



THE REPUBLIC OF UGANDA

NATIONAL FINANCIAL INCLUSION STRATEGY

2017 - 2022







The Republic of Uganda
National Financial
Inclusion Strategy
2017-2022

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TABLE OF CONTENTS

| | |
|--|-----------|
| ACKNOWLEDGEMENT | i |
| ABBREVIATIONS | II |
| DEFINITIONS | III |
| FORWARD | IV |
| EXECUTIVE SUMMARY | VI |
| 1 INTRODUCTION | 1 |
| 1.2 Economic and Financial Sector Context | 2 |
| 2 DIAGNOSTIC OF THE FINANCIAL SECTOR | 5 |
| 2.1 Access Barriers | 6 |
| 2.2 Savings, Insurance and Investment | 8 |
| 2.2.1 Banking Sector Overview | 8 |
| 2.2.2 Savings Overview | 10 |
| 2.2.3 Insurance Sector Overview | 11 |
| 2.2.4 Pension and Investment Sector Overview | 12 |
| 2.3 Credit Market..... | 13 |
| 2.3.1 Collateral Registration..... | 14 |
| 2.4 Mobile Financial Services..... | 15 |
| 2.4.1 Payment Service Providers..... | 17 |
| 2.5 Empowering & Protecting Individuals..... | 17 |
| 3 RATIONALE, VISION, DEFINITION & THEORY OF CHANGE | 19 |
| 3.1 Defining the Vision for Financial Inclusion..... | 19 |
| 4 OBJECTIVES AND PILLARS OF THE STRATEGY | 21 |
| 4.1 Objective 1: Reduce Financial Exclusion and Access Barriers to Financial Services | 21 |

| | | |
|----------|---|-----------|
| 4.2 | Objective 2: Develop the Credit Infrastructure for Growth | 21 |
| 4.3 | Objective 3: Build Out the Digital Infrastructure for Efficiency | 22 |
| 4.4 | Objective 4: Deepen and Broaden Formal Savings, Investment and Insurance Usage | 22 |
| 4.5 | Objective 5: Empower and Protect Individuals with Enhanced Financial Capability | 23 |
| 5 | ANALYSIS OF KEY GAPS AND INITIATIVES TO IMPROVE FINANCE INCLUSION..... | 25 |
| 5.1 | Priority Areas: Women, Youth and Rural Populations | 25 |
| 5.2 | Objective 1: Reduce Financial Exclusion and Access Barriers to Financial Services..... | 28 |
| 5.3 | Objective 2: Develop the Credit Infrastructure for Growth | 30 |
| 5.4 | Objective 3: Build Out the Digital Infrastructure for Efficiency | 32 |
| 5.5 | Objective 4: Deepen and Broaden Formal Savings, Investment & Insurance Usage..... | 34 |
| 5.6 | Objective 5: Empower and Protect Individuals with Enhanced Financial Capability..... | 37 |
| 6 | IMPLEMENTATION MECHANISM..... | 39 |
| 7 | MONITORING AND EVALUATION SYSTEMS | 45 |
| 8 | ACTION PLAN | 49 |
| | Annex 1: Initial Composition of Working Groups | 55 |
| | Group 1: Reduce Financial Exclusion and Access Barriers to Financial Services..... | 55 |
| | Group 2: Mobile Financial Services | 55 |
| | Group 3: Credit Infrastructure | 55 |
| | Group 4: Deepen and Broaden Formal Savings, Investment and Insurance Usage | 56 |
| | Group 5: Empower & Protect Consumers | 56 |
| | Annex 2: Financial Inclusion Diagnostic Research in Uganda..... | 57 |

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ABBREVIATIONS

| | | | |
|---------------|--|--------------|---|
| AML | Anti-Money Laundering | NPL | Non-Performing Loan |
| ATM | Automated Teller Machine | POS | Point-of-Sale |
| BOP | Base of the Pyramid | RAB | Reduce Exclusion Access Barriers |
| BoU | Bank of Uganda | ROSCA | Rotating Savings and Credit Association |
| CMA | Capital Markets Authority | SACCO | Savings and Credit Cooperative |
| CRB | Credit Reference Bureau | UBA | Uganda Bankers' Association |
| CRI | Credit Infrastructure | UCC | Uganda Communication Commission |
| EPI | Empower & Protect Individuals | UFSI | Usage of Formal Savings and Insurance |
| FCP | Financial Consumer Protection | UGX | Ugandan shilling |
| FI | Financial Institution | UMRA | Uganda Microfinance Regulatory Authority |
| FIA | Financial Institutions Act | UNCDF | United Nations Capital Development Fund |
| GDP | Gross Domestic Product | URBRA | Uganda Retirement Benefits Regulatory Authority |
| IRA | Insurance Regulatory Authority | VSLA | Village Savings and Loan Association |
| MDI | Microfinance Deposit-Taking Institution | VAT | Value Added Tax |
| MFI | Microfinance Institution | | |
| MFS | Mobile Financial Services | | |
| MNO | Mobile Network Operator | | |
| MoFPED | Ministry of Finance, Planning and Economic Development | | |
| MSME | Micro, Small and Medium Enterprise | | |
| NFIS | National Financial Inclusion Strategy | | |
| NPA | National Planning Authority | | |

DEFINITIONS

Adults: Persons of age 15 or older.

Credit infrastructure: The set of laws and institutions that enables efficient and effective access to finance, stability, and socially responsible economic growth.

Financial Capability: The combination of knowledge, understanding, skills, attitudes and especially behaviours which people need to have to make sound personal finance decisions, suited to their social and financial circumstances.

Financial Consumer Protection: A state where the legal and regulatory environment provides individuals with transparent information, privacy of their data and personal information, protection against fraud and over-indebtedness and avenues for redress, where providers of financial services act responsibly and treat clients fairly, and individuals are empowered and financially capable to make good decisions based on clear information presented to them.

Financial Inclusion: Having access to and using a broad range of quality and affordable financial services which help ensure a person's financial security.

Stored Value Accounts: A product which digitally stores value and can be transferred by card, mobile phone, or other means.

FORWARD

Empirical research suggests that access to formal financial services by the population can contribute to inclusive economic growth. Consequently, the promotion of financial inclusion, which refers to the process of ensuring access to timely, affordable, and adequate financial services to all citizens in the economy, has become a goal of public policy in developing countries. Financial services include savings, loans, insurance and payment facilities. Access to financial services can help poor people raise their incomes, accumulate savings and better cope with shocks to their income, thereby enhancing their welfare. It is estimated that 15 percent of the Ugandan population are financially excluded, yet there is evidence that low-income and financially excluded populations have active financial lives and need a broad range of financial services to take advantage of economic opportunities.

The Ministry of Financial Planning and Economic Development (MoFPED) and Bank of Uganda (BoU), spearheaded the process of formulating a national strategy for financial inclusion. The National Financial Inclusion Strategy (NFIS) 2017-2022 is Uganda's holistic strategy for promoting financial inclusion with emphasis on five pillars:

- i)** Reduce financial exclusion and barriers to access financial services;
- ii)** Develop the credit infrastructure;
- iii)** Build the digital infrastructure;
- iv)** Deepen and broaden formal savings, investment and insurance usage; and
- v)** Protect and empower individuals with enhanced financial capability.

The NFIS articulates a vision for Uganda by 2022 in which all Ugandans have access to, and use, a broad range of quality and affordable financial services.

The formulation of the NFIS builds on the Government's 2011 Financial Inclusion Programme. The Financial Inclusion Programme had four pillars: financial literacy; financial consumer protection; financial innovations; and data and measurement. Key achievements under the Financial Inclusion Programme included: the crafting, inauguration, and implementation of the strategy for financial literacy in Uganda 2013-2017; issuance of the financial consumer protection and mobile money guidelines; amendment of the Financial Institutions Act, 2004 to allow for Agency and Islamic banking;

and the geospatial mapping of distribution points of financial services in the country. We are grateful to the German Society for International Cooperation (GIZ) which was a key development partner in the first six years of the Financial Inclusion Programme.

Drawing on the lessons learnt from implementation of the Financial Inclusion Programme, the MoFPED and the BoU developed a more ambitious and comprehensive strategy focusing on three priority areas: women; youth; and the rural population. A diagnostic study of the financial sector led to the detection of gaps that exist between the desired and current state of financial inclusion. For each of the identified gaps, initiatives to close the gaps have been identified in this new strategy.

We believe that the NFIS provides a feasible road map for enhancing financial inclusion over the next five years. Under the NFIS, Working Groups will be set up to formulate and implement policy measures interventions to achieve the goals of the strategy.

We are grateful for the contributions of all institutions represented on the Inter-Institutional Committee on Financial Inclusion (IICFI) which played a critical role of providing strategic oversight over the process of developing this Strategy. The institutions represented on the IICFI included: MoFPED; BoU; Insurance Regulatory Authority of Uganda (IRAU); Ministry of Trade, Industries & Cooperatives (MTIC); Uganda Communications Commission (UCC); Financial Intelligence Authority (FIA); Financial Sector Associations; Development partners; and Civil Society representatives. Our special thanks go to our development partners, particularly the Alliance for Financial Inclusion (AFI) and Financial Sector Deepening Uganda (FSDU) for their support to the process of developing this strategy.

We look forward to closer working relations with you over the next five years and beyond.

Matia Kasaija (MP)
Minister of Finance, Planning and
Economic Development

Professor Emmanuel Tumusiime-Mutebile,
Governor, Bank of Uganda

EXECUTIVE SUMMARY

Empirical evidence shows that financial inclusion can aid self-employment, improve household consumption, support greater local economic activity, and reduce inequality.¹ There is also macroeconomic evidence to show that economies with deeper financial intermediation tend to grow faster and reduce income inequality. For these reasons, over 30 countries around the world have made commitments to improve financial inclusion and/or implement national financial inclusion strategies as part of their broader national development plans.²

Financial inclusion is improving in Uganda: 54% of adults were financially included in formal institutions in 2013 compared to 28% in 2009. The improvement mainly came from the uptake in mobile money, and more work needs to be done to broaden the scope of financial services.³ The National Financial Inclusion Strategy (NFIS) supports the National Development Plan for Uganda. The NFIS is coming at a time when several important pieces of legislation and regulations have been passed (e.g. FIA Amendments 2016, Tier IV Microfinance Institutions and Moneylenders Act 2016, Mobile Money Guidelines of 2013, Anti-Money Laundering Act 2013), or are on the cusp of being issued (Agency Banking Regulations, National Risk Assessment findings for AML).

In addition, the Bank of Uganda has provided significant leadership to improve the level of financial consumer protection and financial literacy within the country through its own internal financial inclusion working group, albeit with a focus on institutions which BoU supervises. A major output from that work was the development of Strategy for Financial Literacy in Uganda which came to an end in 2016. An evaluation of consumer protection efforts has shown a high level (70%) of awareness among bank clients of their rights.⁴ However, the limited outreach among banks emphasizes the lack of financial access in many areas and the limited information regarding consumers' levels of financial capability.

1 Global Financial Development Report: Financial Inclusion. World Bank. 2014.

2 Overview of National Financial Inclusion Strategies. World Bank. November 2015.

3 The most recent and comprehensive demand-side study of financial inclusion in Uganda is the 2013 FinScope Survey.

4 Financial Consumer Protection Monitoring and Evaluation Report. January 2016.

Multiple stakeholders have highlighted the on-going changes that are needed to broaden the scope of credit bureaus, and to include in the credit bureaus smaller “Tier IV” institutions and other non-banks such as utilities/mobile money service providers. As part of the NFIS development, many participants accentuated the importance of making changes to the Microfinance Deposit-Taking Institutions Act to allow Microfinance Deposit-taking Institutions (MDIs) to engage in agency banking, the rolling out of the Uganda Microfinance Regulatory Authority (UMRA) and improving the competitive framework for mobile money via interoperable clearing and settlement mechanisms.

The end goal of financial inclusion is not just having more people with accounts, who are making transfers and are getting loans; rather it is ultimately about reducing poverty and enhancing the economic security of families through usage of affordable financial services. This is an important reference point that is part of the vision and definition of financial inclusion in the NFIS. Figure 1 provides a snapshot of the vision, objectives, key gaps, and key performance indicators of the NFIS.

