score 61-80 and highest, score 81 to 100. As working names we refer to these wealth bands respectively as "ultra-poor", "poor", "upper poor", "comfortable" and "wealthy". These names do not correspond to any government or international organisation's definition of poverty.

Registered mobile money users? The lower wealth bands are far less likely to be registered.

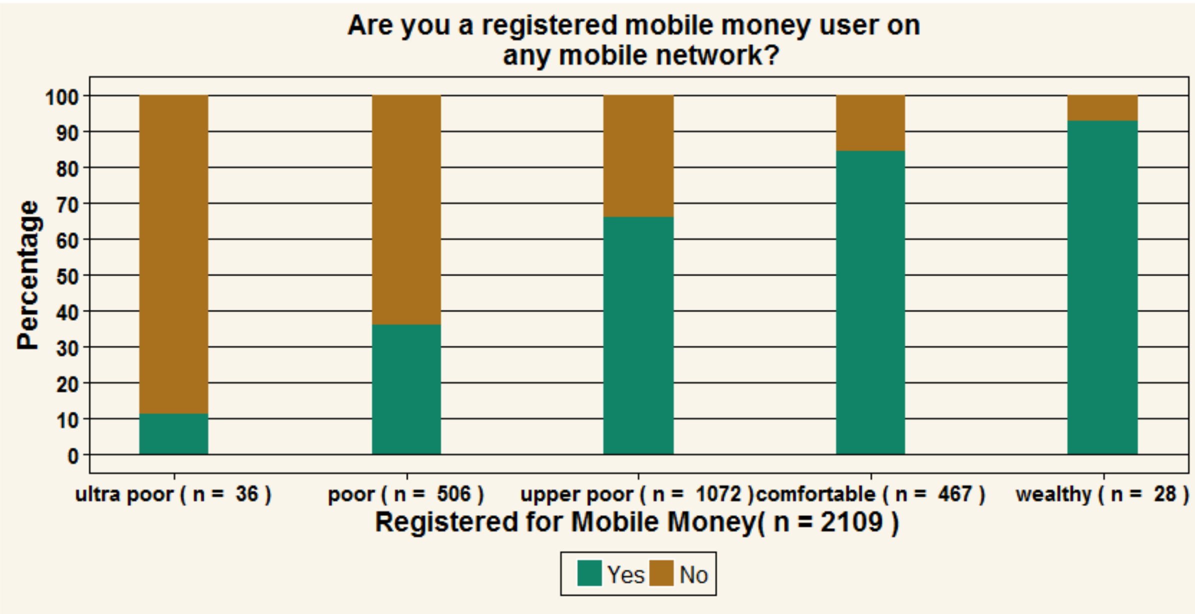

Figure 1: Registered mobile money users by wealth bands

Type of savings practiced? The lower wealth bands are much more likely to report "not practicing any savings".

