A system analysis of the financial market in Uganda and its potential to contribute to sustainable development

Financing economic development and poverty reduction among refugees, women and youth

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Cover photo: Maria Löfstrand

Abbreviations

ATM	Automated Teller Machine
BOU	Bank of Uganda
EBUL	Equity bank Uganda Limited
FSD	Financial Sector Deepening Africa
FSP	Financial Service Provider
FDP	Financial Development Program
ILO	International Labor Organization
IIRR	International Institute of Rural Reconstruction
KII	Key Informant Interview
MFI	Microfinance Institution
MMSP	Mobile money service providers
MNO	Mobile Network Operator
MOFPED	Ministry of Finance, Planning, and Economic Development
MSME	Micro, Small & Medium Enterprises
NDP	Nation Development Plan
NFIS	National Financial Inclusion Strategy
NGO	Non-Governmental Organisation
OBUL	Opportunity Bank Uganda Limited
ROSCA	Rotating Savings and Credit Associations
RUFI	Rural Finance Initiative
UGX	Uganda Shillings
UMRA	Uganda Microfinance Regulatory Authority
USD	United States Dollars
VSLA	Village Savings and Loan Association

Contents

1. Introduction and context

1.1. Background

The Embassy of Sweden in Uganda, together with the International Labour Organization (ILO), commissioned this study to analyse the financial system in selected refugee-receiving areas in Uganda and its potential to contribute to economic development and poverty reduction among refugees, women, and youth. The study offers valuable insights into the binding constraints that hinder the functioning and expansion of markets affecting the economic development of these groups. Furthermore, the study offers an analytical understanding of the dynamics within the financial system, uncovering the underlying causes of market inefficiencies and the barriers that prevent the target groups from accessing finance. Based on this analysis, a series of recommendations was made on how instruments such as guarantees and challenge funds, alongside technical assistance to financial intermediaries and their clients, can contribute to Sweden's strategy goals in the development cooperation with Uganda.

The target group for this study is therefore Micro, Small and Medium Enterprises (MSMEs), run by either refugees or members of host communities. The focus areas are the Nakivale settlement of Isingiro district and the Maaji II and III settlement in West Nile. Special attention is placed on MSMEs owned by either refugees and/or women and youth. The study considers the financial needs and constraints faced by the specified target group, the supply side of financial services and the related regulatory framework.

The main purpose of this analysis is to guide Sweden in the ambition to strengthen its development cooperation with Uganda and to find ways of working catalytically through a market system development approach, particularly through its guarantee and grant instruments.

The aim is to support efforts to address, as far as possible, identified constraints and gaps through various approaches that should enable finance to flow to the target groups, leveraging existing and planned activities of related stakeholders.

This report was drafted by Mustard Seed Advisory and edited by the ILO's Social Finance Programme. Opinions expressed in this report are those of the authors and do not necessarily reflect the position of Sweden, the ILO or their partners.

1.2. Overview of Uganda's economy

Uganda's main economic sector is Services, representing 50.3% of the country's GDP, followed by Industry (25.5%) and Agriculture (24.2%). The Agricultural sector is broken down into Fisheries, Animal Husbandry, Dairy, and Crop sub-sectors. Manufacturing, Construction, and Electricity Supply sub-sectors make up the Industrial sector. Finally, the Service sector is made up of Finance, Wholesale and Retail trade, Telecommunications, Hotels and Restaurants, Transport and Communications and Tourism sub sectors (Government of Uganda 2023)[1].

Beginning in 2010, Uganda started implementing its Vision 2040 with the aim of transforming from a predominantly low-income to a competitive upper middle-income country by 2040. According to the Uganda National Planning Authority[2], noticeable differences have been witnessed in the Ugandan economy since the beginning of such plan.

Despite positive strides in Uganda's recent economic growth, the World Bank reports that between 2011 and 2022, real GDP per capita grew by a mere 1.0% annually, which would have been impacted by rapid population growth, drought, external shocks, a less favourable external environment, and a deteriorating institutional and policy framework (including centralized policymaking).[3] On the other hand, Uganda's

[1] https://www.gou.go.ug/about-uganda/uganda-glance/economy
[2] http://www.npa.go.ug/wp-content/uploads/2020/08/NDPIII-Finale_Compressed.pdf
[3] Uganda Overview: Development news, research, data | World Bank