Figure 1: Summary Table of the NFIS

| Vision Objectives/Pillars | All Ugandans have access to and use a broad range of quality and affordable financial services which helps ensure their financial security. 1) Reduce financial exclusion and access barriers to financial services 2) Develop the credit infrastructure for growth 3) Build out the digital infrastructure for efficiency 4) Deepen and broaden formal savings, investment and insurance usage 5) Empower and protect individuals with enhanced financial capability | | | | |
|---|--|--|--|--|--|
| Objectives | Reduce exclusion and access Barriers | Credit infrastructure | Digital infrastructure | Deepen and Broaden Saving, Investment and Insurance Usage | Financially Capable and protected individuals |
| Dimensions | Access | | | | |
| Key Gaps Identified | 1) One-size-fits-all KYC is inappropriate for opening deposit accounts 2) Limited availability of IT and access channels (handsets, branches, POS), especially in rural areas 3) Fis and Mobile Money Service Providers cannot verify the national IDs 4) High cost financial services limits financial inclusion 5) Youth cannot directly open accounts thus hindering their access to financial services | 6) Limited coverage by the credit reference bureaus, slow connections and high cost for data provided by the CRB 7) MSME and rural access to finance is limited 8) Weak public awareness of the importance of credit histories 9) Communal property rights in rural areas at times limits land being pledged for collateral | 10) Inadequate inter-operability within the financial sector 11) Weak competition in financial services has led to high prices and insufficient customer experience 12) Security risks exist for consumers and digital financial service providers 13) Inappropriate policy and regulatory framework and ambiguity for mobile money | 14) Limited use of formal savings channels, especially by women 15) Weak uptake of insurance 16) Limited confidence by base of the pyramid consumers in formal financial service providers 17) Insufficient savings and investment to secure household well-being | 18) Limited financial capability 19) Limited protection of consumers' rights 20) Products are generally not meeting consumers' needs |
| Key Performance Indicators by 2022 | Grow usage of formal financial institutions (banks, non-banks including mobile money) from 54% to 80%. Reduce financial exclusion from 15% to 5%. Increase access points per 100,000 adults from 548 to 615. Source: FinScope 2013 and IMF Financial Access Survey 2015 | Increase credit bureaus coverage from 6% to 40% of adults Source: BoU Percentage of Adults with Financial Cards. | Grow active individuals with stored-value accounts from 31% to 60 % (e.g., mobile financial services). Source: Financial Inclusion Insights 2016 | Increase formal savings from 25% to 50% through greater transparency, competition and use of technology. Increase percent of adults with emergency savings from 41% to 60%. Increase insurance usage from 2% to 7% of adults. Source: FinScope 2013 | Increase percent of women who feel they understand financial services available to them. Source: Forthcoming Financial Capability Survey. |

1

INTRODUCTION

The National Financial Inclusion Strategy (NFIS) is driven by the Ministry of Finance, Planning and Economic Development (MoFPED) and the Bank of Uganda and was developed through a multi-stakeholder consultative process. It is supported by both the private and public sectors. The NFIS, similar to the National Development Plan, is a five-year plan (2017-2022). The goal of the National Development Plan of 2015/16 – 2019/20 is for the country to attain middle income status by 2020. That Plan seeks to strengthen the country's competitiveness for sustainable wealth creation, employment and inclusive growth and sets four key objectives to be attained during its five-year period. These are:

- i)** Increasing sustainable production, productivity and value addition in key growth opportunities;
- ii)** Increasing the stock and quality of strategic infrastructure to accelerate the country's competitiveness;
- iii)** Enhancing human capital development; and
- iv)** Strengthening mechanisms for quality, effective and efficient service delivery.

The NFIS primarily supports objectives one and two of the National Development Plan through creating an inclusive financial system that builds the financial infrastructure, finances the economy and helps families of any social or economic status to create wealth.

The purpose of the NFIS is to develop a consolidated definition, vision and strategy for improving financial inclusion in Uganda with the ultimate goal of families being financially secure.

To develop a vision for financial inclusion in Uganda, preliminary meetings were held with a total of 80 individuals from 44 organisations including the Ministry of Finance, Planning and Economic Development (MoFPED), Bank of Uganda (BoU), Insurance Regulatory Authority (IRA), Uganda Communications Commission (UCC), Financial Intelligence Authority (FIA), persons working on the establishment of the UMRA, Uganda Banker's Association (UBA), the Association of Microfinance Institutions Uganda (AMFIU), and the Uganda Cooperatives Savings and Credit Cooperative Union (UCSCU).

Forums were also held with commercial banks, credit institutions, microfinance deposit taking-institutions, payment service providers, mobile network operators and savings and credit cooperatives (SACCOs). There were also discussions with several development partners that are active in the financial inclusion space. A national stakeholders' forum was held with 100 participants to discuss the strategy and a formal public comment period was held in which stakeholders submitted comments on the draft strategy. Lastly and equally important was the engagement with agricultural workers and day labourers through a visit to a rural village of Buggade, Mayuge district, Eastern Uganda.

In addition to the consultations, peer jurisdictions provided extensive comments on the draft strategy through the Alliance for Financial Inclusion and there was extensive research on the supply-side and demand-side of financial services, a list of which can be found at the end of this report. That information serves as an important basis for the diagnostic component of the NFIS.

Development partners in Uganda have already shown their openness and commitment to utilising the NFIS as a framework for organising financial inclusion activities. While this strategy focuses on financial inclusion, it should not be to the detriment of other important financial sector reforms such as long-term finance, housing finance, capital market development and the growth of pensions, which are largely outside of the scope of this strategy.

1.2 Economic and Financial Sector Context

Uganda is a low-income, landlocked country of 34.8 million⁵ residents with limited water transport system, sanitation and electricity infrastructure. However, it is also a country with fertile soils, regular rainfalls, access to significant water supply, and prospects for oil resources. While many advanced economies are struggling with shrinking and aging populations, Uganda has one of the fastest-growing populations globally and has the second most youthful population in the world with a median age of just 15.7 years old. This compares to a median age of 19.5 in Kenya and 31.6 in Brazil; both of these countries serve as references for improving financial inclusion⁶. While having a young population may bode well for future growth of the economy (if skills develop), it currently manifests itself more as a strain on the infrastructure of

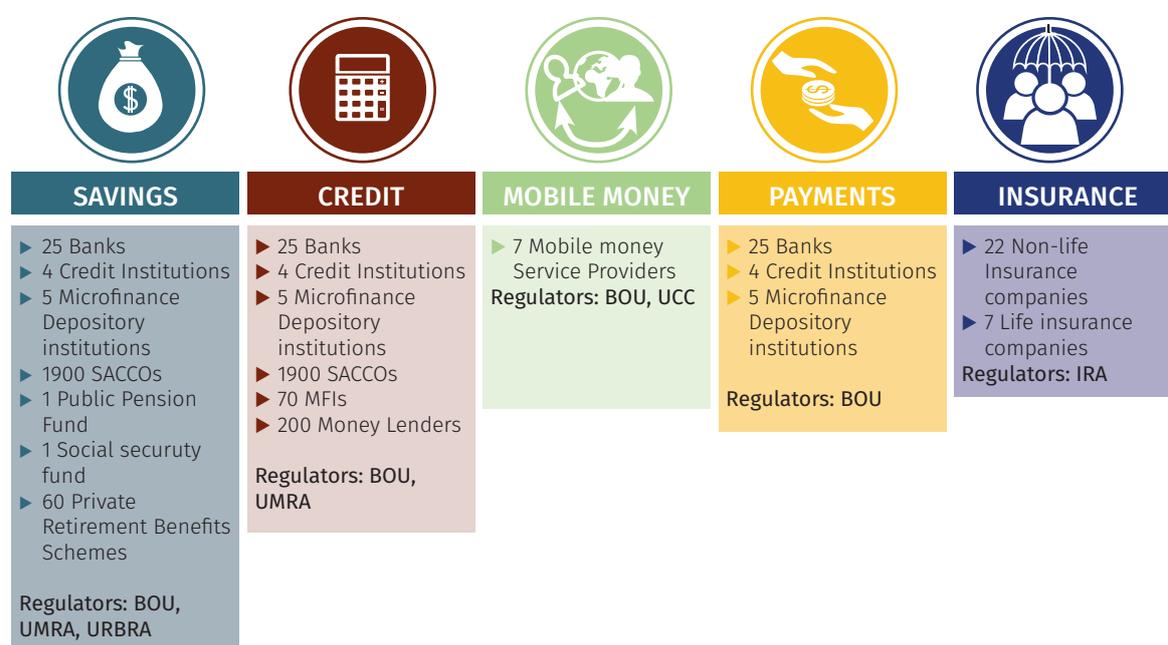
⁵ Uganda Bureau of Statistics. National Population and Housing Census Provisional Results 2014.

⁶ World Factbook 2016

the country. In recent years, the economy has had moderate growth of 4.8% in 2014, 5% in 2015 and 2016.⁷ The credit market continues to have elevated interest rates on loans averaging 23.5% as of June 2016. These high rates may be part of the reason for the very low level of domestic credit provided to the private sector compared to GDP (i.e. 15% in Uganda compared to 46% in other Sub-Saharan African countries).⁸

An overview of the institutional breakdown of the financial sector is provided in Figure 2.

Figure 2: Financial Sector Institutions as of November 2016⁹



7 World Development Indicators and Economic Overview. World Bank. 2016.

8 World Development Indicators. World Bank. 2016.

9 Bank of Uganda, Insurance Regulatory Authority figures and estimates for Tier IV institutions.

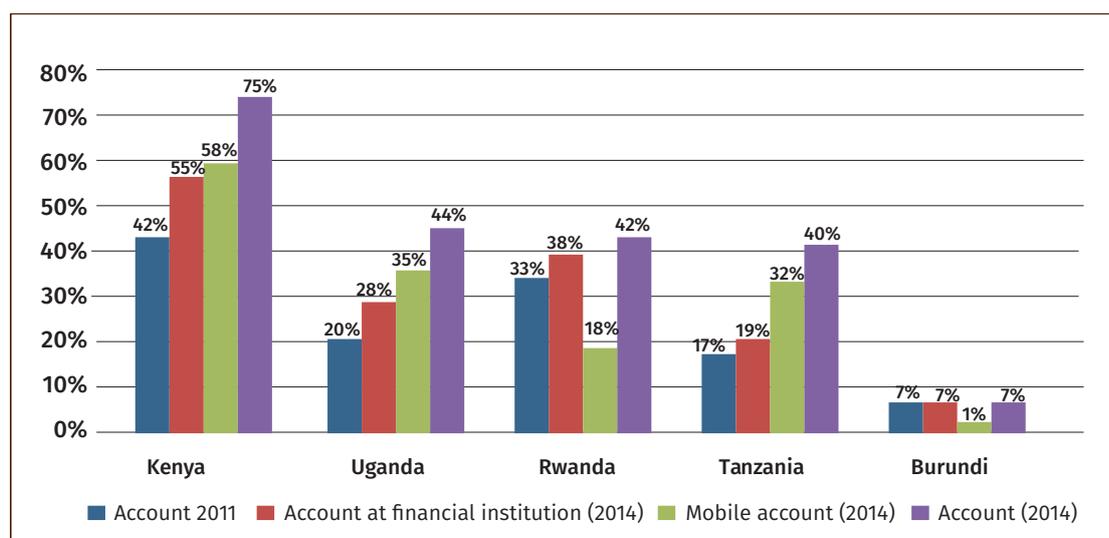
2

**DIAGNOSTIC OF THE FINANCIAL
SECTOR**

There are relatively strong and recent time series, demand and supply side research studies that have been conducted on the financial service environment in Uganda (See Annex 2 for a list of these reports). In particular, the June 2015 Financial Sector Review from the World Bank provides a comprehensive overview of the financial sector, three demand-side FinScope studies provide time-series data on the progress of financial inclusion in Uganda and the annual 2013-2015 Financial Inclusion Insight surveys by Intermedia provide time series data on financial inclusion with a focus on digital financial services. As a result of analysing these studies, supply side research and the interviews with 80 financial sectors stakeholders and consumers, the NFIS has a strong underlying diagnostic of the financial sector.

This section is organised thematically around key products and issues related to financial inclusion. These include: A) Access Barriers B) Savings and Insurance C) Credit Market D) Digital Financial Services, and E) Protecting & Empowering Individuals.

The results of the World Bank's Global Findex survey in Figure 4 enables the comparison of financial inclusion indicators among different countries. This figure presents how Uganda compares to other countries within the East African Community. In 2014, Uganda's indicators were second-best after Kenya, which is a very positive sign, but more work remains to be done. In 2011, Uganda lagged behind Rwanda in terms of the percentage of adult population with an account, but the situation changed in 2014 when 44% of adult Ugandans had an account, compared to 42% in Rwanda. Kenya is significantly ahead of other countries in the region, with 75% of adult population having an account. Additional financial inclusion indicators from the Findex database are available in Annex 3 and indicators from the International Monetary Fund's supply side Financial Access Survey are available in Annex 4.

Figure 4: Cross Country Comparison of Financial Inclusion Indicators

2.1 Access Barriers

Results from the most recent Uganda FinScope survey in 2013¹⁰ showed that up to 76% of adults in urban areas in Uganda utilised either formal financial institutions (banks, microfinance deposit-taking institutions [MDIs]), or non-banks (mobile money, SACCOs and Micro Finance Institutions). In contrast, just 49% of adults utilised formal financial services in the rural areas of the country.¹¹ Rural adults are twice as likely as their urban counterparts to utilise informal groups for financial services and are 1.7 times more likely to be completely excluded from financial services. This data clearly reflects the challenge for financial inclusion which will require a significant focus on rural areas where 71.5% of the population resides.¹² As of June 2016, the number of commercial bank branches decreased by 4 branches to 566 compared to the previous year. It is important to note that 70% of all branches are in urban areas. The number of automated teller machines had a 3% increase to 862 ATMs.¹³ There is much more awareness and availability of mobile money points of service compared to bank branches or ATMs. In 2015, only 16% of the population had a bank point of service within one kilometre of a home, whereas 54% of the population had a mobile money point of service within one kilometre.¹⁴

In Uganda, there were 540 mobile money agent outlets per 100,000 adults in 2015. This indicator is similar to Kenya's 538.09 mobile money agent outlets per 100,000 adults which shows excellent progress and potential for digital financial services expansion in Uganda's rural areas.

¹⁰ A new FinScope survey is planned for 2017.

¹¹ One of the principal differences between the Findex and FinScope surveys are that FinScope included mobile money service providers as formal financial institutions and Findex did not. In addition, Findex has a consistent global sample from 148 countries allowing for cross-country and regional comparisons.

¹² Uganda Bureau of Statistics. National Population and Housing Census 2014. Provisional Results.