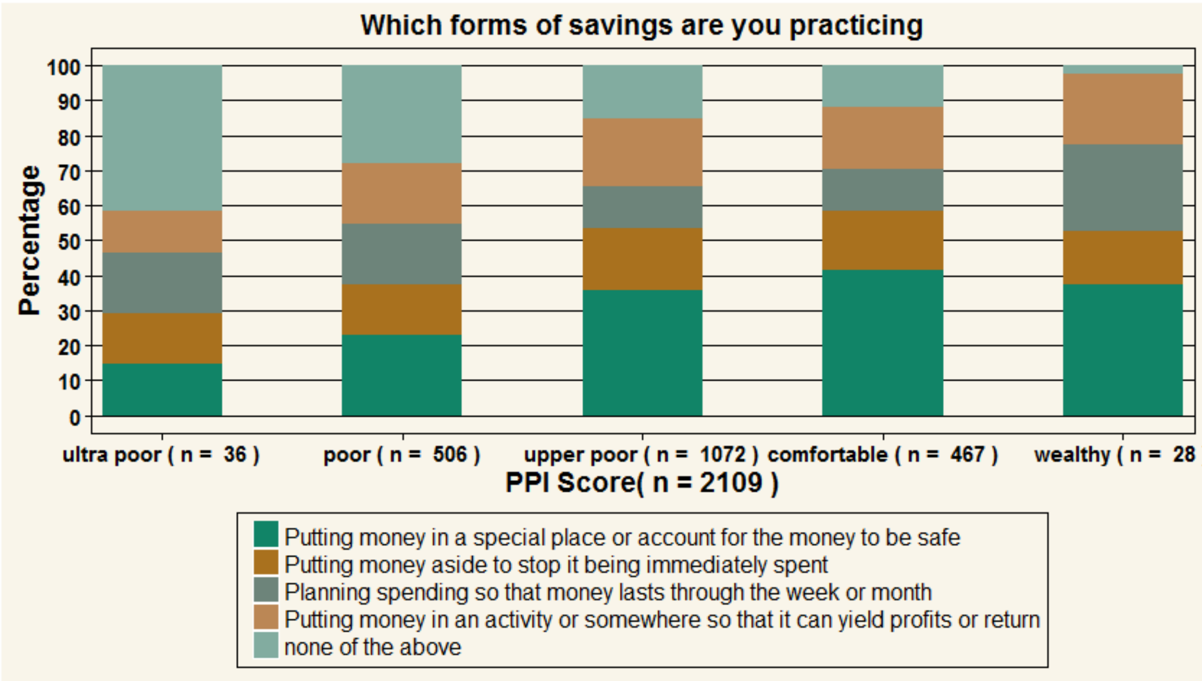

Figure 2: Saving practices by wealth band

Currently having a loan? Here we do not see a clear wealth pattern.

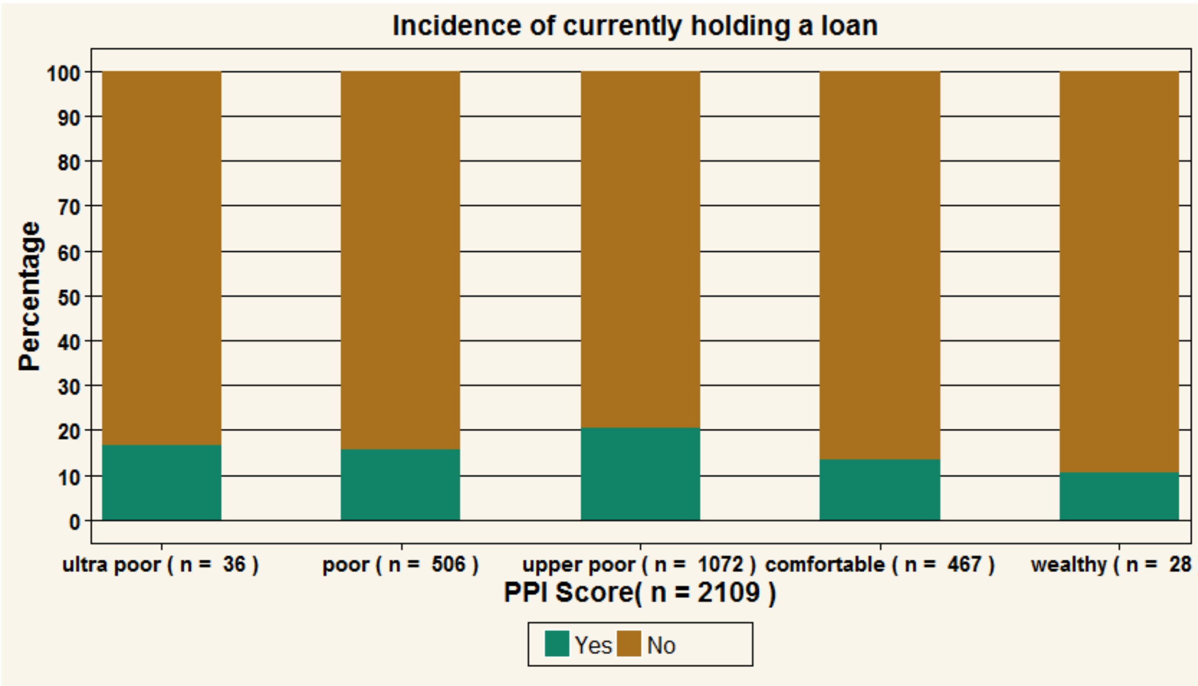

Figure 3: Incidence of currently holding a loan

From which sources holding a loan? That again has a clear wealth pattern. The richer are more likely to get loans from formal sources such as banks and microfinance institutions (the dark green bands at the bottom of the bar). However, the yellow part in the below graph, which depicts informal loan sources such as family and friends, is the largest portion of loans across the five wealth bands.

