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SOURCES OF PRIVATE SAVINGS IN UGANDA: PROCEDURAL PAPER¹⁾

Note Economic Development Research Papers are written as a basis for discussion in the Makerere Economic Research Seminar. They are not publications and are subject to revision.

INTRODUCTION

While accepting that Economic Development is a complicated process involving many non-economic variables, it is probably true to say that the main problem in creating and sustaining long term economic growth is the mobilisation of resources for capital formation. In East Africa the present level of economic growth is not only a problem of capital formation and a high rate of capital formation, i.e. a quick increase of the tangible and real property of an economy, is only one of the characteristics which mark the path towards a highly developed economy. But the present level of capital stock as a result of the small investment activity in the past, is low that all efforts towards economic development must aim to increase substantially the rate of saving and investment.

The reason for the low volume of savings and investment in East Africa is mainly the low income which makes it impossible to leave a margin for greater savings after having deducted the necessary expenditures for living. But not only the absolute level of the per capital income is an important defining quantity of the possible volume of savings and investment in an economy but other factors, for instance the distribution of national income are of great significance.

Although there is little data available on income distribution it is probably true to say that only a small percentage of the total population is responsible for almost all savings in East Africa. There would however appear to be much scope for raising savings from the remaining "non-savers" since it is known that many engage in proportionately heavy expenditures on non essential consumer goods.

In view of the above there is no doubt that it is possible to achieve a higher level of savings and investment. There is not only the limited savings-ability which is the reason for the present unsatisfactory volume of investment but there is probably also a lack of a sufficient savings-willingness.

One may characterize the savings situation in East Africa in terms similar to those used for the Sudan:

"It was mentioned earlier that the rate of savings in the country is low. While it is true that low level of income is not conducive to high savings, the habit of postponing consumption to some future date is alien to the mentality of the average income-earner - the present consumption is the force majeure. The notable absence of saving consciousness of the community is evidenced by the fact that even people with high income spend practically all their income".¹⁾

Book
Number

I should like to thank Dr Gugler, J. Loxley and M. Tribe for their comments and corrections.

¹⁾ E.M. Kubinski: "Public finance for stability and growth in an underdeveloped export economy", Amsterdam 1961, page 12.

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However, the efforts for higher capital formation in East Africa must not only be seen statically. But a higher rate of saving should not be achieved by limiting consumption to its present level, but the marginal rate of saving should be greater than the average rate during a period of economic growth.

The fact that also institutional reasons can partially be responsible for the lack of capital is frequently not sufficiently recognized; in other words, if the banking system is not sufficiently developed, the lack of capital can be felt even more than it would be as a result of the low level of savings. The statement that an efficient banking system and capital market is missing in developing countries is, however, redundant; because the existence of these instruments are one of the typical signs of developed economies. At the same time, it would be wrong to assume that a forced creation of a banking system could entail a healthy acceleration of economic growth if the other sectors of the economy are lagging behind. It is more likely that, on the contrary, the result would be inflation and a consequent slowing down of the growth process.

On the other hand, if an institutional factor like the banking system is lagging behind in its development this possibly can hamper the economic growth. It is therefore essential to achieve balanced growth between an efficient banking system and capital market on the one hand and the development of the other sectors on the other hand. A point in case is the relatively small amounts of savings deposits in developing countries which underlines the importance of the institutional factors. A functioning savings organisation covering the whole country could collect savings and utilize them for investments. Even in the more developed of the underdeveloped countries like for instance in Uganda, Kenya and Tanzania, the banks are concentrated mainly in the few larger towns.²⁾ In addition, they are frequently not interested in opening up accounts for small savers.

To develop the banking system also in rural areas should therefore be a target of high priority in the national development plans because the unutilized saving potential in the farming areas is frequently considerable. At the same time these banking institutions in rural areas could furnish the farmers with more and more effective credits at reasonable and not too much fluctuating interest rates. Thus contributing considerably to modernizing and mechanizing agriculture.³⁾

"Saving" in 'Work for Progress' 1966-1971,
Uganda's Second Five-Year Plan

The authors of the Second Five-Year Plan have clearly stressed the eminent importance of private saving as a major precondition for the economic growth of Uganda:

"The achievement of the targets set out in Chapter I will require a major effort from all sectors of the economy. The effort required may be summarised as follows:

(1) a steady increase in the rate of domestic savings both in the private and public sectors";⁴⁾.....