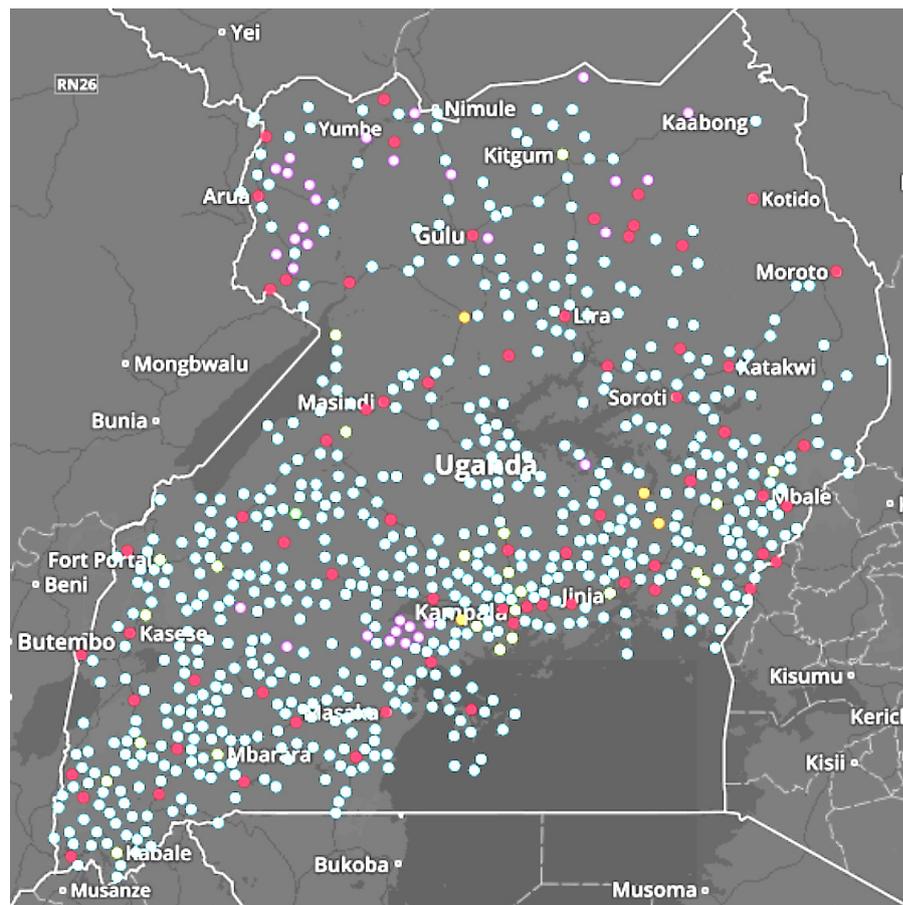
¹³ Bank of Uganda Annual Report FY 2015-2016.

¹⁴ Financial Inclusion Insight Survey. 2015

The situation is quite different when it comes to branches of commercial banks per 100,000 adults. In 2015 there were almost twice as many bank branches (5.85) in Kenya as there were in Uganda (2.98). The usage of deposit and loan accounts is unsurprisingly lingering behind: 230 deposit (37 loan) accounts in Uganda versus 1,315 deposit (231 loan) accounts at commercial banks per 1,000 adults in Kenya.

A mapping of the physical distribution points for financial services and mobile money was conducted by the Gates Foundation in 2014. This mapping highlights areas where access exists and where access is lacking. This analysis in Figure 5 shows the high prevalence of mobile money outlets (light blue) followed by MFI offices, banks, and post office outlets (in purple, red and orange respectively). This analysis also indicates that 71% of the population lives within 5 kilometres of a financial services access point.

Figure 5: FSP Geospatial Map for Uganda – Banks, SACCOs/MFIs and Mobile Money



In terms of access to financial services for persons with disabilities (PWD), Uganda has been a leader in Africa. The Persons with Disabilities Act was passed in 2006 and for over ten years MFIs have worked to ensure PWDs have physical and service access to financial services. This has included working with the National Union of Disabled Persons of Uganda to help PWDs overcome self-exclusion. Many financial institutions have lowered tills in the banking halls and constructed access ramps. Social welfare policies do not discourage or penalise PWDs from using financial services. Some health insurance companies, though, consider age to determine premiums, but not disability.

2.2 Savings, Insurance and Investment

2.2.1 Banking Sector Overview

There are three types of deposit-taking institutions that are currently licensed and regulated by the BoU. They include Tier I (commercial banks), Tier II (credit institutions) and Tier III (microfinance deposit-taking institutions). Assets are largely concentrated in Tier I, as the number of these institutions (twenty-four, as at June 2017) is also significantly larger than those in tiers II and III which have only four and five institutions, respectively.

The World Bank's Financial Sector Review of June 2015 found that the commercial banks' domination of the financial landscape is common for other countries in the region as well. Although the share of the banking sector in the country's financial system has declined in recent years, it is still quite high (73% in 2015).¹⁵ In the EAC, according to 2012 data, only Burundi had a higher share of the banking sector controlling financial sector assets than Uganda (82%). Uganda's banking system is dominated by foreign-owned banks when compared to other East African countries. There are only three banks in Uganda that have a majority of shareholders from within the country.

The banking system in Uganda is highly concentrated. Four systemically important banks hold approximately 45% of consumer deposits in the banking system, with two market leaders holding 16.5% and 15% of deposits, respectively. In aggregate, the banking system in Uganda is well capitalised and above the regulatory minimum requirement which is a positive development from the standpoint of stability and where weaknesses existed they have been addressed. Nevertheless, credit risk in the banking system of Uganda represents a concern as non-performing loans have been

¹⁵ Annual Supervision Report, December 2015, Bank of Uganda. Annual Pension Industry Report 2015. URBRA. Annual Insurance Market Report 2015. Insurance Regulatory Authority.

increasing over the last several years as GDP growth has decreased. The majority of banks in Uganda are profitable, but some banks have been posting persistent losses.

It is important to ensure the development of other depository financial institutions besides Tier I banks in Uganda, as Tier II, III and IV institutions have stronger geographical outreach and an orientation to serve low-income Ugandans. Compared to the banking system as a whole, Tier II Credit Institutions (CI) and Tier III Microfinance Deposit-Taking Institutions (MDI) are currently very small: combined, these institutions held less than 4% of loans and 2% of deposits in 2014. The number of players in these sectors is also small. The expectation is that the CI charter will eventually be eliminated in Uganda. Among MDIs, one institution holds more than half of loans and deposits among MDIs. The MDI legislation currently handicaps MDIs in competing with other institutions as MDIs are not allowed to be direct participants in the clearing system despite being prudentially supervised by BoU. The BoU has made significant progress in preparing the amendments to the Microfinance Deposit-Taking Institution Act (MDIA) to enable these institutions to compete more effectively with other financial institutions.

SACCOs, none of which are currently regulated prudentially, remain a major potential source of financial services and inclusion for large segments of the population. However, there is a trust deficit with these institutions. The SACCO sector in general faces several challenges, including a serious lack of oversight and capacity, poor bookkeeping, and inadequately skilled staff and boards. Weaknesses in the SACCO sector could have a significant adverse socio-economic impact if left unaddressed. Loss of SACCO members' savings could possibly have negative knock-on effects by causing a loss of confidence in the financial sector and hinder financial inclusion.

The authorities are currently developing a framework for oversight of Tier IV institutions in Uganda following the passage of the Tier IV Microfinance Institutions and Moneylenders Act in May 2016. The approach will have a small number of the largest SACCOs under the regulation and supervision of BoU as called for in the Tier IV Act. Medium-sized SACCOs, all non-deposit-taking MFIs and moneylenders, will come under the supervision of a newly established Uganda Microfinance Regulatory Authority (UMRA), while smaller SACCOs will be subject to periodic monitoring by the Department of Cooperatives. It is expected that this will provide sufficient oversight of the sector.

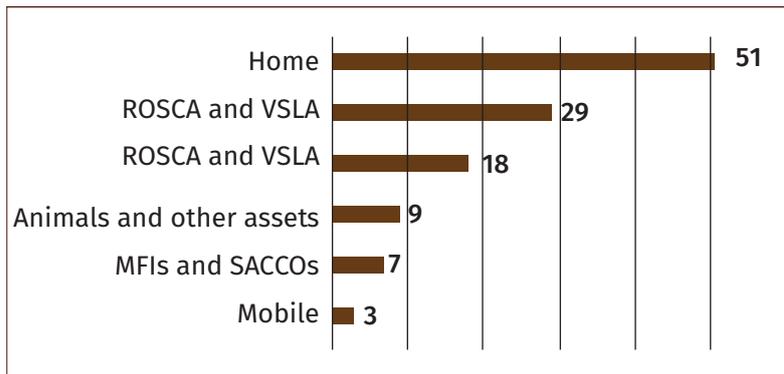
Other non-bank financial institutions such as insurance and private pension funds are not currently sufficiently developed in Uganda. It is essential to stimulate the development of both pension and insurance sectors which will play a key role in expanding access to investments in Uganda, increasing the availability of long-term financing and protecting individual's assets from risks.

2.2.2 Savings Overview

Over the past seven years the share of adults that are engaged in some form of savings has continued to increase from 42% in 2006 to 68% in 2013, according to FinScope findings. However, the percentage of adult savings in formal channels did not change much between 2009 and 2013 as only 16% of adults were saving in banks, MDIs or SACCOs which can intermediate funds. Men were 40% more likely to save at banks compared to women. At the same time, the most cited reason for not saving was the lack of information on savings - which indicates latent potential. This limited uptake of savings at formal financial institutions affects not only the safety of consumers' funds, but also the ability of formal institutions to intermediate funds and provide credit to MSMEs in the broad economy to aid economic growth.

The savings products available to consumers include current accounts, savings accounts and time deposits. Savings products that are offered by banks, credit institutions and microfinance deposit taking institutions are covered by the Uganda Deposit Protection Fund which provides up to 3 million UGX (equivalent of US\$850) to depositors if their financial institution is liquidated. Savings in SACCOs and in mobile money service providers that are not banks, do not have such deposit protection.

Figure 6 indicates that the most common place for adults to save is in their house, followed by the village savings and loan associations (VSLAs) and rotating savings and credit associations (ROSCAs). Many institutions have relayed concerns regarding the financial health and lack of confidence in SACCOs. This lack of trust has grown out of programs that established a SACCO in every sub-county but oftentimes without grass-roots support from members, sufficient skills, control of the staff and board and a lack of necessary oversight by government. The setup of UMRA is intended to remedy this.

Figure 6: Mechanism Used for Savings in 2013¹⁶

2.2.3 Insurance Sector Overview

There are 22 non-life insurance companies (80% of the industry), and seven (7) life insurance companies. Overall the industry registered 21% growth in 2015 with 612 billion UGX in total Gross Written Premiums (GWP) up from 504 billion UGX in 2014. However, GWP as a percentage of GDP stands only at 0.86% penetration – which is low compared to regional peers such as Kenya that has 3% of GWPs to GDP.¹⁷ The main players in the market have a regional presence and the few local companies hold a minimal market share. The Insurance Regulatory Authority (IRA) has indicated intentions to move to risk-based supervision, which may lead to consolidation of the market players through mergers.

Unlike savings products, which consumers can access at any time, or at a specified period of time, insurance is a risk-mitigating product whereby a consumer enters a contract to make a monthly or annual premium payment to cover a potential event (loss of life, auto accident, sickness, etc.). If the event occurs the consumer is compensated to cover the event or at a pre-defined amount. If the event does not occur during the coverage period, the consumer is not compensated unless the contract specified there was the potential for a cash pay-out at the end.

Usage of formal insurance in Uganda was at 2% of adults according to 2013 FinScope. In 2013, 43% of adults had some form of informal insurance (i.e., the contract was verbal or via a group of individuals which are not operating an insurance company). This indicates that formal insurance has significant room for growth in Uganda. There is also compulsory third-party motor insurance but only 40% of cars/motor bikes have it. The portion of men that had formal insurance was five times that of women, albeit from a very low base.

¹⁶ FinScope Survey 2013.

¹⁷ Annual Insurance Market Report 2015. Insurance Regulatory Authority.

2.2.4 Pension and Investment Sector Overview

The pension sector in Uganda covers only 2.1% of the population¹⁸. The main pension schemes include the National Social Security Fund (NSSF) and the Public-Sector Pension Fund (PSPF). There are also 60 occupational retirement benefit schemes.

While both saving and investment involve setting money aside, financial investing usually has a longer time horizon and involves more risk. For example, investment of money in a pension fund or collective investment scheme usually involves having a longer time horizon than saving money to pay school fees that would be due in a couple of months.

The Capital Markets Authority is responsible for the licensing and oversight of the Uganda Stock Exchange and related brokers/ dealers (10 are licensed), fund managers (eight licensed), investment advisors (five licensed), Trustees Collective Investment Schemes (two licensed), Unit Trust Managers Collective Investment Scheme (three licensed), and representatives of licenses (84 licensed). There is one primary stock exchange, the Uganda Securities Exchange, which has 80% of its shares cross-listed on the Kenya exchange and a smaller alternative exchange exists as well. Although market capitalization increased 18% at the end of fiscal year 2016 to 3.7 billion UGX, the volume of shares on the exchange decreased 24% to 1.8 billion shares.¹⁹

The National Social Security Fund is the largest investor in Uganda, with total assets of 3 trillion UGX, equivalent to 5.6% of GDP. The fund dominates local markets, holding 80% of traded securities on the Uganda Stock Exchange, holding 1.58 trillion UGX in government securities, and placing over 700 billion UGX in deposits with banks in Uganda.²⁰

18 Financial Sector Review. World Bank. 2015.

19 Capital Markets Authority Annual Report 2015-16.

20 Financial Sector Review. World Bank. June 2015.

2.3 Credit Market

According to FinScope 2013, 35% of adults had loans at the time of the survey. This was a decrease from 44% in 2009. The main reasons why Ugandans borrowed were to pay for education (20%) and emergencies (15%) and the key reason for not borrowing was the fear of being in debt. Together these motives paint a broad picture of consumers that are very thoughtful in their borrowings and utilise loans to help their families improve their lives as opposed to lifestyle consumption.