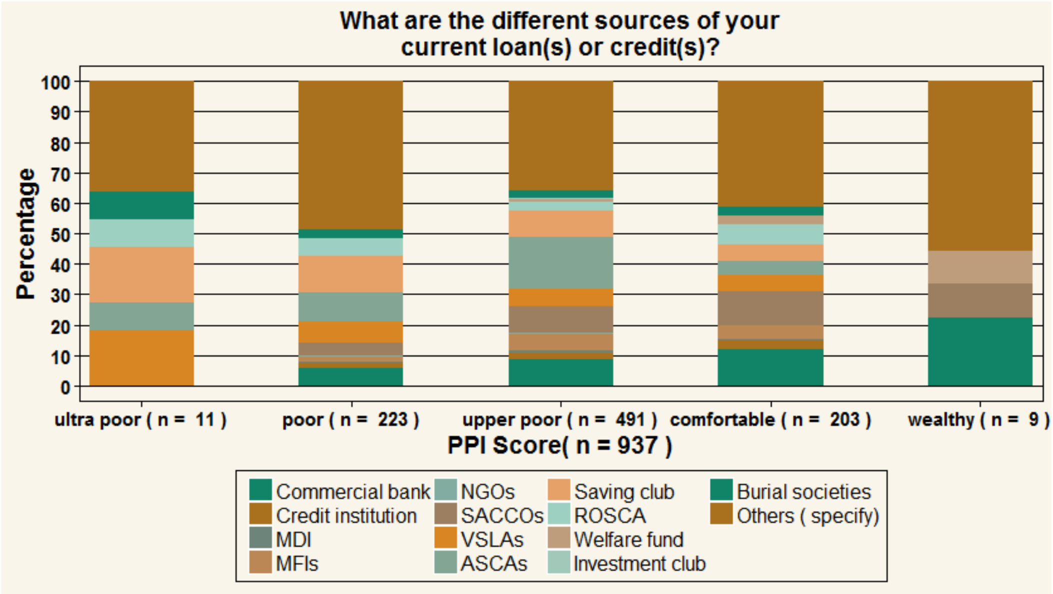

Figure 4: Sources for holding a loan by wealth band

In conclusion, wealthier Ugandans may be more likely to access a formal loan, even if they rely primarily on informal loans.

In the light of the above, the wealth pattern of savings groups stands out. Considering that “ultra poor” only includes 36 people (so these could more or less be disregarded for the pattern), we can state there is practically no relationship between wealth band and membership in a savings group.

