Strengthening the effectiveness of Uganda's consumer protection framework: Mystery shopping assessment of credit cost disclosures

Innovations for Poverty Action

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Executive summary

Uganda has made substantial advancements in financial consumer protection policy in recent years but understanding whether and how the financial sector complies with these new regulations can be a challenge in the absence of systematic monitoring. Setting rules is insufficient to ensure proper market conduct, so supervision of sales visits is needed to ensure that the rules established are upheld in practice. To provide a snapshot of current practices and compliance with existing guidelines on consumer credit information provision at the point of sale, Innovations for Poverty Action (IPA) conducted a "mystery shopping" exercise of lending institutions in three districts of Uganda. For this survey, a mystery shopper posed as a regular customer and, unannounced, visited lenders in order to discover information about the loan application process without the credit officer knowing they are being observed, and thus avoiding impacting their normal behavior or practices.

Between July and August 2019, IPA conducted 1102 mystery shopping visits to Tier 1-4 (see Table 1) lenders in Kampala, Mbarara, and Gulu to document loan officer conduct related to credit product disclosure and pricing transparency.

Table 1: Financial institutions in Uganda

Tier	Total number of institutions	Types of institutions	Regulatory authority
Tier 1	25	Commercial banks	Bank of Uganda
Tier 2	5	Credit & finance companies	Bank of Uganda
Tier 3	5	Microfinance deposit-taking institutions (MDIs)	Bank of Uganda
Tier 4	2,000+	Non-deposit-taking microfinance institutions (MFIs), moneylenders, self-help groups and SACCOs	The Uganda Microfinance Regulatory Authority (UMRA) began licensing Tier 4 institutions in 2018. As of November 13th, 2018, 46 non-deposit taking MFIs had been issued licenses by UMRA[1]

Institutions visited were supervised by either the Bank of Uganda (BoU) or the Uganda Microfinance Regulatory Authority (UMRA). IPA recruited and trained shoppers fitting profiles reflecting typical Ugandan borrowers. Shoppers portrayed a range of personas and scenarios—limited versus advanced borrowing knowledge, business versus personal borrowing need, male versus female, and varying loan amount requests—to measure how such differences would impact the products shoppers were offered and the information disclosed by loan officers. IPA also analyzed publicly available data on cost of credit published by the BoU in order to complement our understanding of our findings.

[1] At the time of writing, the list of licensed institutions for the calendar year 2019 was not published yet.

Key lessons from this mystery shopping exercise for Ugandan regulators include:

Information on product cost, including interest rate and total cost of credit, was not consistently provided by loan officers

Pricing information on the loan product was not always forthcoming:

- Only half of eligible mystery shoppers were informed of the total cost of credit.
- Only 69% of loan officers provided information about interest rates without being prompted (98% provided it to shoppers who requested the interest rate).
- Of those loan officers to who did provide the interest rate, 67% failed to explain it in detail to shoppers, including how it was calculated.
- Only half of eligible mystery shoppers were informed of the total cost of credit.

Inexperienced borrowers received less information

Our study used two shopper profiles: one experienced shopper who asked a set of predetermined questions about products, and one inexperienced shopper who did not prompt for information. The inexperienced shopper consistently received less information about products and pricing, suggesting particular challenges for protecting consumers with limited formal financial sector experience, or less education.

- 68% of experienced shoppers were given information on total cost of credit, compared to 12% of inexperienced shoppers.
- On average, loan officers disclosed 3.58 non-interest fees to experienced shoppers, compared to 2.97 non-interest fees to inexperienced shoppers. Furthermore, looking at Bank of Uganda pricing data over time, we observe a steady increase in the number of fees routinely charged to borrowers in Uganda, representing a potential increase in the "hidden cost" of borrowing. Moreover, the same fee might be called by different names at different institutions, making it impossible for shoppers to make effective comparisons.

Female shoppers were less likely to be spontaneously offered information or explanations of costs

Researchers recruited an equal number of men and women to serve as shoppers for this exercise, and randomly assigned branches and shopper profiles to both. As a result, we observed important differences between the experiences of women and men shoppers, especially in cases where women did not directly ask for information. The gender of the loan officers themselves did not appear to influence outcomes.

- Women were less likely to be given information on total cost of credit and interest rate spontaneously, without asking. Only 29% of women were spontaneously given information on total cost of credit, compared to 41% of men. Likewise, 28% of women were spontaneously given information about interest rate, compared to 59% of men.
- Loan officers were less likely to provide explanations about how the interest or total cost of credit would be calculated to women. Only 23% of women were given an explanation of the total cost of credit compared to 66% of men. Similarly, 17% of women were offered an explanation of how interest rate would be calculated, compared to 50% of men.

Printed materials were conspicuously absent during sales visits and did not comply with guidelines

Researchers directed all shoppers to ask for a payment plan, and experienced shoppers to ask for a key facts document using the term "summary document" to avoid suspicion.

- Loan officers showed shoppers a payment plan in 12% of visits. Institutions in Kampala provided a payment plan in 15% of visits, compared to in 6-7% of visits in Gulu and Mbarara.
- A key facts document was rarely shown in the first visit, even if asked for or hinted at by the shopper. Only 6% of shoppers were shown a key facts document overall.

Because of limitations to the methodology, this exercise was not able to capture whether or not customers would have received these documents during later stages in the loan approval process.

The team also instructed shoppers to collect any printed materials they could find in the branch.

- Of those institutions that had leaflets available, fewer than 40% stated interest rates on their written materials.
- Contrary to BoU's Financial Consumer Protection Guidelines, only a handful of printed materials which included interest rates were accompanied by the total cost of credit. In no case was the total cost of credit printed more prominently than the interest rate.

Based on our findings, we offer the following policy recommendations:

1

Financial consumer protection guidelines should be updated to require the key facts document be provided on a shopper's first visit to a lender, and the consumer should have the right to take a hard copy of the key facts document home. Complementary to this, there could be a minimum number of days within which the key facts document remains a valid loan offer, so the consumer can use key facts documents from different providers to compare and shop around. Future work should examine the ways in which key facts documents are presented to consumers at later stages of the approval process, for example stapling a document to the back of a loan contract which may reduce its visibility to the consumer.

2

Regulators should adopt compliance checks to ensure provider adherence to regulation. BoU and UMRA can consider methods such as periodic consumer surveys and mystery shopping, accompanied by enforcement, to ensure that institutions are holding front line sales staff accountable to consumer protection rules. In particular, increased enforcement of written disclosure of product information should be undertaken to address the low provision of written materials to shoppers and the low frequency of disclosing the total cost of credit in marketing materials as already required.

3

The effectiveness of key facts documents should be tested with consumers. BoU should use a scientific approach to test existing key facts documents with consumers to evaluate the clarity and usefulness of information, as well as impact on decision-making outcomes. Lab-in-the-field and rapid-fire testing of new key facts document prototypes will inform the most effective design and measure impact of this requirement on consumer behavior. Testing and evaluation of prototypes should pay attention to the needs and preferences of women, as women are more likely to receive less information than men during sales visits.

4

A full review of fee types and their prevalence should be conducted to inform possible rules regarding permissible use and disclosure of fees. The increase in the number of loan fees in the Ugandan credit market increases the risk that true cost of loans become harder for borrowers to assess. This should include an analysis of the actuarial fairness of credit life insurance products, which are a regulatory requirement for all loans. Policymakers should review pricing and payout ratios for current options on the market compared to mortality tables to make sure that insurance fees are not excessive.

5

In addition to a review of fee types, policymakers should also require **standardized definitions and names of fees associated with credit products.** Currently, lenders are using different names for the same types of fees, thus making it difficult to understand what is being charged, compare costs between institutions, or regulate fee charges.

6

Where possible, BoU and UMRA should harmonize their policy approaches. This includes making information collected through the quarterly lending survey more uniform across Tiers 1-4. This would help in the design of comparison tools consumers could use on costs of loans at different banks. BoU and UMRA could also consider harmonizing their lending-related consumer protection rules. These rules currently reflect similar principles, but making them directly matched would ensure equal protection for all borrowers and increased clarity on their rights across institution types.

7

BoU should review and revise standards for financial institution reporting of credit product data in order to present a more complete and accurate overview of the types and costs of products being offered on the market in Uganda. Better data reporting will allow policymakers to track trends in the market, assess supply-side responses to pricing transparency initiatives, and make meaningful comparisons across institutions and financial institution types. Better product data can also allow for the development a consumer-facing product comparison tool, such as a website or an app, which can provide quick, reliable, and timely information to prospective borrowers.

8

Regulators could leverage credit pricing and fee data to inform other market monitoring efforts. Data reported to BoU on credit products and fees should be linked to all other data that BoU has on financial institutions, for example consumer complaints data, in order to analyze trends and spot problems more quickly for corrective action.

9

Policymakers should experiment with and adopt policies and tools to improve knowledge of financial concepts and products among both borrowers and loan officers alike. On the supply side, it is possible that loan officers did not mention or provide explanations of certain concepts due to their own lack of knowledge or comfort with the topics. Adopting evidence-based training interventions and hiring guidelines could improve the quality of loan officers employed by financial institutions and lead to better information sharing. On the demand side, policymakers should test and adopt through just-in-time, neutral financial advice interventions and behaviorally informed information and comparison shopping tools in order to deepen understanding of key product features and terms and improve product selection outcomes. These tools and interventions should be designed using a gender lens to ensure that they are accessible and user-friendly for women, as women will disproportionally benefit from well-designed trainings and tools to improve knowledge.

10

Create an enabling environment for simplified loan products. New credit products available on the market from mobile network operators, for example MoKash, are notable because they provide simple, clear instructions and are easy to use. In comparison, loans offered by brick and mortar institutions may be have more complex price structures and requirements. In order to better serve less experienced borrowers, especially those seeking smaller loan amounts, institutions should innovate around loan designs and pricing structures which are simplified and easier for the borrower to use. This may need to be accompanied by regulatory reform in order to enable brick and mortar institutions the freedom to innovate and simplify loan designs and pricing structures.

1 | Introduction and Ugandan context

Many consumers in financial markets find out about the characteristics and costs of products exclusively from providers. While deciding which product to use, a customer may encounter unfamiliar concepts and must make sense of prices with various components, including, for example, interest rates and a range of possible fees.[2] At the same time, financial service providers may shroud prices in order to maximize profits,[3] or fail to present lower-cost product options that might better fit a consumer's stated needs.[4] As a result, financial consumers may fail to compare different products and miss out on the most cost-effective or suitable products.[5]

When consumers are not able to identify and obtain helpful, consistent product information, they may suffer negative consequences from borrowing.

First, consumers may not understand the full implications of taking on debt or be overly optimistic about their ability to repay certain amount of debt or deal with other consequences in the future. Second, borrowers may not have the knowledge or experience needed to actively seek out information on products on their own, or may be motivated by an urgent need and thus settle for suboptimal products without doing due diligence. Borrowers may take on more debt than they can afford, or become surprised by hidden fees which they had not initially factored into borrowing calculations. Similarly, non-standard and incomplete disclosure of products can make product comparison and shopping around difficult, resulting in borrowers paying more for their loan or not accessing the product most suitable to their needs. The inability to shop around effectively limits market competition, potentially keeping prices above market equilibrium rates. These deficiencies have been addressed by financial sector regulators through a range of policy measures, such as price disclosure standards, rules on sales staff incentives and commissions, and product suitability requirements.

1.1 Regulatory requirements for financial consumer protection

In 2011, the BoU introduced the Financial Consumer Protection Guidelines, which include obligations of Tier 1-3 financial institutions with regards to fairness, reliability, and transparency.

[2] Lusardi, A. and O. Mitchel (2014). "The economic importance of financial literay: Theory and evidence." National Bureau of Economic Research. Working Paper 18952.
[3] Stango, V. and J. Zinman (2011). "Fuzzy math, disclosure regulation, and market outcomes: Evidence from truth-in-lending reform." The Review of Financial Studies 24(2): 506-534, Heidhues, P., B. Koszegi and T. Murooka (2012). "The market for deceptive products." University of California, Berkeley, Bordalo, P., N. Gennaioli and A. Shleifer (2013). "Salience and asset prices." American Economic Review 103(3): 623-628, Gabaix, X. and D. Laibson (2018). Shrouded attributes, consumer myopia and information suppression in competitive markets. Handbook of Behavioral Industrial Organization, Edward Elgar Publishing.
[4] Gine, X., C. Martinez Cuellar and R. K. Mazer (2014). Financial (dis-) information: evidence from an audit study in Mexico, The World Bank.8
[5] See for example, Gross, D. B. and N. S. Souleles (2002). "Do liquidity constraints and interest rates matter for consumer behavior? Evidence from credit card data." The Quarterly journal of economics 117(1): 149-185, DellaVigna, S. (2009). "Psychology and economics: Evidence from the field." Journal of Economic literature 47(2): 315-372, Campbell, J. Y., H. E. Jackson, B. C. Madrian and P. Tufano (2011). "Consumer financial protection." Journal of Economic Perspectives 25(1): 91-114, Choi, J. J., D. Laibson and B. C. Madrian (2011). "$100 bills on the sidewalk: Suboptimal investment in 401 (k) plans." Review of Economics and Statistics 93(3): 748-763, Hastings, J., O. S. Mitchell and E. Chyn (2011). "Fees, framing, and financial literacy in the choice of pension managers." Financial literacy: Implications for retirement security and the financial marketplace 101, Agarwal, S. and B. Mazumder (2013). "Cognitive abilities and household financial decision making." American Economic Journal: Applied Economics 5(1): 193-207, Agarwal, S., R. J. Rosen and V. Yao (2015). "Why do borrowers make mortgage refinancing mistakes?" Management Science 62(12): 3494-3509.

