Social Capital as a better Predictor of Financial Inclusion in Wakiso and Kiboga Town Councils, Uganda

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Abstract. *This study analysed the role of social capital in enhancing financial inclusion in Wakiso and Kiboga Town Councils in Uganda. A mixed methods approach was adopted. The study was guided by theories of financial intermediation and social capital. A random sample of 384 respondents was selected from a target population of 9,880. It was found that there is a significantly positive relationship between social capital and financial inclusion ($r = 0.443$, $p < 0.001$). This means that strong social networks among consumers are more likely to enable an even bigger number of people to access and use financial services. Therefore, a social clustering model was developed as a possible means of improving financial inclusion among Ugandan communities.*

Key words. Financial inclusion, Social capital, Microfinance.

Introduction

This study focused on the relationship between social capital and financial inclusion in Uganda with Kiboga Town Council in Kiboga District, and Wakiso Town Council in Wakiso district as case studies. These two areas of study were chosen to help cast a picture into the differences between social capital and its effect in an urban and rural set up with Wakiso representing an urban set up while Kiboga shed light on the status in a rural setting. Besides, the two areas share a common characteristic namely, the high levels of mobility which greatly affects the quality of social capital. This topic of study was undertaken because of the high levels of inability of many people in the area of study to access financial services for their needs in the development realm despite the evident existence of financial intermediaries. Besides, the number of people accessing financial services from the informal sources as compared to the formal ones is high, which was projected to richly inform the study on its fundamental interest of exploring the extent of inclusion. For this purpose therefore, the study was limited to formal financial intermediaries that are regulated by the Bank of Uganda in Tiers 1 – III including Commercial Banks, Micro-Finance Deposit-Taking Institutions as well as Micro Finance Intermediaries and not the informal ones not regulated under the Bank of Uganda. In order to have a meaningful survey of the study, a deeper understanding of the underlying factors behind the variables of study was taken.

Uganda has witnessed a rapid and significant growth in financial services development characterized by increased growth in the number of financial intermediaries over time. The services have moved closer to people with more access points available and with the advance of technology, challenges associated with distances to service points have been minimally low. This has been attributed to structural and individual challenges. The World Bank, (2013) notes that some groups are more financially excluded than others: Women, rural poor, and other remote or hard-to-reach populations, as well as informal micro and small firms are most affected. For example, the gender gap in developing countries is estimated at 9 percentage points: 59% of men reported having an account in 2014, while only 50% of women did. Various studies conducted in Uganda point to a fact that there are bottlenecks experienced by people seeking financial services especially the women's access to loans from financial banks (Karuhanga 2002; Namunyoro 2000; Synder 2000). Kakuru (2008), while studying small and micro enterprises in Uganda also found out that there are many systematic cultural, social and legal impediments that give an advantage to men to access higher level credit than women yet Synder (2000) found that women are more faithful in paying back their loans compared to men. This phenomenon may largely be attributed to cultural values inculcated in men and women through socialization.

Lack of self-esteem and shyness have been found to be problems women encounter in mixed gender negotiations and have been perceived by both men and women as key stumbling blocks to the negotiation process (Kibanja and Munene 2009).

The above scenario has confined and limited a number of people to informal credit access of money lenders and borrowing from friends and relatives where the strength of social ties and personal relationships override the structural complexities in accessing financial services especially credit. In many other instances, the majority of these people are restricted to group lending as it has remained the only alternative to structural challenges to accessing financial services.

Statement of the Problem

The Financial Intermediation sector in Uganda as a country has been liberalized and is characterized by many financial institutions from the Local to the National levels with an intention of reaching out to so many people so that the socio-economic wellbeing of these targeted people is improved through their inclusion. However, the usage of financial services in the country is still low. While 54% of Ugandans are served, an overwhelming 46% of Ugandans do not have access to either formal bank or non-bank formal services with the majority of these in the upcountry (Finscope 2013). Financial access is still very low in rural areas where the access is half as much compared to the urban areas. Of the entire population able to access the services, only 20% use Tier 1 of commercial banks, Tier 2 of credit Institutions and Tier 3 of Microfinance Deposit Taking Institutions (Finscope, 2013). This therefore means that the other component of the population uses informal means to access finances such as money lenders, Rotating Savings and Credit Associations, Village Savings and Lending Associations, investment clubs, and other welfare funds while others are totally excluded who are characterized by saving in secret places, shops, or friends as well as borrowing from family friends.

