



Banking, mobile money and taxes

Ugandans' experiences of and opinions on financial inclusion

1. Introduction

Financial services have an important role to play in improving the lives of the poor – helping to overcome short-term challenges and meet longer-term needs. This includes access to credit and insurance, the ability to send and receive money simply and securely, and a safe place to store any savings, all of which can help reduce the vulnerability of the poor and increase their productivity.

In recent years, mobile money services have transformed the financial services environment in Uganda – providing new and cheaper opportunities for citizens to access a wide range of services – notably banking, money transfers and credit.

During 2018, the Government of Uganda saw an opportunity in the growing penetration

of mobile money services to increase tax revenue, and controversially raised taxes on mobile money transactions. Following much debate and reports of reduced transactions from network operators – MTN Uganda, for example, reported a 30% decline in revenue¹ – some aspects of the tax were later scrapped. These amendments were enacted shortly before this survey was conducted. However, other elements remain in place, including notably a 0.5% tax on withdrawals².

This research brief presents data on citizens' use of various financial services – banking, credit, mobile money and more. Who has a bank account? Who borrows money, and when they do so, where from and for what purposes? Who has a mobile money account?

1 <https://www.monitor.co.ug/SpecialReports/Mobile-Money-tax--MTN-Uganda-Bank-of-Uganda-Parliament/688342-4825414-s3rgje/index.html>

2 <https://www.softpower.ug/telecom-companies-effect-0-5-tax-on-mobile-money-withdraws/>

How aware are citizens of the recent tax changes, do they support the changes, and how has this affected their behaviour?

Data for the brief come from Twaweza's new *Sauti za Wananchi* survey. *Sauti za Wananchi* is a nationally-representative, high-frequency mobile phone panel survey. Information on the overall methodology is available at www.twaweza.org/sauti. For this brief, data were collected from 1,905 respondents in the eighth round of calls to the *Sauti za Wananchi* panel, conducted between 15 and 27 November, 2018.

The key findings are:

- 1 out of 6 citizens has a bank account
- Having a bank account is strongly associated with wealth, education and employment status
- The proportion of citizens with a bank account has remained flat over the past ten years
- 1 out of 3 citizens has borrowed money in the past year
- Most loans are taken from community savings and credit groups
- 3 out of 4 citizens has a mobile money account
- 4 out of 10 citizens are aware of some of the recent changes in mobile money taxes
- Among those who are aware of the new taxes, 7 out of 10 disagree with the changes
- A majority say they have reduced their mobile money transactions since new taxes were introduced
- Half of citizens have borrowed mobile money or airtime at least once
- A large majority of mobile money users say the services are too expensive

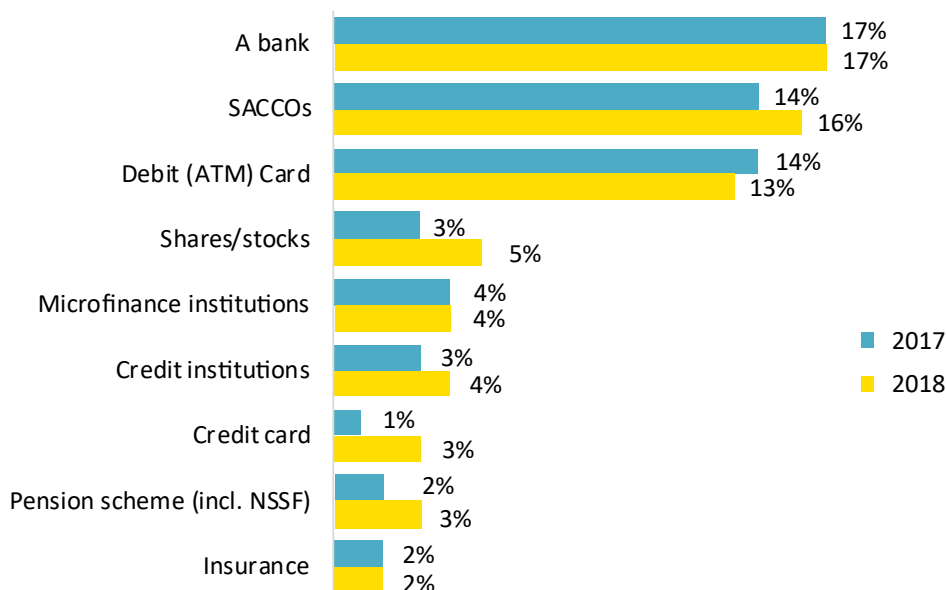
2. Nine insights about financial services in Uganda

Insight 1: 1 out of 6 citizens has a bank account

One out of six citizens (17%) has a bank account, and a similar number (16%) have an account with a Savings and Credit Cooperative Organisation (SACCO).