Figure 7 below from the World Bank's annual Doing Business Survey shows that Uganda made great strides in improving its credit infrastructure in 2016 due to the expansion of the Credit Reference Bureau (CRB). The report shows an advancement from a rank of 128th out of 189 countries in 2015 to 42nd out of 189 countries in 2016. However, in practice many lenders still cite major challenges as Credit Bureau coverage was only at 5.3% of the population as compared to an average of 7.3% in other Sub-Saharan African countries. Other challenges include: SACCOs, MFIs and utilities companies not contributing data to the CRB, slow response times for the system, high access costs, and a lack of mandatory participation by lenders.

Figure 7: Doing Business Report 2016 – World Bank

Getting Credit

| | | | |
|---|--------|------------------------|------------------|
| DB 2016 RANK | 42 | DB 2015 RANK | 128 |
| DB 2016 DTF (% POINTS) | 5.00 | DB 2015 DTF (% POINTS) | 30.00 |
| Indicator | Uganda | Sub-Saharan Africa | OECD high income |
| Strength of legal rights index (0-12) | 6.0 | 4.9 | 6.0 |
| Depth of credit information index (0-8) | 7.0 | 2.3 | 6.5 |
| Credit registry coverage (% of adults) | 0.0 | 5.8 | 11.9 |
| Credit bureau coverage (% of adults) | 5.3 | 7.1 | 66.7 |

Figure 8 below from the World Bank's Enterprise Survey presents data collected from 762 Ugandan firms surveyed between January 2013-July 2014, with 50% of the respondents located outside Kampala. Of the firms surveyed, 19% were small with 5-19 employees, 15% had 20-99 employees and 41% were larger firms with more than 100 employees. The results of the survey showed that unlike other Sub-Saharan African countries where access to finance is listed as their largest barrier, in Uganda only 19.6% of firms identify that as a major constraint. Overall, access to finance is ranked the 4th largest barrier for Ugandan firms, following challenges with electricity, the informal sector and tax rates.

Figure 8: World Bank Enterprise Survey 2013

| Indicator | Uganda | Sub-Saharan Africa | All Countries |
|--|--------|--------------------|---------------|
| Percent of firms identifying access to finance as a major constraint | 19.6 | 36.8 | 25.7 |
| Percentage of firms with a checking or savings account | 86.7 | 85.9 | 86.7 |
| Percentage of firms with a bank loan/line of credit | 9.7 | 22.7 | 34.6 |
| Proportion on loans requiring collateral (%) | 86.7 | 83.5 | 78.7 |
| Value of collateral needed for a loan (% of the loan amount) | 161.8 | 214.2 | 205.1 |
| Percentage of firms not needing a loan | 42.0 | 36.8 | 46.4 |
| Percentage of firms whose recent loan application was rejected | 9.2 | 14.4 | 11.6 |
| Percentage of firms using banks to finance investments | 8.1 | 19.1 | 25.3 |
| Proportion of investments financed internally (%) | 80.3 | 75.8 | 71.4 |
| Proportion of investments financed by banks (%) | 3.1 | 9.7 | 14.4 |
| Proportion of investments financed by supplier credit (%) | 2.9 | 4.6 | 4.8 |
| Proportion of investments financed by equity or stock sale (%) | 12.6 | 5.0 | 4.7 |
| Percentage of firms using banks to finance working capital | 21.4 | 21.8 | 30.5 |
| Proportion of working capital financed by banks (%) | 6.8 | 8.4 | 11.7 |
| Proportion of working capital financed by supplier credit (%) | 3.3 | 8.3 | 10.9 |

2.3.1 Collateral Registration

In Uganda, if property is titled it works well as collateral for loans. Spousal consent is required for taking loans when couples are legally married. Some large MFIs report that only 10-15% of their loans are backed by traditional collateral. There is a Chattel Securities Act of 2014, but there are no regulations governing it. One of the main issues regarding enforceability of collateral is delays in the judicial system, where cases tend to take a long time to be concluded and sometimes the judicial officers may not have sufficient knowledge regarding financial sector issues and practices. Market participants indicate that being able to register collateral at the district level works sufficiently even though a national electronic collateral registration system is not in place.

In summary, while market participants indicate that immovable collateral registration appears to function sufficiently, the larger problem is the ability to realize collateral in the courts and the general availability of assets to collateralize by potential borrowers.

2.4 Mobile Financial Services

Between 2009 and 2013 Uganda experienced a significant increase in financial inclusion and much of this was driven by the growth of mobile money from 500,000 registered users in 2009 to 7 million active users of mobile money in 2016. As of 2015, 31% of the adult population in Uganda had used mobile money in the past 90 days and was considered an “active” user. This places Uganda as one of the leading markets in the world in terms of mobile money usage.²¹

This high usage of mobile money is the result of a combination of factors both in Uganda and in the East African region which leads the world in usage of mobile money. Some of these factors include a relatively low usage of the formal banking system, consumer willingness to adopt new technologies, and the need for payments among consumers.

The policy framework in Uganda has also been at arms-length and in 2013, BoU issued Mobile Money Guidelines which provide clarity to mobile money providers and banks regarding the process for receiving approval to offer mobile money. These guidelines provide consumers with a basic set of protections and a process for recourse if there are problems.

Mobile network operators report 18.7 million active registered subscriber identity module (SIM) cards and approximately 7 million unique and active users of mobile money in Uganda as of August 2016. The maximum value a consumer can store on the e-wallet is between 4 million UGX and an unlimited amount, depending on the service provider.

While the Financial Inclusion Insight surveys by Intermedia for 2013-15 provide rich demand-side data, their focus is on digital financial services and they do not include data on informal usage (e.g. VSLAs or usage of credit from MFIs/moneylenders). The 2015 survey found that one of the biggest barriers to mobile money usage in Uganda is that 55% of people do not own a handset. Another barrier is that many clients do not speak English or are illiterate – only 43% of users are SMS literate in Uganda.

In Uganda, people started using mobile money because they needed to send money to someone (54%) or they needed to receive money (20%). There is a 91% awareness of mobile money but only 43% usage (including over-the-counter [OTC] usage).²²

²¹ Financial Inclusion Insights. InterMedia. February 2016

²² “Over the counter” is a term to describe when agents conduct transactions on a consumer’s phone on their behalf).

Out of all the registered mobile money users, 86% have savings, 7% have insurance, and 67% borrow. However, mobile money users still struggle financially: e.g., 64% do not have an emergency fund, 31% do not have enough food to eat, and 59% spend more than they earn. This emphasises that usage of financial services alone does not eliminate poverty, but rather plays a mitigating role. The Financial Inclusion Insight survey shows that people not using mobile money were worse off than those who do. The most popular “advanced” mobile money service besides transfers, is savings/setting aside money. At the same time, bank account usage among mobile money users decreased from 14% in 2014 to 11% in 2015, according to the Financial Inclusion Insight survey. The top reason cited for not having a bank account is not having money, as many respondents are living in rural areas (56%) and most of them are below the poverty line which significantly hampers their ability to save.

New developments in the mobile money arena include the launching in August 2016 of a system that allows clients to save and borrow money at a bank via a mobile money platform. This provides both consumers and authorities with the confidence of a regulated bank and the convenience of the mobile money platform. Other participants in the market hope to replicate this model.

One of the key challenges for digital financial services providers is customer identification. The national ID meets the regulatory requirements for customer due diligence, but the payment providers cannot always authenticate the ID. As such, there is a need to offer an on-line way to verify clients’ national IDs.

Several infrastructure barriers exist which may hamper the growth of digital financial services, especially in rural areas. These barriers include low levels of electrification (approximately 15% of coverage nationally and 7% in rural areas),²³ only 55% of adults own a mobile phone and 85% of adults have access to a phone. However, the USSD menus on phones are only in English, limiting consumer’s ability to conduct their transactions with confidence.

²³ World Factbook 2016.

2.4.1 Payment Service Providers

Major payment service providers have deployed various self-service kiosks to enable bill payments, point of sale transactions, money transfers and other e-money services to banks, non-bank corporations, governments and NGOs. A private switch company also provides interoperability across ATMs that are owned and operated by various financial institutions.

2.5 Empowering & Protecting Individuals

The Financial Consumer Protection Measurement and Evaluation Report of January 2016 found that 70% of bank clients felt confident in the terms and conditions of their accounts and are aware of their rights. FinScope 2013 notes that 59% of individuals that took loans understood the terms and conditions very well and 36% understood them sufficiently. While these findings demonstrate a degree of understanding by clients of banks, similar information is not available for clients of MFIs, SACCOs, VSLAs and mobile money service providers where less focus on consumer protection has been given. Since 2013, the Bank of Uganda has had a Financial Literacy Strategy in place and five working groups have been working to implement its activities. Key achievements in financial literacy include incorporating financial literacy in secondary curriculum and comprehensive trainings aids have been developed for farmers. Financial institutions and their associations could aid with improving the financial literacy of individuals.

The Bank of Uganda issued Financial Consumer Protection Guidelines in 2011. All BoU supervised financial institutions are required to comply with these guidelines. The guidelines focus on fairness, transparency, reliability and complaints handling. Several media campaigns have been carried out to ensure that the public is aware of their rights when dealing with supervised financial institutions. A Key Facts Document (KFD) has been developed and issued for all financial products provided by supervised financial institutions; the KFD highlights key features of the product and has been translated into seven local languages. A complaints desk has been setup at BoU and financial consumer protection is one of the areas that BoU examiners look at during onsite examinations. However, a centralised phone number and dedicated staff do not yet exist for handling complaints within BoU.

3

RATIONALE, VISION, DEFINITION & THEORY OF CHANGE

Although financial inclusion in formal institutions improved to 54% of the adult population in 2013 from 28% in 2009, this level is still lower than desired. Financial inclusion has been shown to help reduce poverty and help economic growth. This strategy establishes a framework for coordination of financial inclusion initiatives, identifies priority areas, key stakeholders and provides a monitoring and evaluation framework.

To provide direction for financial inclusion activities in Uganda which support the country's broader National Development Plan, we have a vision where:

All Ugandans have access to and use a broad range of quality and affordable financial services which helps ensure their financial security.

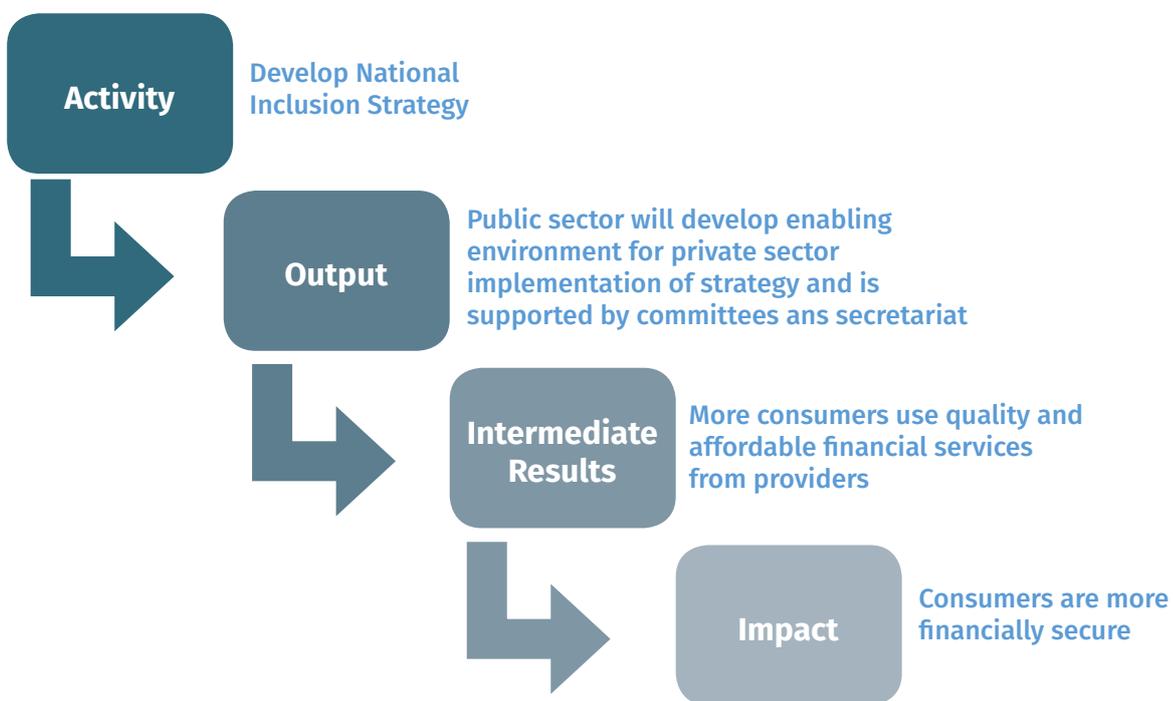
3.1 Defining the Vision for Financial Inclusion

Within the context of this vision we define a broad range of financial services as savings, insurance, investment, payment, and credit products. Access is defined as the availability of bank, microfinance institution, SACCO, insurance, investment, agent banking and mobile money service provider access points per 100,000 adults. Usage is defined as having made payments, or conducted a transaction, had existing policy coverage or a financial investment within the past 90 days. Affordable is defined as being offered on a sustainable basis for the provider, within the means of the consumer and not designed to overly burden consumers in debt. **Quality** is defined as products which are suitable, satisfy customers and meet the consumer protection guidelines issued by the relevant regulatory authorities in Uganda. **Financial security** is defined as having the ability to cover a financial emergency and the resources to support a moderate standard of living. A financial emergency is the ability to obtain

funds, from savings or family equal to two weeks of a person’s average income. **All Ugandans** is defined as all individuals age 15 or greater regardless of their religion, gender, ethnic group, rural or urban location or physical/mental ability.