Furthermore, the disparity between rural and urban access to financial services is so wide with urban access at 48% compared to rural access at 35%. This therefore suggests that more than 12 million adults in rural areas do not have access to financial services, (BOU 2013).

The trend analyses of financial institution size and depth of these financial institutions points to an upward trend meaning that there has been more investment in ensuring that services are moved closer to people in the areas of study. An even more depth in-look into the ease to access financial services similarly shows that over the period of five years, both Wakiso and Kiboga Town Councils experienced a 4 percent reduction in the ease of access to financial services from 44% in 2009 to 40% in 2013 for Wakiso and 34% in 2009 to 33.7% in 2013 for Kiboga town council. This situation is even worsened by the fact that usage of financial services in Wakiso Town Council equally reduced by 3 percent from 38% in 2009 to 35% in 2013 while Kiboga town council recorded a 4 percent reduction in the same aspect from 29% in 2009 to 25% in 2013 (Table 1).

Table 1: Size and Depth of Financial Institutions (2009-2013)

Year	2009		2010		2011		2012		2013	
Independent variable (count)										
Area	WK	KB	WK	KB	WK	KB	WK	KB	WK	KB
Financial Institution size	8	2	10	2	14	5	14	5	19	8
Financial depth	22	5	19	5	25	10	31	12	39	11
Dependent variable (%)										
Ease of access to financial services	44	34	46.5	35	45	33	42	33	40	33.7
Financial services usage	38	29	44.4	29	37	32	35.8	30	35	25

Key: WK = Wakiso: KB = Kiboga

Moreover, the category of people in these areas has been described as the needy. (Wiegratz, 2008) Still, given the nature of the communities where the above trend is observed, there is a high level of inter-dependence on each other for information, financial advice and guidance regarding potential investment opportunities meaning that the people in these communities have a significant influence on each other given the strong social ties. Alarmingly, even with the same social circles where some of these unbanked people live, there are instances of a very sharp rift between those that are financially able to access services and those that do not even know of their existence.

This study therefore tried to investigate why financial inclusion levels are still low despite the existence of a number of financial intermediaries in Uganda with Wakiso and Kiboga as case studies since they would give a very realistic comparison between urban and rural inclusion, how the social relationships amongst the financial services users affect the levels of intermediation by given financial intermediaries and how these equally affect one's inclusion and or otherwise

Purpose of the Study

The purpose of this study was threefold: to examine why the levels of financial inclusion have not significantly increased to match with the intermediation levels in Uganda; to explain how the social capital aspects that the communities of Wakiso and Kiboga town councils have influenced this trend; and to develop a model that enhances financial inclusion.

Related Literature and Hypothesis

Gleaser, Laibson and Sacerdote (2002) argued that social capital is an individual level variable in addition to being a community level variable. Financial inclusion requires a lot of trust between clients and financial institutions. This is especially so in contexts where formal contracts enforcement mechanisms are rather fragile. Armendariz and Murdoch (2005) believe that in low income communities, the lending business so much suffers from informational asymmetries since borrowers have better information on their credit worthiness and risk taking than does the lender. A typical scenario of social capital being an enabler/disabler of financial inclusion is when individuals stand in for a community member intending to access financial services or the community members/ community leadership refuse to back an individual intending to access financial services in a given intermediary. Coleman (1990) argued that social sanction created by trust, forces people to behave cooperatively in the society. When providing financial services such as loans, banks always require assurance for future repayment by asking for collateral from borrowers.

The poor especially in developing countries, lack physical collateral to secure the loans. Thus, they use their social capital in form of interpersonal and generalized trust and social sanction to substitute and guarantee the loan and its future repayment (Atemnkeng, 2009; Stephen & Knack, 2003). Ghatak & Guinnane (1999) argument resonates well with the above assertion when they reasoned that semi-formal and informal community based institutions typically rely on the threat of social sanctions in ensuring repayment of loans. These semi-formal and informal institutions equally rely on the screening of potential borrowers by a given group where group borrowing is the norm based on the extent and quality of the potential borrowers' connections with the group.