Less than one out of twenty citizens have any stocks or shares (5%) or a credit card (3%), or an account with a micro-finance institution (4%) or credit institution (4%). Few are members of a pension scheme (3%) or have any form of insurance (2%).

Figure 1: Those with the following types of account / financial products:³



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

Insight 2: The wealthy, educated, employed are more likely to have bank accounts

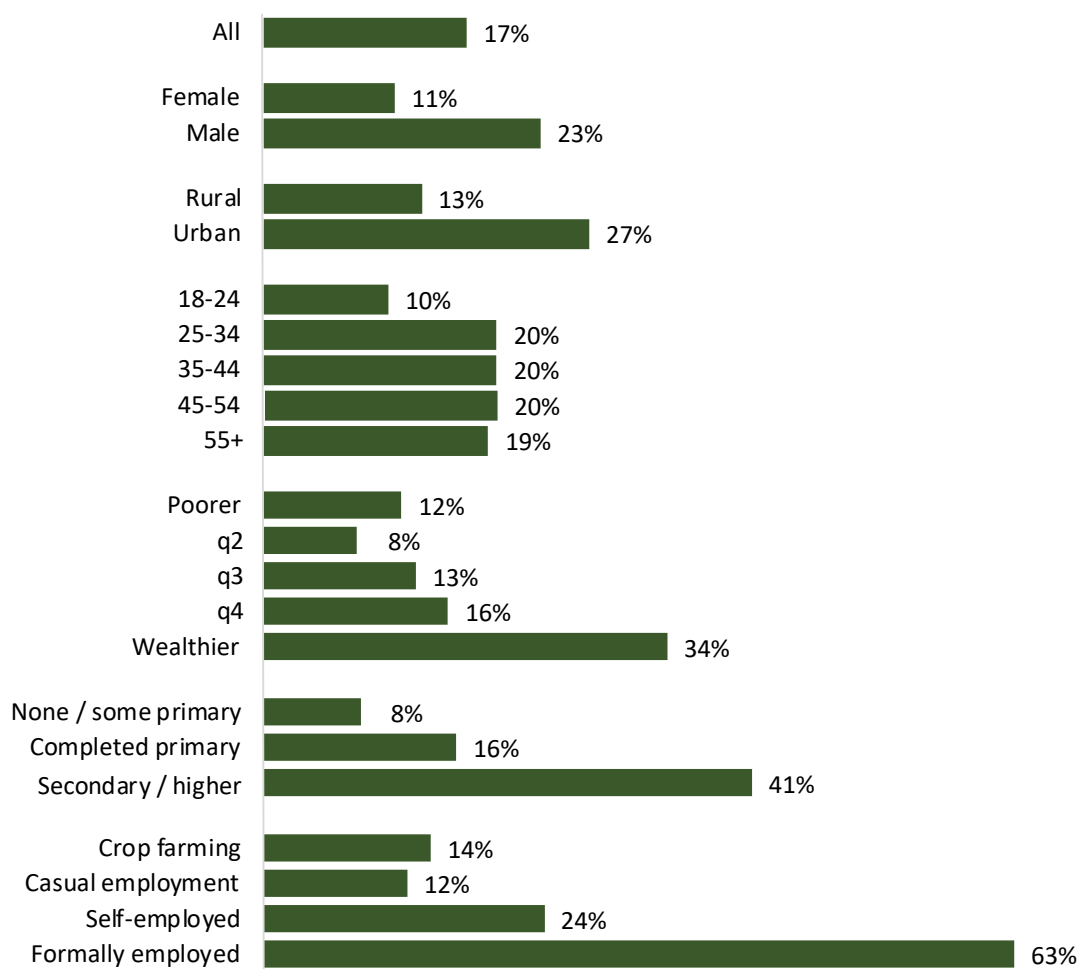
There are considerable differences between different demographic groups when it comes to holding bank accounts. Most particularly, a clear majority of those in formal employment (63%) have an account – well above any other group.

Having a bank account is also strongly associated with educational attainment: four out of ten (41%) of those with secondary education or higher have an account, compared to one out of ten (8%) of those who haven't completed primary school.

Similarly, wealthier citizens (34%) are more likely than poorer citizens (8-12%) to have a bank account, men (23%) are more likely than women (11%) and residents of urban areas (27%) are more likely than those in rural areas (13%).