²⁾ "Work for Progress" 1966-71, page 113, 8.18

³⁾ Work for Progress, page 115, 8.21

⁴⁾ do. , page 23, 2.1 and 2.2

"For the individual this will mean that, although he can expect increasing Government services and greater income as a result of the Plan, he must contribute to the Plan through greater savings to finance the investment programme,⁵⁾

"Certainly, in the long run, Uganda must expect to develop predominantly through creating high rates of domestic savings".⁶⁾

"The resulting ratio of additional savings to increases in output is 23 per cent. That is, in economic jargon, the marginal propensity to save over the Plan is assumed to be 23 percent."⁷⁾

"Thus, even if foreign aid flows at the projected rate, a very considerable domestic savings effort is assumed in the Plan. The average savings ratio at the beginning of the Plan is little more than 12 per cent; the marginal ratio must be about twice that level to achieve the investment targets set for 1971."⁸⁾

"Not only must the Government ensure that the domestic savings effort is sufficient,⁹⁾

"Private savings can continue to play an important part as a method of releasing resources for development. There are a number of means by which their role will be expanded:

The first is to stem Capital outflow. A second means lies in the provision of additional investment outlets to encourage saving amongst a wider range of the public. In many countries the payment of house purchase mortgages and of insurance premiums form a major source of private savings. Also, a wide range of industrial investments are available to the small investor. In this connection steps will be taken to develop the Kampala Stock Exchange".¹⁰⁾

"The more private individuals are willing to save, the less Uganda will need to be dependent on foreign sources of finance and heavy tax burdens to achieve the investment targets"¹¹⁾

Object

There are no published figures of the volume of private savings in Uganda and at best there are only estimates available. Thus empirical material has so far not been made available which is also stressed in the Uganda Development Plan 1966-1971 where it is said on page 32:

"Direct records of savings as such are not available....."¹²⁾

However, even the estimates of private domestic savings which according to the Plan are "based on the difference between the figure for gross capital formation and that for net external finance"¹³⁾ should be treated with care. "Reliance upon such crude estimates is not the fault of the planners, but a necessary procedure in the absence of any direct estimates of private savings whatever".¹⁴⁾

5)	Work for Progress: Page	23,	2.3
6)	do	"	26, 2.16
7)	do	"	26, 2.19
8)	do	"	26, 2.20
9)	do	"	28, 2.28
10)	Work for Progress	1966-1971, page	33 - 2.51
			2.52
			2.53
11)	do	"	" , page 33 - 2.56
12)	Work for Progress,	page 32;	2.49
13)	W.T. Newlyn	EDRP. No. 112,	page 2(i)
14)	do		

This is where my research work comes in. It should be noted this is the first attempt of this kind "to make some kind of estimate of the order of magnitude of savings in the private sector in Uganda classified by source and by asset acquired"¹⁵⁾ After completing my investigation in Uganda it is planned that I shall spend a month's time each in Kenya and Tanzania in order to collect some informations on private savings in these countries by means of interviewing bankers and Government officials concerned. It may be that similar studies will be undertaken by others in the two countries mentioned at some future date; in this case it is hoped to benefit from the results of these studies which could then be included in my work as well.

Furthermore, I believe that also with the ECA in Addis Ababa there is some material available on savings development in various African countries.

My study will be based mainly on four sources:

- 1) figures which are now being extracted from the data obtained in a large-scale sample survey of Buganda Coffee farmers.
- 2) a questionnaire to all civil servants and to salaried staff of a sample of large organisations.
- 3) income tax data, and
- 4) the results of the analysis of the "Cooper" Card Index data which is now being undertaken by Mr. Gervers".¹⁶⁾

(1) Survey of Buganda Coffee Farmers

This is the first budget survey carried out in a rural area in Uganda. The budget period runs from the middle of August 1962 until the middle of August 1963.