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Kibanja and Munene (2006) argue that business women often receive low payoffs from bank negotiations particularly when dealing with male loan officers. They also argue that in such circumstances, women may not obtain the loan and when they are able to secure the loan, they are given a lower than what they applied for. Studies have however shown that businessmen and businesswomen may obtain the same loan amount from the same commercial bank for the same loan period but with varying interest rates charged. Kibanja and Munene (2009) posit that women are often charged a higher interest rate than men. They contend that such outcomes from bank loan negotiations may be attributed to the cultural values inculcated in men and women through socialisation.

Credit markets in developing countries especially in Africa including Uganda have changed overtime and adopted mechanisms that avoid credit constraints. Potential borrowers who have no connection with financial intermediaries without credible information about their credit worthiness with these intermediaries and are equally lacking in collateral security have instead to the use of social capital to improve their accessibility to credit. Putnam (1993) defined Social capital as connections among individuals that characterize social networks where norms of reciprocity and trustworthiness arise. These social networks comprise groups of people who interact directly, frequently, and in comprehensive ways (Bowels & Gintis, 2002, p.420). The networks may involve colleagues, neighbourhoods, friends, professionals, businessmen, gangs and students among others. Social capital in such networks promotes interpersonal trust, provides for sanctions against those who deviate from the norms and serves as a substitute for institutional and legal deficiencies. This explains why informal finance is thriving in Ugandan communities with such characteristics at their core. Clients of informal finance seek no legal enforcement for their activities. The contractual basis from which they get the financial services rely more on a sense of moral duty than absolute rights. There are no binding conditionalities on either end of the supply chain of financial services in this case. However, they put in place effective informal borrowing channels and means of governance based on reputation and relationships and thus promote investments and support economic growth and development. Social capital therefore enables access to private information that is unavailable to credit markets; it enables monitoring of members' behaviour and punishing individual members who go against the social norms. Sharing information amongst members reduces transactions costs, and yet the sense of belonging facilitates collective decision-making and creates the solidarity and reciprocity that emerge from the networks while diminishing opportunistic behaviour. It is therefore absolutely important to understand how these social networks enhance credit access to the majority of individuals especially the poor rural and urban Ugandans. The majority of them suffer poor access to formal credit due to lack of assets to secure loans and poor information keeping. To this lot, social capital is thought to boost their creditworthiness.

Social capital and access to finances, both from formal or informal sources, interact at various levels and manifest through various intertwined relationships. While social capital in different forms and at various levels substantially increases the provision for and access to financial services and economic empowerment, access to finance also impacts social capital at various levels. Not only provision for financial services, social capital has also been found to improve the impact of financial access on micro- entrepreneurs through various economic and social processes and vice versa, Khaki and Sangmi (2012).

Sanders and Nee (1996) illustrates the positive effect of social capital in the form of social relations on a micro-entrepreneur. He argues that this effect is evident in the form of instrumental support, productive information and psychological aid. Instrumental support in the form of start-up support through non-interest bearing capital usually by friends and family members can directly affect the performance of a micro-entrepreneur.

Social Capital can help in improving the earnings of a micro-entrepreneur through productive information dissemination; this information maybe in the form of advertising through the word of mouth, providing valuable leads and customer referrals (Holzer,1987), information about trusted suppliers and competitors which can improve productivity.

There is a general consensus built around the fact that social capital is positively associated with economic progress. Through linkages at various levels, wider social and economic impacts can occur through the labour market, the capital market, the social capital at various levels, and through clients' participation in social and political processes (McGregoret al.2000).

Microfinance has been found to reduce Putnam effects; Rafael and Gomez (2001) establish a microeconomic foundation for the effect of social capital on improved economic performance. Small-scale self-employment which is synonymous with micro-entrepreneur is a group of low income self-employed people with fewer resources at disposal and lesser assets to offer as collateral. Microfinance heavily relies on group formation for financing micro-entrepreneurs by leveraging their social capital as collateral by replacing financial collateral.

This social association between these groups acts as social collateral (Goldmark, 2001) suggesting methods which work through social enforcement of maintaining reputation and social standing within the community making group mechanisms more secure leading to high repayment rates (Woolcock,2001; Gomez & Santor, 2001).