A theory of change provides an overview of the stages of action required to bring about structured change in an environment. The theory of change for financial inclusion in Uganda is provided below in Figure 3.

Figure 3: NFIS -- Theory of Change



4

OBJECTIVES AND PILLARS OF THE STRATEGY

There are five pillars of the NFIS, referred to here as objectives that need to be in place to achieve a financial marketplace in which everyone who wants financial services has access to quality and affordable products as described in the vision for financial inclusion. A description of each objective is provided below:

4.1 Objective 1: Reduce Financial Exclusion and Access Barriers to Financial Services

Financial *exclusion* is defined as not utilising any type of formal (i.e., bank, SACCO, mobile money, MFI) or informal (i.e. VSLA, ROSCA, moneylender) savings, credit, payments or insurance products. Within Uganda, only 10% of the urban population is financially excluded (i.e. likely the poorest of the poor or disabled), but 17% of the rural population is excluded.²⁴ The largest access barriers are also in rural areas. Informal financial institutions are often best-positioned to help reduce financial exclusion in rural areas.

4.2 Objective 2: Develop the Credit Infrastructure for Growth

Given the government's priority to improve financing for inclusive growth, this objective will focus on areas to expand access to finance for consumers, micro, small and medium enterprises (MSMEs) and agriculture. MSMEs and agriculture in Uganda are engines of job creation and growth.

Credit to the private sector in Uganda was only 15.2% of GDP in 2015 compared to 19.5% for other low-income countries worldwide, 46.1% in Sub-Saharan Africa and 99% for middle income countries, which Uganda aspires to become by 2020.²⁵ Expanding the credit market remains a challenge for Uganda in part because of its weak credit infrastructure. A well-developed credit information system, market infrastructure, the protection of lenders' rights via the judicial system, and borrowers' rights via responsible lending, are all essential elements to help fuel MSME finance and agriculture finance.

²⁴ FinScope 2013.

²⁵ World Development Indicators. World Bank. 2016.

4.3 Objective 3: Build Out the Digital Infrastructure for Efficiency

It is important that the financial sector is aligned to support the changing demography, technology, and attitudes in the country. Advancement of the financial sector can help consumers and businesses meet their own goals for investments, growth, and security. Building the digital payments and business infrastructure can improve proximity and bring harder-to-reach clients into the financial system at potentially lower costs through innovations such as agent banking, mobile money and/or electronic government-to-person payments. Electronic transfers and agriculture warehouse receipts will bring additional participants into the payments system and financial institutions.

4.4 Objective 4: Deepen and Broaden Formal Savings, Investment and Insurance Usage

A sound, diversified, and modern financial system will be well-positioned to expand the frontiers of financial inclusion to reach lower-income segments. The introduction of new deposit products can bring the financially excluded into the system, should they wish to part of it. Improved deposit and investment products can also help consumers set aside money to manage financial shocks and ensure their financial security.

In addition, a deeper base of deposits will help financial institutions fund loan growth. Greater investments will help consumers better secure their financial futures, and usage of insurance can help consumers protect the assets that they accumulate.

4.5 Objective 5: Empower and Protect Individuals with Enhanced Financial Capability

Financial capability is defined as the combination of knowledge, understanding, skills, attitudes and especially behaviours which people need to make sound personal finance decisions, suited to their social and financial circumstances. New insights from behavioural economics can help improve interventions. The protection of individuals requires three activities to occur: 1) A legal and regulatory environment that provides individuals with transparent information, privacy of their data and personal information, protection against fraud and over-indebtedness and avenues for redress, 2) Providers of financial services should act responsibly and treat clients fairly, and 3) Individuals are empowered and financially capable to make good decisions based on clear information presented to them.

5

ANALYSIS OF KEY GAPS AND INITIATIVES TO IMPROVE FINANCE INCLUSION

A comparison between the strategy objectives aimed at realising the vision for financial inclusion in Uganda and the diagnostic of the financial sector leads to the detection of gaps that exist between the desired and current state of financial inclusion. Following each of the identified key gaps are initiatives that can help close the gaps. A consolidated list of initiatives, the working groups responsible, and priority and target completion dates are provided in Section IX below.

5.1 Priority Areas: Women, Youth and Rural Populations

If large increases in financial inclusion are to be made, the demographic and geographic make-up of the country suggests there should be a focus on particular groups of people. These priority groups include women, residents of rural areas, and youth above 15 years old. In Uganda, women are less likely to own a mobile phone, be active users of mobile money (38% of men use mobile money versus 25% of women), have an account at a financial institution, save or borrow money and understand financial services. Women do use informal financial services more than men in Uganda (34% usage for women versus 27% for men) so levels of **exclusion** from any form of financial services is similar for men and women, but formal usage of financial services and financial capability among women are lower than for men.²⁶Cultural issues, especially among households with low levels of education, make it difficult for women to own property and have independence in their decision-making. Yet, studies from many countries cite the important role that women play in managing household finances. Specific interventions by policy makers and/or private sector outreach towards women to remove these cultural barriers could yield big dividends to improve the financial security of families.

²⁶ FinScope 2013.

In Uganda, like most countries, rural residents have less access to and use financial services less than their urban counterparts. However, because a large percentage of residents live in rural areas (71.5%), the relative impact for Uganda on financial inclusion is greater than other countries. In addition, rural adults are twice as likely as their urban counterparts to utilise informal groups for financial services and are 1.7 times more likely to be completely excluded from financial services. The costs of delivery and lower population density in rural areas makes traditional outreach of brick and mortar branches more costly.

The same demographic circumstances are at play in terms of youth who generally have less access to financial services. While many advanced economies are struggling with shrinking and aging populations, Uganda has one of the fastest growing populations globally and has the second most youthful population in the world with a median age of just 15.7 years old. This compares to a median age of 19.5 in Kenya and 31.6 in Brazil both of which are reference countries for improving financial inclusion.²⁷ While this young demographic may bode well for future growth of the economy, it currently manifests itself as a strain on the infrastructure of the country.

Many of the gaps and initiatives in this strategy focus on reducing barriers and creating new opportunities for people from these priority groups. The identification of financial inclusion gaps as summarised in Figure 9 is critical to determining the initiatives which the public and private sector should work towards in the coming five years to improve inclusion. To the extent that future research includes disaggregated data, there will be more evidence to determine what is and is not working.

²⁷ World Factbook 2016.

Figure 9: Summary Gap Analysis

| Objectives | Reduce Exclusion and Access Barriers to Financial Services | Credit Infrastructure | Digital Infrastructure | Deepen and Broaden Saving, Investment & Insurance Usage | Financially Capable & Protected Individuals |
|-----------------|--|--|---|--|---|
| Gaps Identified | <p>1) One-size-fits-all KYC approach is inappropriate for opening deposit accounts</p> <p>2) Limited availability of IT infrastructure and access channels (handsets, branches, POS), especially in rural areas</p> <p>3) FIs and Mobile Money Service Providers cannot verify national IDs</p> <p>4) High cost financial services limit financial inclusion</p> <p>5) Youth cannot directly open accounts, thus hindering their access to financial services.</p> | <p>6) Limited coverage by the CRBs, slow connections and high costs for data provided by the CRB</p> <p>7) MSME and rural access to finance is limited</p> <p>8) Weak public awareness in the importance of having a credit history</p> <p>9) Communal property rights in rural areas at times limit land being pledged for collateral</p> | <p>10) Inadequate inter-operability within the financial sector</p> <p>11) Weak competition in financial services has led to high prices and insufficient customer experience</p> <p>12) Security risks exist for consumers, payments and digital financial service providers</p> <p>13) Inappropriate policy and regulatory framework and ambiguity for mobile money</p> | <p>14) Limited use of formal channels for savings, especially for women</p> <p>15) Weak uptake of insurance</p> <p>16) Limited confidence by base of the pyramid consumers in formal financial service providers</p> <p>17) Insufficient savings and investment to secure household well-being</p> | <p>18) Limited financial capability</p> <p>19) Limited protection of consumers' rights</p> <p>20) Products are generally not designed to meet consumers' or SMEs' needs</p> <p>21) Individuals are not informed or capable of selecting the right services and products</p> |

5.2 Objective 1: Reduce Financial Exclusion and Access Barriers to Financial Services

Gap #1: One-size-fits-all KYC approach is inappropriate for opening deposit accounts

The one-size-fits-all approach to anti-money laundering and counter-terrorist financing does not reflect the realities of risks that various consumers present. A tiered approach towards know your customer (KYC) requirements could allow institutions to have fewer requirements for less risky consumers and/or design products with controls that make it easier for consumers without formal addresses or IDs to open limited purpose accounts. However, as complexity and risk of transactions increases so must the KYC obligations.

Activities to address this gap...

- i) Finalise the National Risk Assessment for AML/CFT and implement tiered KYC requirements, for greater flexibility.

Gap 2: Limited Availability of IT Infrastructure and Access Channels (handsets, branches, POS) Especially in Rural Areas

With 71.5% of the population living outside of the greater Kampala metropolitan area that includes the Wakiso district, and 43% of the population living in towns of less than 50,000 residents, rural access to financial services remains a significant challenge. The low level of electrification in rural areas creates many barriers for the broader economy and digitisation of financial services. The current lack of enabling regulations, albeit forthcoming, to allow banks and credit institutions to offer agent banking and the near-term lack of legislation or regulations for insurance providers, MDIs and SACCOs to offer services through agent banking, limits financial service providers to increase their outreach in far-off areas. While digital financial services offer promise for improving financial inclusion, only 55% of adults owned a mobile phone in 2015 which is down from 58% in 2014 as more consumers began sharing a handset, which may present challenges. Lastly, leading providers of point of sale (POS) networks have indicated their willingness to increase the number of ATMs, POS' and/or kiosks in the next two years. However, the taxes totalling 38% for VAT, import tax, withholding taxes and infrastructure levies are a significant barrier to rolling out this point of sale infrastructure.

Activities to address this gap...

- i) Issue agent banking regulations and implement an agent banking infrastructure to bring more finance to rural areas.
- ii) Implement linkages between VSLAs and the formal financial sector to reduce financial exclusion among women and rural communities.
- iii) Provide a two-year tax holiday for importing equipment to build out digital financial services. At least 40% of equipment must be deployed to rural areas to qualify.

Gap#3: Financial Institutions and Mobile Money Service Providers Cannot Verify IDs

Although the National Identification and Registration Authority (NIRA) is making progress in rolling out the national ID, some financial institutions are concerned with the inability to verify the national IDs as there is not yet a way for financial institutions and mobile network operators to access a centralised database to authenticate the IDs.

Activities to address this gap...

- i) National Identification and Registration Authority, in collaboration with the National Information Technology Authority, will develop a system to verify IDs and allow financial service providers to verify IDs through it.

Gap#4: High Cost Financial Services Limit Financial Inclusion

The average lending rate by banks was 23.5% while deposit rates were 4.1% in June 2016.²⁸ This rate structure is partly the result of relatively high operating costs and continued high loan loss provisioning costs for non-performing loans in banks. An improved judiciary could help improve collections and reduce the costs of borrowing. While the commercial court has been in existence for two decades, financial service providers indicate that the turnover in the judiciary system has left a knowledge gap in understanding of the financial system and collateral management processes.

Activities to address this gap...

- i) Carry out training and sensitisation for judicial officials in commercial courts and law enforcement officials on the financial sector and creditor rights.

²⁸ Bank of Uganda, June 2016.

- ii) Amend the MDI Act to allow for agent banking, enable deposit-taking MFIs to use the word “bank” in their names, ensure consistent provisioning requirements, liberalised lending exposure limits and access to the clearing system.

Gap #5: Youth cannot directly open accounts hindering their access to financial services.

Although Uganda has the second youngest median age of any country in the world (15.7 years old), a person must be 18 years old to open a savings accounts in their own-right, without having a joint account holder.

Activities to address this gap...

- i) Introduce a legal/regulatory exemption amendment that allows youth (ages 15-17) to open savings accounts in their own right.

5.3 Objective 2: Develop the Credit Infrastructure for Growth

Gap #6: Limited Coverage by the CRBs, Slow Connections and High Costs for Data Provided by the CRB

Data in the current credit bureau is predominately based on information from banks, as most Tier IV institutions are not providing data. This leaves most consumers out of the current credit bureau and could potentially limit how they access credit in the future. A regulated framework for how to handle consumer complaints regarding inaccuracies in the credit bureau and clearly establishing protocols between data providers, credit bureaus and users does not exist. The data connections to and from the CRB are slow and many lenders indicate that the costs, compared to the value of the data provided, are too high.

Activities to address this gap...

- i) Require and support credit providers such as SACCOs supervised by BoU and UMRA, MFIs, leasing companies and utilities, to contribute data to the CRBs.
- ii) Implement an ombudsman with binding powers to resolve disputes for smaller loans and which provides impartial advice.

Gap #7: MSME and Rural Access to Finance is Limited

While only 19.6% of firms in Uganda report that access to finance is the greatest challenge compared to 36.8% in other countries in Sub-Saharan African countries,

this is still a sizable barrier. The overall depth of the private sector credit market to GDP in Uganda is roughly one-third of the size of other Sub-Saharan Africa countries. Additional barriers include: high costs for borrowing, scarcity of financial products that do not require immovable collateral, and a lack of awareness amongst small business owners to register their enterprises and gain benefits of formalisation. Lending for agriculture is dominated by banks but this segment makes up only 8% of their loan portfolios on average. Improvements in agricultural warehouse storage, sale and receipt systems could enhance farmers' access to credit.