I had the opportunity to have a preliminary look at the records of data collected by the Statistics Division in Entebbe. However, I should like to postpone my analysis of this large-scale sample survey until the results have been published (the publication is already in progress). Furthermore, I should like to wait until I had the opportunity to study the 1200 questionnaires in more detail.

Questionnaire

In the past few weeks I have prepared two questionnaires (Appendix I and II) which are aimed to collect statistical material relating to the following:

- a) the ability to save
- b) the willingness to save
- c) the motive for saving
- d) the variety of the chosen saving opportunities
- e) the choice of saving-institutions
- f) the average rate of saving in different income groups

It is assumed also that the monthly income figures of individual persons are of value in determining the average monthly income level which makes savings possible.

¹⁵⁾ W.T. Newlyn EDRP. No.112, page 2 (1)

¹⁶⁾ do

Designing the questionnaire the following factors were taken to consideration:

- 1) the usual dislike to answer questionnaires
- 2) a special dislike of questions relating to personal income
- 3) the widely found obscurity concerning the actual definition of "saving".

The investigation I carry out by using my questionnaires is directed to the following professional groups:

Salaried staff
Civil servants
Self employed people.

After the analysis of the first brief questionnaire I shall call on some of those respondents who indicated their willingness to be interviewed. (Appendix I, question No.11)

I designed a rather brief questionnaire, this being more likely to ensure better replies by persons who would otherwise refuse to answer a questionnaire of more elaborate form (App. I). However, at the moment it is still not clear how many questionnaires will be distributed and what channels will be used. The latest employment records I have access to showed the following figures as per the end of 1966:

<u>EMPLOYMENT FIGURES:</u>	<u>Public</u>	<u>Private</u>
Agriculture	5,978	43,941
Cotton Ginning	---	5,359
Coffee Curing	---	4,779
Forestry, Fishing, Hunting	2,468	492
Mining and Quarrying	79	6,369
Miscellaneous Manufacturing Industries	257	22,812
Manufacture of Food Products	----	9,524
Construction	20,152	9,004
Commerce	149	14,091
Transport and Communications	6,006	3,827
Government (Administration and Miscellaneous)	15,398	111
Local Government	19,817	----
Education and Medical Services	16,851	24,337
Miscellaneous Services	3,959	9,729
	<u>91,114</u>	<u>154,375</u>

It is pretty obvious that in view of these figures it is impossible to approach all the civil servants and other clerical staff within a half year's time. I therefore prefer to apply the sample method by selecting a few Government Departments, industry, trade - and marketing organisations.

In this connection it is asked whether it is more successful to contact the various persons concerned directly through the interviewer or indirectly through personnel departments. I would have thought that the results will be less favourable and accurate if the latter method were applied since the interviewed persons would be more likely to be restrained in making frank and precise replies.

On the other hand it should be no problem to deal directly with representatives of the various groups of the self employed people, i.e. doctors, dentists, lawyers, architects, consultants etc. In this connection I should mention that I was unable to find out whether the various groups are organized as unions or associations or sub-associations.

May I raise another question in asking whether the selected persons of the self employed people should be prepared on the interview by sending them in advance the brief questionnaire (in a different form) or whether they should be contacted directly and unprepared (with the longer version).

The distribution of the questionnaire should not only be cover Kampala, Jinja and Entebbe but also selected places in the eastern (Mbale), northern (Gulu), western (Fort Portal) and south-western part (Mbarara or Masaka) of Uganda.

The basis of my interviews will be the B-Type questionnaire (Appendix II), that means the questionnaire in the more extended form.

This B-Type questionnaire is the result of various trial tests of various persons and departments in Kampala and Jinja. I have to add in this connection that these persons were always selected by the personnel departments, a fact which, no doubt, has influenced the results. Furthermore only African employees were interviewed.

The aim of these interviews was:

- 1) to check the clarity of the various questions
- 2) to check the optimum arrangement of the questions
- 3) to check the length of time needed to go through the questionnaire
- 4) to receive further suggestions to improve the questionnaire.