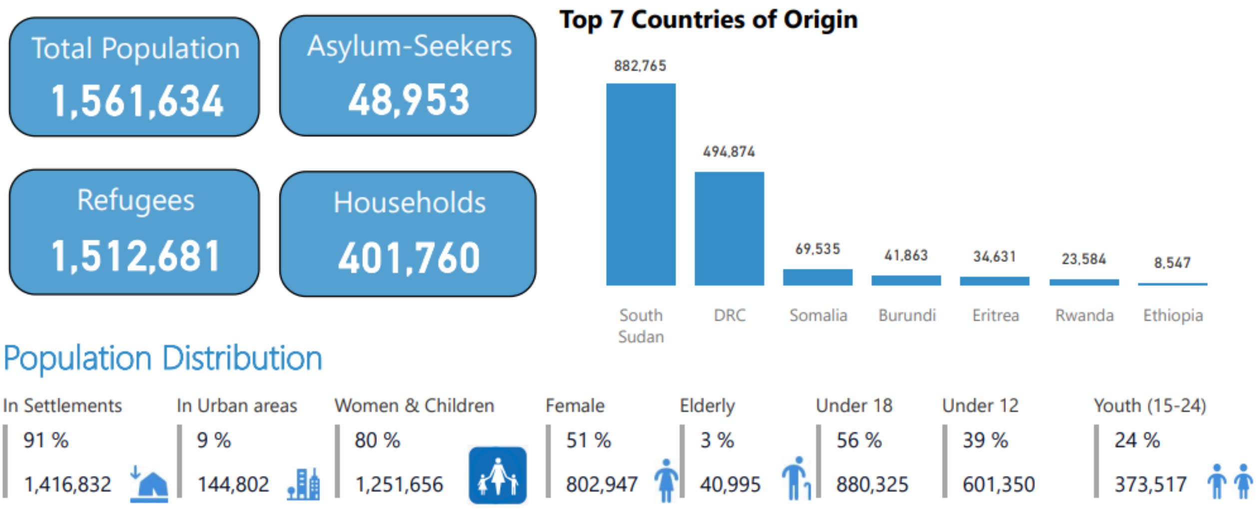
economy has rebounded strongly in the past few years, with its real GDP growth rate reaching 5.6% in 2021, 6.3% in 2022, and anticipated 6.5% in 2023, supported by strong performance in the agriculture and service sectors.[4] Such economic growth is expected to positively impact poverty reduction, although households (most of whom rely on agriculture) may be susceptible to climate change effects, which could slow down the pace of poverty reduction.

1.3. Population dynamics

Uganda is a landlocked country bordered by Kenya to the east, Tanzania and Rwanda to the south, the Democratic Republic of Congo (DRC) to the west and South Sudan to the north. Nearly one-fifth of Uganda is open water or swamp land and four of East Africa's Great Lakes: Lake Victoria, Lake Kyoga, Lake Albert and Lake Edward lie within or around its borders[5]. As per the Uganda Bureau of Statistics (2022), approximately half of the 43.7 million population is female. Additionally, 48% of the population falls below the age of 14, while 68% are 24 years old or younger, positioning Uganda as the world's second most youthful population.

The refugee population in the country is 1.5 million people (UNHCR 20236), making Uganda the country with the highest refugee population globally – see Figure 1 below. Fifty-eight (58%) of these are from Southern Sudan, while 33% are from the DRC. Ninety-one per cent (91%) of the refugees live in settlements while only 9% live in urban areas. Females make up 51% of the refugee population while 56% are aged 18 and below.

▶ Figure 1: Refugee population in Uganda



Source: UNHCR, 2023

1.4. Financial inclusion in Uganda

Fifty-nine percent (59%) of Ugandan adults (+15 years old and above), had an account with a formal financial institution or a mobile money provider in 2017. This figure is reported to have gone up to 66% (FinDex 2021) due to the upsurge in mobile money usage. A further analysis out of FinScope (2018)[7] shows that 78% of

[4] Uganda Economic Outlook | African Development Bank Group (afdb.org)

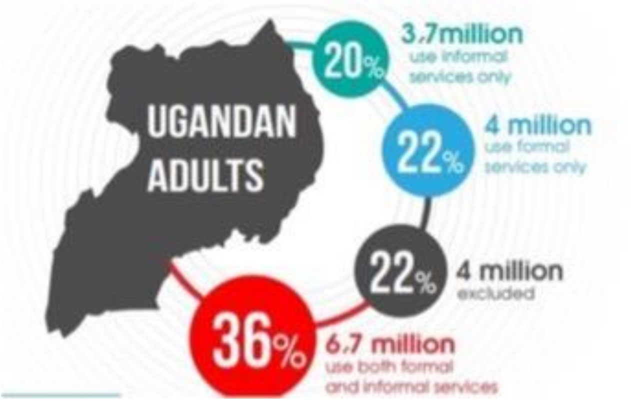
[5] https://www.goway.com/travel-information/africa-middle-east/uganda/geography-and-maps/#:~:text=Since%20Uganda%20is%20found%20in,Uganda%20or%20around%20its%20borders.

