

# A FINANCIAL CRISIS AMONG UGANDAN HOUSEHOLDS

By Ali Twaha

Commercial banks and other financial institutions are already rolling out their school fees campaigns ahead of the new term, even before January paylips have cooled.

The timing is no accident. School fees comes when household incomes are most fragile.

Financial literacy expert Newton Buteraba says many Ugandan borrowers misjudge loans because fixed repayment schedules at banks clash with an uncertainty environment for the borrowers.

He said this leaves households and entrepreneurs struggling when reality hits.

"A loan deals with certainty, yet some businesses like a start-up deal with probability. So, the merger of uncertainty with probability is the case. It will always be a struggle," Buteraba said.

"When you walk as an individual and you go to the bank without any help, without you organising yourself, you have gone for a gunfight with a knife," he added.

## EMOTION DRIVEN LOANS

Buteraba said many borrowers do not approach loans rationally. Instead, decisions are driven by emotion and immediate needs.

But in banking law, he says, depositors are effectively lending their money to the bank, which then lends it onward, meaning banks are managing other people's funds and must protect them.

A recent survey by Opportunity EduFinance shows just how common borrowing has become. In Uganda, 41% of parents surveyed said they had taken out a loan to pay school fees. Of those borrowers, 85% reported they were able to send their children back to school directly because of the loan.

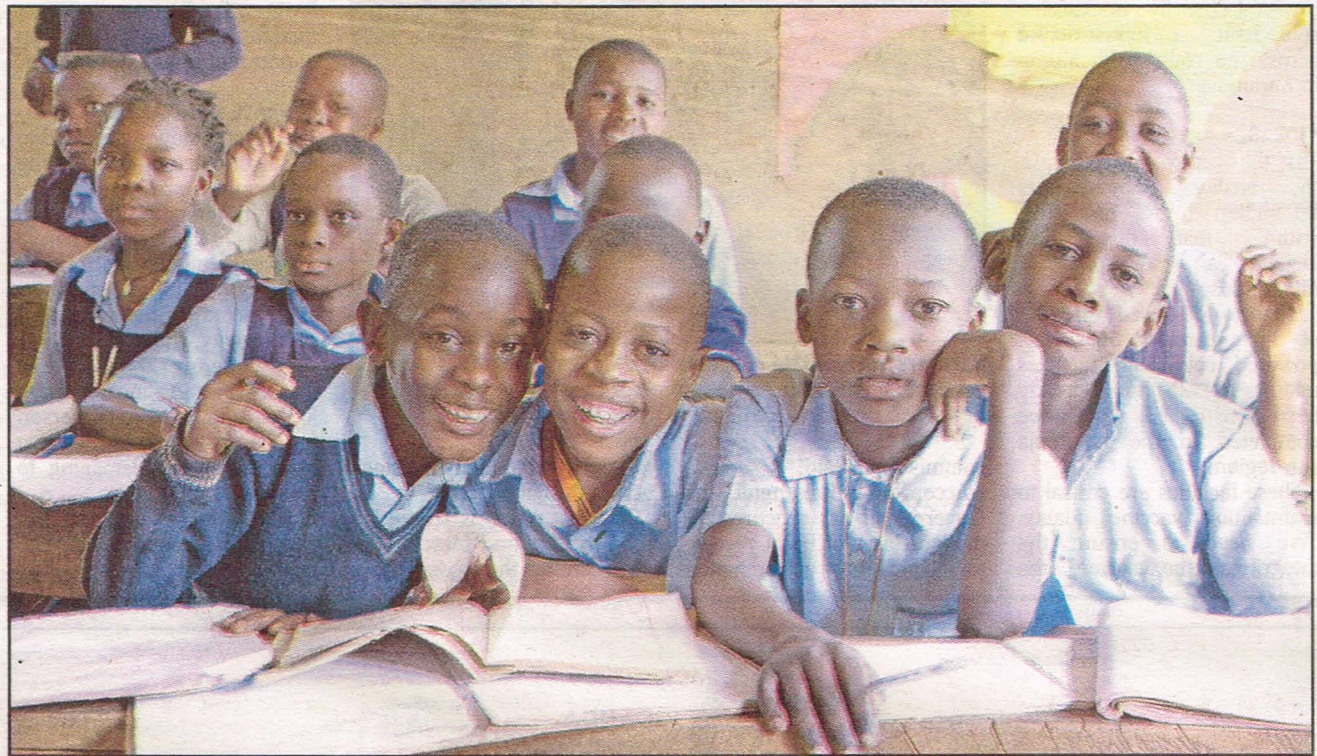
## WHAT BANKERS SAY

Moses Rutahigwa, a retail and business banking director at Absa said lenders are trying to shift the conversation from simply borrowing to borrowing with information and structure.