³ Percentages in charts may not add up to 100% due to rounding

Figure 2: Those with a bank account:



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

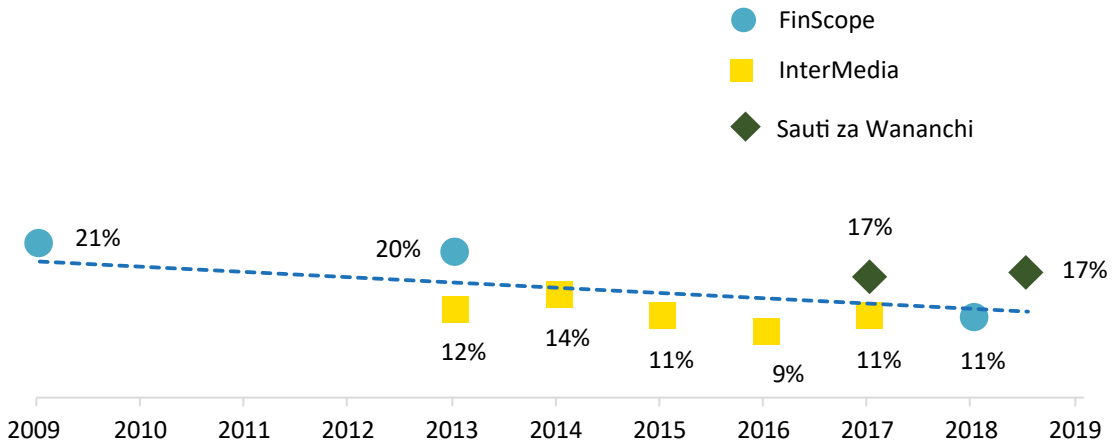
If you look at data from *Sauti za Wananchi*, data from FinScope⁴ and InterMedia⁵ surveys, we can see that the proportion of citizens with a bank account has remained flat over the past ten years⁶.

4 See https://www.bou.or.ug/opencms/bou/bou-downloads/Financial_Inclusion/Finscope-Report-2013.pdf and <http://fsduganda.or.ug/finscope-2018-survey-report/>

5 See http://finclusion.org/uploads/file/uganda-wave-5-report_final.pdf

6 Both FinScope and InterMedia surveys include citizens aged 16 and above, while the *Sauti za Wananchi* panel is aged 18 and above. This may have an effect on the findings.

Figure 3: Those with a bank account:



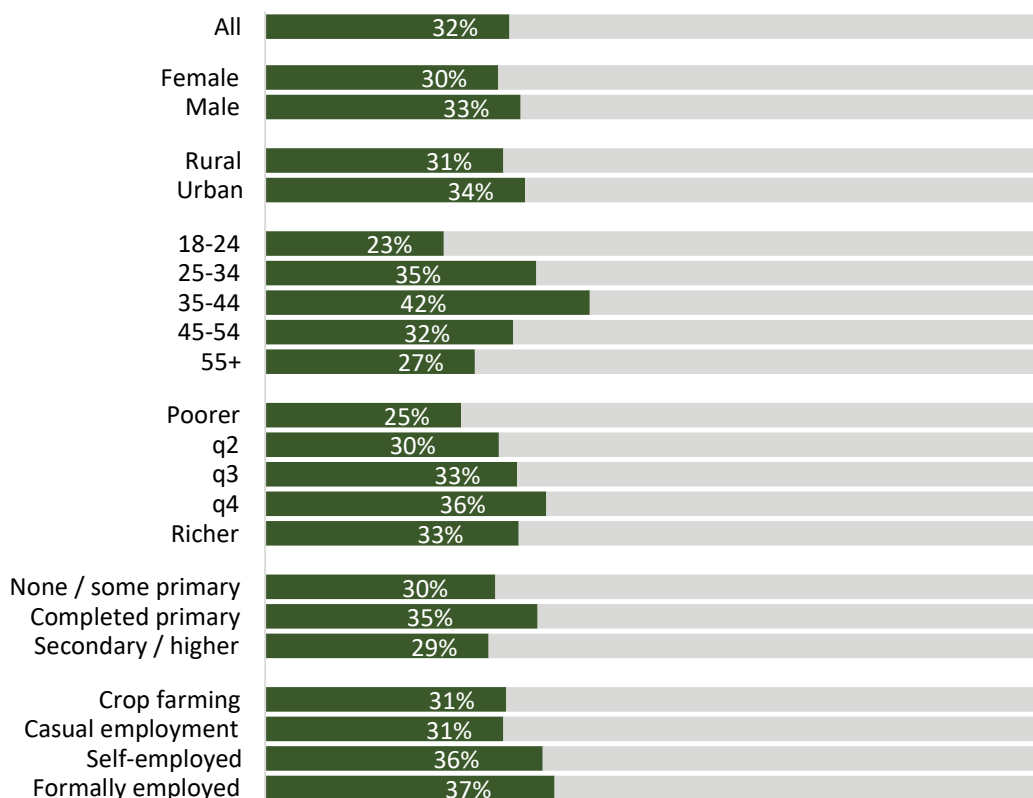
Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

FinScope 2009, 2013 and 2018; InterMedia 2013, 2014, 2015, 2016 and 2017

Insight 3: 1 out of 3 citizens has borrowed money in the past year

One out of three citizens (32%) has borrowed money, either formally or informally, in the past year. This number is fairly consistent across different demographic groups, though it is a little lower among younger (23%) and older (27%) citizens than those in between (32-42%).