Among Tier 1-3 financial institutions are banks, finance companies, and other deposit-taking institutions.[6] The obligations set forth by these guidelines include:

- Financial service providers should be transparent in conveying information about products, including the total cost of credit, use plain English, and font size minimum of 10 points
- A financial services provider shall, for all charges and fees to be levied, display prominently its standard fees and charges at all its branches, in promotional materials, and any other communication channels which it uses
- Consumers need to be shown a Key Facts Document (KfD) prior to taking a loan
- Consumers should not be discriminated against based on sex, race, colour, ethnic origin, tribe, birth, creed or religion, social standing, political opinion or disability

To complement these rules, Bank of Uganda has developed a "Know Your Rights: Loans" brochure. This brochure outlines key information for potential borrowers, explaining:

- Borrowers' right to a 10-day cooling off period for loans of UGX 3,000,000 or more and of a duration of one year or longer, at a maximum charge of 5% of the loan amount, and how to exercise these rights
- That borrowers should be given a key facts document for the loan, which "is free and should be provided in a language that you understand"
- The meaning of the total cost of credit
- A series of tips on managing a loan

Tier 4 microfinance institutions are guided by the Tier 4 Microfinance Institutions Act and Money Lenders Act (2018) established by the Uganda Microfinance Regulatory Authority (UMRA). UMRA's mandate includes, "protect[ing] the interests of the members and beneficiaries of Tier 4 microfinance institutions, including the promotion of transparency and accountability by applying non prudential standards."

UMRA has also developed regulations specific to moneylenders[7] which require these institutions to:

- Give borrowers a copy of the loan agreement, including all annexures;
- Display interest rates charged at all times in a conspicuous place at the premises;
- Avoid collecting collateral such as ID cards, prior to the disbursement of the loan;
- Compute interest on the monthly outstanding balance of principal outstanding;
- Publish and disclose to the borrower charges and transaction fees prior to entering into the agreement; and

[6] Microfinance Deposit-Taking Institutions (MDIs) include Tier 1-3 institutions and are supervised by the Bank of Uganda per the Microfinance Deposit-Taking Institutions Act of 2003, while Tier 4 non deposit-taking microfinance institutions, money lenders, and Savings and Credit Cooperative Organizations (SACCOs) are supervised by the Uganda Microfinance Regulatory Authority (UMRA).

[7] https://umra.go.ug/wp-content/uploads/2018/04/Money-Lenders-Regulations-Tier-4-MFIs-and-MLs.pdf

- Include key information in the moneylending contract, including:
  - Interest rate expressed as a monthly percentage if less than one year repayment period;
  - Date on which interest is payable;
  - Frequency of installments to be paid;
  - Right to make early repayment;
  - Permitted fees for the loan transaction to be charged; and
  - A mediation clause providing for a mediator to be appointed by the authority to resolve the disputes.

1.2 Understanding the gaps in consumer protection implementation

While both BoU and UMRA have established these important standards to guarantee transparency of product information and consumer rights, compliance with these standards is difficult to determine. A recent Consumer Protection Report of the Association of Microfinance Institutions Uganda (AMFIU) advises that "strong efforts are needed to harmonize and improve disclosure and client understanding."[8] This report found that lending institutions use a combination of flat and declining interest rates—despite UMRA requirements to use a declining balance method—making it difficult for clients to compare pricing across microfinance institutions (MFIs), even when prices are disclosed. The report also found that it is not common practice to give clients documentation—neither the contract itself nor as a separate key facts document—despite regulatory requirements to do so. This means clients may not have loan documentation to refer to in case of questions or litigation.

As the findings by AMFIU demonstrate, there are still gaps in compliance around pricing disclosure guidelines which may be due to a lack of adoption by financial institutions more broadly due to the cost of compliance or enforcement or a misalignment with the incentives of front-line credit officers. Firms or their sales staff may intentionally keep certain information hidden, or the information may be presented in a cursory manner to speed up the sales process. Deficiencies in how information is presented can harm consumers by making it difficult to compare and select the best-value products, leading to unexpected charges or terms that impact the consumer in the future. In addition to transparency and disclosure requirements, a sales experience should also meet the standards of fair treatment and product suitability. Under these principles, sales staff should act in the best interests of the consumer in their advice and recommendations, seeking to match the consumer with the best-value product that matches their needs. Measuring and enforcing compliance with these rules is an essential part of ensuring consumer protection for borrowers in Uganda.

It can be challenging, costly, and time consuming for financial sector authorities to determine how well industry players are complying with transparency and suitability principles. Our mystery shopping exercise provides a snapshot of the state of compliance with these guidelines by Ugandan financial institutions to inform authorities on the state of adherence to these rules, and provides recommendations on how to strengthen Uganda's consumer protection framework moving forward. The findings of this study are not meant to be used to trigger enforcement action of the institutions included in this exercise. Instead, they should provide regulators with data which can be used to understand the extent to which existing regulations are changing firm behavior, to identify deficiencies, and to formulate proposals to enhance enforcement in the future.

AMFIU (2016). Client Protection Market Diagnosis. State of the Practice. Bordalo, P., N. Gennaioli and A. Shleifer (2013). "Salience and asset prices." American Economic Review 103(3): 623-628.

2 | Study objectives

This study seeks to measure the types and quality of loan product information and to observe the advice presented to low-income borrowers by Ugandan financial institutions that provide individual and business credit products. By shedding light on areas of weak compliance with disclosure regulations, the objective is to generate dialogue about improving consumer protection policy and practice in Uganda.

This work has three broad aims:

1

Identify gaps in adherence to consumer protection guidelines and requirements on complete disclosure of credit product information to consumers

2

Generate evidence and recommendations to support the implementation of product information disclosure by financial institutions

3

Increase the depth of understanding of the credit markets in Sub-Saharan Africa to contribute to consumer decision-making and ultimately reduce the cost of credit

The study used a two-step approach to work towards these goals. First, we conducted mystery shopping of financial institutions in three cities in order to observe the behavior of salespeople, pricing transparency, and adherence to consumer protection guidelines. A mystery shopping exercise recruits everyday people to conduct unannounced visits to financial institutions and request loans as if they were a customer. This methodology is meant to capture the customer experience without any special treatment or change in staff behavior which may occur if a monitoring visit is announced to the financial institution in advance. Following each shopping visit, the shoppers record all information they were provided with on product terms and loan conditions, and answer a series of questions about their experience.

Second, we analyzed 12 years of official quarterly data on loan product pricing and loan terms from publicly available datasets published by the BoU on its website.[9] The research team was able to review 12 years' worth of published loan product data, which provides a measure of the number of fees and charges per product by financial institutions supervised by the BoU. However, due to limitations of the way in which data is reported, it was not possible to reconstruct the total cost of credit for a given loan using publicly available data alone. In the conclusion of this report we offer recommendations to BoU for changes in data collection and reporting which will improve the usefulness of this data for monitoring market trends in the future.

[9] https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/Supervision/Banking_Charges/

3 | Research design & data

3.1. Mystery shopping sampling and study design

Branch selection

In total, we conducted mystery shopping at 241 financial institution branches in Uganda. In order to build this sample, we first selected three urban centers in Uganda in which to conduct mystery shopping: Kampala, Mbarara, and Gulu. These study sites were chosen due to their status as large population centers reflecting three key regions of the country. Kampala is Uganda's largest city, home to more than 1.5 million people, and with high population density. Mbarara is Uganda's second largest city, and is located about 290 km south of Kampala. It is the administrative and commercial center of Mbarara District with about 200,000 people. Finally, Gulu is the smallest city in our study and is located 275 kilometers north of Kampala with a population of about 150,000 people. Gulu was chosen for its importance as a trading center supporting commerce in the north of the country, adding some additional diversity to our selections.

Next, we defined the full universe of financial institutions in each city from which to sample. In Uganda, financial institutions that offer loans are divided into the following four tiers (see Table 1 above). This mystery shopping exercise covered financial institutions within all four tiers. However, in Tier 4 we excluded SACCOs, as the majority of SACCOs do not lend to non-members, making it difficult for us to send shoppers while still protecting shoppers' privacy. Finally, we also excluded two commercial banks, Bank of India and Citibank, which we found during the pilot stage do not make individual loans of the type and size considered in this study.

In Mbarara and Gulu, we conducted a census of all Tier 1-3 branches and all Tier 4 non-deposit taking MFIs, as the number of these branches was relatively small in each city, and represented a limited number of providers (see Section 3.2). In Kampala, the number of financial institutions was too large to conduct this a census approach. Instead, we split the city into regions and randomly selected a small sample of branch locations in each region. The three regions used to construct our Kampala sample were Region 1: Central division; Region 2: Rubaga & Nakawa divisions; and Region 3: Makindye & Kawempe divisions.[10] For Tier 1-3 institutions in Kampala, we randomly selected one branch per institution in each of these three regions. If a bank had three branches in Region 1 and none in the other two regions, we instead sampled all three branches in Region 1. If an institution had more than two branches in Region 1, as well as a branch in one other region, we then sampled two branches from Region 1 and one branch from the other region. For Tier 4 institutions in Kampala, we sampled all licensed non-deposit taking MFIs as well as all non-licensed, non-deposit taking MFIs we could locate using the AMFIU directory of MFIs and random walks through the target neighborhoods.

At the end of this exercise, we selected a total of 88 unique financial institutions for this study. Some of the institutions had branches in multiple districts hence some institutions were visited more than once in multiple locations. In Kampala, 79 institutions were selected for mystery shopping visits, 30 were selected in Mbarara, and 22 in Gulu. Most of the institutions were Tier 1 and Tier 4, as there were only five Tier 2 institutions and five Tier 3 institutions in Uganda at the time of the mystery shopping exercise. The larger number of institutions in Kampala is due to there being more branches of financial institutions of all tiers there, especially in Kampala's Central division. Several branches of the same institutions were visited in multiple districts across the city.

[10] For Region 2 we merged the divisions Rubaga and Nakawa, and Region 3 merged the divisions Makindye and Kawempe, based on similarity in bank penetration ratios (number of financial institutions per 100,000 people)

Table 2: Breakdown of financial institutions visited by location and tier

	Number of financial institutions				
	Tier 1	Tier 2	Tier 3	Tier 4	Total
Kampala	22	5	5	47	**79**
Mbarara	14	3	3	10	**30**
Gulu	10	2	2	8	**22**

Note: an institution can have branches in multiple districts

A total of 198 individual branch locations were selected for mystery shopping visits.

Table 3: Individual branch locations visited by location and tier

	Number of financial institutions				
	Tier 1	Tier 2	Tier 3	Tier 4	Total
Kampala	64	14	13	55	**146**
Mbarara	14	3	3	10	**30**
Gulu	10	2	2	8	**22**
Total	**88**	**19**	**18**	**73**	**198**

Tier 4 encompasses a wide variety of lenders. For this study, Tier 4 institutions include microfinance institutions, funds, and finance & leasing companies, among others. These institutions ranged from large microfinance institutions with tens of thousands of borrowers, to smaller companies with a single branch in our sample.

Mystery shopper profiles

We trained 42 IPA enumerators as mystery shoppers and selected 36 of them for the study. Each study area team consisted of six male shoppers and six female shoppers, with a total of twelve shoppers per city. We then created six different mystery shopper profiles, based on variations in experience level, loan size requested, and whether or not the shopper mentioned finding a lower interest rate elsewhere. Each branch would be visited by each of the six shopper profiles. Adding further variation, we randomized gender assignments and whether the shopper was seeking a business or personal loan during the visit.

Table 4: Shopper profiles used in credit mystery shopping visits

Shopper profile	Experience level presented to sales staff	Loan amount requested	Asked for a lower interest rate?
Profile 1	Inexperienced	UGX 1 million (US$270)	No
Profile 2	Inexperienced	UGX 5 million (US$1347)	No
Profile 3	Experienced	UGX 1 million (US$270)	No
Profile 4	Experienced	UGX 5 million (US$1347)	No
Profile 5	Experienced	UGX 1 million (US$270)	Yes
Profile 6	Experienced	UGX 5 million (US$1347)	Yes

Experienced shoppers were trained to ask a longer set of questions during the shopping visit, such as requesting to see the repayment schedule, asking whether interest is calculated on a fixed or a declining balance, and inquiring about additional fees charged beyond the interest rate. Inexperienced shoppers, in contrast, were trained to ask only a few questions, such as interest rate. The key questions for the shopping visits of both inexperienced and experienced shoppers are listed in Appendix B.

For shopper Profiles 5 and 6, we instructed the mystery shoppers to mention that they had found a lower rate at a competing institution once they had received an offer from the credit officer. This was done to determine if a signal that the borrower was shopping around would impact the final offer they received.

Finally, during an initial pilot we found that a subset of ten commercial banks did not offer loans as small as UGX 1 million (US$270). Hence, shoppers assigned to those institutions with a profile of UGX 1 million were instructed to instead ask for a loan of UGX 10 million (US$2,694).[11] We have not captured whether the loans offered in this exercise were secured or unsecured. Mystery shoppers were instructed to offer either a motorcycle as collateral for loans of UGX 1 million, or a land title for loans of UGX 5 or 10 million when making their initial request. However, shoppers did not ask directly about collateral requirements, so it is not possible to assess from this exercise whether it would have been necessary to use the motorcycle or land title to qualify, or if other pricing options would have been available for shoppers without collateral.

