

DETERMINANTS OF ACCESS TO FORMAL FINANCIAL CREDIT IN UGANDA

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ABSTRACT

It has been established that lack of startup capital is a major impediment to economic growth. In Uganda, this has been witnessed due to the barriers in credit access from formal financial institutions, which are assumed to be relatively fairer sources of credit as compared to informal or semi-formal institutions.

This study establishes the factors affecting access to formal financial services in Uganda, with a specific focus on access to credit. The study used the nationally representative household survey data of 2005/06 collected by the Uganda Bureau of Statistics (UBoS). Access to credit was estimated using the logit model and the Access to formal credit equation highlights mainly the contribution of household demographic variables. On the other hand, in order to have a clear picture of the quantitative demographic and socio-economic variables which differentiate formal financial users from non-users, the t-test and chi-square tests were applied. It was found out that those with higher education and reasonable wealth had more access to formal credit. There was also clear justification that advancement in age limits one's access to formal credit and finally, that the household size determines access to formal credit. Looking at the discrete variables; men were found to have greater access to formal credit than the women. Regional stands were also captured. What is most amazing is that the size of land holding, didn't matter in credit access, but rather the location and registration status. Employment status also did matter, those who received remittances from abroad were also luckier. Overall though, it was established that a majority of the population did not have access to credit from formal institutions (only 3% had access).

The study suggests two outstanding solutions to two outstanding barriers to formal credit access that is; lack of collateral security which is commonly land and lack of bank accounts. It recommends that government encourages or helps people to lease their land and get land titles as loan security. The other is that commercial banks intensify their marketing drive and create more branches and partner with bank of Uganda in winning the hearts and confidence of potential customers.