

Financial literacy and household investment choices in Uganda

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In this study, we aim at establishing the levels of financial literacy among households in Uganda and then investigate whether financial literacy is associated with household investment choices. Firstly, we measure financial literacy using three questions that capture an understanding of the basic financial concepts of interest rate, discounting and borrowing. Specifically we establish whether households with high financial literacy levels are more likely to choose to invest; through a bank investment account, with an informal group, in a personal business or invest in Agriculture. We document low levels of financial literacy in Uganda, with just 19.6 percent of the entire sample answering all the three questions correctly. We find significant age, gender, education, employment, and income gaps in financial literacy. Old respondents, female, respondents with low levels of income and education and unemployed respondents display significantly low levels of financial literacy. We further find that respondents who are risk averse, those who seek financial information and advice from informal sources and those with long distances to the nearest commercial banks displayed low levels of financial literacy. We find that, financial literacy is positively and significantly associated with household investment choices. Respondents who answered all the three questions correctly are more likely to choose to invest through an investment account, invest with an informal group and also to invest in a personal business. Our results contribute to the government's National Financial Literacy Strategy by establishing the population segments that is most/least financially literate hence such initiatives should be directed towards those with low financial literacy levels.