Branch visits

Deployment plans staggered the timing of shopping visits to institutions across multiple days to minimize the risk of suspicion by the financial institutions, increasing the odds of getting an authentic sales experience. Each branch was visited by no more than one shopper per day to minimize the risk of suspicion. We also varied the order in which institutions were visited each day to account for differences in the behavior of salespeople according to the time of the day and the length of queues.

Our methodology called for each of the 198 selected branches to be visited by at least six different shopper profiles, for a total of 1,188 observations. Due to cases of enumerator error and other unexpected challenges such as branches in the sample which had been closed or relocated, the team of mystery shoppers completed a total of 1,102 successful mystery shopping visits. Of these visits, 73% took place in Kampala, 15% in Mbarara and 12% in Gulu. Of these visits, shoppers successfully qualified for loan products in 710 (64%) instances.

Table 5: Whether a shopper qualified for a loan, overall by loan amount

Loan amount (UGX)	% of shopping visits ending in loan eligibility	Total number of visits per loan amount
1 million	60.80%	421
5 million	71.60%	581
10 million	38.00%	100
Total	64.00%	1102

Finally, not all shoppers were deemed eligible for a loan at the branch they visited, at which point they completed the shopping visit. There were institutional level and district differences in the

[11] These banks are Bank of Baroda, Barclays, Bank of Africa, DFCU, Diamond Trust Bank, Housing Finance, Orient Bank, Stanbic Bank, Standard Chartered, United Bank of Africa. Unfortunately, not all shoppers complied with this instruction so there is a non-random selection of loan sizes requested for shoppers assigned the UGX 1 million loans for visits to commercial banks.

likelihood that our shoppers would be found eligible for a loan. Shoppers visiting Tier 1 institutions were less likely to qualify for loans compared to those visiting Tier 3 and 4 institutions; and shoppers from Mbarara were more likely to qualify for loans of UGX 5 million than their counterparts in Kampala and Gulu. However, there were no statistically significant gender differences in loan qualification. To protect the identities of enumerators, shoppers did not present any identification or other personally identifying information to loan officers during their visits.

Table 6: Loan qualification success rates by institution level

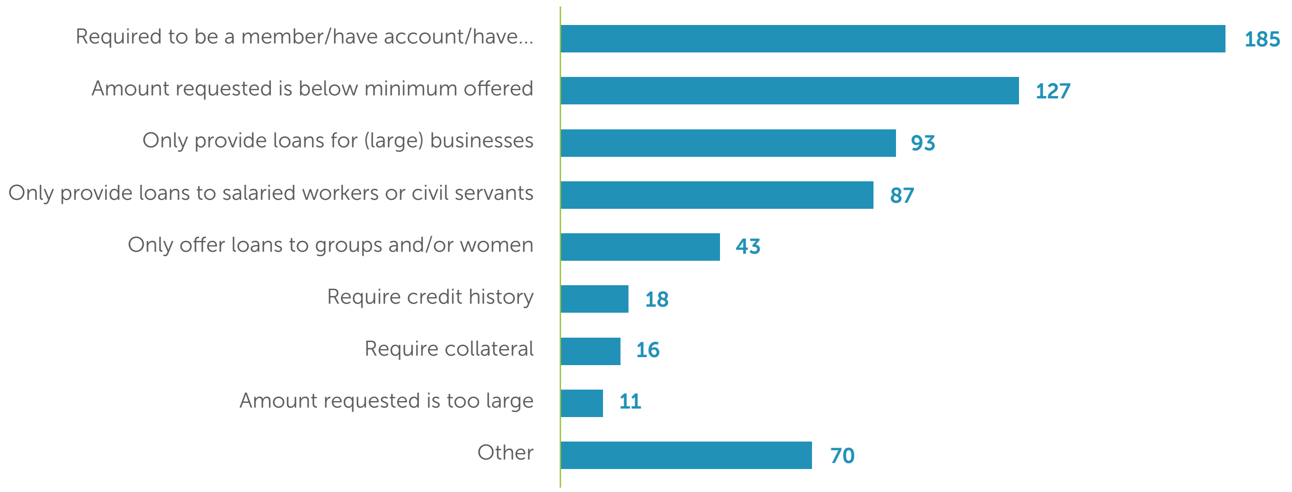
Loan amount (UGX)	Institution level								P-value
	Tier 1		Tier 2		Tier 3		Tier 4		
	% Qualifying	# Visits	% Qualifying	# Visits	% Qualifying	# Visits	% Qualifying	# Visits	
1 million	44.4%	133	74.1%	54	83.1%	59	61.7%	176	**<0.0001**
5 million	64.6%	263	89.7%	58	91.0%	67	68.9%	193	**<0.0001**
10 million	37.4%	99							N/A
		495		112		126		369	

P-values based on $\chi 2$ statistics test whether the difference across institutional tier or shopping profile are statistically significant. P-values below 0.05 are displayed in bold.

For the visits where shoppers did not qualify for a loan, a wide range of reasons were provided (see Figure 1), and some shoppers were given more than one reason why they were not eligible to apply for a loan during their initial visit. The most common reason cited for not qualifying for a loan was the lack an account or savings history with the institution (mentioned in 185, or 42.7%, of the cases where shoppers did not qualify). UMRA prohibits this practice for Tier 4 institutions, and mystery shopper experience reflects general compliance with this rule. While lack of an existing account or membership was mentioned 185 times, only seven of these cases were at Tier 4 institutions.

Other commonly reported reasons were that the amount requested was too small (127 visits) or too large (11 visits); or that the institution only offered loans to corporations (93 visits) or salaried workers (87 visits)— in some cases lending was limited specifically civil servants (43 visits). Lack of collateral was rarely cited (16 visits) as a reason for a shopper not qualifying for a loan.

Figure 1. Reasons given to shoppers why shoppers did not qualify for a loan (multiple reasons possible)



Because not all shoppers were determined to be eligible for a loan at the institutions they visited, subsequent analysis of the loan application process and information disclosed is limited to observations from 710 eligible shopper visits (Table 8).

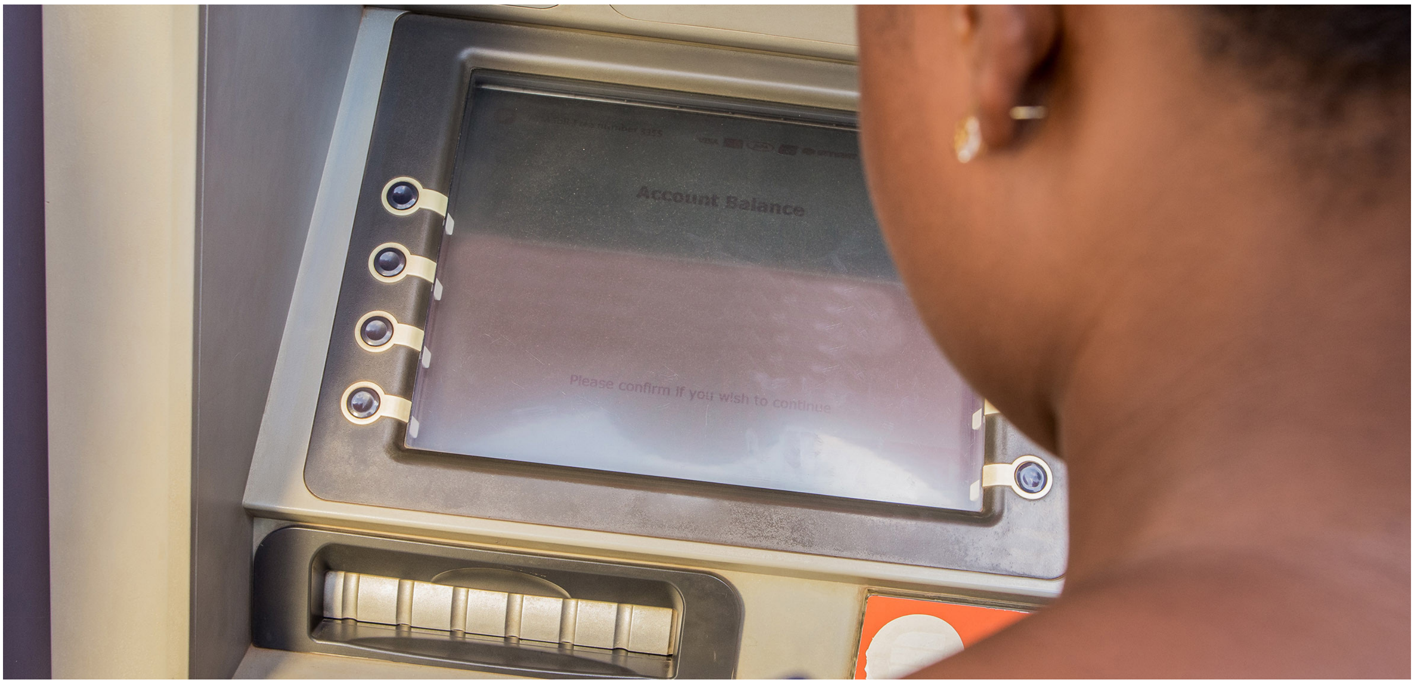
Table 7: Number of qualifying loan visits by location and tier

	Number of financial institutions				
	Tier 1	Tier 2	Tier 3	Tier 4	Total
Kampala	168	64	78	171	481
Gulu	44	13	21	37	115
Mbarara	54	15	12	33	114
Total	**266**	**92**	**111**	**241**	**710**

In order to protect the privacy of our mystery shoppers, we were unable to go beyond a single initial shopping visit to continue with the full loan approval process. Subsequent visits would have required the enumerator to provide sensitive personal information, including identity documents, account numbers, and pay slips in order to undergo a credit check. Such processes would intrude on the privacy of our shoppers and were thus deemed inappropriate for this study. As a result, we did not get to the stage in the loan approval process where loan contracts or key facts documents are normally shown to borrowers.

In practice, there were cases where a shopper did need to visit a branch multiple times, for example if there were no loan officers available in the office during the first visit and they were asked to return later. However, in such cases, we recorded this as a single visit.

Shoppers did not use recording devices during their visits. Upon leaving the branches, each shopper filled out a questionnaire to record information on their shopping experience. Shoppers were also instructed to collect any written documents, including promotional materials, they could obtain during their visit.



4 | Results

4.1. Mystery shopping exercise

4.1a Wait times

On average, mystery shoppers waited for only five minutes before being attended to by loan officers. The average duration of the meeting was 16 minutes and was slightly shorter for shoppers with the inexperienced profile, averaging 15 minutes compared to 17 minutes for experienced shoppers (Table 9). Loan turnaround times are also important, as negative experiences with long turnaround times may result in consumers switching to other providers or resorting to other financing methods. In about one quarter of the visits, loan officers did not provide information about how long the shopper should expect to wait to know if the loan was approved. Information provision was less common in Tier 1 and Tier 2 institutions (28% of Tier 1 and 25% of Tier 2 shoppers were not told wait times, versus 21% and 16% for Tier 3 and Tier 4, respectively) and for novice shoppers (30% of novice shoppers were not told wait times compared to 20% of experienced shoppers).

Table 8: Wait times and decision turnaround times by institutional tier and shopping profile

Variable	Overall	Institution Level					Shopper Profile		
		Tier 1	Tier 2	Tier 3	Tier 4	p-value	Experi-enced	Inexperi-enced	p-value
Waiting time in minutes -Mean (Range)	5 (0- 120)	6 (0- 88)	6 (0- 98)	5 (0- 120)	3 (0- 38)	**<0.0001**	5 (0- 120)	5 (0- 98)	.796
Duration of meeting in minutes - Mean (Range)	16 (0- 70)	15 (0- 70)	19 (1- 40)	18 (0- 59)	16 (0- 49)	**<0.0001**	15 (0- 50)	17 (0- 70)	.003
Information provided about time to wait until loan approval decision	77 % (547/710)	72 % (194/269)	75 % (64/85)	79 % (137/174)	84 % (152/182)	.038	80 % (382/475)	70 % (165/235)	.002

P-values based on χ2 statistics test (discrete) or ANOVA (continuous) whether the difference across institutional tier or shopping profile are statistically significant. P-values below 0.05 are displayed in bold.

Shopper experiences with wait times and the duration of their meetings did not differ dramatically across districts, with the exception with shoppers in Gulu, who were seventeen percentage points less likely to receive information about the wait time for a loan approval decision than the average. There were also no major differences in experience between men and women shoppers.

Table 9: Wait times and decision turnaround times by region and gender.

Variable	District				Gender		
	Kampala	Gulu	Mbarara	p-value	Male	Female	p-value
Waiting time in minutes -Mean (Range)	5 (0- 120)	9 (0- 88)	4 (0- 60)	**<0.0001**	6 (0- 98)	4 (0- 120)	.001
Duration of meeting in minutes - Mean (Range)	16 (0- 70)	16 (0- 50)	19 (3- 49)	**<0.0001**	17 (0- 50)	15 (0- 70)	.001
Information provided about time to wait until loan approval decision	81 % (392/ 481)	60 % (69/ 115)	75 % (86/ 114)	**<0.0001**	79 % (275/ 348)	75 % (272/ 362)	.219

P-values based on χ2 statistics test (discrete) or ANOVA (continuous) whether the difference across institutional tier or shopping profile are statistically significant. P-values below 0.05 are displayed in bold.