From the above tests I came to the conclusion that the questions have to be posed in a rather direct way. This even refers to the questions relating to the monthly income which was, much to my surprise answered in a very straight forward manner. This is why I abstained from inserting various income groups as I had intended to use previously.

It was found that the question:
 "How much Development Tax did you pay last month?"
 is a rather useful control to verify the correctness of the income stated by the person interviewed.

No answer however was received on the questions concerning the income received through sale of cash crops. All those persons who were growing cash crops answered almost unanimously
 "for domestic use only".

I did not succeed very well with questions depending on a degree of education. Thus I asked for example:

"Do you know a company which has recently issued shares in East Africa?"

"Did you buy some shares?"

The reply was regularly negative. On the other hand I asked the same persons in a more direct manner:

"The company ROTHMANS OF PALL MALL (Kenya) Ltd.
 has recently issued shares to the public.
 Did you buy some shares?"

Some of these persons who had previously answered "no" the first question now answered in the affirmative.

Another difficulty that I found was that the definition "saving" being commonly used by economists is obviously often not identical with the meaning which those persons I interviewed had in mind. Thus I found that persons who first denied any savings, later, in the process of the interview, mentioned typical savings operations when enumerating the monthly regular monetary transactions. I have those persons in mind, for example, who did not consider any premium payments to insurance companies or regular transfers to building societies as savings. Therefore I have included special questions dealing with these kind of savings.

Another problem I wish to present for discussion is whether questions asking for the motives of savings should be left entirely open or whether the commonly accepted answers of the motives of savings should be given to the persons interviewed for selecting those motives they agree with.

Finally, I should mention that the most difficult questions should be among the first one's asked in a more extended interview to avoid any inaccuracy caused by fatigue or reluctance or impatience.

At recent interviews of savers undertaken in West Germany it was found that answers on questions dealing with saving were negative much less frequently when these questions were asked before those dealing with income. This result, however, could not be confirmed during my tests undertaken. The reason might be the small-scale work which was involved in my case.

A - Type..

Appendix I

1. In which year were you born?

Are you an: AFRICAN ASIAN EUROPEAN

Marital status: NEVER MARRIED MARRIED WIDOWED DIVORCED SEPARATED

How many children do you have?

2. What is your work here? (Please specify)

EMPLOYEE CIVIL SERVANT

Do you have also a business? YES NO

YES: Kind of business

3. Total monthly income, on average (inclusive of salary, bonus, sale of products, other income)

under 200 Shs	200 - 319 Shs	320 - 419 Shs	420 - 519 Shs	520 - 749 Shs	750 - 999 Shs	1000 - 1499 Shs	1500 - 2000 Shs	2000 - 2500 Shs	Over 2500 Shs
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4. How much do you normally save monthly? Shs

5. For what purpose(s) do you save?

.....
.....

6. Please tick the kind of savings you have:

- Cash at home ; In which year did you start 19.....
- Bank: Current account ; In which year did you start? 19.....
- Savings account ; In which year did you start? 19.....
- P.O. Savings Bank Deposits ; In which year did you start? 19.....
- Life Insurance ; In which year did you start? 19.....
- Endowment Assurance ; In which year did you start? 19.....
- Building Society ; In which year did you start? 19.....
- Premium Development Bonds ; In which year did you start? 19.....
- Stocks ; In which year did you start? 19.....
- Shares ; In which year did you start? 19.....
- Loan to somebody ; In which year did you give it? 19.....
- Investment in a local enterprise ; In which year did you start? 19.....
- Other savings (Please specify)

7. How much are your total accumulated savings from these assets now?

under 500 Shs	500 - 1200 Shs	1200 - 3800 Shs	3800 - 6500 Shs	6500 - 9500 Shs	9500 - 15000 Shs	15000 - 30000 Shs	30000 - 50000 Shs	Over 50000 Shs
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please turn over

II

8. Do you own a house? YES NO

YES: How much have you invested in your house(s)? Shs

9. Do you have any land? Tick appropriate: Mailo
Kibanja
Customary

How much have you invested in it? Shs

10. How much do you have to pay every month

for instalments?Shs

for house mortgage?Shs

11. We might like to discuss with you in some more detail.

Would you be agreeable to Mr. Hubner, who is conducting this
study coming to meet you? YES NO

If so, could you please state your name and address?