"Empowering you to make the right choice is very important. That is why in this campaign we are not saying just come and borrow, but borrow with an informed point of view," Rutahigwa said.

He further said: "Banks want customers to understand loan covenants, the conditions attached to borrowing, such as maintaining certain cash flow levels or keeping accounts active. He said some

# ARE SCHOOL FEES LOANS A BRIDGE OR A BURDEN?



Primary school pupils in a classroom. Many school-aged children miss classes when parents fail to pay school fees

**41% of parents surveyed said they had taken out a loan to pay school fees as the last resort to get children back to school.**

customers borrow and then shift their banking elsewhere, which can affect future credit assessments."

"We are happy when customers come and say let us have a question about what the meaning of this covenant is. When you explain, you inform them that when you have taken a loan, please ensure that every month you are banking a certain amount on your account for us to deliver updated assessment when you

come back for an additional loan," Rutahigwa added.

## SAVINGS HABITS IN UGANDA

Despite the proportion of Ugandans who keep track of the money they receive and spend increasing by 10%, seven out of every 10 are grappling with personal budget deficits, according to findings of the 2023 Finscope study.

The data indicates that majority of the population is facing significant financial strain as their spending outweigh their earnings. The fifth Finscope findings represents 24.6 million of the adult population, a significant growth from 18.6 in 2018.

Comparing data from 2018 to 2023, the study highlights a concerning trend. For instance, in 2023, 20% of Ugandans sought assistance from family or friends to manage their budget deficits, a figure that is higher compared to 16% in 2018.

## DEEPENING CRISIS

Experts say these findings suggest a deepening financial crisis among Ugandan households.

## SCHOOL FEES BURDEN

The numbers reveal the pressure underneath. Two-thirds of parents, about 66%, said paying school fees was either very difficult, or simply not easy.

Many reported selling property, cutting back on food and clothing, or taking on multiple jobs to keep children in class.

However, the same survey hints at what happens when school fees cannot be met, even with borrowing.

Among 270 school-aged children in the sampled households, 27% had been absent from school for more than two weeks in the past year.

Girls made up 57% of those prolonged absences. School owners point to unpaid fees as the main reason.

According to schools surveyed, 80% of absenteeism is linked directly to households failing to clear school fees on time. On average, fewer than half of parents make payments when they are due.

"Seven out of every 10 Ugandans are operating a budget deficit. That means, they need more money to cover their expenses than they earn. It's a key thing to be concerned about. People are struggling," Bobby Berkowit, from FinMark Trust, said while launching the report in 2024.

"In 2018, more Ugandans were reducing their spending than in 2023. What has happened in 2023 is a shift in mobilising funds either by asking family or friends,

dipping into saving or by borrowing. We see that the main coping mechanism has shifted. Instead of people cutting on spending, they are simply finding others ways to meet the extra expenses."

According to the study, majority of Ugandans are also more vulnerable to economic shocks today than they were five years ago.

The study found that nine out of every 10 Ugandans were faced by an unexpected event.

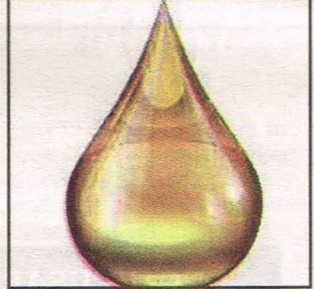
## FOREX RATES

CURRENCY	BUY	SELL
US DOLLAR	3,560	3,600
EURO	4,230	4,400
POUND	4,830	5,000
KENYA SH	27	30
TZ SH	1.36	1.68
DHIRAM	920	1,050
S.A RAND	210	290
JAPANESE YEN	18	35
RWANDES FRANC	2	3.4
DOLLAR SMALL	3,300	3,600

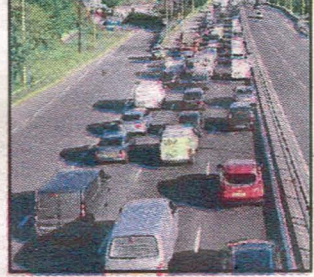
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