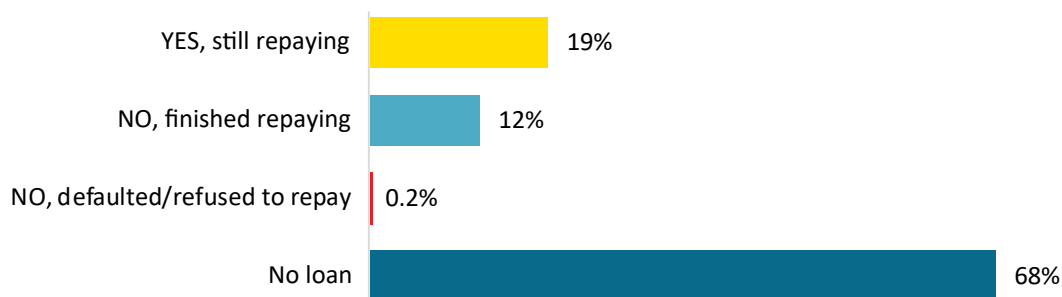
Figure 4: Those who have borrowed money or taken a loan (money) in the past 1 year:



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

One out of five citizens (19%) is still paying the loan, while one out of ten (12%) has finished doing so.

Figure 5: Are you still repaying the loan(s)?



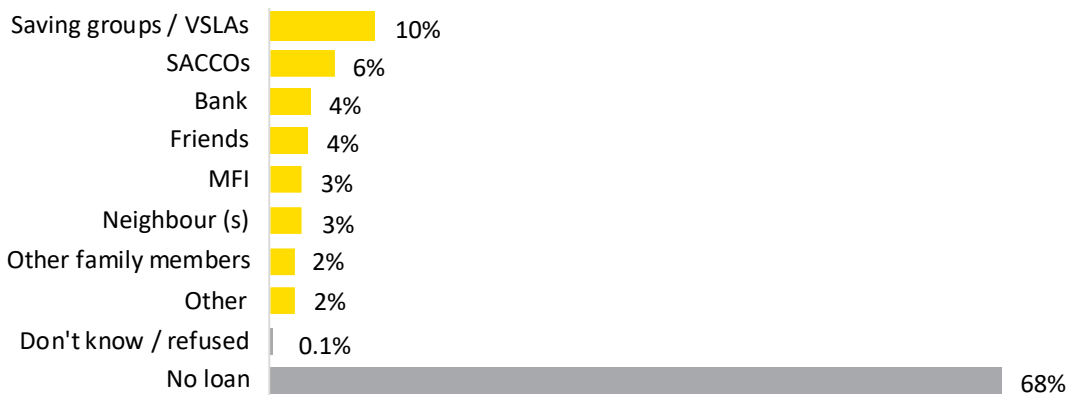
Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

Insight 4: Most loans are taken from community savings and credit groups

One out of ten citizens (10%) has taken a loan from a savings group or village saving and loans association (VSLA), and a further 6% has borrowed from a Savings and Credit Cooperative Organisation (SACCO). This means that half of those borrowing money have done so from community savings and credit groups.

Banks are a less common source of loans (4%), while one out of ten borrowed either from friends (4%), neighbours (3%) or family members (2%).

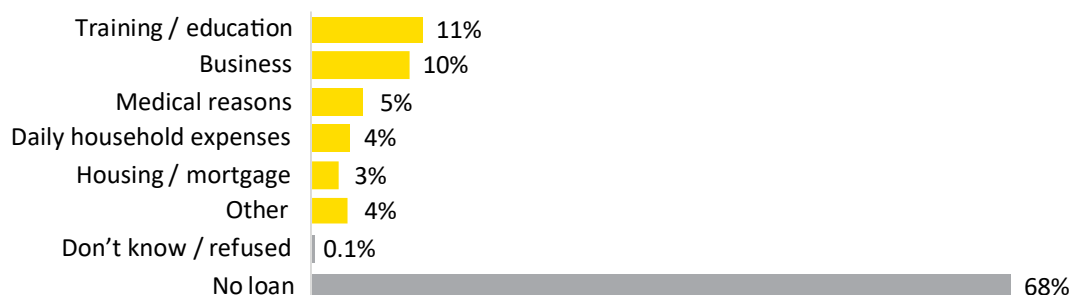
Figure 6: Where did you take the loan(s) from/borrow from?
(multiple responses permitted)



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

One out of ten citizens (11%) has taken a loan in the past year for training or education purposes, and a similar number (10%) have done so for business reasons.