(Mr. - Mrs. - Miss)

.....

THANK YOU VERY MUCH FOR BOTH YOUR PATIENCE AND YOUR COOPERATION.

B - Type.

Appendix II

1. What is your work here? (Please specify)

EMPLOYEE	CIVIL SERVANT
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2. What salary scale are you on?

3. How much was your income last month from:

Salary	Shs
Bonus	.....	Shs
Overtime work	.....	Shs
Rent	.....	Shs
Loan received	.....	Shs
Crops produce	.....	Shs
Gifts	.....	Shs
Other income	.....	Shs

TOTAL Shs

4. How much was your total salary last month before deductions according to your SALARY PAY SLIP (including bonus)?

..... Shs

5. How much were your total deductions according to your SALARY PAY SLIP?

..... Shs

Please specify the deductions:Shs for

.....Shs for

.....Shs for

.....Shs for

6. If you had a pay raise beginning next month by a quarter of your present salary, What would you like to spend this extra money for?

.....

7. Do you also have a business? YES NO

YES: What kind of business?

8. Are you also a partner in a business? YES NO

YES: What kind of business?

9. Did you have any special income last month? YES NO

YES: Where did it come from?
How much was it? Shs
What did you do with this money?

If 'PUT INTO BANK', what would you then do with it?

.....

10. Which of the following crops do you grow?

- Coffee
- Cotton
- Matoke
- Groundnuts
- Maize

any other crops? Please specify

11. How much did you receive for the COFFEE you sold last year?

..... Shs

12. How many pounds of COTTON did you sell last year?pds

13. Do you sometimes sell MATOKE? YES NO

YES: Did you sell last week? YES - NO How muchShs

Did you sell last month? YES - NO How muchShs

14. How much did you make from MAIZE following the last harvest?

..... Shs

15. Did you sell any other crops last month? YES NO

YES: What kind of crops?

How much did you make? ,,,..... Shs

16. Did you sell some cattle last year? YES NO

YES: What kind of cattle?

How much did you make? Shs

17. Which major items do you own? For instance:

- Bicycle
- Motorcycle or Scooter
- Car (Type/Model.....)
- Lorry(Type...../Model.....)
- Radio
- Television
- Refrigerator
- Furniture
- Telephone

any other items (please specify)

18. Which of these major items did you buy in the last 12 months?

CASH

BY INSTALLMENTS

.....

.....

.....

III

19. Are you a member of a

PROVIDENT FUND? YES NO If YES: Which?.....

PENSION SCHEME? YES NO If YES: Which?.....

How much do you have to pay each month? Provident fund:..... Shs

Pension Scheme:Shs

20. What INSURANCES do you have?

Car insurance Annual premiumShs

Life insurance Annual premiumShs

Endowment assurance Annual premiumShs

House insurance Annual premiumShs

Household insurance Annual premiumShs

other insurances (please specify)

If LIFE INSURANCE: Do you claim income tax relief? YES NO

21. How much did you have to pay last month

for instalments Shs

for house mortgage Shs

for repaying of loan Shs

22. Did you grant somebody a loan? YES NO

YES: How much Shs

Do you think you will get it back? YES NO

Do you get any interest for it? YES NO ; YES: How much.....Shs

23. How much DEVELOPMENT TAX did you pay last month? Shs

24. Do you give some HOUSEKEEPING ALLOWANCE your wife after receiving your salary?

YES NO

YES: How much Shs every DAY

WEEK

MONTH

25. How much SCHOOL FEES did you altogether pay in the last 12 months for your own children?Shs

26. Are you supporting anybody else? YES NO

YES: How much do you give per month, on average? Shs

27. How much did you put in a LOTTERY last month? Shs

IV

28. Supposing you have some money left over at the end of each month, where would you wish to deposit it?

- Cash at home
- With a Bank
- with the P.O. Savings Bank
- with a Building Society
- with an Insurance Company
- invest in a local enterprise

29. Did you save some money from your last salary/income? YES NO

YES: How did you keep it?