Activities to address this gap...

- i) Conduct an assessment and necessary amendments to the legal and regulatory framework governing creditor rights and insolvency proceedings so that creditors' rights are more clearly defined.
- ii) Establish lines of credit to critical sectors such as Housing, MSME, and Agriculture with the aim of growing the credit market.
- iii) Conduct a review of the tax, regulatory and legal obstacles for all products.
- iv) Improve the oversight of existing credit facilities such as the Agricultural Credit Facility and improve oversight and operations of warehouse receipt systems and storage facilities so that lenders have confidence to extend loans against such receipts.
- v) Promote utilisation and uptake of the agriculture insurance facility.
- vi) Strengthen linkages, knowledge-sharing and effectiveness of value chains.
- vii) Capture data on formal trade credit arrangements in the credit reference bureaus.

Gap #8: Weak public awareness in the importance of having a credit history

A key component of a well-functioning credit information system is consumers' awareness and understanding of how their credit histories affects their access to and price of credit.

Activities to address this gap...

- i) Issue efficiency, quality and awareness guidelines for credit bureaus.

Gap #9: Communal property rights in rural areas at times limit land being pledged for collateral

Access to credit for farmers and other rural residents is hindered by an incomplete land registry system and traditional practices of communal property rights. While reforming the land registry system is outside the scope of the financial inclusion strategy, ensuring that various forms of movable collateral can be pledged against loans could partially alleviate credit constraints.

Activities to address this gap...

- i) Establish a centralised registry for movable collateral to allow it to be used as security for loans.

5.4 Objective: Build Out the Digital Infrastructure for Efficiency

Gap #10: Inadequate Inter-operability within the Financial Sector

Within the broader digital and payments infrastructure MDIs and prudentially supervised SACCOs do not have direct access to the payment system. It prohibits such organisations from offering modern and well-priced payment solutions to more Ugandans. The absence of a mechanism to clear and settle payments between the traditional financial sector's electronic clearing system and the mobile network operators systems limits cross-sector functionality. There are other important parts of the business and financial sector that are still paper-based and inefficient, including some government payments.

Activities to address this gap...

- i) Require inter-operability among financial service providers and/or to the existing clearing systems.
- ii) Provide free digital devices to marginalised individuals and/or provide targeted support to companies/initiatives providing low cost digital services.
- iii) Pass the National Payment System Bill to update the payment system environment.

Gap #11: Weak competition in financial services has led to high prices and insufficient customer experience.

Like many countries where mobile financial services are thriving, the mobile network operators in Uganda are in an enviable position of both controlling the transmission lines of communication and offering products across those lines. While other firms and banks have attempted to offer mobile products, there appears to be an insufficient framework in place to allow for competition with mobile network operators offering mobile money. However, the poor network coverage and lack of a comprehensive regulatory framework for new entrants in the industry may also be barriers to competition.

Activities to address this gap...

- i) Conduct a pricing review of financial services and depending on the results, determine if there are structural changes and/or rules that could further promote competition.
- ii) Require service providers to offer customer-friendly interfaces for products and services (e.g., USSD code menus in local languages).
- iii) Promote cashless transactions across government entities and within the private sector.

Gap #12: Security risks exist for consumers, payments and digital financial service providers

As commerce and financial services move increasingly to a digital world, it is imperative that the confidence that has been developed in traditional transactions be replicated, or improved, in the digital world. This will require an approach which recognises methods of ensuring confidence with traditional transactions that cannot be exactly replicated.

Activities to address this gap...

- i) Ensure financial service providers comply with the National Information Security Policy.

Gap #13: Inappropriate policy and regulatory framework and ambiguity for mobile money

Along the same lines that traditional methods of ensuring confidence do not necessarily translate to digital production, traditional regulatory rules also will not necessarily work for new products – and could even stifle innovation. Providing elements

of an accommodative regulatory environment for experimentation, while not putting consumers at risk, is important for supporting digital financial services.

Activities to address this gap...

- i) Provide a regulatory framework that promotes innovation, (i.e., sandbox for experimentation).
- ii) Develop and implement an avenue to ensure that interest earned on mobile money escrow accounts can be used to benefit the development of the digital infrastructure.

5.5 Objective 4: Deepen and Broaden Formal Savings, Investment & Insurance Usage

Deposit and insurance services are the financial products that can best help consumers accumulate and protect their assets. Expansion of these services will be critical towards achieving financial security of families in Uganda.

Gap#14: Limited Use of Formal Channels for Savings, Especially by Women

As of 2013 more adult Ugandans utilised informal financial services than the formal banking system. Specifically, 31% of adults relied on informal financial services (i.e., moneylender, village savings and loans or a rotating savings and credit association) as their only form of financial services, while 20% of adults relied on banks.²⁹ In addition, FinScope 2013 found that *men were more than two times as likely to save at formal institutions than women*, showing a large gender difference in behaviours. As of today, many supply and demand side-related gender barriers continue to exist. Hence, there is an urgent need to identify and address the underlying causes of gender inequality through gender-sensitive financial inclusion activities.

Women utilise informal financial services in Uganda more than men. While the proximity and familiarity of informal financial services can be helpful for consumers, their informal nature, by definition, provides consumers with few official avenues for consumer protection against bad lending practices or the loss of savings. In addition, over-reliance on such services can hinder efficient intermediation of funds throughout the broader economy. As such, the goal should not be to eliminate informal mechanisms, but rather to have the majority of the financial system in a well-regulated

²⁹ FinScope Survey 2013.

sector where consumer protections exist and for informal financial services to be additive to formal services.

Activities to address this gap...

- i) Strengthen financial sector skills by improving curricula for insurance, banking, pensions, MFI and SACCO practices.
- ii) Provide incentives and specific goals for increased procurement by government of goods and services from women-owned enterprises (specifically women-owned MSMEs), as well as assist women in business to secure markets for their products.
- iii) Strengthen the capacity and systems of SACCOs and MFIs to help women, rural communities and others access and use affordable financial services.

Gap #15: Weak Uptake of Insurance

FinScope 2013 indicates that only 2% of adults used formal insurance, *down* from 3% in 2009. However, 43% of adults utilised informal insurance mainly for burial services. The largest barrier to formal insurance among 72% of the population was that they lacked information or did not know how formal insurance works and 50% indicated that the costs are too high.

Activities to address this gap...

- i) Fast-track the adoption of the National Policy on Insurance.
- ii) Reform compulsory insurance products and social protection programs. Promote usage of banking agents and other innovative channels to distribute insurance products.

Gap #16: Limited Confidence by Base of the Pyramid Consumers in Formal Financial Service Providers

There is limited confidence by consumers in formal financial institutions – especially in SACCOs, given the large number of closures and fraud following past programs to grow the sector quickly through outside funding. The passage of the Tier IV Microfinance Institutions and Moneylenders Act and amendments to the Financial Institutions Act are designed to improve confidence in the financial sector.

Activities to address this gap...

- i)** Operationalise the Uganda Microfinance Regulatory Authority and issue related regulations for licensing, consumer protection and prudential norms, among others.
- ii)** Ensure all prudentially supervised and solvent deposit-takers have access to the marginal lending facility and the potential to borrow from the lender of last resort, depending on the circumstances.
- iii)** Implement regulations for pass-through deposit insurance to promote mobile financial services.

Gap #17: Insufficient Savings and Investment to Secure Household Well-being

Even among active users of mobile money, 59% of people spend more than they earn, 31% do not have enough food to eat and 64% do not have emergency funds to help ensure that they do not fall into poverty – or deeper into poverty.³⁰ At the macro-level the gross domestic savings in Uganda was at 13.5% of GDP in 2015 compared to 15.4% in other Sub-Saharan Africa countries and 31.8% in middle income countries to which Uganda aspires.³¹ FinScope 2013 indicates that only 2% of the population was contributing to a pension scheme at the time. When consumers are able to smooth consumption, and absorb even moderate financial shocks, they have greater financial security. As such, there is a critical need to make tools and information available to consumers to help them increase their savings and attain financial security.

Activities to address this gap...

- i)** Strengthen the capacity and systems of SACCOs and MFIs to help women and rural communities' access and use of affordable financial services.
- ii)** Deepen usage and promotion of voluntary pensions to self-employed and informal workers.
- iii)** Broaden availability of investment products and their usage.
- iv)** Ensure there are simplified products for collective investment schemes.
- v)** Conduct periodic demand side needs assessments and share data to improve product development and policymaking.
- vi)** Implement Islamic banking regulations for banks, MFIs and SACCOs.

³⁰ Financial Inclusion Insights. Intermedia. February 2016.

³¹ World Bank. Databank. 2016.

5.6 Objective 5: Empower and Protect Individuals with Enhanced Financial Capability

Gap #18: Limited Financial Capability

The high percentage of people who spend more than they earn, lack knowledge of financial products, have limited emergency funds and score poorly in basic financial literacy (women scored worse than men), all paint a picture of consumers that still have inadequate financial capabilities despite numerous financial literacy efforts.³² In addition, with 27% of all active mobile money users doing over the counter transactions (OTC), this suggests gaps in comfort and/or knowledge in how to utilise mobile financial services.

Activities to address this gap...

- i) Better understand societal barriers for women's inclusion and build capacity on property rights, importance of collateral and control over assets by working with SACCOs, MFIs and VSLAs.
- iii) Financial service providers and government to promote and implement financial consumer protection and capability initiatives.
- iv) Review past financial literacy strategy and formulate a national financial literacy strategy for 2018 – 2023.
- v) Strengthen coordination of financial capability activities.

Gap #19: Limited Protection of Consumers' Rights

There is very limited protection in place for clients of MFIs, SACCOs, insurance companies or pension funds. This is also true as it relates to the enforcement of financial fraud. Furthermore, there are no mandatory or voluntary codes of conduct regarding the fair treatment of customers, and there are limited recourse mechanisms in place across the sectors. While there is a broad Consumer Protection Bill that has been in draft for several years, most markets require specific rules for financial consumer protection, given the complexity of financial services.

Activities to address this gap...

- i) Conduct a review of consumer protection practices for all financial service providers, including digital financial services.

³² Financial Inclusion Insights. Intermedia. February 2016..

- ii) Develop and build capacity of complaints handling units within financial regulators and service providers.
- iii) Strengthen coordination of financial consumer protection across all regulators of institutions that provided financial services and policymakers.

Gap #20: Products are Not Always Designed to Meet Consumers' and SME's Needs

As evidence from the higher uptake of informal savings, credit and insurance services compared to the formal products, there is demand for such services among consumers. However, many of the formal products are designed, marketed and accessible for only a small portion of the population.

Activities to address this gap...

- i) Conduct periodic demand side needs assessments and share data to improve product development and policymaking.
- ii) Conduct research and surveys on financial capability, such as financial diaries, a baseline financial capability survey, customer satisfaction, and existing consumer protection practices.

Gap #21: Individuals are not informed or capable of selecting the right services and products

Individuals lack sufficient knowledge, skills and/or confidence to identify, compare and select products that best meet their needs. Part of this gap is the result of individuals' financial capability, and part of it is the result of unclear or inconsistent information available from providers. It is the role of regulators to ensure that providers make information available to individuals and businesses.

Activities to address this gap...

- i) Improve awareness of financial services among individuals.
- ii) Financial service providers and government to promote and implement financial consumer protection and capability initiatives.
- iii) Set up an efficient measurement and evaluation framework to measure effectiveness of financial consumer protection and financial capability initiatives.

6

IMPLEMENTATION MECHANISM

The ultimate success of this plan will depend on many organizations and stakeholders working together to **implement** what is laid out here. To aid in this implementation, a governance structure and monitoring framework is needed. Below is the governance structure and make-up of the various groups that will support the implementation of the NFIS.

National Financial Inclusion Steering Committee

The role of this high-level steering committee is to provide the strategic vision, support and resources for the implementation of the National Financial Inclusion Strategy. The Steering Committee, which will meet at least annually, has the ultimate responsibility for the implementation of the strategy and will report on the progress of the strategy to other parts of the government. The membership of the Steering Committee is as follows:

- i)** Minister of Finance, Planning and Economic Development – Chairperson
- ii)** Governor BoU – Co-Chairperson
- iii)** IRA CEO – Member
- iv)** URBRA CEO – Member
- v)** UMRA CEO – Member
- vi)** CMA CEO - Member
- vii)** FIA CEO - Member

Inter-Institutional Committee on Financial Inclusion

The Inter-Institutional Committee of Financial Inclusion (IICFI) is the technical committee and coordination mechanism that brings together the various stakeholders involved in implementation of the NFIS and promoting the financial inclusion agenda in the country. Representatives should be at the senior management level.

The IICFI oversees the work of the NFIS Secretariat, Working Groups and the Financial Inclusion Forum and is the liaison to international activities on financial inclusion. The IICFI will develop a communication mechanism related to the NFIS. This includes an annual report regarding the status of financial inclusion in the country, utilising the monitoring and evaluation framework described in the next section. The IICFI will be chaired by the Permanent Secretary of the Ministry of Finance, Planning and Economic Development and will meet on ad hoc basis as needed but no less than twice per year. The membership of the IICFI is:

- i)** MoFPED – Chairperson
- ii)** Ministry of Trade, Industry and Cooperatives
- iii)** Bank of Uganda
- iv)** Uganda Communications Commission
- v)** Uganda Retirement Benefits Authority
- vi)** Uganda Microfinance Regulatory Authority
- vii)** Insurance Regulatory Authority
- viii)** National Planning Authority
- ix)** Financial Intelligence Authority
- x)** Ministry of Gender, Labour and Social Development
- xi)** Ministry of Education and Sports
- xii)** Ministry of Agriculture
- xiii)** National Information Technology Authority
- xiv)** Association of Microfinance Institutions Uganda
- xv)** Uganda Banker’s Association
- xvi)** Uganda Insurers Association
- xvii)** Uganda Cooperative Savings and Credit Union

Observers:

- i)** CARE
- ii)** Financial Sector Deeping Uganda
- iii)** GIZ
- iv)** International Fund for Agriculture Development
- v)** United Nations Capital Development Fund
- vi)** World Bank

NFIS Secretariat

Global best practice in the implementation of financial inclusion strategies has indicated that a sufficiently resourced Secretariat is needed. For Uganda, the NFIS Secretariat will have full-time staff and dedicated resources for managing the process, coordination and compiling reports on the NFIS. The Secretariat will support the IICFI, Working Groups and help facilitate any financial inclusion forums. Like in other countries, the central bank (i.e. Bank of Uganda) will house and staff the NFIS Secretariat.