Figure 7: What was the loan for?
(multiple responses permitted)



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

Insight 5: 3 out of 4 citizens has a mobile money account

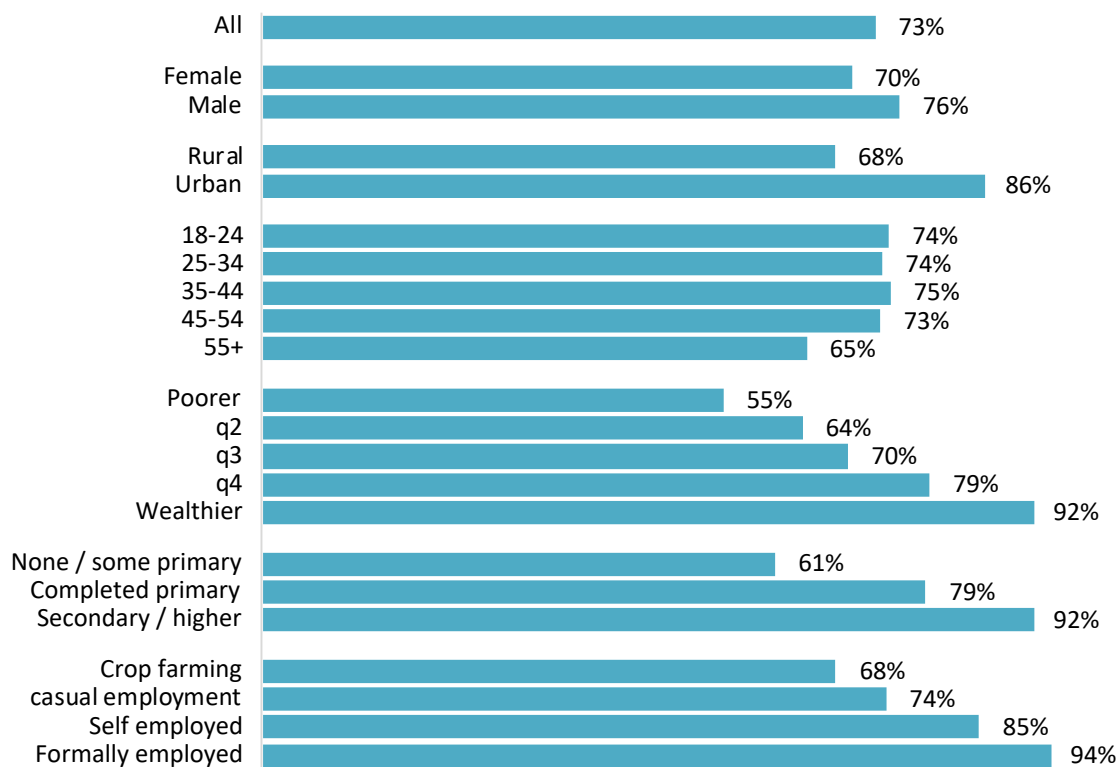
Three out of four citizens (73%) has a mobile money account⁷. This number is slightly higher among men (76%) than women (70%), and higher in urban areas (86%) than rural (68%). By age, only those aged over 55 years (65%) are less likely to have a mobile money account than others (73-75%).

There is a clear link with wealth: nine out of ten of those in wealthier households (92%) have a mobile money account, dropping to a little over half (55%) of those in poorer households.

Similarly, there are strong links with educational attainment and with main source of household income – those with higher levels of education and those in a household with income from formal employment are more likely to have a mobile money account.

⁷ Please note that these figures may be slightly higher than in the population as a whole, since Sauti za Wananchi respondents are provided with a mobile phone in order to enable their participation in the initiative. This does not itself provide respondents with a mobile money account, but it does remove one possible obstacle for those panel members who did not previously have access to a phone.

Figure 8: Those with a mobile money account:



Source of data: *Sauti za Wananchi*, round 8, November 2018;