If at bank: What kind of account is it?

What did you save it for?

How much did you save? Shs

NO: Would you like to save money? YES NO

How much more money do you think you would need to enable you to save Shs. 100/- each month? Shs

30. Do you keep a: Bank account? YES NO
P.O. Savings Bank account? YES NO

31. What kind of savings do you have?

- Cash at home ; Amount Shs, started 19
- Bank: Current account ; Amount Shs, started 19
- Savings account ; Amount Shs, started 19
- P.O. Savings Bank Deposits ; Amount Shs, started 19
- Life Insurance ; Amount Shs, started 19
- Endowment assurance ; Amount Shs, started 19
- Building Society ; Amount Shs, started 19
- Premium Development Bonds ; Amount Shs, started 19
- Stocks ; Amount Shs, started 19
- Shares ; Amount Shs, started 19
- Loan to somebody ; Amount Shs, **given** 19
- Investment in a local enterprise ; Amount Shs, started 19
- Other savings (please specify)

32. UGANDA GOVERNMENT STOCKS are now on sale.

Did you buy some stocks? YES NO

YES: For how many Shillings did you buy? Shs.

Do you have some other stocks? YES NO

How much interest do you get? per

33. PREMIUM DEVELOPMENT FONDS can be bought in Uganda.

Did you buy some? YES NO

YES: For how many Shillings did you buy? Shs

34. The company ROTHMANS OF PALL MALL (Kenya) Ltd. has recently issued shares to the public.

Did you buy some shares? YES NO

YES: For how many Shillings did you buy? Shs

Do you have some other shares? YES NO

35. TANZANIA has recently issued stocks in its own currency.

Did you make an application? YES NO

YES: For how many Shillings did you buy? Shs

36. Suppose you were in receipt of a fairly large sum of money, say 3 months' salary/income,

what would you do with it?

If 'put into bank' : What would you then do with it?

.....

37. What is your home district?

38. How long have you been working here?

39. To whom does the house belong in which you are living?

- The Government, Municipality or City Council
- The National Housing Corpor.
- The employer
- A private landlord
- Relatives
- Friends
- Your own house

40. If you are living in your own house:

Did you build it ? YES NO , When?

Did you buy it complete? YES NO , When?

41. Do you own a house somewhere else? YES NO

YES: Do you get a rent for it? YES NO

How much Shs per

42. Where did you get the money from for

	Own savings (Shs)	Loan (Shs)	Savings & Loan (Shs)	Gifts (Shs)	Inherited (Shs)
a) building the house					
b) buying the house					

Where did you get the loan from?

VI

The total costs for building the house have been about Shs.

43. Do you plan to build a house? YES NO

YES: Have you already bought building materials
with own savings ?Shs
with loan?Shs.

44. How much is the rent each month for the rooms that you occupy? Shs.

How much of the rent do you pay yourself? Shs

45. Are there some other people living with you at present? YES NO

YES: How many Adults
Children

How much rent do they pay you each month? Shs

46. How much did you pay last month for: Water Shs

Electricity Shs

47. Do you have any land somewhere else? YES NO

YES: What kind of land?

Mailo How many acres is it?

Kibanja How many acres is it?

Customary How many acres is it?

Who cultivates the land?

How many rent do you get for it each month? Shs

48. In which year were you born?

49. Are you an: African

Asian

European

50. How long have you been to school?(years)

What was the last grade or certificate you passed?

Have you had any other training? YES - NO, Which?

51. Are you taking any courses at present? YES NO

YES: Which courses?

How many school fees do you have to pay? Shs per

52. Do you have to pay school fees for somebody (children etc.)

who is studying in foreign countries? YES NO

YES: How much? Shs per

VII

53. Are you married at present?

YES

NO

YES: To how many wives are you married?

How much dowry did you pay altogether? Shs.

Where did you get the money from?

54. What is your religion?

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