4.1b Total cost of credit

Loan officers provided information on the total cost of credit in only half of the mystery shopping visits. This inadequate provision of information regarding the total cost of credit is worrying given the centrality of this figure to reflecting true loan costs and allowing borrowers to compare products. Inconsistent provision of total cost of credit information was an issue across all tiers of lenders, including Tier 1 lenders, who are required to provide this information under the Bank of Uganda Financial Consumer Protection Guidelines. In fact, Tier 1 lenders were less likely to disclose total cost of credit (41% of visits to Tier 1 institutions, compared to 55% of visits for Tier 2-4 institutions). This information was also more likely to be given to experienced shoppers than to novice shoppers, with only 11% of inexperienced shoppers receiving the information. Forty-one percent of female shoppers received information on total cost of credit, compared to 58% of men. Of these, men were also more likely to have the concept explained to them rather than simply mentioned, with 66% of men receiving an explanation versus 23% of women. Loan officers were also more likely to spontaneously mention the total cost of credit to men (41%), compared to 29% of women. Finally, 55% of shoppers in Gulu and 58% in Mbarara received information on total cost of credit, compared to 46% of shoppers in Kampala.

Table 10: Whether information on the total cost of credit was given to shoppers, by tier and profile

Variable	Overall	Institution Tier					Shopping Profile		
		Tier 1	Tier 2	Tier 3	Tier 4	p-value	Experi-enced	Inexperi-enced	p-value
Information given on total cost of credit	50 % (352/ 710)	41 % (110/ 269)	55 % (47/ 85)	56 % (97/ 174)	54 % (98/ 182)	.004	68 % (325/ 475)	12 % (27/ 235)	**<0.0001**
Mentioned	53 % (185/ 352)	56 % (62/ 110)	62 % (29/ 47)	44 % (43/ 97)	52 % (51/ 98)	.182	52 % (170/ 325)	56 % (15/ 27)	.745
Explained	47 % (167/ 352)	44 % (48/ 110)	38 % (18/ 47)	56 % (54/ 97)	48 % (47/ 98)	.182	48 % (155/ 325)	44 % (12/ 27)	.745
Spontaneous	36 % (127/ 352)	35 % (39/ 110)	36 % (17/ 47)	39 % (38/ 97)	34 % (33/ 98)	.881	32 % (103/ 325)	89 % (24/ 27)	**<0.0001**
Asked	64 % (225/ 352)	65 % (71/ 110)	64 % (30/ 47)	61 % (59/ 97)	66 % (65/ 98)	.881	68 % (222/ 325)	11 % (3/ 27)	**<0.0001**
Verbal	96 % (338/ 352)	100 % (110/ 110)	91 % (43/ 47)	93 % (90/ 97)	97 % (95/ 98)	.019	97 % (314/ 325)	89 % (24/ 27)	.048
Written	33 % (116/ 352)	30 % (33/ 110)	38 % (18/ 47)	44 % (43/ 97)	22 % (22/ 98)	.009	31 % (102/ 325)	52 % (14/ 27)	.03

Note: P-values based on χ2 statistics test whether the difference across institutional tier or shopping profile are statistically significant. P-values below 0.05 are displayed in bold. Note: the numbers for verbal and written information provision do not add up column wise, because a shopper can be provided with both verbal and written information.

Table 11: Whether information on the total cost of credit was given to shoppers, by district and gender

Variable	District				Gender		
	Kampala	Gulu	Mbarara	p-value	Male	Female	p-value
Information given on total cost of credit	46 % (223/ 481)	55 % (63/ 115)	58 % (66/ 114)	**<0.0001**	58 % (203/ 348)	41 % (149/ 362)	.041
Mentioned	46 % (102/ 223)	68 % (43/ 63)	61 % (40/ 66)	**<0.0001**	34 % (70/ 203)	77 % (115/ 149)	.002
Explained	54 % (121/ 223)	32 % (20/ 63)	39 % (26/ 66)	**<0.0001**	66 % (133/ 203)	23 % (34/ 149)	.002
Spontaneous	32 % (71/ 223)	43 % (27/ 63)	44 % (29/ 66)	.016	41 % (84/ 203)	29 % (43/ 149)	.092
Asked	68 % (152/ 223)	57 % (36/ 63)	56 % (37/ 66)	.016	59 % (119/ 203)	71 % (106/ 149)	.092
Verbal	96 % (213/ 223)	94 % (59/ 63)	100 % (66/ 66)	.252	97 % (197/ 203)	95 % (141/ 149)	.149
Written	38 % (85/ 223)	16 % (10/ 63)	32 % (21/ 66)	.011	38 % (78/ 203)	26 % (38/ 149)	.004

In later interviews with loan officers, 83% of loan officers self-reported that they considered themselves to be familiar with the concept of total cost of credit, yet it was only mentioned or explained in about 50% of the mystery shopping visits. Based on results from similar mystery shopping exercises in other markets, loan officers may shroud the total cost of credit due to ignorance or limited understanding of the price structure and total cost calculations, or intentional obfuscation due to competing incentives related to sales goals, commissions, or management demands (for example, rewarding credit officers for keeping consultations with potential borrowers under a certain time limit).

As a concept, the total cost of credit can be difficult to understand, especially for customers with limited numeracy skills and experience with formal financial products and the way they are priced. However, in general sales staff did not take time to explain the concept for borrowers, or how it was calculated. In visits where total cost of credit was given, it was mentioned but not explained 53% of the time. Similarly, loan officers provided this information voluntarily in only 36% of visits in which it was disclosed at all, meaning most shoppers who were informed of the total cost of credit had to ask directly for an explanation. Given that total cost of credit may not be a familiar term to less experienced shoppers, lack of unprompted disclosure and the lack of an explanation of the term hinders consumers' ability to understand its implications properly and use it as a tool to assess loan value. Further, if loan officers mentioned total cost of credit at all, they were far more likely to mention it verbally than in writing, as total cost of credit was provided in writing in only 30% of visits where the term was mentioned.

4.1c Interest and other charges

Loan officers provided information on interest rates significantly more frequently to experienced shoppers who asked about it (98%) than to inexperienced shoppers who did not ask for it (69%) (Table 13 below and Table A2 in Appendix A). The lack of voluntary disclosure of interest rates is troubling, as it is a central component of the cost of credit. When discussed at all, 67% of loan officers simply mentioned the rate, while 33% also explained it to shoppers. However, loan officers were more likely to explain interest rates to experienced shoppers (35% versus 26% for novice shoppers). We do not observe large variation in the provision of information on interest rate between districts or between men and women shoppers overall, with a few exceptions in the way in which information is provided. First, institutions in Gulu and Mbarara were more likely to spontaneously provide information about interest rates than institutions in Kampala. Only 37% of visits in Kampala had information provided about the interest rate spontaneously, compared to 51% and 67% in Gulu and Mbarara, respectively. Second, women were far less likely to receive spontaneous information about interest rates (28%) than men (59%). Third, women were also less likely to be given explanation of the interest rate than men; institutions only explained the interest rate to 17% of women shoppers, compared to 50% of male shoppers.

Table 12: Whether information about interest rate, its time unit, and its calculation method was provided by shopping profile

Variable	Overall	Shopping Profile		
		Experienced	Inexperienced	p-value
Interest rate provided	88 % (628/ 710)	98 % (465/ 475)	69 % (163/ 235)	**<0.0001**
Among those provided interest rate...				
Mentioned	67 % (420/ 628)	65 % (300/ 465)	74 % (120/ 163)	.034
Explained	33 % (208/ 628)	35 % (165/ 465)	26 % (43/ 163)	.034
Spontaneously given	43 % (273/ 628)	38 % (178/ 465)	58 % (95/ 163)	**<0.0001**
Explicitly asked about	57 % (355/ 628)	62 % (287/ 465)	42 % (68/ 163)	**<0.0001**
Verbal	97 % (611/ 628)	98 % (454/ 465)	96 % (157/ 163)	.373
Written	23 % (147/ 628)	22 % (103/ 465)	27 % (44/ 163)	.209
Info provided about the time unit of interest rate	82 % (513/ 628)	87 % (405/ 465)	66 % (108/163)	<0.0001
Info provided about whether interest rate is flat or declining	82 % (512/ 628)	93 % (434/ 465)	48 % (78/163)	<0.0001

Table 13: Whether information about interest rate, its time unit, and its calculation method was provided by region and gender

Variable	District				Gender		
	Kampala	Gulu	Mbarara	p-value	Male	Female	p-value
Interest rate provided	89 % (430/ 481)	82 % (94/ 115)	91 % (104/ 114)	.042	89 % (309/ 348)	88 % (319/ 362)	.78
Mentioned	66 % (283/ 430)	72 % (68/ 94)	66 % (69/ 104)	.473	50 % (155/ 309)	83 % (265/ 319)	**<0.0001**
Explained	34 % (147/ 430)	28 % (26/ 94)	34 % (35/ 104)	.473	50 % (154/ 309)	17 % (54/ 319)	**<0.0001**
Spontaneous	37 % (159/ 430)	51 % (48/ 94)	63 % (66/ 104)	**<0.0001**	59 % (183/ 309)	28 % (90/ 319)	**<0.0001**
Asked	63 % (271/ 430)	49 % (46/ 94)	37 % (38/ 104)	**<0.0001**	41 % (126/ 309)	72 % (229/ 319)	**<0.0001**
Verbal	96 % (414/ 430)	100 % (94/ 94)	99 % (103/ 104)	.064	98 % (304/ 309)	96 % (307/ 319)	.098
Written	26 % (112/ 430)	15 % (14/ 94)	20 % (21/ 104)	.048	24 % (74/ 309)	23 % (73/ 319)	.753
Info provided about the time unit of interest rate	84 % (361/430)	77 % (72/ 94)	77 % (80/ 104)	.0964	82 % (254/ 309)	81 % (259/ 319)	.744
Info provided about whether interest rate is flat or declining	84 % (363/ 430)	69 % (65/ 94)	81 % (84/ 104)	.002	82 % (254/ 309)	81 % (258/ 319)	.670

Of the visits in which a shopper qualified for a loan and received information about interest rates, loan officers revealed the time unit over which the interest rate was calculated in close to 82% of visits, but did so more frequently for experienced shoppers (87% of times) than for inexperienced shoppers (66% of times). Most interest rates were cited on a monthly basis (66%), with the second most common being an annual basis (30%), and only 4% on a weekly or daily basis. However, Tier 1 institutions were more likely to calculate interest on an annual basis (52%), while lower tiered institutions were more likely to use a monthly time unit of interest; for example, 87% of shoppers receiving time unit information from Tier 4 institutions were given an interest rate calculated on a monthly basis. There are no major differences in the time unit of interest between regions or the gender of shoppers; however, the time unit of interest seems to be more closely related to the size of loan being requested. Eighty-six percent of loans of UGX 1 million were calculated on a monthly basis, while only between 53-57% of loans of UGX 5 million and above were.

Table 14: Whether interest rates are expressed as monthly or annual by type of institution and experience

Variable	Overall	Institution Level					Shopping Profile		
Is time unit of interest monthly or annual?		Tier 1	Tier 2	Tier 3	Tier 4	p-value	Experi-enced	Inexperi-enced	p-value
Monthly	66% (345/ 519)	48% (88/ 184)	63% (41/ 65)	73% (95/ 131)	87% (121/ 139)	**<0.0001**	65% (262/ 405)	73% (83/ 114)	.105
Annually	30% (156/ 519)	52% (96/ 184)	37% (24/ 65)	21% (27/ 131)	6% (9/ 139)	**<0.0001**	32% (130/ 405)	23% (26/ 114)	.056
Weekly or daily	4% (18/519)	0% (0/184)	0% (0/84)	7% (9/131)	6% (9/139)		3% (13/405)	7% (8/114)	

Table 15: Whether interest rates are expressed as monthly or annual by type of region and gender

Variable	District				Gender		
Is time unit of interest monthly or annual?	Kampala	Gulu	Mbarara	p-value	Male	Female	p-value
Monthly	65% (238/ 365)	68% (50/ 74)	71% (57/ 80)	0.571	71% (183/ 257)	62% (162/ 262)	.024
Annually	32% (117/ 365)	23% (17/ 74)	28% (22/ 80)	.258	25% (64/ 257)	35% (92/ 262)	.011
Weekly or daily	3% (10/365)	9% (7/74)	1% (1/80)		4% (10/257)	3% (8/262)	

Table 16: Whether interest rates are expressed as monthly or annual by loan amount

Variable	Loan Amount		
Is time unit of interest monthly or annual?	UGX 1 Million	UGX 5 Million	UGX 10 Million
Monthly	86% (148/173)	57% (189/331)	53% (8/15)
Annually	8% (14/173)	41% (135/331)	47% (7/15)
Weekly or daily	6% (11/173)	2% (7/331)	0% (0/15)

Loan officers cited whether the interest rate was calculated on a flat or on a declining balance in 74% visits in which the shopper qualified for a loan and was informed of the interest rate. This information was more likely to be provided to experienced shoppers (92% versus 39% to novice shoppers). There were no major differences between information given to men versus women about the time unit of the interest rate or whether the interest rate is flat or declining.

In the lower tier institutions, interest rates were calculated mostly on a flat balance basis. Only in commercial bank visits was the interest rate offered calculated on a declining balance in a majority of visits (56%). The method of calculation also varied by the loan amount requested. Seventy-two percent of loans of UGX 1 million were calculated on a flat balance basis, while 59% of UGX 5 million loans were. While our sample of branches from any single institution was small, we did observe some variation in the method of calculation within the same institution.