[6] https://data.unhcr.org/en/country/uga

[7] FinScope-Uganda-Survey-Report-2018.pdf (fsduganda.or.ug)

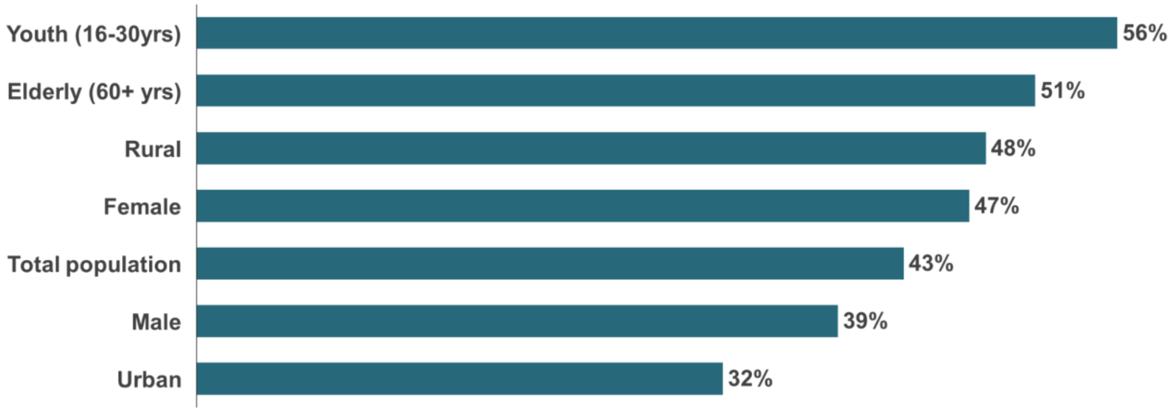
adults are financially included, if the 20% who are using exclusively informal service providers are considered.

▶ Figure 2 : Formal and Informal Financial



According to the 2018 Fin Scope survey, the 22% that is totally excluded comprise of mostly youth at 56%, while rural and women are at 48% and 47% respectively[8]. A gender gap of 8% exists – with women less likely to be financially included. Refugee settlements, by virtue of being located in remote rural areas, are likely to present lower rates of financial inclusion. Low incomes are a key barrier to financial inclusion (FinScope 2018), which is partly why rural communities including refugee settlements host the large, excluded populations.

▶ Figure 3: Adults without access to financial services



Source: FinScope, 2018

[8] Analysis of status of financial inclusion for women and youth in Uganda, FSDU, 2018 available from https://fsduganda.or.ug/wp-content/uploads/2019/05/FSDU-Thematic-Report-on-Banking.pdf

2. The rationale and approach for the assessment

2.1. Objectives of the system analysis

The main objective of this study is to analyse the financial system in selected refugee-receiving areas in Uganda and its potential to contribute to economic development and poverty reduction among refugees, women, and youth. The starting point for the study was the Theory of Change described in Annex 1. To achieve that, the analysis includes:

- **Demand side assessment:** Financial profile of the target groups, their needs, and their challenges on access to finance.
- **Supply side assessment:** The structure of the financial system in Uganda, mapping of financial service providers (FSPs), including the products and services offered to target segments, and identification of the other stakeholders providing guarantees and supporting initiatives to the target groups.
- **Regulatory environment and support infrastructure assessment:** Mapping of the financial sector regulations and support infrastructure and identification of any relevant regulatory frameworks that influences financing of the target groups.
- **Gap analysis:** Identification of the gaps between demand and supply.

2.2. Target groups of the systems analysis

The target groups of this analysis are MSMEs in refugee receiving areas in Uganda, specifically the Nakivale settlement of Isingiro district and the Maaji II and III settlement in West Nile. Special attention is placed on MSMEs owned by either refugees and/or women and youth.