Various studies have established that Social Capital has a positive implication for micro-finance institutions that rely heavily on the idea that individual social capital can overcome a borrower's lack of financial collateral. Lack of sufficient social capital and interconnectedness in the population, especially in the form of lack of cooperation among businesses and among support organisations, is believed to obstruct the successful provisioning of micro-finance services (Lashley, 2002).

Therefore, it was hypothesized that "there is a relationship between social capital and financial inclusion".

Methodology

Design

The study was largely rooted in the analytical research paradigm. The researcher was convinced that the research problem existed in a negative exponential distribution. This was been chosen because by its nature, it enables a presentation of a picture of the specific details of a situation, social setting or relationship, Mcllwaine and Vanda, (2011). This helped in the analysis of characteristics of a population and phenomenon of interest. The advantage of using analytical research is that it helped describe the situation in terms of its characteristics and equally created a set of categories or classified the information, that is to say, analytical research enabled the explanation of the phenomenon of financial inclusion using the particular characteristics of the studied population.

Population

The study population from the two geographical areas of study namely Kiboga and Wakiso town councils, was 9,843 households, and 7 formal financial institutions registered. This was credible source of data because the study populations either directly or indirectly interact with the services on offer by any of the financial intermediaries and besides, these were the people who either used the financial services through inclusion and access or didn't because of exclusion. The study population for qualitative data was purposively chosen because on top of having very few institutions supervised by the Bank of Uganda (six), the two districts still rate high among National poverty indices. Besides, Kiboga being one of the rural districts, it is one of the districts with low financial services and access to such services by the population (Finscope 2013). On the other hand, Wakiso, being semi-urban, was able to show a comparative picture of what financial inclusion is in the rural and urban districts, the triangulation of which gave a better aggregated position of financial intermediation and inclusion in Uganda.

Sample

The sample size was determined basing on Slovin's formula (Slovin 1960) guidelines for estimating sample size thus:

n = N/ (1+Ne* 2),

Where: n- is the required sample size

N- Total population size

e= level of precision 0.05

Thus: 9880/ [1+ (9880*0.05)*0.05

9880/1+ [494*0.05]

9880/1+24.7

= 384

Table 2: Distribution of Respondents

Category	Population		Sample size		Sampling technique	Reason for choice
	Wakiso	Kiboga	Wakiso	Kiboga		
Households	5,890	3,990	167	167	Simple random	Systematically derived
Key informants						
Bank Managers	03	02	03	02	Purposive	Limited respondents
MFIs managers	04	01	04	01	Purposive	Limited respondents

Data Quality

In order to ensure that data was accurate, a pre-test of the study tool was done with 47 respondents which helped the revision of the tool to ensure data accuracy. To ensure that the instruments which were used for the study are consistent, accurate and stable Cronbach alpha coefficient was used (cf. Struwig & Stead, 2001: 130). The reliability of 0.70 or more was used as the alpha coefficient to test the reliability of this study, which is in line with the recommendation of Nunnally and Bernstein (1994). Validity was concerned with measuring all the constructs developed from the concept and the various theories used for this study. This focused on the empirical and theoretical support for the interpretation of the construct to be measured. (Foxcroft et al, 2004).

An in-depth analysis of the theories used in this study was carried out in order to ascertain that all the measures are consistent based on the theories. The researcher extracted and used measures that are consistent with the concepts in existing research. Item scales were then developed and convergent and discriminant validity were considered. This was through factor analysis, and components with Eigen values greater than one and items with correlation coefficient equal or greater than 0.5 were extracted (Gummesson, 2005).

Factor extraction to establish the correlations between underlying constructs was done as recommended (Farrington, 2009) and this was followed by Principal Component Analysis with a Varimax Rotation where the extraction and rotation method for the sub models for constructs correlation was established. The Bartlett's Test of Sphericity was used with an intention of assessing the potential of factor-analysis of the data. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was also used to gauge the factor-analysability of the data. The closer a KMO is to 1, the more factor-analysable the data is (Rennie, 2002). For the purpose of this study, data with KMO's of $>+0.7$ ($p<0.05$)

is considered factor-analysable. In addition, Eigen values of greater than 1 are considered significant and are used to explain the variance captured by a factor. Eigen values of less than 1 are considered insignificant and therefore excluded (Chong, Lin, Keng-Boon and Raman, 2009; 17). The Eigen values and the Percentage of Variance levels were explained.