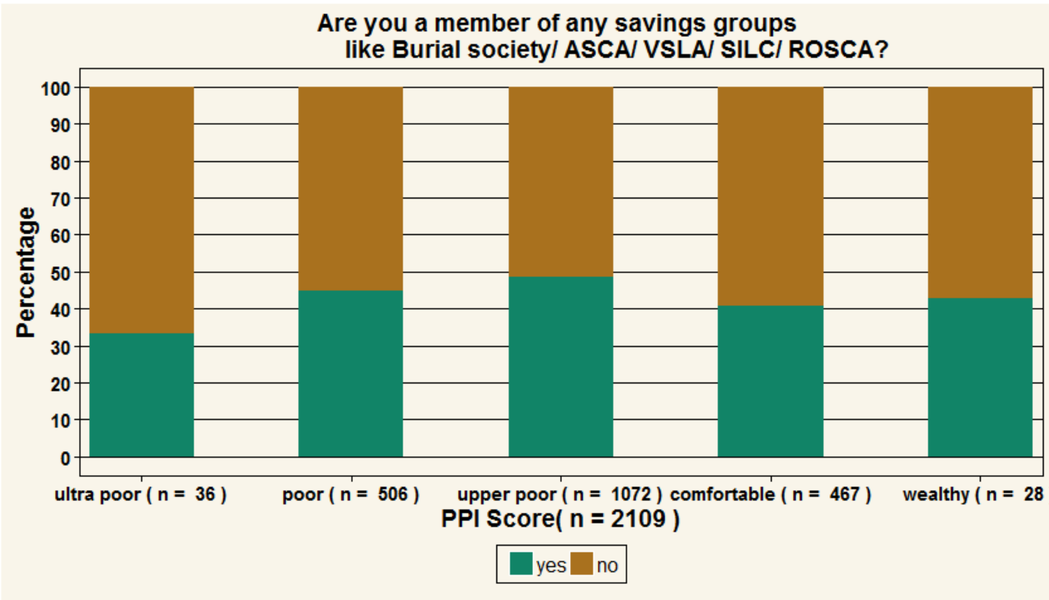

Figure 5: Membership in savings groups

The number of savings groups people are member of, turns out to be higher amongst lower wealth bands. Incidence of participating in 2 or more savings groups is higher for the three lowest wealth bands.

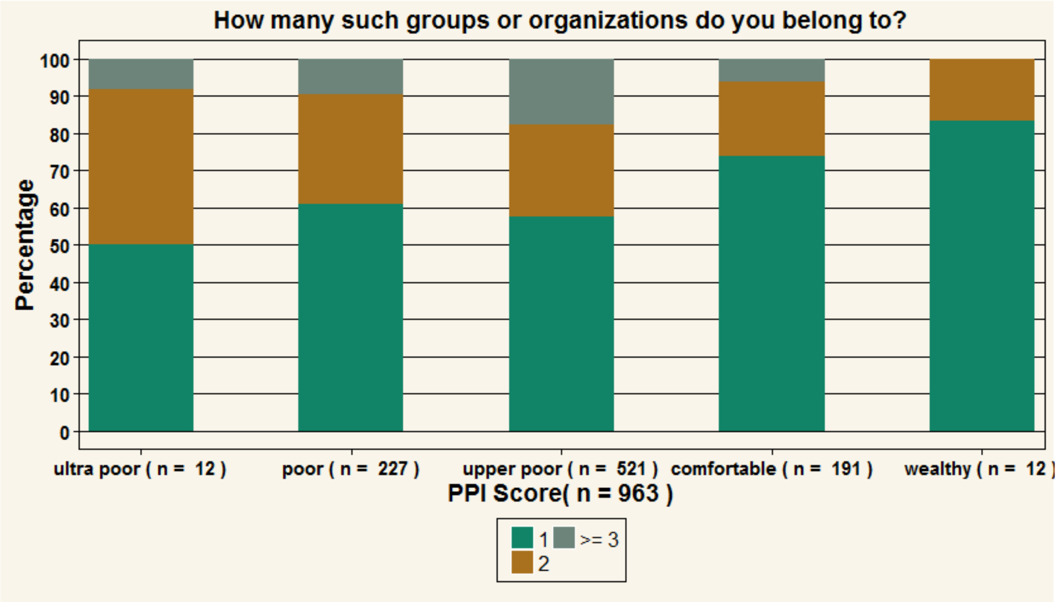

Figure 6: Number of memberships with savings groups

Conclusion

So far our findings on financial inclusion display strong wealth patterns. Lower income groups remain considerably less financially included than the higher wealth bands. Nevertheless, there are some exceptions, such as savings groups, which include roughly the same percentage of people across the five wealth bands.

Implications for service providers

From the findings presented in this Research Pearl, service providers, particularly financial service providers, can learn that the situation of the poorer half of the population continues to be different from the richer half. However, VSLA type of savings groups and other informal savings groups reach the poor as much as the richer contingent. The service providers can also learn that across the wealth bands the portion of people with a loan is roughly the same, but wealthier respondents are more likely to take the loan from a formal source.

Tentatively service providers may conclude from these data that there are good opportunities to service lower wealth bands. They have less access to formal services, they are currently less able to save, but they are people who are as committed to be part of the efforts to participate in a savings group.

Particularly mobile money providers could expand its poorer subscribers dramatically, as the majority of the two poorer wealth bands are not registered for mobile money.