

**MAKERERE**



**UNIVERSITY**

**FINANCIAL INCLUSION OF THE POOR IN UGANDA**

**BY**

**GEORGE CANDIYA OKELLO BONGOMIN**

**Msc. ACC & FIN (MaK); B.COM (MaK); CSO (UK)**

S/N 205024297; Reg. No. 2011/HD10/18308U  
abaikol3@yahoo.co.uk; abaikol888@gmail.com

**A THESIS SUBMITTED TO THE  
DIRECTORATE OF RESEARCH AND GRADUATE TRAINING  
FOR THE AWARD OF DEGREE OF DOCTOR OF  
PHILOSOPHY IN FINANCE OF  
MAKERERE UNIVERSITY**

**DECEMBER 2016**

## ABSTRACT

The study examined financial inclusion of the poor in Uganda. The current financial inclusion strategies and models developed and applied by financial institutions, international development agencies, financial inclusion advocates, financial inclusion working groups, and scholars are insufficient in explaining the current scope of financial inclusion, especially among the poor in developing countries' context. The current strategies and models derived from both the supply and demand side ignores the role of institutions, which acts as the “*rules of the game*” and a back-bone in determining and structuring human interactions by providing incentives and disincentives for people to behave and act in certain ways in economic, political and social activities. Indeed, the institutional pillars are absent in both the supply and demand side models in promoting financial inclusion beyond the current sphere, especially among the poor in developing countries like Uganda who are continuously being excluded from access to and use of basic financial services.

The study applied a cross-sectional research design combined with mixed method approach in investigating the objectives and hypotheses derived under the study using the poor and PRIDE MDI staff who work in the credit department located in the four regions of northern, eastern, central (excluding Kampala), and western Uganda. A pilot study involving 200 samples drawn from Mukono District was used to test the reliability and validity of the study instruments prior to the main study. Quantitative data collected from the main study were analysed using Statistical Package for Social Scientist (SPSS/20) and Analysis of Moment Structures (AMOS/20) softwares based on 440 questionnaires, which were valid and usable. In addition, the MedGraph program (Excel version 3.0/2013), Sobel tests and Kenny & Baron conditions were applied to test for mediation effect in the pilot study. However, bootstrap method using AMOS based on SEM was used to test for mediation effects in the main study. Furthermore, qualitative data were obtained from 25 poor households who were clients of PRIDE MDI, 10 PRIDE MDI staff from credit department and 5 branch managers by use of semi-structured interview guide. The qualitative data collected were analyzed using content analysis technique by use of QSR NVivo (10) software. Besides, verbatim texts obtained from the interviewee were turned into emergent themes to explain interviewees' perceptions and real life experience towards the variables under study.

The findings from the study revealed that combining the supply and demand side factors of financial intermediation, financial literacy, social capital and networks with institutional framework of regulative, normative and cultural-cognitive working in combination are significant for financial inclusion of the poor in Uganda. Indeed, institutional framework, financial intermediation, social capital and networks have significant and individual influences on financial inclusion. Surprisingly, financial literacy has no significant and direct influence on financial inclusion, except only through mediation by social capital and networks. In addition, the mediation effects of social capital, networks and financial literacy in the relationships between institutional framework, financial intermediation and financial inclusion were significant and partial. However, the mediation effect of social capital and networks in the relationship between financial literacy and financial inclusion revealed a full type of mediation. Thus, this indicated the powerful role of social capital and networks in promoting economic activities in a developing country like Uganda. Therefore, government should ensure extending effective legal systems to cover the rural areas in order to cater for legal needs of the rural poor, and also advocate for use of normative institutions in determining accepted standards for actions in economic, political and social activities. Furthermore, managers and practitioners should know that financial literacy alone may not promote financial inclusion among the poor in Uganda without the presence of social capital and networks. Thus, the study brings into the lime-light the critical role of institutional framework guided by sound theoretical and empirical foundation to promote financial inclusion of the poor in Uganda beyond the current sphere.