Table 17: Whether interest rate offered was calculated on a flat or declining basis by institution type and shopping profile

Variable	Overall	Institution Tier					Shopping Profile		
Is interest rate flat or declining?		Tier 1	Tier 2	Tier 3	Tier 4	p-value	Experienced	Inexperi-enced	p-value
Flat/fixed	62 % (327/ 527)	44 % (89/ 202)	50 % (31/ 62)	70 % (86/ 123)	86 % (121/ 140)	**<0.0001**	62 % (272/ 436)	60 % (55/ 91)	.728
Declining Balance	38 % (199/ 527)	56 % (113/ 202)	50 % (31/ 62)	29 % (36/ 123)	14 % (19/ 140)	**<0.0001**	37 % (163/ 436)	40 % (36/ 91)	0.697
Other	0 % (1/ 527)	0 % (0/ 202)	0 % (0/ 62)	1 % (1/ 123)	0 % (0/ 140)	.349	0 % (1/ 436)	0 % (0/ 91)	.647

Table 18: Whether interest rate offered was calculated on a flat or declining basis by region and gender.

Variable	District				Gender		
Is interest rate flat or declining?	Kampala	Gulu	Mbarara	p-value	Male	Female	p-value
Flat/fixed	55 % (204/ 371)	81 % (58/ 72)	77 % (65/ 84)	**<0.0001**	68 % (177/ 260)	56 % (150/ 267)	.005
Declining Balance	45 % (166/ 371)	19 % (14/ 72)	23 % (19/ 84)	**<0.0001**	32 % (83/ 260)	43 % (116/ 267)	.006
Other	0 % (1/ 371)	0 % (0/ 72)	0 % (0/ 84)	.81	0 % (0/ 260)	0 % (1/ 267)	.323

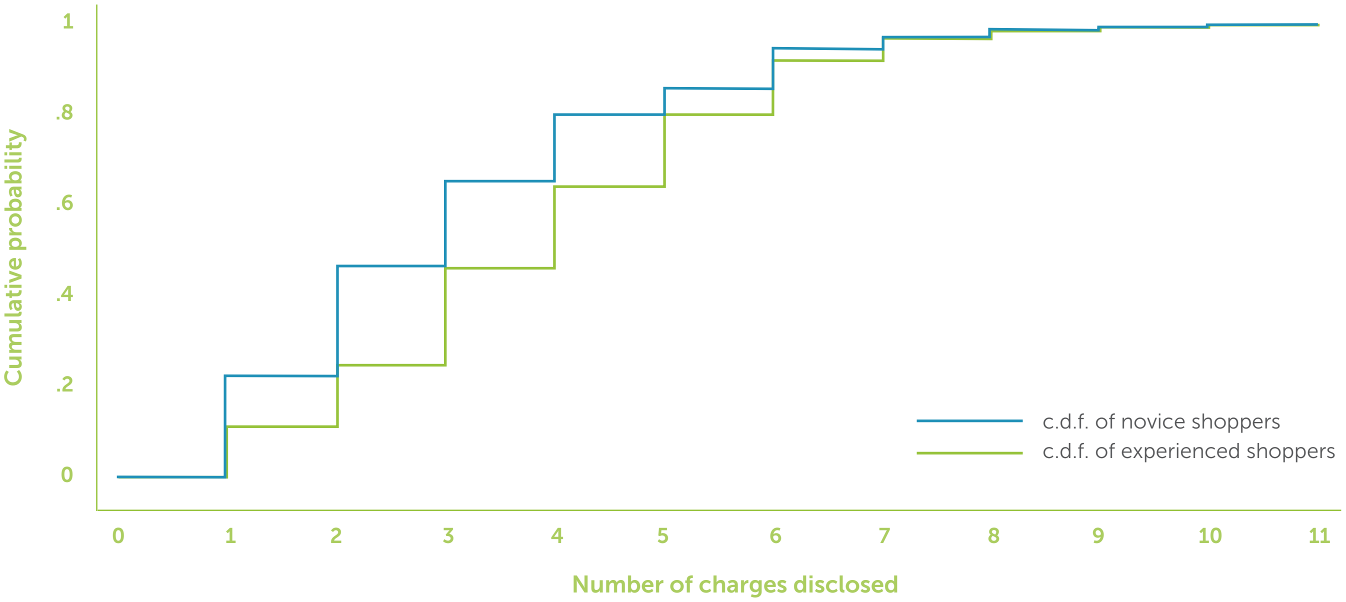
Table 19: Whether interest rate offered was calculated on a flat or declining basis by loan amount

Variable	Loan Amount		
Is interest rate flat or declining?	UGX 1 Million	UGX 5 Million	UGX 10 Million
Flat/fixed	72% (122/169)	59% (199/335)	26% (6/23)
Declining Balance	28% (47/169)	40% (135/335)	74% (17/23)
Other	0% (0/169)	>1% (1/335)	0% (0/23)

During the mystery shopping visits, experienced shoppers explicitly asked about additional fees that would be charged beyond those spontaneously mentioned by the salesperson, while inexperienced shoppers did not ask for this information. As a result, loan officers told experienced shoppers about more fees than novice shoppers, with an average of 3.58 non-interest fees disclosed to experienced profiles compared to 2.97 for inexperienced profiles (Figure 2). This difference is due to the experienced shoppers asking about additional fees; the number of charges disclosed voluntarily (i.e., spontaneously) to the shoppers does not differ by experience level (Figure A1 in Appendix A). That is, the experience level of the shopper is only a statistically significant predictor of the number of charges disclosed after the shopper explicitly asks about them, and not of the number of charges disclosed spontaneously. This speaks to the fact that shoppers in Uganda may not be able to rely on sales staff to discuss properly all fees for loan products, and generally only receive this information when they know to ask for it.

Shoppers were told about a range of different non-interest fees involved in acquiring a loan, including fees for insurance, application, processing, consulting credit history and for inspecting collateral. The most frequently mentioned fees were insurance (59%) and application fees (60%), whereas the least frequently mentioned fees were collateral inspection fees (25%) and legal fees (19%). However, due to a lack of standardization in fee names, it may be challenging for shoppers to compare non-interest fees across institutions or products accurately, or even assess what they are being charged for. For example, two of the most frequently mentioned fees were "application fees" and "processing fees", which refer to the same thing.

Figure 2: The cumulative distribution of the number of charges disclosed to experienced versus novice shoppers



It is also important to account for the institution tier, loan type, and loan size when comparing the number of fees revealed to the experienced versus inexperienced shopper profiles.[12] Conditional on those variables, 0.6 more fees were disclosed to the experienced than to the inexperienced shoppers on average (Table 21, Column 1). Insurance fees, processing fees, and legal fees are among the charges that are most often hidden from inexperienced shoppers (Row 2, Columns 2, 4 and 6). Also, holding constant the shopper profile, loan size and tier of institution, shoppers in Gulu had one fewer charge revealed to them on average. Insurance charges tended to not be disclosed as often in Gulu as they are disclosed in Kampala and Mbarara.

[12] Requested loan size was not randomly assigned for some of the commercial bank visits, as discussed in the methods section.

Table 20: Non-interest loan fees disclosed to mystery shoppers

	Nr of charges	Insurance	Application fee	Processing fee	Credit history fee	Legal fee	Search fee
Experienced profile	0.574***	0.099**	0.073*	0.128***	-0.048	0.063**	0.018
	(0.147)	(0.039)	(0.040)	(0.040)	(0.036)	(0.029)	(0.034)
Tier							
Commercial banks	0.720***	0.137***	-0.042	0.088*	0.329***	0.184***	0.062
	(0.161)	(0.045)	(0.046)	(0.046)	(0.040)	(0.032)	(0.040)
CIs	1.709***	0.269***	0.142**	-0.059	0.300***	0.202***	0.107*
	(0.255)	(0.056)	(0.055)	(0.062)	(0.056)	(0.048)	(0.054)
MDIs	1.015***	0.185***	-0.019	0.055	0.356***	0.184***	0.025
	(0.202)	(0.054)	(0.057)	(0.057)	(0.052)	(0.042)	(0.047)
District							
Mbarara	-0.079	0.075	0.018	-0.000	0.079*	0.161***	0.182***
	(0.180)	(0.048)	(0.051)	(0.053)	(0.048)	(0.046)	(0.050)
Gulu	-0.988***	-0.242***	0.001	-0.130**	-0.081*	-0.018	-0.027
	(0.198)	0.048	(0.053)	(0.053)	(0.045)	(0.036)	(0.043)
Loan size							
Sh. 5 million	0.402***	0.086**	-0.049	0.053	0.116***	0.071**	0.044
	(0.149)	(0.040)	(0.041)	(0.041)	(0.036)	(0.028)	(0.035)
Sh. 10 million	-0.474	0.073	-0.194**	-0.137	-0.192**	0.043	0.096
	(0.327)	(0.092)	(0.091)	(0.093)	(0.077)	(0.082)	(0.084)
Loan purpose							
Business	0.230*	0.065*	-0.006	0.005	-0.040	0.072**	0.054*
	(0.138)	(0.036)	(0.037)	(0.037)	(0.034)	(0.028)	(0.032)
Female shopper							
Female	-0.208	-0.002	0.058	-0.074*	-0.040	0.006	0.062*
	(0.141)	(0.038)	0.040	0.039	0.036	0.029	(0.035)
Constant	2.501***	0.351***	0.500***	0.493***	0.178**	-0.089	0.019
	(0.273)	(0.073)	(0.075)	(0.077)	(0.070)	(0.056)	(0.061)
E[dependent var.]	3.377	0.590	0.597	0.506	0.339	0.190	0.249
	(1.950)	(0.492)	(0.491)	(0.500)	(0.474)	(0.393)	(0.433)
N	710	710	710	710	710	710	710
R^2	0.15	0.10	0.03	0.04	0.14	0.10	0.05

*p<0.1, **p<0.05, ***p<0.01

4.1d Consequences of late payments

Loan officers shared information on whether institutions charge penalties for late loan payments in only 39% of visits. However, at least one branch of 96% of the institutions included in this study do in fact charge late fees and other penalties, as at least one loan officer per institution did provide this information to one of our shoppers during a visit (Table A4 in Appendix A).

Experienced shoppers asked about penalties in case of late repayment; the inexperienced shoppers did not (see Appendix B for the shopper profile instructions). Consequently, there is a stark contrast in the rate of revelation of penalties between the shopper profiles: 54% of the experienced shoppers had the penalty revealed to them, compared to only 8% of the inexperienced profile shoppers (Table 19). Hence, 46% of shoppers who asked about penalties in case of late repayment were not given this information.

Feedback from the mystery shoppers indicated that some loan officers and salespeople were hesitant or unwilling to reveal consequences in case of late repayment when asked about it, expressing doubt about the seriousness of the loan applicant's repayment intentions. On the one hand, this may be understandable, as lending institutions may not want consumers to be too aware of their (in some cases) limited liability in case of willful default. On the other hand, given income volatility and the possibility of unanticipated, adverse shocks, it is important for consumers to know the consequences of default, and it is among the rights mentioned in BoU's "Know Your Rights - loans" leaflet (but not in the 2011 Financial Consumer Protection Guidelines).

Table 21: Information provision about penalties in case of repayment delays by institution tier and shopping profile

Variable	Overall	Institution Tier					Shopping Profile		
		Tier 1	Tier 2	Tier 3	Tier 4	p-value	Experi-enced	Inexperi-enced	p-value
Information provided about a penalty for late payment	39% (276/ 710)	38% (102/ 269)	38% (32/ 85)	35% (61/ 174)	45% (81/ 182)	.301	54% (258/ 475)	8% (18/ 235)	**<0.0001**
If information provided, info provided spontaneously	67% (176/ 264)	70% (69/ 98)	66% (21/ 32)	61% (35/ 57)	66% (51/ 77)	.717	66% (163/ 246)	72% (13/ 18)	.604
If information provided, info provided only when asked	33% (88/ 264)	30% (29/ 98)	34% (11/ 32)	39% (22/ 57)	34% (26/ 77)	.717	34% (83/ 246)	28% (5/ 18)	.604
Information was provided but details not recorded by shopper	12	4	1	1	6			12	

P-values based on $\chi 2$ statistics test whether the difference across institutional tier or shopping profile are statistically significant.
P-values below 0.05 are displayed in bold.

Table 22: Information provision about penalties in case of repayment delays by region and gender

Variable	District				Gender		
	Kampala	Gulu	Mbarara	p-value	Male	Female	p-value
Information provided about a penalty for late payment	42% (201/ 481)	27% (31/ 115)	39% (44/ 114)	.014	38% (133/ 348)	40% (143/ 362)	.726
If information provided info provided spontaneously	66% (127/ 192)	63% (19/ 30)	71% (30/ 42)	.74	46% (57/ 125)	86% (119/ 139)	**<0.0001**
If information provided info provided only when asked	34% (65/ 192)	37% (11/ 30)	29% (12/ 42)	.74	54% (68/ 125)	14% (20/ 139)	**<0.0001**

There does not appear to be variation in the rates of information provision about penalties between regions, but when comparing rates by gender we find that 86% of women who were provided with information were done so spontaneously, compared to only 46% of men.