Financial Inclusion Forum

The Financial Inclusion Forum is neither a formal committee with membership nor an organisation, but rather an avenue for discussion, review and debate of financial inclusion initiatives. The intention of the forum is to have a place to share knowledge, build support and obtain stakeholder feedback on financial inclusion developments in Uganda. There is no set convening schedule for the Financial Inclusion Forum but it should convene at least annually, and it can take the form of workshops or conferences.

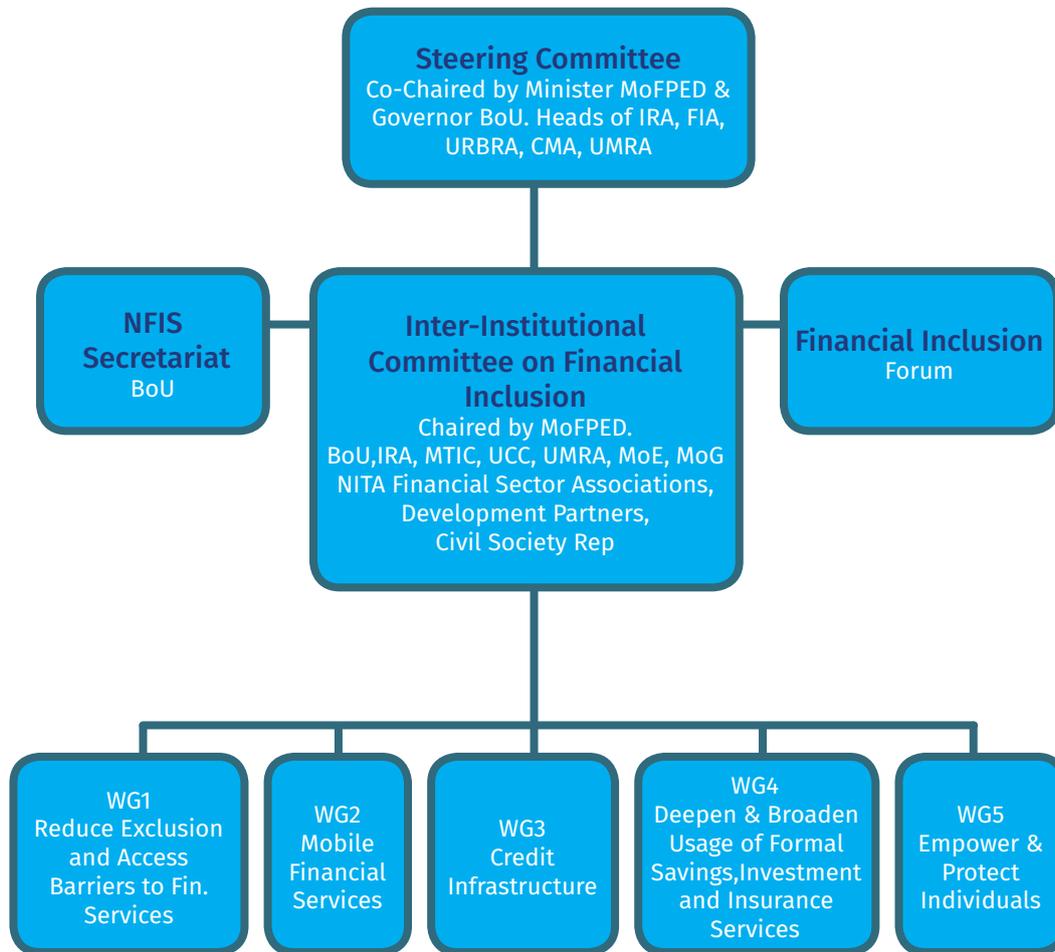
Working Groups

There will be five working groups co-chaired by representatives from the public and private sectors. The working groups will be on Reducing Access Barriers, Mobile Financial Services Credit Infrastructure, Deepen and Broaden Formal Savings, Investment and Insurance Usage and Empowering and Protecting Individuals. Participation in the working groups will be on volunteer and institutional representation bases. The preliminary composition of the working group as established by the Inter-Institutional Committee on Financial Inclusion is provided in Annex 1. Respective associations may be involved as co-chairs, and senior management level representation is expected.

While the working groups will serve as an avenue for consultation and review, some initiatives may require one organisation acting unilaterally to implement regulations/directives while others will be cross-functional with one working group being identified as the lead. With the approval of the National Financial Inclusion Steering Committee, the IICFI may create and/or disband the existing or add new ad hoc working groups and determine the composition of them from the private and public sectors as needs dictate. The working groups will report quarterly to the IICFI/Secretariat on their progress. Figure 10 shows the governance structure for the NFIS.

Figure 10: Governance Structure for NFIS

National Financial Inclusion Strategy Structure



Implementation Risks

There are certain risks that could undermine successful implementation of the NFIS.

These risks and proposed mitigation approaches are summarised below.

| Risk | Risk Level | Mitigation Approaches |
|--|-------------------|---|
| Macro-economic conditions leading to high interest rates, tight liquidity, and diversion of financial sector policy prioritisation away from financial inclusion | High | These conditions were experienced in 2016 and BoU took appropriate actions to correct the macro-imbalances. |
| Tight fiscal conditions limiting availability of government resources to support implementation. | High | The BoU has committed funding the Secretariat and government has highlighted financial inclusion as a priority. Funding from development partners is also likely to be available to support implementation of selected activities. |
| Legal and regulatory reforms are stalled during legislative progress (i.e. at Ministry of Justice or Parliament). | High | Initiatives to improve communications with relevant institutions, including Parliamentary committees, will be undertaken. |
| Public and private sector commitment needed to advance the financial inclusion agenda is not sustained throughout the implementation period 2017-2022 | Medium | Active, consistent, and broad-based participation of all stakeholders in the Coordination Structure; annual or biannual forums to assess implementation and secure continued buy-in; awareness raising and prioritisation of NFIS agenda by high-level “champions” within each institution. |

7

MONITORING AND EVALUATION SYSTEMS

The Inter-Institutional Committee on Financial Inclusion is responsible for the oversight and implementation of the NFIS. Much of the work will require the active participation of private and public sectors, financial institutions as well as other public and private non-financial entities. These institutions are an essential part of the thematic working groups responsible for implementing the strategy.

A strong measurement and evaluation system is needed to track progress relative to the objectives and Key Performance Indicators (KPIs) of this strategy. To monitor progress, each working group will report its progress quarterly to the NFIS Secretariat. On an annual basis, the NFIS Steering Committee will prepare a report on its activities and progress towards the KPIs and other pertinent indicators identified below. This may require regulatory reporting to be adapted to collect supply side data that can help to measure financial inclusion indicators. Tracking progress on an ongoing basis will aid in the identification of successful programs that can be replicated, obstacles that need to be removed, unintended consequences that result, and/or tactical re-adjustments required.

Conducting a full demand-side financial inclusion survey at least every three years to measure progress using the baseline of the 2013 FinScope survey is key to the measurement and evaluation framework. The Inter-Institutional Committee on Financial Inclusion will take responsibility for this and explore options for how best to conduct the survey using existing resources or new resources. While data on the banks is generally available, better information on the size, scale and impact of SACCOs, MFIs, VSLAs, less formal consumer lenders, insurance and retirement benefit providers is needed. Financial inclusion data will be shared with the private sector to aid in their business expansion plans. In future demand-side surveys, attention should be given to the uptake, usage and satisfaction with products to aid in assessing the implementation of the NFIS.

Figure 11 provides a summary of the key performance indicators and core financial inclusion indicators that have been established as goals for the NFIS. The 2022 target goals have been established by analysing past growth of financial inclusion indicators in Uganda and reviewing the financial inclusion indicators of other reference jurisdictions in the region and abroad that are leaders in financial inclusion (i.e. Kenya and Brazil).

Figure 11: Financial Inclusion Measurement Indicators

| Dimension | Key Performance Indicators | Baseline | 2022 | Source |
|--|--|----------|------|---|
| Access | Grow usage of formal financial institutions (banks, non-banks including mobile money) | 54% | 80% | FinScope |
| | Reduce financial exclusion | 15% | 5% | FinScope |
| | Access points per 100,000 adults | 548 | 615 | IMF Access Survey |
| | Increase coverage of adults in the credit bureaus | 6% | 40% | Doing Business Survey |
| | Grow active individuals with stored-value accounts (e.g. mobile financial services) | 31% | 60% | Financial Inclusion Insights Survey/ FinScope |
| Usage | Increase formal savings among adults through greater transparency, competition and use of technology | 25% | 50% | FinScope |
| | Increase percentage of adults with emergency savings | 41% | 60% | Financial Inclusion Insights Survey/ FinScope |
| | Percentage of adults using at least one insurance product | 2% | 7% | FinScope |
| Quality | Percentage of women who feel they understand services available to them. | TBD | TBD | FinScope |
| Core Financial Inclusion Indicators | | | | |
| Access | Mobile financial services agent outlets per 100,000 adults | 540 | 590 | UCC |
| | Branches of regulated deposit-takers ³³ per 100,000 accounts | 2.98 | 5.85 | BoU & UMRA |
| | Number of access points (total number of branches, ATMs and agents) per 10,000 adults | TBD | TBD | BoU & UMRA |
| | Number of access points per 10,000 adults at a national level and segmented by type and administrative units | TBD | TBD | BoU & UMRA |
| | % of administrative units with a formal access point | TBD | 100% | BoU & UMRA |
| | % of total population living in administrative units with at least one access point | TBD | 100% | BoU & UMRA |
| | % of population living within 5km of a financial service provider | 71% | 90% | Financial Service Provider Maps |

| Dimension | Key Performance Indicators | Baseline | 2022 | Source |
|-----------|---|----------|-------|-------------------------------|
| Usage | Deposit accounts at formal financial institutions per 1,000 adults | 230 | 1,315 | BoU & UMRA |
| | Loan accounts at formal financial institutions per 1,000 adults | 37 | 231 | BoU & UMRA |
| | % of adults with at least one type of regulated deposit account | TBD | TBD | FinScope |
| | % of women with at least one type of regulated deposit account | TBD | TBD | FinScope |
| | % of youth (15-17 yrs. old) with at least one type of regulated deposit account | TBD | TBD | FinScope |
| | % of adults with at least one type of regulated credit account | TBD | TBD | FinScope |
| | % of adults with at least one pension product | TBD | TBD | FinScope |
| | % of adults using an investment product | TBD | TBD | FinScope |
| | % of SMEs with a loan or line of credit | 17% | TBD | Enterprise Survey, World Bank |
| Quality | % of financial service users that are satisfied with their provider | TBD | TBD | FinScope |

33 Regulated deposit-takers includes commercial banks, MDIs and SACCOs.

8

ACTION PLAN

To close the 15 key gaps identified above and to achieve the NFIS objectives, a series of recommended initiatives have been identified that will require public and private sector efforts to implement. Aside from ensuring an enabling environment, it is the private sector that will need to lead on many, not all, of these activities. These initiatives are organised and based upon the objectives of the strategy. While not explicitly stated as initiatives, the establishment of the Working Groups described above and an awareness campaign of the NFIS itself are critical preconditions for these activities. A priority is assigned to each activity, as well as a working group, timeframe for completing the activity, and expected outcome.