Content validity involved measuring all constructs included and represented in particular theories used in the study (Crocker & Algina, 1986; DeVellis, 1991; Gregory, 1992). Content validity index obtained by dividing the proportion of items declared as valid by the total numbers of items was carried out (Amin, 2005). Stability of the items and constructs was considered in the instrument as recommended by Neuman (2006) and components with Eigen values greater than one and items with correlation coefficient equal or greater than 0.5 were be extracted.

Findings and Discussion

In this section of the paper, findings, interpretation and discussions are all handled at the same time. What is presented is in line with the study objective and hypothesis 3. The key variables examined are financial social capital and financial inclusion. The interaction between these variables is explained.

Table 3: KMO and Bartlett's test of social capital

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.704
Bartlett's Test of Sphericity	Approx. Chi-Square	3549.292
	Df	1128
	Sig.	.000

The social capital variable with its factors recorded a sampling adequacy of 0.704 which is well above the recommended minimum suggested by Field (2006) meaning that the results yielded by the survey of this variable are reliable. Regarding the degree to which the dimensions are inter-related measured using the Bartlett's Test of Sphericity with an expected minimum significance of (sig.<.05), the study yielded a test value of Sig 0.000 meaning that four factors of trust and reciprocity, collection action, bridging and bonding are related under the social capital construct and thus plausible. Thirteen questions relating to financial intermediation in the four factors of trust and reciprocity, collective action, bridging and bonding were factors analysed using principal component analysis with Varimax (orthogonal) rotation.

The analysis yielded all four factors accounting for a total of 66.024% of the variance for the entire set of variables. Factor 1, which was trust and reciprocity, had high loadings contributing to a combined variance percentage of 34.024%. The collective action factor recorded high factor loadings yielding a total variance of 14.763% while the significantly loaded constructs under the factor of bridging totalled a percentage contribution of 9.454% of the variance meaning this factor is another important aspect of social capital with bonding contributing a combined 7.784% of the total variance.

Table 4: KMO and Bartlett's test of Financial Inclusion

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.809
Bartlett's Test of Sphericity	Approx. Chi-Square	2611.383
	Df	351
	Sig.	.000

On the basis of Varimax Rotation with Kaiser Normalization, 2 factors were extracted. With the study yielding a sampling adequacy of .809 well above the minimum recommended value of 0.6, it can be deduced that the sampling was adequately ideal. Relatedly, the inter-relatedness of the variables of study was significant. Field (2006) noted that for variables of study to be inter-related, the level of significance should be <0.5. The level of significance however between financial services access and usage is a significant 0.000 showing a high degree of inter-relatedness between the two.

The factors studied under financial inclusion i.e. financial services usage and financial services access yielded a total variance percentage of 64.703%. The financial services usage factor loading contributed to a total 46.948% of the total variance while Financial services access factors equally loaded significantly with the majority beating the acceptable minimum load of >0.5 contributing to 17.755% of the total variance.

Table 5: Correlation between Social Capital and Financial Inclusion

	Mean	SD	1	2	3
Social Capital-2	3.409	.768	.602**	1.000	
Financial Inclusion-3	3.021	1.116	.381**	.443**	1.000

***. Correlation is significant at the 0.01 level (2-tailed).*

In the table above, the relationship between social capital and financial inclusion revealed a significant and positive relationship between social capital and financial inclusion ($r = 0.443$, $p < 0.001$), which means that the higher the social network among consumers of financial services, the higher the likelihood of these consumers being reached and served by the financial intermediaries affirmatively answering whether there is a relationship between these two variables of study and rendering support to the hypothesis that there is a relationship between social capital and financial inclusion.

In order to get grounded, the survey focused on the role of the critical aspects of social capital like trust and reciprocity, bonding, bridging and networking in lieu of regulated intermediation. Most of the constructs yielded significant factor loadings meaning that social capital is a reliable predictor of financial inclusion. From the responses, it is clearly deduced that social capital benefits an individual both as a sole entity and as member belonging to a group given the numerous benefits that emerge thereof. From the interactions in the focus group discussions, it was clear that social networking fabrics such as the status of a person in a community and whether they can be commended by any renowned individuals in the community for financial services access from organised community groups such as Village Savings and Loans Associations and Savings and Credit Associations (SACCOs) are very critical. It was further revealed that even if one is a member of such an association as a saver, they still require community support and its social benefit. This means that it is not enough for an individual to save with the group in order to enjoy its benefits beyond saving. This finding confirms findings of Sharma & Zeller (1998), Bastelaer & Leathers (2006), Cassar, Crowley and Wydick (2007) and Karlan (2007) who, having studied the impact of social capital in the microfinance context, discovered that there was a significance impact of social capital on repayments in group lending as opposed to intermediation that required collateral as security to access finances and thus social capital becomes the physical collateral for allowing access to financial services especially loans.