The 2011 BoU Financial Consumer Protection Guidelines stipulate that for loans of UGX 3 million and above and a term of a year or longer, the consumer has the right to a ten day "cooling off period" if they decide to no longer borrow. That is, they have ten days after disbursement to refund the loan proceeds and cancel the loan. For shoppers seeking loans of UGX 5 million, information on the cool-off period was provided in only 12.4% of the visits to Tier 1-3 institutions (Table 24) – and never provided spontaneously.

Table 23: Information provision about the cool off period by institutional tier and shopping profile - shopping visits seeking loans of UGX 5 million from Tier 1-3 institutions only

Variable	Overall n (%)	Institution level				Shopping profile		
		Tier 1	Tier 2	Tier 3	P-value	Novice	Experienced	P-value
Information provided about the cool off period (Tier 1-3 and loans of UGX. 5 million only)	12.4% (35/283)	12.4% (21/170)	13.5% (7/52)	11.5% (7/61)	0.950	0% (0/89)	18.0% (35/194)	**<0.0001**

P-values based on χ2 statistics test whether the difference across institutional tier or shopping profile are statistically significant.
P-values below 0.05 are displayed in bold.

4.1e Printed materials

Financial institutions regulated by the BoU, that is, institutions in Tiers 1-3, are required to provide a key facts document to customers. Tier 4 institutions do not have that same regulatory requirement. For our exercise, all shoppers asked loan officers for a payment plan, while experienced shoppers also asked for a key facts document using the term "summary document" to avoid suspicion (see the key questions of the shopper profiles in Appendix B). Despite all shoppers asking for this information, loan officers showed shoppers a payment plan in only 12% of visits, and mostly to experienced shoppers and applicants seeking smaller loan amounts. A key facts document was only shown in 6% of first visits, even if asked for or hinted at by the shopper (Table 25 and Table A6 in Appendix A). In Tier 4 institution visits, 5% of the shoppers recorded to have been shown something called a key facts document, but since the BoU regulates only Tier 1-3 institutions with the requirement for a Key Facts Document, it is unclear what kind of documentation those shoppers were shown.

Table 24: Physical materials given to the shopper by institutional level and district

Variable	Overall %	Institutional tier					District			
		Tier 1	Tier 2	Tier 3	Tier 4	P-value	Kampala	Gulu	Mbarara	P-value
Payment plan shown to client	12.4% (88/710)	10.9% (29/266)	13.0% (12/92)	11.7% (13/111)	12.7% (34/268)	0.734	15.2% (73/481)	6.1% (8/115)	7.0% (8/114)	0.005
Salesperson showed a Key Facts Document	5.9% (42/710)	6.7% (18/266)	6.7% (7/92)	6.3% (5/111)	4.9% (12/241)	0.660	7.1% (34/481)	5.2% (6/115)	1.8% (2/114)	0.091

P-values based on χ2 statistics test whether the difference across institutional tier or shopping profile are statistically significant.
P-values below 0.05 are displayed in bold.

We instructed shoppers to collect any printed materials they could find in the branch during their visits. Evaluating all leaflets, we find that fewer than 40% of leaflets collected from institutions which had written materials available contain an interest rate. Of those leaflets which did provide a written interest rate, all but one also listed the time unit of the interest rate. The BoU's Financial Consumer Protection Guidelines (Art. 8(6)) require that if a printed material shows the interest rate, it should also show the total cost of credit, and the total cost of credit should be displayed more prominently than the interest rate. Of the seven BoU-regulated institutions whose leaflets show the interest rate, only three also showed the total cost of credit. None of the leaflets inspected displayed the total cost of credit more prominently than the interest rate. This demonstrates a lack of compliance with the BoU guidelines on printed materials.

Table 25: Cost of credit content of printed materials found at the branches

Tier	# institutions from which leaflets were collected	Interest rate shown in at least one of the leaflets	Total cost of credit shown	Among institutions that show the interest rate:		
				Stated whether interest rate flat/ declining	Total cost of credit shown	TCC shown more prominently than interest rate
1	13	5 (38.5%)	2 (15.4%)	5 (100%)	2 (40%)	0 (0%) [2 equally prominently]
2	3	1 (33.3%)	1 (33.3%)	1 (100%)	1 (100%)	0 [1 equally prominently]
3	5	1 (20%)	0 (0%)	1 (100%)	0 (0%)	N/A
4	28	12 (42.9%)	2 (7.1%)	5 (18.5%)	2 (16.7%)	0 (0%) [1 equally, 1 less prominently]
All	**49**	**19 (38.8%)**	**5 (10.2%)**	**11 (57.9%)**	**5 (26.3%)**	**0 (0%)**

4.1f Customer experience

In about eight out of ten shopping visits, shoppers found the loan officers who attended to them to be friendly, knowledgeable, and to have provided clear information. On average, salespeople at Tier 2 institutions were rated most favorably in terms of friendliness, knowledge and clarity (Table A7 in Appendix A). Overall, both the friendliness and knowledge level ratings were significantly lower among novice shoppers. However, product explanations provided by the loan officers and perceived trustworthiness were rated high in 70% of visits.

Table 26: For the subsample of shoppers who would not be willing to take a loan, the reason(s) why

Variable	Overall % n=285	Institutional tier				
		Tier 1 (n=109)	Tier 2 (n=36)	Tier 3 (n=24)	Tier 4 (n=116)	P-value
Reason: Clarity of info	34.7%	41.3%	33.3%	29.2%	30.2%	0.322
Reason: Cost	55.4%	48.6%	47.2%	58.3%	63.8%	0.094
Reason: Complexity of the process	20.7%	30.3%	11.1%	8.3%	17.2%	0.011
Reason: Knowledge of the official	17.9%	19.3%	22.2%	25.0%	13.8%	0.432

Note: a shopper could list more than one reason for not wanting a loan.

When asked if the shopper would be willing to take a loan from the branch, they visited based on their mystery shopping experience, only 60% answered in the affirmative. This rate was lower among shoppers who visited Tier 1 and Tier 4 institutions (59 and 56% respectively) than in Tier 2 and Tier 3 institutions (62% and 68%, respectively), and who applied for smaller loan amounts

(70% for UGX 1 million loans; 54% for UGX 5 million loans). The reasons for not wanting a credit differed by institutional tier. High costs were more commonly cited as the reason to not want a loan from Tier 3 and 4 institutions, while the complexity of the application process was more frequently cited as a reason for not wanting credit from commercial banks.

4.2 Review of pricing data

To provide further insights into the costs of loan products, we analyzed publicly available data on loan fees reported by financial services providers to the BoU.[13] We relied where possible on the information published by the BoU, but also inputs from the mystery shopping data where information was missing and where the mystery shopping data pointed to a relatively uniform picture (i.e., similarity in the amount of a particular fee across mystery shoppers for a given institution). For Tier 1 institutions, interest rates are only reported by the BoU in ranges, without the calculation method (flat vs declining), and many fees are missing (reported as "Actual") or reported as a range. For Tier 1 institutions, as well as some Tier 2 and 3 institutions, information on loan charges were only reported at the institutional level, not on a product level. For many of the institutions, there is at least one charge that is not listed as a number or a percentage and is instead recorded as "actual" or as a range or interval.

Due to limitations in the available data, we were only able to analyze and compare data for Tier 2 and Tier 3 institutions. While data is more complete for these institutions, stamp duty costs are often missing, and the interest rate is sometimes also reported as a range, without stating whether this is due to product-specific rates or negotiable or risk-adjusted interest rates.

Using publicly available data, we can calculate the average fees charged by Tier 2 and Tier 3 institutions. For a loan of UGX 5 million with a 12-month term and monthly repayment, the total value of fees range from 4.1% to 14.1% of the principal, and are between 17% and 59% of interest. The multitude of fees and the varying share of the total cost of credit that they represent complicate consumer understanding of the true cost of credit. The fact that institutions front-load different proportions of the loan cost also limits the usefulness of the total cost of credit concept as compared to the Annual Percentage Rate (APR), which takes the timing of costs into account. For example, one of the institutions charges a monthly monitoring fee, the sum of which roughly equals total interest paid.

Table 27: Mean fees charged by Tier 2 and 3 institutions for a 12-month loan of UGX 5 million, using the March 2019 bank charges table published by the BoU

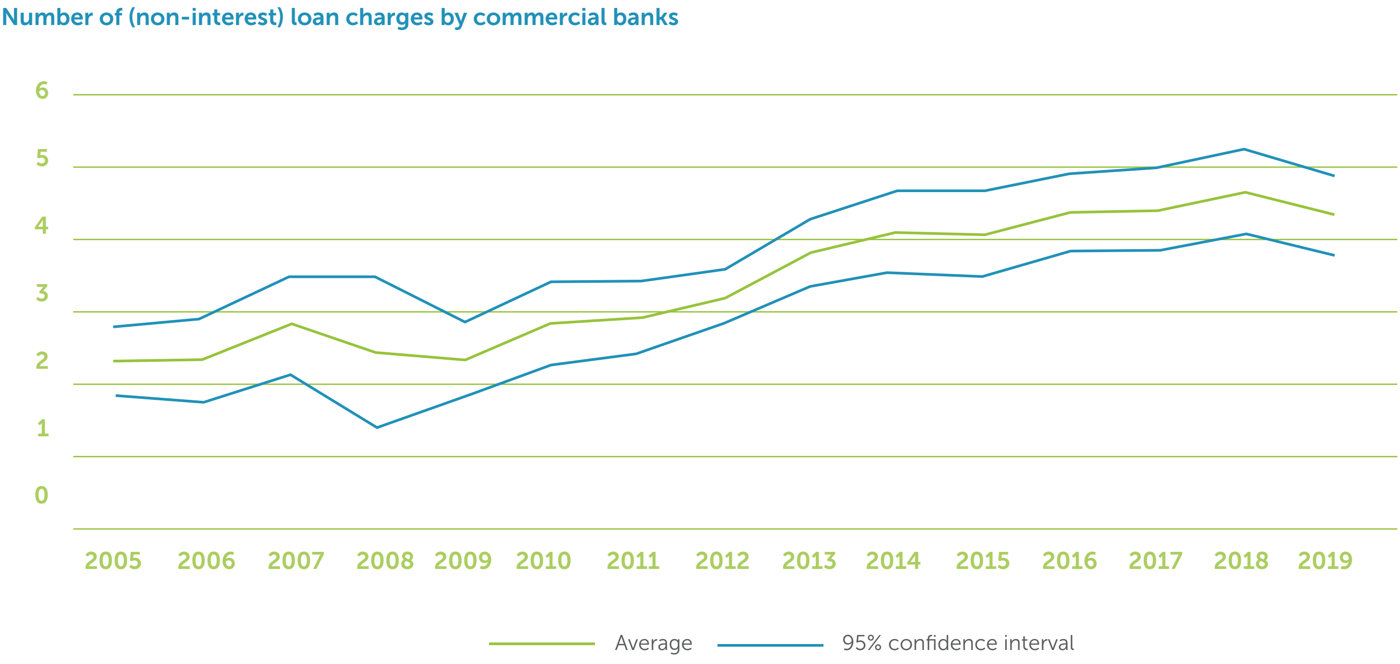
	UGX	% of loan of UGX 5 million		Comment
		Mean	Range	
Application fee	40,625	0.8%		
Commitment fee	125,000	2.5%		
Arrangement fee	112,500	2.3%		
Processing fee	112,500	2.3%		
Monitoring fee	163,500	3.3%		1 institution charges monthly; not clear if on flat or declining basis – assumed declining

[13] Bank of Uganda. (2019). "Commercial Bank Charges as at Apr 01 2019." from https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/Supervision/Banking_Charges/index.jsp .

	UGX	% of loan of UGX 5 million		Comment
		Mean	Range	
Insurance fee	78,500	1.6%		1 institution claims no insurance charge, but mystery shopping shows differently - imputed
Stamp fee	17,150	0.3%		Often missing/cited as "in accordance with Stamps Act"
Legal fee	175,000	3.5%		Often missing or depends on collateral type
Credit reference bureau fee	30,556	0.6%		Missing for Tier 2 institutions (UGX 15,000 imputed)
Total fees	**302,367**	**7.1%**	**4.1%-14.1%**	
Interest	**1,132,292**	**22.6%**	**13.0% – 34.3%**	Missing or given as range for 3 institutions (excluded), so based on 6 institutions
Fees as a % of interest		**32.2%**	**16.9% - 58.8%**	

An analysis of non-interest fees and other charges published by the BoU between 2005 and 2019 reveals that the average number of non-interest charges on loans has increased over time from just over two additional charges per loan in 2005 to more than four per loan in 2019 (Figure 3). A panel data analysis with financial institution-level fixed effects reveals that the trend is statistically significant ($p<0.001$) with an estimated 0.18 additional average number of fees charged by commercial banks each year.[14] This trend means that proper disclosure of non-interest fees becomes an even more important component of sales visits for consumers to truly understand the total cost of their loans.

Figure 3: Evolution of the number of loan fees and charges by commercial banks from 2005 (the year in which BoU first started collecting this data) through 2019. Interest, loan statements, and renewal/refinancing fees are not included



[14] The inclusion of year fixed effects does not change this conclusion.

It was not possible to conduct a trends analysis of the total cost of credit, including both fees and interest charges, over the same time period due the quality of published pricing data available, which did not permit us to construct actual costs in a reliable way. It is not possible to look at pricing trends over time using solely publicly available data for a few reasons. First, the set of institutions in each tier is small and is not stable over time. Second, published data can be incomplete and we are unable to fill in gaps with mystery shopping or other data sources for historical data. For that reason, we cannot determine whether the total cost of credit has increased over time, or whether additional fees have simply replaced higher interest rates to keep the total cost of credit constant. In general, this analysis revealed multiple inconsistencies in both the reporting and display of pricing data collected by BoU from supervised entities. In its current form, the published pricing data does not provide a complete picture of the true cost of products on the market and does not allow for comparison between products or institutions.