Base: all respondents; n=1,905

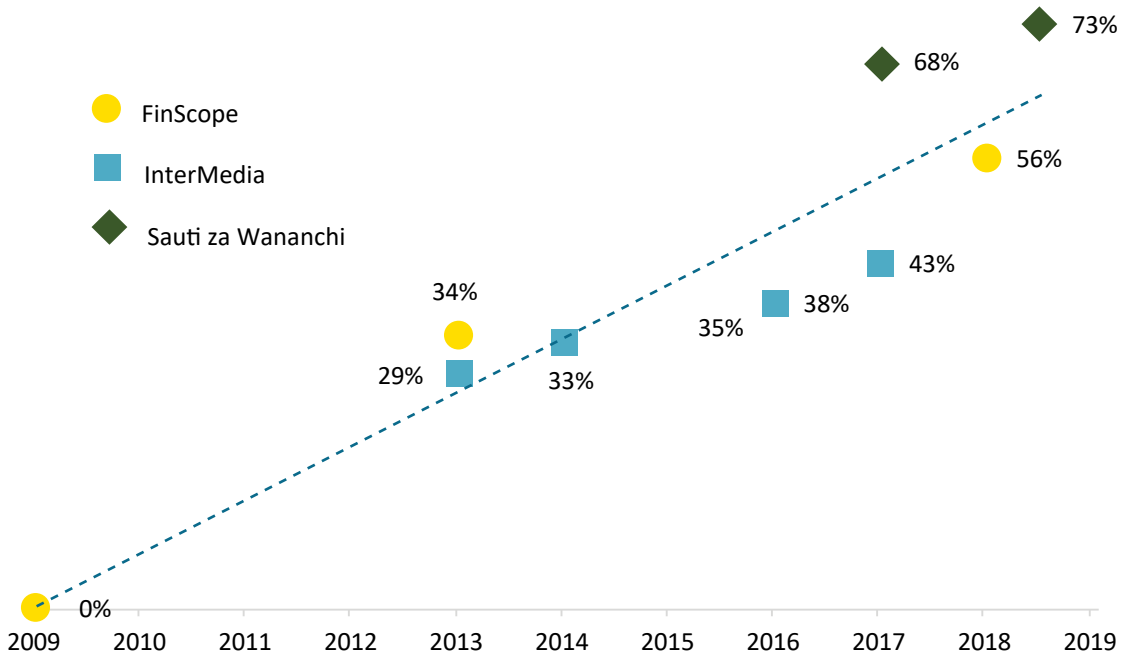
Looking at *Sauti za Wananchi* data, FinScope⁸, and InterMedia⁹ data, we can see how striking the rise of mobile money in Uganda has been over time, since the first such service was launched in 2009¹⁰.

8 See https://www.bou.or.ug/opencms/bou/bou-downloads/Financial_Inclusion/Finscope-Report-2013.pdf and <http://fsduganda.or.ug/finscope-2018-survey-report/>

9 See http://finclusion.org/uploads/file/uganda-wave-5-report_final.pdf

10 As before, these findings may be affected by the fact that both FinScope and InterMedia surveys include citizens aged 16 and above, while the *Sauti za Wananchi* panel is aged 18 and above.

Figure 9: Those with a mobile money account:



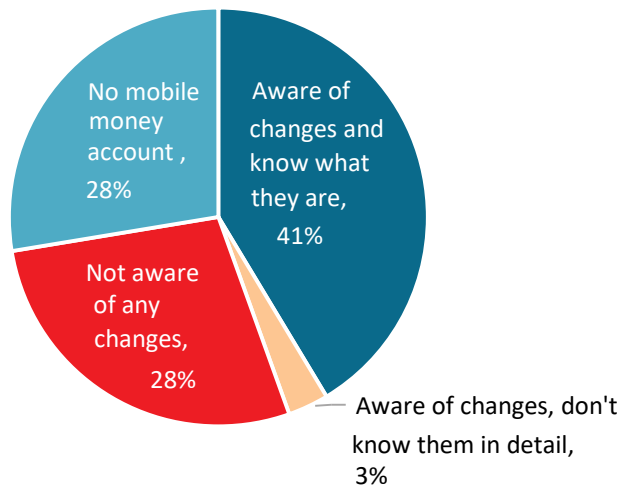
Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

FinScope 2009, 2013 and 2018; InterMedia 2013, 2014, 2015, 2016 and 2017

Insight 6: 4 out of 10 citizens are aware of some of the recent changes in mobile money taxes

Four out of ten citizens (41%) are aware of recent changes in mobile money taxes and can state what some of these changes are. A few (3%) are aware that changes to taxes have been made, but don't know what these changes are. Three out of ten (28%) are not aware of any changes, and a similar number (28%) don't have a mobile money account.

Figure 10: Are you aware of the recent changes in mobile money tax by government?

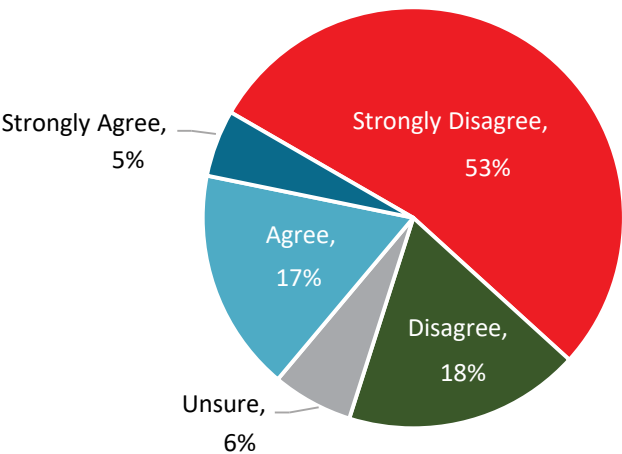


Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

Insight 7: Among those who are aware of the new taxes, 7 out of 10 disagree with the changes and a majority say they have reduced their transactions

Among those who are aware of changes to the taxes on mobile money services, a majority (71%) disagree with the changes, either strongly (53%) or somewhat (18%). One out of five (22%) agree with the changes.