However, in some circumstances, regulated intermediation also uses social capital as a basis for advancing loans to given members of the society especially those that are renowned. *"Sometimes, because of one's status in society and their being public figures, we give them loans because they have more to lose in terms of their reputation and status in case they fail to pay back"* noted a bank manager of one of the prominent financial Institutions branches

Since a majority of the respondents expressed a lack of trust of people in the areas of study, which could be rooted to the fact that majority of the respondents had lived for less than 5 years in the area and so the levels of tryst were low, it means that at an individual level, access to finances, even in an unregulated intermediation, still remains low because social capital, which has trust as one of its basic tenets is low in the areas of study. There is also a big likelihood of low intermediation from financial intermediaries given the low levels of trust that intermediaries have in a prospective client to pay back which subsequently causes less access to services as Greif (1993) equally argues.

Social capital can be understood at three basic levels: that is at the higher level which is the country, at the mid-level where we have the community and at lowest level is the individual.

From a community level perspective, social capital comprises of neighbourhood networks (Jacobs, 1961), with features of social life – networks, norms and trust (Putnam, 1993) that enable an individual to pursue collective goals with a collective effort. And at an individual level, social capital refers to individual characteristics like; charisma, status, individual interactions and access to networks (Gleaser et.al, 2000). Evidence from this study points to a positive association between social capital and economic progress especially at the individual and community levels, a finding that resonates with the arguments of McGregor et al., 2000).

Not-for-profit community lenders, such as credit unions and community development finance institutions (CDFIs), provide consumers with access to financial services. These and microfinance institutions heavily rely on group formation for financing micro-entrepreneurs by leveraging their social capital as collateral which eventually replaces financial collateral. Evidence to the effect that three out of 5 individuals belonged to a village group explains the phenomenon of social capital as collateral for finances.

Social investment has a role to play in helping certain community lenders to scale and diversify their products to reach a wider market. The principles of microfinance, which is a commonly used form of financial inclusion such as SACCOs lay its foundations on group mechanism for lending. There is a general contention that group lending is an effective mechanism to get rid of various hazards involved in microfinance, more particularly in case of government backed and sponsored programs.

Research evidence proves that adverse selection and moral hazard can be minimized to a large extent by provision of services through a mechanism of group lending (Stiglitz,1990; Varian,1990; Ghatak,1999; Wydick,1995, Coleman,1999). Group lending may however introduce self-selection which can in turn lead to adverse selection (Coleman,1999; Gineet.al.,2006); which may turn into a moral hazard if the choice of selection of fellow partners is left with the self-selected members (Coleman,1999; Gineet.al.2006).

These results also pointed to a positive implication for intermediaries that rely heavily on the idea that individual social capital can overcome a borrower's lack of financial collateral. Lack of sufficient social capital and interconnectedness in the community such as through cooperation among businesses and support organisations, is believed to obstruct the successful provisioning of microfinance services, Lashlye (2002), Sanders and Nee (1996) explain the positive effect of social capital in the form of social relations on a micro-entrepreneur through Instrumental Support, Productive Information and Psychological Aid. Instrumental support in the form of start-up support through non-interest bearing capital usually by friends and family can directly affect the performance of a micro-entrepreneur. This also explains why the biggest source of information regarding finances for most of the respondents comes from the family members and friends given their social ties which are attributed to simple fact of basic honesty and trust in this cohort.

Besides this, the issue of ethnicity seems to play a more important role here as clusters of communities in both the rural Kiboga and urban Wakiso exhibited stronger ties amid settlements where people spoke more of the same language than mixed patterns. This could be highly attributed to the fact that there is a high level of mobility given the business opportunities presented by the urban setting of Wakiso and its closeness to the Central Business District of Kampala. The same could however not be said of Kiboga town council where social capital was higher and involved interactions among all the people in the community regardless of social classes and their financial status.