MSMEs are believed to be a crucial engine of growth for Uganda economy, contributing with more than 20% of the GDP, and contributing with 90% of private sector employment (Uganda Investment Authority 2016). According to the Uganda Bureau of Statistics; MSMEs are categorized as follows:

i) micro enterprises are those businesses employing not more than **5 people** and have total assets not exceeding **UGX: 10 million (approx. USD2,600).**

ii) **small enterprises** employ between **5 and 49** and have total assets between **UGX: 10 million but not exceeding 100 million (26,000).**

iii) **medium enterprise** employs **between 50 and 100** with total assets of more than 100 million but not exceeding **UGX360 million (95,000).**

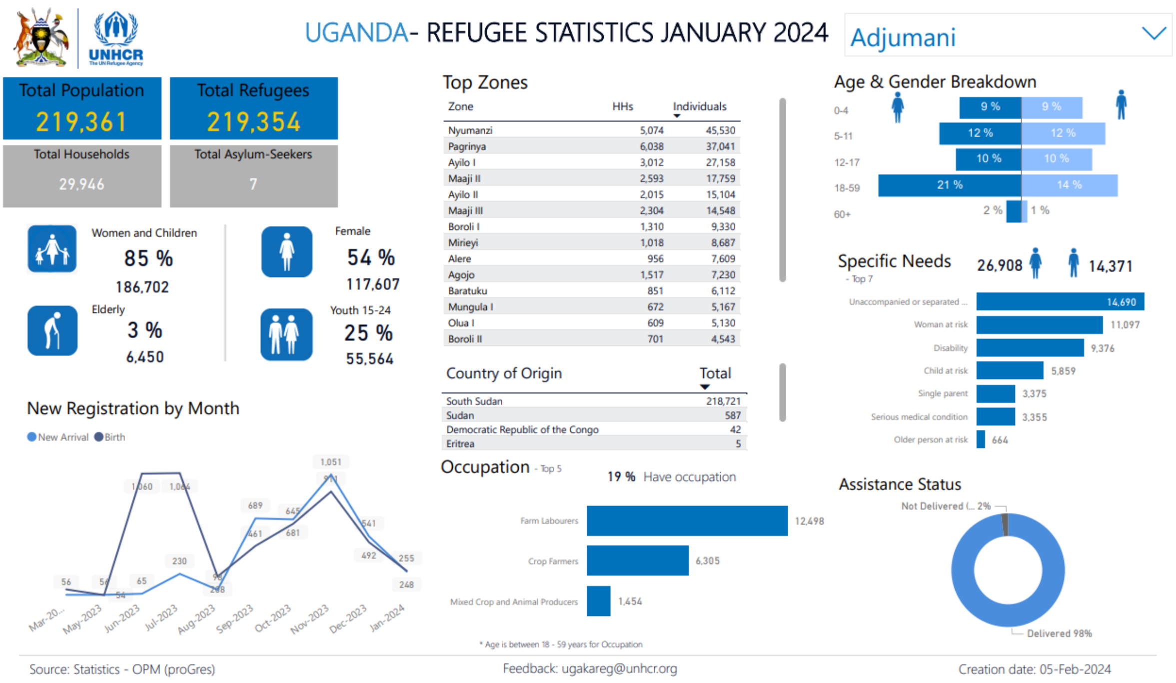
A recent study of refugees in urban Kampala showed that most of the refugee businesses and even host community members in the same environs, fell in the micro category as they are typically self-employed. In rural areas, such as the target districts, enterprises tend to be much smaller as the economic landscape is shallow due to lower incomes levels. This study assessed how many of the respondents (both refugees and Host Communities - HC) would qualify as small or medium as defined above. Women and youths are segments of interest as they tend to be among the poorest and most vulnerable.

The specific district of Adjumani was selected for the study, specifically settlement Maaji II and III, partly due to the population sizes. As per the UNHCR report of 2024, farm labourers, crop farmers, and individuals engaged in mixed crop and animal production constitute the predominant occupations among the economically active refugees in Adjumani (19% of refugee population).

The second location of Nakivale is a settlement in the Isingiro district and is one of the oldest settlements (established in 1960) with 183,384 refugees from Congo, Rwanda, Somalia, Eritrea, Ethiopia, South Sudan, Sudan, Kenya, Tanzania and Senegal (UNHCR 2024). According to BFA (2020), most of the inhabitants of Nakivale depend on crop farming for livelihoods. Self-employment, usually petty trading or selling goods is the second most common occupation as employment is scarce. The settlement is currently faced with challenges of scarce arable land yet 80% of the people in Isingiro district depend on subsistence agriculture.