5 | Conclusion and recommendations

Innovations for Poverty Action conducted this mystery shopping exercise in order to provide regulators with a snapshot of current practices related to consumer credit pricing transparency and information disclosure, particularly with regards to compliance with existing BoU and UMRA laws and recommendations. This exercise revealed several areas where product information and pricing disclosure practices can be improved.

Most noteworthy was the limited disclosure of total cost of credit and interest rates. The total cost of credit was only mentioned in half of the visits, the customer had to ask for the total cost of credit in 64% of these instances, and it was only provided in writing in 33% of cases. Tier 1 institutions were least likely to give information about total cost of credit, with only 41% of those institutions providing this information. Disclosure of interest rates was more common-- 88% of visits—but the presentation of the rates was not standardized sufficiently, which can cause borrower confusion and make it difficult to compare different institutions.

The provision of written materials about product terms and pricing was even more infrequent. BoU's Financial Protection Guidelines, which apply to Tier 1-3 financial institutions, require financial service providers to prominently display all standard fees and charges in promotional materials and other communications. Moreover, if written materials display an interest rate, they must also display the total cost of credit more prominently than interest rate. We found that less than 40% of written promotional materials collected by our shoppers included an interest rate. Of the seven leaflets with interest rates collected from institutions governed by these guidelines, only three also showed the total cost of credit. None of these displayed the total cost of credit more prominently than the interest rate.

These guidelines also indicate that customers of Tier 1-3 institutions should be shown a key facts document prior to taking a loan. All mystery shoppers were trained to ask for a payment plan or summary document. Despite this, shoppers only received a payment plan in 12% of visits, and a key facts document was only shown in 6% of visits. That said, our mystery shopping exercise was limited to a single visit and first enquiries about the borrowing process, so we cannot state whether or not these institutions would have voluntarily provided customers with these documents later on in the approval process. However, given the importance of clear and comparable product information to comparison shopping, it is advisable to make this information available at the first enquiry.

We also found discrepancies between the regulation and practice when it came to the calculation and presentation of costs. Lenders most often calculated interest rates on a flat basis and stated them as monthly rates. Among these, 86% of Tier 4 institutions which provided information about interest rate calculations used a flat rate, while UMRA regulations require declining balance calculation. This may give financially illiterate consumers a false impression of low interest rates due to flat balance calculations and the use of monthly rather than annual rates. Also, the smaller the loan amount requested, the more likely a flat interest was charged, which is detrimental to the representation of cost to lower-income consumers, who more commonly take smaller loans.

Overall, we do not observe significant differences in results between institutions in the capital city of Kampala compared to Gulu and Mbarara, and any differences observed may be more likely explained by the tier of the financial institution. We do, however, observe important differences in the completeness and quality of information offered to women compared to men. Men were more likely than women to be spontaneously provided with information, and also more likely to receive explanations of complicated concepts such as the total cost of credit or interest rate calculations. Conversely, women were more likely to be spontaneously informed of penalties for late payments (86% of cases where this information was provided) than men (46% of cases).

Table 28. Gender differences in disclosure of cost information.

Variable	Gender	
	Male	Female
Information given on total cost of credit	58 % (203/ 348)	41 % (149/ 362)
Explained	66 % (133/ 203)	23 % (34/ 149)
Spontaneous	41 % (84/ 203)	29 % (43/ 149)
Information given on interest rate	89 % (309/ 348)	88 % (319/ 362)
Explained	50 % (154/ 309)	17 % (54/ 319)
Spontaneous	59 % (183/ 309)	28 % (90/ 319)

Our study found bias against inexperienced shoppers. Less savvy shopper profiles who did not come armed with questions, on average, received less information than more experienced shoppers. For example, experienced shoppers were more likely to be shown a payment plan, provided the interest rate and total cost of credit, and information on loan fees. Sixty eight percent of experienced shoppers were given information on total cost of credit, compared to 11% of inexperienced shoppers. Similarly, 98% of experienced shoppers received information about interest rate, while only 69% of inexperienced shoppers received the same. Despite guidelines ensuring that transparent and accessible information is made available to all consumers, limited compliance with these rules will disproportionately affect unbanked and underbanked borrowers with less experience in the formal financial system.

1

Financial consumer protection guidelines should be updated to require the key facts document be provided on a shopper's first visit to a lender, and the consumer should have the right to take a hard copy of the key facts document home. Complementary to this, there should be a minimum number of days within which the key facts document remains a valid loan offer, so the consumer can use key facts documents from different providers to compare and shop around. Future work should examine the ways in which key facts documents are presented to consumers at later stages of the approval process, for example stapling a document to the back of a loan contract may reduce its visibility to the consumer.

2

Regulators should adopt compliance checks to ensure provider adherence to regulation. BoU and UMRA can consider methods such as periodic consumer surveys and mystery shopping, accompanied by enforcement, to ensure that institutions are holding front line sales staff accountable to consumer protection rules. In particular, increased enforcement of written disclosure of product information should be undertaken to address the low provision of written materials to shoppers and the low frequency of disclosing the total cost of credit in marketing materials as already required.

3

The effectiveness of key facts documents should be tested with consumers. BoU can use a scientific approach to test existing key facts documents with consumers to evaluate the clarity and usefulness of information, as well as impact on decision-making outcomes. Lab-in-the-field and rapid-fire testing of new key facts document prototypes will inform the most effective design and measure impact of this requirement on consumer behavior. Testing and evaluation of prototypes should pay attention to the needs and preferences of women, as women are more likely to receive less information than men during sales visits.

4

A full review of fee types and their prevalence should be conducted to inform possible rules regarding permissible use and disclosure of fees. The increase in the number of loan fees in the Ugandan credit market increases the risk that true cost of loans become harder for borrowers to assess. This should include an analysis of the actuarial fairness of credit life insurance products, which are a regulatory requirement for all loans. Policymakers should review pricing and payout ratios for current options on the market compared to mortality tables to make sure that insurance fees are not excessive.

5

In addition to a review of fee types, policymakers should also require **standardized definitions and names of fees associated with credit products.** Currently, lenders are using different names for the same types of fees, thus making it difficult to understand what is being charged, compare costs between institutions, or regulate fee charges.

6

Where possible, BoU and UMRA should harmonize their policy approaches. This includes making information collected through the quarterly lending survey more uniform across Tiers 1-4. This would help in the design of comparison tools consumers could use on costs of loans at different banks. BoU and UMRA could also consider harmonizing their lending-related consumer protection rules. These rules currently reflect similar principles, but making them directly matched would ensure equal protection for all borrowers and increased clarity on their rights across institution types.

7

BoU should review and revise standards for financial institution reporting of credit product data in order to present a more complete and accurate overview of the types and costs of products being offered on the market in Uganda. Better data reporting will allow policymakers to track trends in the market, assess supply-side responses to pricing transparency initiatives, and make meaningful comparisons across institutions and financial institution types. Better product data can also allow for the development a consumer-facing product comparison tool, such as a website or an app, which can provide quick, reliable, and timely information to prospective borrowers.

8

Regulators could leverage credit pricing and fee data to inform other market monitoring efforts. Data reported to BoU on credit products and fees should be linked to all other data that BoU has on financial institutions, for example consumer complaints data, in order to analyze trends and spot problems more quickly for corrective action.

9

Policymakers should experiment with and adopt policies and tools to improve knowledge of financial concepts and products among both borrowers and the loan officers themselves. Overall, experienced shoppers received more and better quality information than novice shoppers. On the supply side, it is possible that loan officers did not mention or provide explanations of certain concepts due to their own lack of knowledge or comfort with the topics. Adopting evidence-based training interventions and hiring guidelines could improve the quality of loan officers employed by financial institutions and lead to better information sharing. On the demand side, policymakers should test and adopt through just-in-time, neutral financial advice interventions. As well as behaviorally informed information and comparison shopping tools to deepen understanding of key product features and terms and improve product selection outcomes. These tools and interventions should be designed using a gender lens to ensure that they are accessible and user-friendly for women, as women consistently received less information during shopping visits than men in our study and will disproportionally benefit from well-designed trainings and tools to improve knowledge.

10

Create an enabling environment for simplified loan products. New credit products available on the market from mobile network operators, for example MoKash, are notable because they provide simple, clear instructions and are easy to use. In comparison, loans offered by brick and mortar institutions may be have more complex price structures and requirements. In order to better serve less experienced borrowers, especially those seeking smaller loan amounts, institutions should innovate around loan designs and pricing structures which are simplified and easier for the borrower to use. This may need to be accompanied by regulatory reform in order give enable brick and mortar institutions the freedom to innovate and simplify their offerings.

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Appendix A – Additional Tables

Figure A1: The cumulative distribution of the number of charges disclosed to shoppers spontaneously by the salesperson (left panel) and when asked for by the shopper (right panel), by experience level of the shopper

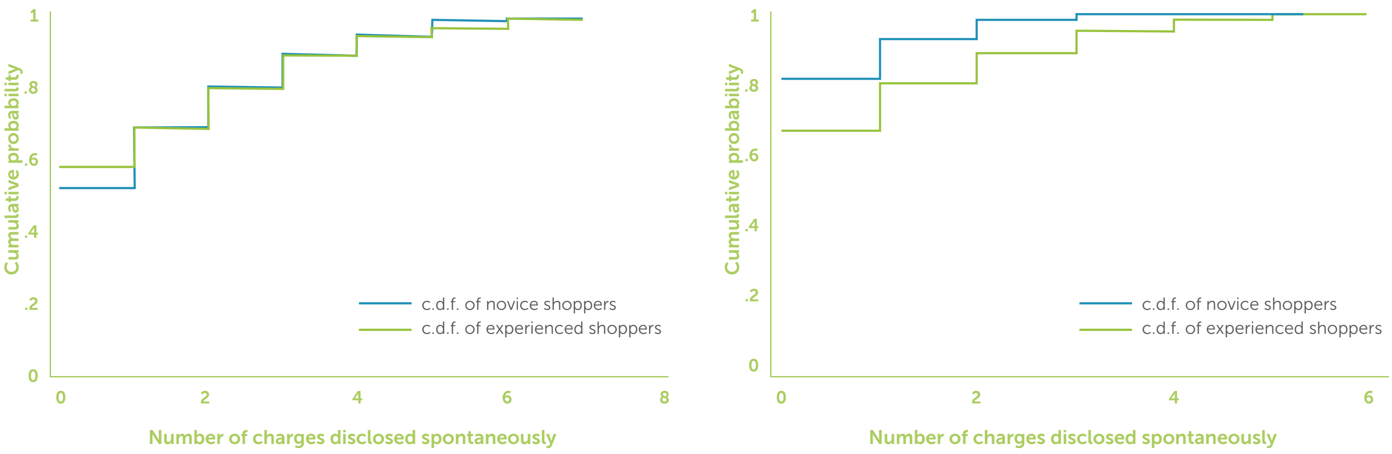

Table A1: Loan application experience by institutional level and shopping profile

Variable	Overall	Institution level					Shopping profile		
		Tier 1	Tier 2	Tier 3	Tier 4	p-value	Experi-enced	Inexperi-enced	p-value
Waiting time in minutes Mean (*Range*)	5 (0- 120)	6 (0- 88)	6 (0- 98)	5 (0- 120)	3 (0- 38)	**<0.0001**	5 (0- 120)	5 (0- 98)	.796
Duration of meeting in minutes Mean (*Range*)	16 (0- 70)	15 (0- 70)	19 (1- 40)	18 (0- 59)	16 (0- 49)	**<0.0001**	15 (0- 50)	17 (0- 70)	.003
Information provided about the time to wait until loan approval decision	77 % (547/710)	72 % (194/269)	75 % (64/85)	79 % (137/174)	84 % (152/182)	.038	80 % (382/475)	70 % (165/235)	.002
Necessary to save in the institution before accessing a loan	72% (288/404)	82% (134/164)	80% (43/54)	69% (43/63)	55% (68/123)	**<0.0001**	66% (191/291)	86% (97/113)	**<0.0001**
Period in months required to save before accessing a loan Mean (*Range*)	4 (0-12)	5.0 (0-12)	2.6 (1-6)	3.4 (1-6)	3.0 (0-6)	**0.018**	4 (0-12)	5 (1-12)	0.184

Table A2: Whether information about interest rate was provided by tier of institution and shopping profile

Variable	Overall n(%)	Institution level					Shopping profile		
		Tier 1	Tier 2	Tier 3	Tier 4	P-value	Experienced	Inexperienced	P-value
Information provided about interest rate (n=710)	88% (628/710)	87% (232/266)	89% (82/92)	86% (95/111)	91% (219/241)	0.438	98 % (465/ 475)	69 % (163/ 235)	**<0.0001**
Mentioned or explained									
Mentioned	70% (420/628)	75% (175/232)	50% (60.1/100)	64% (61/95)	61% (134/219)	**0.006**	65 % (300/ 465)	74 % (120/ 163)	**0.034**