In addition, the study found that people from a rural setting in Kiboga shared stronger social ties than their urban counterparts of Wakiso. These characteristics make social capital a reasonable explanation for the higher levels of trust, closeness and happiness that are higher in rural than urban areas. These stronger ties can be largely attributed to a more stable settlement pattern in rural Kiboga than urban Wakiso where the population is denser and hence more difficult to know people at the individual level but also the rate of mobility is high with more people settling in and out of Wakiso. It is safer therefore to conclude that social capital is stronger in areas that have constant settlement patterns and people and so from this study, social capital is stronger in rural than urban areas.

While the traditional understanding of poverty was limited to the lack of access to basic facilities and sources of income, a new concept of the same includes the various social and economic parameters in a multidimensional context. It thus involves the lack of assets or sources of income, powerlessness, lack of skill, vulnerability and volatility in returns or income among others. The determining assets may be human such as capacity build up, natural, physical, social like social capital and networks, and financial including access to credit, World Bank, (2000). The lack of access to these enabling assets incapacitates an individual to take on profitable activities and thus leading to multiple deprivations including inclusion in the various financial service portfolios.

The neighbourhood effects of social capital are equally important fundamentals in increasing inclusion levels among people who share a certain geographical and or social set up. Rashid Khaki et al (2016) believe that better neighbourhood characteristics like access to suitable market space, marketing arrangements, etc. give rise to an increased number of opportunities which can equally lead to increased impact of strengthening and empowering interventions by way of additions. These have an in and out movement which either direction lead to an aggregate positive effect. This explains why revelations in this study point to a fact that all social groups have been formed around people who are either neighbours or enjoy neighbourhood benefits with other households; hence they form groups with such to leverage benefits such as help and trust.

Social networks and their actors enhance availability of information about scarce resources and opportunities within a given society. WDR (2002) argues that communities where more ethnic groups exist in a given economy for instance, each with its own set of customs and norms for doing business, the complexity of the coordination problem mushrooms. As group size grows, information processing, command and enforcement within the group becomes difficult. Information flow about business opportunities may be available only to members of a group, with outsiders excluded because of linguistic or cultural barriers as well as their not belonging to this caste. Besides, information may also be shared during the process of intra community social occasions, thus, this may make it difficult for outsiders to gain access. Even in a social circle that has its own distinct aspects such communication using idioms or any other informal means, entrenchment into such a group is hard; thus limiting the potential opportunities to anyone outside that social order. Therefore, informal norms characteristic of a particular social grouping may limit trade and access to resources because it may exclude those who are not part of the social sanction.

While there was a big association between social capital and financial inclusion by the findings of this study, some studies, earlier studies conducted by Sharma and Zeller (1997) using credit groups in

Bangladesh, and Ahlin and Townsend (2004) using data from Thailand, found that groups with high levels of family relations have higher default rates. It could be argued that this is because family members may not be able to screen effectively for the credit worthiness of their members. However, Ahlin and Townsend (2006) and Wydick (1999) have severally reasoned that groups which have put in place measures such as threats of social sanctions for payment defaulters have recorded higher repayment. While this may be an effective means of ensuring inclusion and payback, it abrogates the social capital tenet of trust and may point to a bigger problem that could be endogenous and thus not easy to point to. Microfinance Programmes such as the famous group lending dynamics have been perceived to be a very vital means of creating the bond especially among individuals in the community that are seemingly deprived. Resultantly, there is an increase in the individuals' ability to spend on other services such as education and health care.

Conclusion

This study investigated the relationship between social capital and financial inclusion. From the findings, it can safely be concluded that the tested hypothesis of whether there is a relationship between social capital and financial inclusion was positive meaning that the assumption of relationship between the two variables strongly holds and hence a more reliable predictor and enabler of financial inclusion. This therefore means that financial inclusion is not only dependent on intermediation by the financial institutions and extension of services but also on the social capital that the various service users enjoy among themselves to build sustainable and development oriented relationships. At a policy level, Governments especially in the third World Countries should explore the possibilities of creating an enabling policy environment that provides for an inclusive approach through the use of social clusters as registered entities to substitute for collateral security especially in credit access among the highly socialized but financially disadvantaged poor.

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