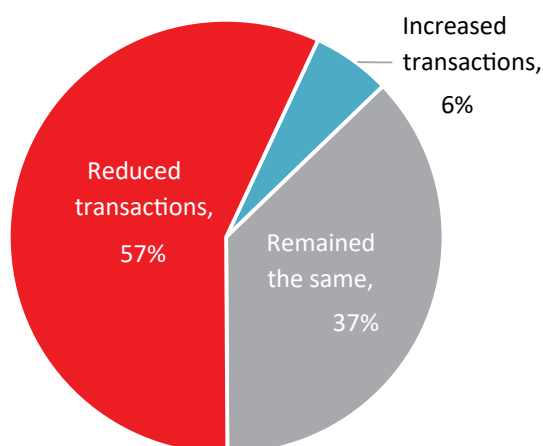
Figure 11: To what extent do you agree with recent changes in mobile money tax?



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: those who are aware of tax changes; n=803

Among those who are aware of the new taxes, a majority (57%) say they have reduced their transactions since the new taxes were introduced. Four out of ten (37%) say their practices are unchanged and a small number (6%) say they have increased the transactions.

Figure 12: Since the introduction of the mobile money tax, have your transactions with mobile money increased, remained the same or reduced?

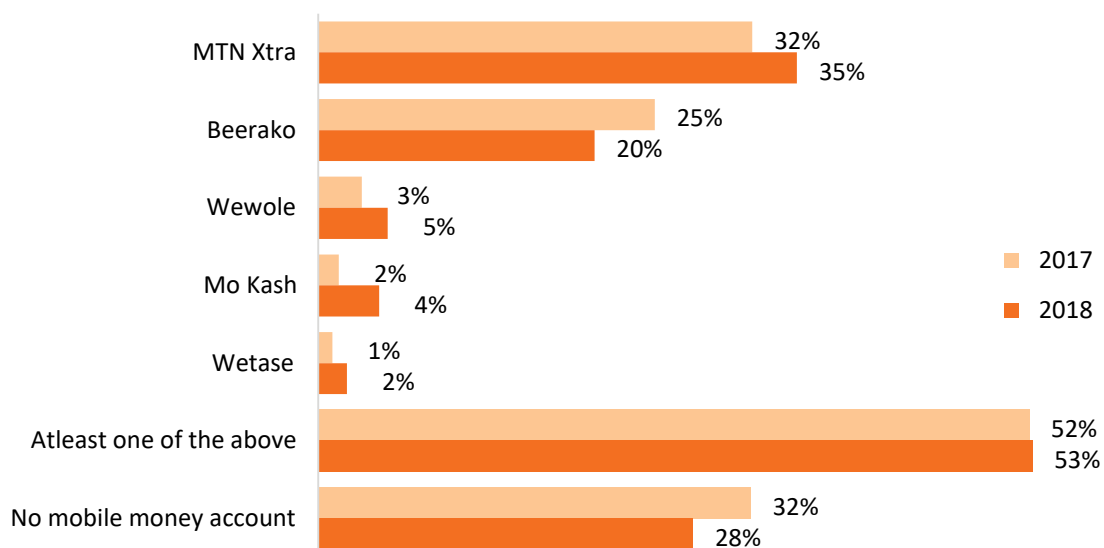


Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: those who are aware of tax changes; n=803

Insight 8: Half of citizens have borrowed mobile money or airtime at least once

Half of all citizens (53%) have borrowed either mobile money and/or airtime at some point. This figure is unchanged since 2017. The most widely used such service is MTN Xtra, an airtime-credit service on the MTN network, which has been used by one out of three citizens (35%). This is followed by Beerako, a similar service on Airtel, which has been used by two out of ten (20%).

Figure 13: % who have ever borrowed mobile money or airtime:

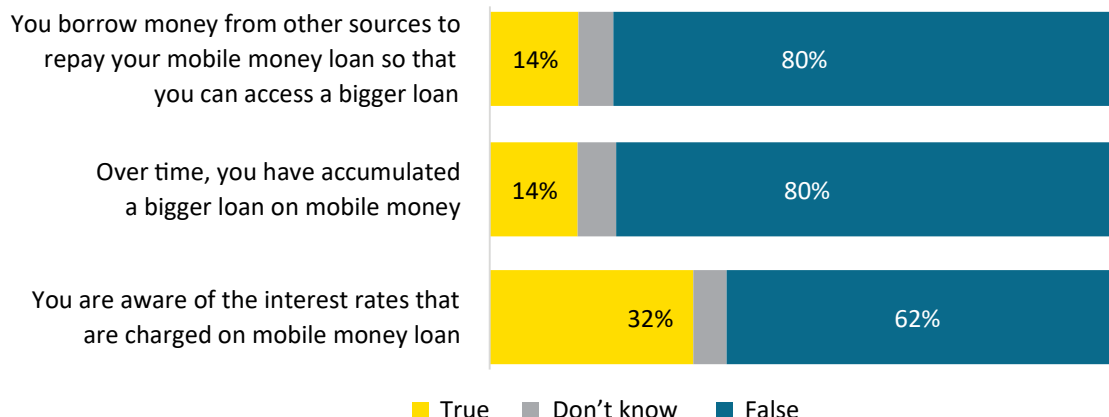


Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: all respondents; n=1,905

Among those who have borrowed airtime or mobile money, one out of ten (14%) say they have borrowed money elsewhere in order to repay mobile money loans, in order to build a credit history and unlock larger loans. The same number (14%) say that over time they have accumulated a larger mobile money loan.

One out of three (32%) say they are unaware of the interest rates charged on loans of airtime or mobile money.

Figure 14: Please tell me if the following statements are true or false:

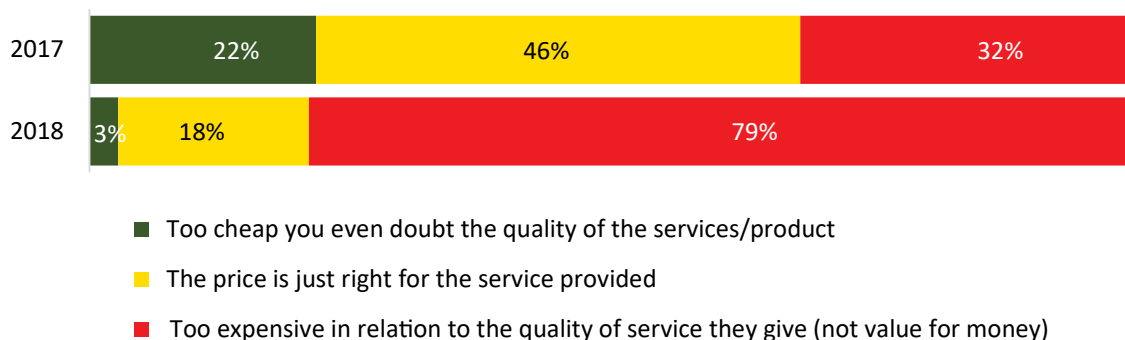


Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: those who have borrowed mobile airtime or money, n=968

Insight 9: A large majority of mobile money users now say the services are too expensive

Eight out of ten mobile money users (79%) say the service is too expensive relative to the quality of service provided. This has increased from three out of ten (32%) who felt this way in 2017. Those who say the services are so cheap that you end up doubting the quality have fallen from two out of ten (22%) to very few (3%).

Figure 15: Which of the following statements best represent your opinion about the cost of mobile money services / products that you use?



Source of data: *Sauti za Wananchi*, round 8, November 2018;
Base: mobile phone users, n=1,344

3. Conclusions

The first conclusion of this brief is perhaps an unsurprising one – that as mobile money achieved a rapid rise in Uganda, access to banking services has somewhat stagnated. There has been no increase in citizens having a bank account, and perhaps even a decline, over the past ten years – this has barely managed to keep pace with population growth. Further, banking services remain largely a product accessed by the wealthy, the educated and those in formal employment, and not by the poor or those earning a living in agriculture or through casual labour.

Beyond this, the situation with mobile money, particularly the effect of tax changes on users' behaviour, remains unclear at this stage. The number of citizens reporting that they have a mobile money account continues to increase. However, a small majority of users say they have reduced their use of mobile money since the new taxes started, and a large majority say they do not support the tax changes. Perhaps most conclusive, though, is the massive shift in the proportion of citizens saying that mobile money services are “too expensive” – from three out of ten (32%) in 2017 to eight out of ten (79%) in November 2018. Such a major shift will likely be in part a result of citizens simply wanting to express their frustration at having to pay additional taxes, but also in part from citizens seeing taxes being deducted and questioning whether mobile money services continue to represent such good value for money.

It should be noted that the data was collected a few days after further changes to the tax were made – in this case, reducing the tax. As such, some citizens may not have been fully aware of the tax reductions.

Nevertheless, even when the tax reduction is fully rolled out and citizens become more familiar with the new rates, there is no guarantee that they will be satisfied with the new price point. As such this may lead to an unhappy compromise of insufficient increases in revenue for government and dissatisfaction on prices among citizens. Although any tax increase in most countries is likely to be unpopular, it may be useful for government to use citizen feedback to guide their decision-making in terms of widening the tax base. This can help to avoid multiple changes and the resultant increase in complexity, as well as over-taxing key services that are improving citizens' economic potential and opportunities. This may also help to mitigate the general unpopularity of any new tax.