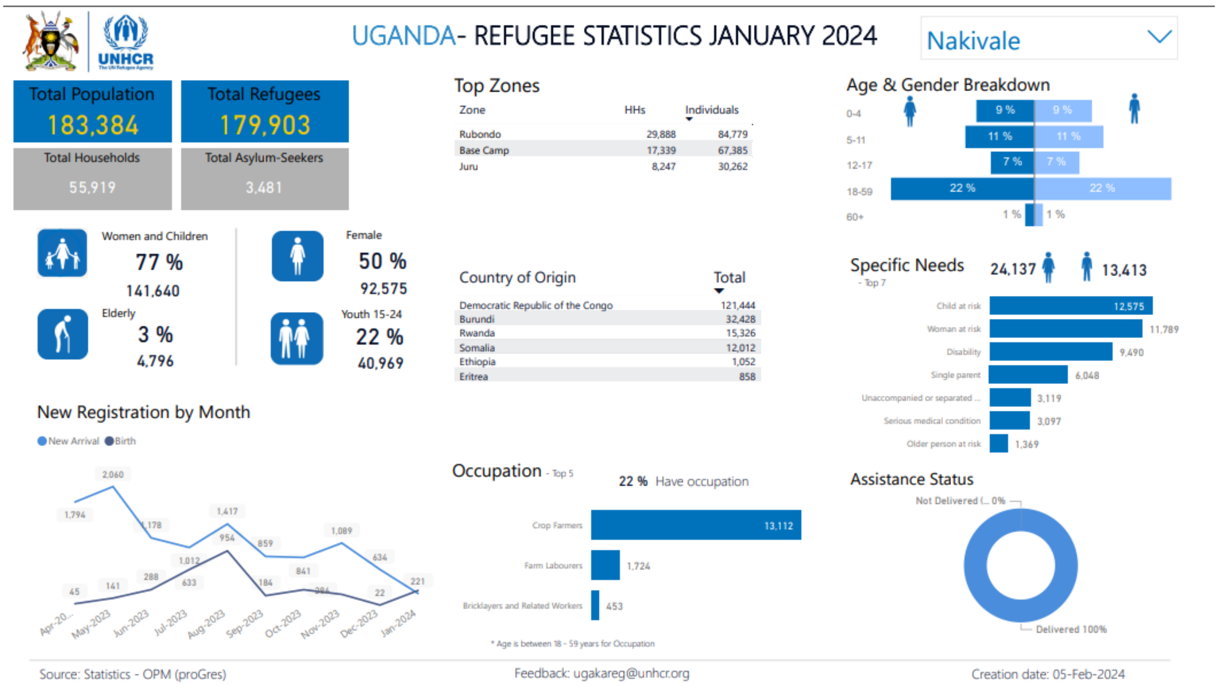
Furthermore, there are challenges of poor infrastructure that limit connectivity and wider access to markets with environmental degradation resulting in shortages of water, firewood, fruits and vegetables.

Figure 4: Refugee statistics in Adjumani



Source: Document - Uganda - Refugee Statistics January 2024 - Settlement & Urban Profiles (unhcr.org)

Figure 5: Refugee statistics in Nakivale



Source: Document - Uganda - Refugee Statistics January 2024 - Settlement & Urban Profiles (unhcr.org)

▶ Table 1: Refugee population in target areas/total refugee population

Number of refugees in Adjumani	219,361
Number of refugees in Nakivale	183,384
Total number of refugees in target areas	402,745
Number of refugees in Uganda	1,626,056
Percent of refugees in target areas/total refugee population	24.8%

Source: [Document - Uganda - Refugee Statistics Map - January 2024 (unhcr.org)]

2.3. Approach to the assessment

The assignment comprised three main pillars that were interrelated:

▶ Figure 6: Assessment pillars

Demand side	Financial sector regulation	Supply side
Analysis focused on examining the needs (financial and related non-financial) of the target group, the current levels of access and usage of financial services and their challenges on access to finance.	Analysis which examined the legal and regulatory landscape in which suppliers of finance operate.	Analysis focused on examining the different categories of financial services suppliers (informal, semi-formal and formal), examining the extent to which these different entities were serving the target group; challenges and barriers they face in expanding their services and the opportunities they perceive.

Demand side analysis

Demand side research was conducted in the two research areas; Nakivale in Isingiro and Maaji II and III in Adjumani using a mix of tools as shown in Table 3 below. Besides the refugee settlements, the study also collected data from host communities around the settlements. In both areas, the coverage of target groups and tools used were the same to allow for comparison at the analysis stage.