Variable	Overall n(%)	Institution level					Shopping profile		
		Tier 1	Tier 2	Tier 3	Tier 4	P-value	Experienced	Inexperienced	P-value
Explained	33% (208/628)	25% (57/232)	39% (32/82)	36% (34/95)	39% (85/219)		35 % (165/ 465)	26 % (43/ 163)	
Spontaneous or asked									
Spontaneous	43% (273/628)	40% (93/232)	44% (36/100)	46% (44/95)	46% (100/219)	0.609	38 % (178/ 465)	58 % (95/ 163)	**<0.0001**
Asked	56% (355/628)	60% (139/232)	56% (46/82)	54% (51/95)	54% (119/219)		62 % (287/ 465)	42 % (68/ 163)	
Verbal or written									
Verbal	97% (611/628)	99% (230/232)	96% (79/82)	95% (90/95)	97% (212/219)	0.120	98 % (454/ 465)	96 % (157/ 163)	.373
Written	23% (147/628)	17% (40/232)	32% (26/82)	33% (31/95)	23% (50/219)	**0.006**	22 % (103/ 465)	27 % (44/ 163)	.209
Info provided about the time unit of interest rate	73% (519/710)	69% (182/266)	77% (71/92)	76% (84/111)	75% (182/241)	0.185	85 % (405/ 475)	49 % (114/ 235)	**<0.0001**
Info provided about whether interest rate is flat or declining	74% (527/710)	75% (200/266)	72% (66/92)	70% (77/111)	76% (184/241)	0.501	92 % (436/ 475)	39 % (91/ 235)	**<0.0001**
Is interest rate flat or declining? (n=527)									
Flat/fixed	62 % (327/ 527)	44 % (89/ 202)	50 % (31/ 62)	70 % (86/ 123)	86 % (121/ 140)	**<0.0001**	62 % (272/ 436)	60 % (55/ 91)	.728
Declining balance	38 % (199/ 527)	56 % (113/ 202)	50 % (31/ 62)	29 % (36/ 123)	14 % (19/ 140)		37 % (163/ 436)	40 % (36/ 91)	0.697

Table A3: Whether information about interest rate was provided by district, gender and loan size

Variable	Overall N (%)	District				Gender			Loan amount			
		Kampala	Gulu	Mbarara	P-value	Male	Female	P-value	1 million	5 million	10 million	P-value
Information provided about interest rate (n=710)	88 % (628/710)	89 % (430/ 481)	82 % (94/ 115)	91 % (104/ 114)	.042	89 % (309/348)	88 % (319/ 362)	.78	86% (220/256)	90% (376/416)	84% (32/38)	0.151
Mentioned or explained												
Mentioned	66 % (283/430)	72 % (68/94)	66 % (69/104)	66 % (283/430)	0.473	50 % (155/309)	83 % (265/319)	**<0.0001**	66% (164/220)	65% (246/376)	87% (28/32)	**0.038**
Explained	34 % (147/430)	28 % (26/94)	34 % (35/104)	34 % (147/430)		50 % (154/309)	17 % (54/319)		34% (74/220)	35% (130/376)	12% (4/32)	
Spontaneous or Asked												
Spontaneous	63 % (271/430)	49 % (46/94)	37 % (38/104)	63 % (271/430)	**<0.0001**	41 % (126/309)	72 % (229/319)	**<0.0001**	56% (123/220)	34% (128/376)	69% (22/32)	**<0.0001**
Asked	96 % (414/ 430)	100 % (94/ 94)	99 % (103/ 104)	96 % (414/ 430)		98 % (304/ 309)	96 % (307/ 319)		44% (97/220)	66% (248/376)	31% (10/32)	

Variable	Overall N (%)	District				Gender			Loan amount			
		Kampala	Gulu	Mbarara	P-value	Male	Female	P-value	1 million	5 million	10 million	P-value
Verbal or Written												
Verbal	26 % (112/ 430)	15 % (14/ 94)	20 % (21/ 104)	26 % (112/ 430)	0.064	24 % (74/ 309)	23 % (73/ 319)	.098	93% (205/220)	99% (374/376)	100% (32/32)	**<0.0001**
Written	76 % (365/ 481)	64 % (74/ 115)	70 % (80/ 114)	76 % (365/ 481)	**0.048**	74 % (257/ 348)	72 % (262/ 362)	.753	20% (44/220)	26% (99/376)	12% (4/32)	0.069
Information provided about the time unit of the interest rate	63 % (271/ 430)	49 % (46/ 94)	37 % (38/104)	63 % (271/ 430)	**0.032**	41 % (126/ 309)	72 % (229/ 319)	.658	68% (173/256)	80% (331/416)	39% (15/38)	**<0.0001**

Table A4: Information provided about consequences of late payments by district, gender and loan size

Variable	Overall n(%)	District				Gender			Loan size			
		Kampala	Gulu	Mbarara	P-value	Male	Female	P-value	1 million	5 million	10 million	p-value
Information provided about a penalty for late payment	40% (276/ 710)	42% (201/ 481)	27% (31/ 115)	39% (44/114)	**0.014**	38% (133/ 348)	39% (143/ 362)	0.726	39% (100/ 256)	41% (171/ 416)	13% (5/ 38)	**0.003**
Penalty exists for late payment (n=276)	96% (264/ 276)	95% (192/ 201)	97% (30/ 31)	95% (42/44)	0.948	94% (125/ 133)	97% (139/ 143)	0.190	98% (98/ 100)	94% (161/ 171)	100% (5/5)	0.290
Information provided about the cool off period	10% (71/ 710)	13% (65/ 481)	3% (3/ 115)	3% (3/ 114)	**<0.0001**	13% (45/ 348)	7% (26/ 362)	**0.011**	12% (30/ 256)	10% (41/ 416)	0.0% (0/38)	0.079

Table A5: Information provided about consequences of late payments by district, gender and loan size

Variable	Overall N (%) (n=710)	District				Gender			Loan size			
		Kampala	Gulu	Mbarara	P-value	Male	Female	P-value	1 million	5 million	10 million	p-value
Information provided about a penalty for late payment	276 (38.9)	42% (201/ 481)	27% (31/ 115)	39% (44/114)	**0.014**	38% (133/ 348)	39% (143/ 362)	**0.726**	39% (100/ 256)	41% (171/ 416)	13% (5/38)	**0.003**
Penalty exists for late payment (n=276)	95% (264/ 276)	95% (192/ 201)	96% (30/ 31)	96% (42/44)	0.948	94% (125/ 133)	97% (139/ 143)	0.190	98% (98/ 100)	94% (161/ 171)	100% (5/5)	0.290
Information provided about the cool off period (Sh. 5 million only, n=283)	12% (35/ 283)	17% (35/ 204)	0% (0/ 40)	0% (0/39)	**<0.0001**	21% (21/ 100)	8% (14/183)	**0.001**	N/A, as we only consider loans of Sh. 5 million for this variable.			

Table A6: Physical materials by institutional level and shopping profile

Variable	Overall % n=710	District				Gender			Loan size (in million Sh.)			
		Kampala	Gulu	Mbarara	P-value	Male	Female	P	1	5	10	P
# of printed materials provided Mean (Range)	0.4 (0-6)	0 (0-5)	0 (0-6)	0 (0-3)	0.004	0 (0-6)	0 (0-6)	0.004	0 (0-3)	0 (0-6)	0 (0-2)	0.001
Payment plan shown to client	88 (12.4)	73 (15.2)	7 (6.1)	8 (7.0)	0.005	36 (10.3)	52 (14.4)	0.104	46 (18.0)	39 (9.4)	3 (7.9)	0.003
Product info seen in the branch	171 (24.1)	76 (15.8)	47 (40.9)	48 (42.1)	<0.0001	76 (21.8)	95 (26.2)	0.170	64 (25.0)	99 (23.8)	8 (21.1)	0.849
Salesperson showed a Key Facts Doc	42 (5.9)	34 (7.1)	6 (5.2)	2 (1.8)	0.091	11 (3.2)	31 (8.6)	0.002	24 (9.4)	17 (4.1)	1 (2.6)	0.013

Table A7: Customer satisfaction by institutional level and shopping profile

Variable	Overall n(%)	Institutional level					Shopping profile		
		Tier 1	Tier 2	Tier 3	Tier 4	P-value	Experienced	Inexperienced	P-value
Evaluate the friendliness of the official that served you (n=710)									
Friendly	79% (560/710)	75% (199/266)	80% (74/92)	87% (97/111)	79% (190/241)	0.055	84% (398/475)	70% (162/235)	**<0.0001**
Rate the KNOWLEDGE of the salesperson that attended to you									
Knowledgeable	82% (578/710)	77% (205/266)	85% (78/92)	87% (97/111)	82% (198/241)	0.082	84% (397/475)	77% (181/235)	**0.035**
Rate the explanation of information given to you by the salesperson									
Well explained	73% (522/710)	66% (176/266)	76% (70/92)	82% (91/111)	76% (185/241)	**0.004**	76% (364/475)	67% (158/235)	**0.008**
Evaluate clarity of information given to you by the salesperson									
Well clarified	82% (584/710)	78% (208/266)	84% (77/92)	87% (97/111)	84% (202/241)	0.136	84% (399/475)	79% (185/235)	0.083
Trustworthiness did the salesperson									
Trustworthy	78% (551/710)	78% (207/266)	79% (73/92)	82% (91/111)	75% (180/241)	0.463	82% (388/475)	69% (163/235)	**<0.0001**
Would you take a credit with this institution based on the visit									
I would take a loan	60% (425/710)	59% (158/266)	62% (57/92)	68% (75/111)	56% (135/241)	0.220	61% (292/475)	57% (133/235)	0.212

Table A8: Customer experience by region, gender, and amount

Variable	Overall n(%)	District				Gender			Loan amount			
		KLA	Gulu	Mbarara	P-value	Male	Female	P-value	1 million	5 million	10 million	p-value
Evaluate the friendliness of the official that attended to you (n=710)												
Friendly	79% (560/ 710)	79% (381/ 481)	80% (92/ 115)	76% (87/ 114)	0.753	81% (283/ 348)	76% (277/ 362)	0.117	84% (216/ 256)	75% (313/ 416)	82% (31/ 38)	**0.017**
Rate the KNOWLEDGE of the salesperson that attended to you												
Knowledgeable	81% (578/ 710)	80% (385/ 481)	87% (100/ 115)	82% (93/ 114)	0.231	87% (303/ 348)	76% (275/ 362)	**<0.0001**	87% (222/ 256)	78% (325/ 416)	82% (31/ 38)	**0.021**
Rate the explanation of information given to you by the salesperson												
Well explained	73% (522/ 710)	71% (343/ 481)	76% (87/ 115)	81% (92/ 114)	0.106	79% (276/ 348)	68% (246/ 362)	**<0.0001**	77% (198/ 256)	71% (299/ 416)	66% (25/ 38)	0.160
Evaluate clarity of information given to you by the salesperson												
Well clarified	82% (584/ 710)	80% (385/ 481)	86% (99/ 115)	88% (100/ 114)	0.078	88% (208/ 348)	76% (276/ 362)	**<0.0001**	90% (230/ 256)	80% (324/ 416)	79% (30/ 38)	**<0.0001**
Trustworthiness did the salesperson												
Trustworthy	78% (207/ 266)	76% (365/ 481)	80% (92/ 115)	82% (94/ 114)	0.254	82% (287/ 348)	73% (264/ 362)	**0.002**	83% (213/ 256)	74% (308/ 416)	79% (30/ 38)	**0.021**
Would you take a credit with this institution based on the visit	60% (425/ 710)	59% (285/ 481)	51% (59/ 115)	71% (81/ 114)	**0.009**	62% (216/ 348)	58% (209/ 362)	0.239	69% (178/ 256)	54% (223/ 416)	63% (24/ 38)	**<0.0001**

Appendix B – Shopper Questions

Inexperienced shopper profile, key questions:

"In general, you should let the salesperson lead the conversation and explain the product to you. However, in the case that the salesperson does not mention the following product characteristics at any point, you should ask about the following information:

1. What is the loan amount?
2. Is the loan amount how much money you will be given, or is that a different amount?
3. How long is the loan for?
4. How often do you have to make payments for the loan, and what are the payment amounts?
5. If amongst the printed documents that the salesperson gives you, they do not include a payment plan or a contract, ask if they can show you the contract or the payment plan, and if you can take them with you.
6. If the salesperson does not mention it, at the end of the visit please ask for the commercial name of the product."

Experienced shopper profile, key questions:

In general, you should let the salesperson lead the conversation and explain the product to you. However, in the case that the salesperson does not mention the following product characteristics at any point, you should ask about the following information:

1. What is the loan amount?
2. Is the loan amount how much money you will be given, or is that a different amount?
3. Can you select the term of the loan? If you cannot select the term of the loan, what terms do they offer?
4. Can you select the frequency of the payments? If you cannot select the frequency of payments, ask what payment frequencies they offer.
5. How much do you pay with each payment?
6. For interest rates, please ask if they are calculated on a fixed or declining basis.
7. In case loans officer says fixed ask; Do you also offer declining?
8. For fees mentioned by the salesperson, you should ask for each type of fee, the exact amount and when they are due.
9. Once the salesperson has explained all the costs associated with the loan, ask them if there is any other additional cost.
10. If amongst the printed documents that the salesperson gives you, they do not include a payment plan, ask if they can show you a payment plan, and if you can take it with you.
11. Ask what happens if you are late on repayment once.
12. If amongst the printed documents that the salesperson gives you, they do not include a key facts document, ask if they can show you the contract or summary document, and if you can take it with you.
13. If the salesperson does not mention it, at the end of the visit please ask for the commercial name of the product.

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