| No. | Initiative | Lead Working Group* | Priority | Target Date | Expected Financial Inclusion Outcome |
|--|--|---------------------|----------|----------------------|--|
| Objective 1: Reduce Financial Exclusion and Access Barriers to Financial Services | | | | | |
| 1 | Issue agent banking regulations and implement an agent banking infrastructure to bring finance to rural areas. | RAB | High | September 2017 | Improved access at lower costs. |
| 2 | Finalise the National Risk Assessment for AML/CFT and implement tiered KYC requirements for greater flexibility. | RAB | High | December 2017 | Improved access for people with limited documentation. |
| 3 | Amend MDI Act to allow for agent banking, usage of “microfinance bank” in names, provisioning requirements, liberalised lending exposure limits, and access to the clearing system. | RAB | High | June 2018 | Increased competition by creating a level playing field, especially among institutions serving low-income segments. |
| 4 | Implement linkages between VSLAs and the formal financial sector to reduce financial exclusion among women and rural communities. | RAB | High | June 2018 | Improved efficiencies of VSLA to aid their growth. |
| 5 | National Identification and Registration Authority, in collaboration with the National Information Technology Authority, will develop a system to verify IDs and allow financial service providers to verify IDs through it. | RAB | High | December 2018 | Improved KYC compliance among financial service providers and verification of national ID. |
| 6 | Introduce a legal/regulatory exemption amendment that allows youth (ages 15-17) to open savings accounts in their own right. | RAB | Medium | December 2019 | Improved access and savings among youth. |
| Objective 2: Develop the Credit Infrastructure for Growth | | | | | |
| 7 | Establish a centralised registry for movable collateral to allow it to be used as security for loans. | CRI | High | March 2018 | Expanded forms of collateral to be used for access to credit for MSMEs and households/individuals. |
| 8 | Conduct an assessment and necessary amendments to the legal and regulatory framework governing creditor rights and insolvency proceedings so that creditors’ rights are clearer. | CRI | High | December 2018 | Improved creditors’ rights enabling them to expand credit to the market. |
| 9 | Require and support credit providers such as SACCOs supervised by BoU and UMRA, MFIs, leasing companies and utilities to contribute data to the CRBs. | CRI | High | March 2018 | Enhanced credit information for all lenders so they can make better-informed credit decisions and monitor over-indebtedness. |
| 10 | Carry out training and sensitisation for judicial officials in commercial courts and law enforcement officials on the financial sector and creditor rights. | CRI | High | June 2018 & On-going | Improved knowledge of law enforcement and judiciary officials so better decisions are made on financial services issues. |
| 11 | Issue efficiency, awareness and quality guidelines for credit bureaus. | CRI | Medium | December 2018 | Timely, accurate and lower cost credit decisions for lenders. |

| No. | Initiative | Lead Working Group* | Priority | Target Date | Expected Financial Inclusion Outcome |
|---|--|---------------------|----------|----------------|--|
| 12 | Establish lines of credit to critical sectors such as Housing, MSME, and Agriculture with the aim of growing the credit market. | CRI | High | December 2019 | Expanded and affordable credit to support growth of the economy. |
| 13 | Improve the oversight of existing credit facilities such as the Agricultural Credit Facility and improve oversight and operations of warehouse receipt systems and storage facilities so that lenders have confidence to extend loans against such receipts. | CRI | Medium | December 2019 | Improved access to credit for farmers by improving warehouse quality and receipt systems. |
| 14 | Strengthen linkages within, knowledge of and effectiveness of value chains. | CRI | High | December 2018 | Improved profitability in the agriculture sector. |
| 15 | Implement an ombudsman with binding powers to resolve disputes for smaller loans and provide impartial advice. | CRI | Medium | March 2019 | Provide low-cost recourse mechanism and forum for impartial advice. |
| 16 | Capture data on formal trade credit arrangements in the credit reference bureaus. | CRI | Medium | September 2018 | Improve the credit information on SMEs. |
| Objective 3: Build Out the Digital Infrastructure for Efficiency | | | | | |
| 17 | Develop and implement an avenue to ensure that interest earned on mobile money escrow accounts can be used to benefit the development of the digital infrastructure. | MFS | High | March 2018 | Improve digital financial services infrastructure. |
| 18 | Provide a two-year tax holiday for importing equipment to build out digital financial services. At least 40% of equipment must be deployed to rural areas to qualify. | MFS | High | December 2018 | Expanded accessibility, usage and efficiency of digital financial services. |
| 19 | Provide a regulatory framework that promotes innovations, i.e. accommodative regulations for innovation (sandbox) | MFS | High | December 2018 | Provide regulatory space for innovation. |
| 20 | Ensure financial service providers comply with the National Information Security Policy. | MFS | High | March 2018 | Strengthen digital security among providers to instil confidence. |
| 21 | Require service providers to offer customer-friendly interfaces for products and services (e.g. USSD code in local languages). | MFS | High | March 2018 | Make mobile financial services more accessible for non-English speakers. |
| 22 | Require inter-operability among financial service providers and/or to the existing clearing systems. | MFS | High | June 2018 | Greater convenience of payments for consumers. |
| 23 | Conduct a pricing review of financial services and depending on the results, determine if there are structural changes and/or rules that could further promote competition. | MFS | High | December 2018 | Improve usage of financial services through lower costs as a result of improved competition. |

| No. | Initiative | Lead Working Group* | Priority | Target Date | Expected Financial Inclusion Outcome |
|---|--|---------------------|----------|---------------|---|
| 24 | Pass the National Payment System Bill to update the payment system environment. | MFS | High | December 2018 | Improve payment system certainty, access and efficiency. |
| 25 | Promote cashless transactions across government entities and within the private sector. | MFS | High | June 2021 | Government payments to serve as a catalyst for digital payments. |
| 26 | Provide free digital devices to marginalised individuals and/or provide targeted support to companies/initiatives providing low cost digital services. | MFS | Medium | December 2018 | Expand mobile financial services to the poor. |
| Objective 4: Deepen and Broaden Formal Savings, Investment & Insurance Usage | | | | | |
| 27 | Operationalise the Uganda Microfinance Regulatory Authority and issue related regulations for licensing, consumer protection and prudential norms, among others. | UFSI | High | December 2017 | Improved functioning and confidence in SACCOs, MFIs & moneylenders. |
| 28 | Promote utilisation and uptake of the Agriculture Insurance facility. | UFSI | High | December 2017 | Improved risk mitigation for farmers. |
| 29 | Promote usage of banking agents and other innovative channels to distribute insurance products. | UFSI | Medium | December 2017 | Increase access to insurance through lower-cost options |
| 30 | Deepen usage and promotion of voluntary pensions to self-employed and informal workers. | UFSI | Medium | December 2018 | Make long-term savings options available to self-employed and informal workers. |
| 31 | Fast-track adoption of the National Policy on Insurance. | UFSI | High | January 2019 | Support growth of the insurance sector. |
| 32 | Ensure all prudentially supervised and solvent deposit-takers have access to the marginal lending facility and the potential to borrow from the lender of last resort, depending on the circumstances. | UFSI | High | March 2019 | Maintain health of solvent deposit takers in distressed conditions to support confidence in the financial system. |
| 33 | Broaden availability of investment products and their usage. | UFSI | Medium | March 2019 | Increase usage of long-term investments and capital markets. |
| 34 | Conduct periodic demand side needs assessments and share data to improve product development and policy-making. | UFSI | Medium | March 2019 | Support evidence-based policy decisions and product design. |
| 35 | Strengthen the capacity and systems of SACCOs and MFIs to help women, rural communities and others access and use affordable financial services. | UFSI | High | December 2019 | Better position SACCOs and MFIs to reach out to women and rural communities. |
| 36 | Implement regulations for pass-through deposit insurance to promote mobile financial services. | USFI | High | December 2019 | Improve levels of savings in formal financial institutions and mobile financial services. |

| No. | Initiative | Lead Working Group* | Priority | Target Date | Expected Financial Inclusion Outcome |
|--|--|---------------------|----------|----------------|---|
| 37 | Conduct a review of tax, regulatory and legal obstacles for all products. | UFSI | High | March 2020 | Remove unnecessary rules for leasing products to increase affordability of goods. |
| 38 | Ensure there are simplified products for collective investment schemes. | UFSI | High | June 2018 | Expand availability of collective investment schemes. |
| 39 | Strengthen financial sector skills by improving curricula for insurance, banking, pensions, MFI and SACCO practices. | UFSI | High | On-going | Improved skill base of institutions to better serve more people. |
| 40 | Reform compulsory insurance products and social protection programs. | UFSI | Medium | On-going | Increased usage of insurance and coverage of vulnerable populations. |
| 41 | Provide incentives and specific goals for increased procurement by government of goods and services from women-owned enterprises (specifically women-owned MSMEs), as well as assist women in business to secure markets for their products. | UFSI | Medium | On-going | Increased participation of women in business. |
| 42 | Implement Islamic banking regulations for banks, MFIs and SACCOs. | USFI | Medium | June 2018 | Improve diversity of the financial sector. |
| Objective 5: Empower & Protect Individuals with Enhanced Financial Capability | | | | | |
| 43 | Conduct research and surveys on financial capability, such as financial diaries and a baseline financial capability survey, customer satisfaction, and existing consumer protection practices. | EPI | High | September 2018 | Appropriately target financial capability and consumer protection interventions. |
| 44 | Review past financial literacy strategy and formulate a national financial literacy strategy for 2018 – 2023. | EPI | Medium | March 2018 | Target areas to focus on improving financial capability. |
| 45 | Improve awareness of financial services among individuals. | EPI | High | On-going | Improve financial capability of Ugandans. |
| 46 | Financial service providers and government to promote and implement financial consumer protection and capability initiatives. | EPI | Medium | September 2018 | Collect data on customer satisfaction of financial services. |
| 47 | Conduct a review of consumer protection for all financial service providers, including digital financial services. | EPI | Medium | March 2018 | Improve consumer protection and confidence in digital financial services. |
| 48 | Better understand societal barriers for women's inclusion and build capacity on property rights, importance of collateral and control over assets by working with SACCOs, MFIs and VSLAs. | EPI | High | June 2018 | Improved conditions for women to borrow and save. |
| 49 | Strengthen coordination of financial capability activities. | EPI | High | June 2018 | Leverage resources to the maximum extent. |

| No. | Initiative | Lead Working Group* | Priority | Target Date | Expected Financial Inclusion Outcome |
|-----|--|---------------------|----------|----------------|--|
| 50 | Set up an efficient measurement and evaluation framework to measure effectiveness of financial consumer protection and financial capability initiatives. | EPI | High | March 2018 | Effective financial capability interventions. |
| 51 | Strengthen coordination of financial consumer protection across all regulators of institutions that provide financial services and policymakers. | EPI | Medium | December 2018 | Ensure common framework for consumer protections. |
| 52 | Develop and build capacity of complaints handling mechanism(s) within financial regulators and service providers. | EPI | High | June 2019 | Ensure consumers have a place to lodge complaints as way of creating fairness in financial services. |
| 53 | Develop communications, monitoring and reporting mechanisms, and a web portal as appropriate, to track and communicate progress of the NFIS. (Cross-Cutting) | EPI | High | September 2017 | Effective implementation of NFIS. |

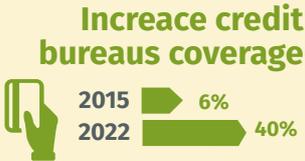
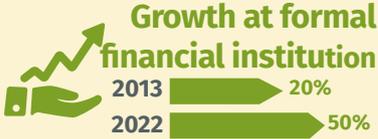
*RAB= Reduce Exclusion Access Barriers, MFS= Mobile Financial Services,
 CRI = Credit Infrastructure,
 UFSI = Deepen and Broaden Formal Savings, Investment and Insurance Usage,
 EPI = Empower & Protect Individuals.

MAIN NATIONAL FINANCIAL INCLUSION STRATEGY TARGETS BY 2022

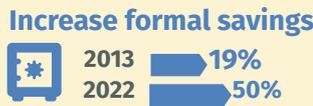
ACCESS



Access points per 100,000 adults from 548 to 615



USAGE



QUALITY



Increase percent of women who feel they understand financial service available to them

52% of adults were financially included in formal institutions in 2013



Annex 1: Initial Composition of Working Groups

Group 1: Reduce Financial Exclusion and Access Barriers to Financial Services

- i)** Bank of Uganda – Supervision
- ii)** Financial Intelligence Authority
- iii)** UMRA
- iv)** IRA
- v)** Uganda Banker’s Association
- vi)** AMFIU
- vii)** World Bank
- viii)** MoFPED
- ix)** InterSwitch
- x)** Financial Sector Deepening Uganda (FSDU)

Group 2: Mobile Financial Services

- i)** Bank of Uganda – Non-Bank Supervision
- ii)** UCC
- iii)** Uganda Banker’s Association
- iv)** MTN, AIRTEL, Uganda Telecom
- v)** PayWay, EzeePay
- vi)** UNCDF

Group 3: Credit Infrastructure

- i)** Bank of Uganda – Non-Bank Supervision
- ii)** UMRA
- iii)** Credit Bureau Providers
- iv)** Uganda Banker’s Association
- v)** UCSCU
- vi)** IFC/World Bank
- vii)** Financial Sector Deepening Uganda (FSDU)

Group 4: Deepen and Broaden Formal Savings, Investment and Insurance Usage

- i)** Bank of Uganda - Supervision
- ii)** UMRA
- iii)** IRA
- iv)** URBRA
- v)** Uganda Banker's Association
- vi)** UCSCU
- vii)** Uganda Insurers Association
- viii)** IFAD
- ix)** MoFPED

Group 5: Empower & Protect Consumers

- i)** Bank of Uganda
- ii)** Uganda Banker's Association
- iii)** AMFIU
- iv)** GIZ
- v)** CARE
- vi)** MoFPED
- vii)** Ministry of Trade, Industry and Cooperatives

Annex 2: Financial Inclusion Diagnostic Research in Uganda

- i)** Agent network accelerator report: September 2016. <http://www.helix-institute.com/data-and-insights/agent-network-accelerator-survey-uganda-country-report-2015>
- ii)** CIA World Fact Book 2016. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2177rank.html#ug>
- iii)** Electronic Payments with Limited Infrastructure. SAGE Report by CGAP. December 2013.
- iv)** Enterprise Survey. World Bank. 2013.
- v)** Financial Consumer Protection Communication Strategy 2014.
- vi)** Financial Consumer Protection Monitoring and Evaluation Report of January 2016.
- vii)** Financial Inclusion Insights. InterMedia. February 2016. This is a demand side view of digital finance which has annual data from 2013, 2014 and 2015.
- viii)** Financial Literacy Strategy for Uganda 2013.
- ix)** Financial Sector Assessment Program Final Report 2012.
- x)** Financial Sector Review, World Bank. June 2015.
- xi)** FSP Geospatial mapping of outlets. Bill and Melinda Gate Foundation. 2013.
- xii)** Global Findex. Demand side data. World Bank. 2014.
- xiii)** Post, Broadcasting and Telecommunications Market and Industry Report. First Quarter 2016. Uganda Communications Commission.
- xiv)** Uganda 2013 FinScope III Survey Findings.



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