▶ Table 2: Sample for demand side research

Tool	Respondent	Refugees	Host communities' members	Total
Focus group discussion	MSME women group	20	20	**40**
	MSME women group	-	10	**10**
	MSME youth group mixed	6	6	**12**
	MSME mixed male female	6	6	**12**
Household financial map	MSME women led household	2	2	**4**
	MSME man led household	2	1	**3**
	MSME youth led	2	1	**3**
Key informant interviews	NGOs, government, financial service providers			**8**
Survey	MSME men	43	23	**66**
	MSME women	77	42	**119**

Qualitative research explored opinions, perceptions and attitudes towards financial services through focus group discussions, household financial mapping and key informant interviews. The tools (included in the data pack) were used to collect the following information**:**

- financial and non-financial needs of the target population - what kind of savings, credit, payment, and remittance services are used currently, what is the level of satisfaction with current providers, and if not accessing from formal financial institutions, why? what is the unmet need? What would make them (HC and FDPs) want to deal with FSPs?
- the financial market environment in the settlement areas including interviews with providers of finance (formal and informal), of non-financial services such as skills or business training.

Quantitative research used a pre-coded questionnaire administered by an enumerator and captured by the mobile application - KOBO. The sample size was small (a total of 185 surveys from both sites). The main purpose of the survey was to provide a basis for triangulating qualitative research and to fill in gaps that may not be addressed under the secondary research. Sampling for the surveys was random, but ensuring respondents were MSMEs, and a mix of **female and male refugees**, **youths, and host community members**. It was not possible to have a statistically significant sample size within the available resources and time.

All the data collected was synthesized to pull out key themes, similarities, trends and contradictions across all the three pillars of the analysis. The result of this synthesis showed the mismatch between the three analysis pillars (infrastructure, supply and demand sides) and possible interventions.

Regulation and supply side analysis

An analysis of the secondary literature informed most of the financial infrastructure - mapping out the regulations that facilitate or deter financial services providers from expanding services to the targeted locations. Furthermore, an FSP round table with the representatives from 15 financial service providers and regulatory authorities in the country, was conducted in September 2023 to understand the FSPs' concerns with regard to outreach to the target groups also provided useful information. In-depth interviews were conducted with selected entities to better appreciate the regulatory issues such as requirements of responsible lending, bad debt provisioning policies, and usefulness and functionality of credit registry including moveable collateral registry. A few in-depth interviews were also conducted with FSPs that have shown potential, interest or commitment during the one-day workshop.

The FSP round table included key FSPs selected on the basis of the secondary research and including sector regulators and associations e.g. AMFIU, and Bank of Uganda. The event held a large focus group discussion and aimed to explore generic information such as:

- What are the financial services currently availed to the target group?
- What are the constraints faced by FSPs in reaching the target group?
- Proposed solutions – what should be done by who, in order to incentivise FSPs to do more

Validation workshop

Preliminary conclusions from this assessment were presented at a validation workshop in October 2023, with more than 20 participants representing different stakeholders involved in this study (e.g. FSPs, international organizations, regulators, representatives from refugee groups such as SACCOs). The feedback obtained in the workshop was used to refine the findings, which are incorporated in this final version of the report.

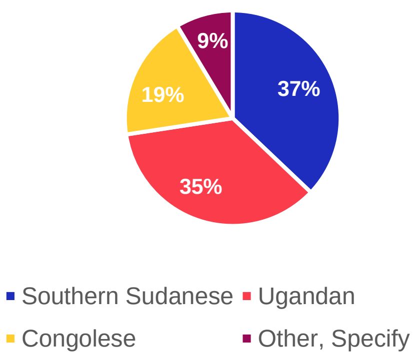
3. Findings of the demand side analysis

3.1. Demographic analysis of the respondents

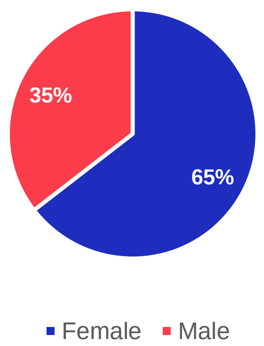
The demand side analysis was undertaken through both qualitative and quantitative instruments and sample sizes are detailed in section 2.3. For the quantitative part, a total sample of 185 respondents between the two sites responded to the survey. Of the total sample, 65% of the respondents were from outside Uganda (which we classified as refugees); while the balance were Ugandan nationals which constitute host communities. Thirty-seven per cent (37%) were from Southern Sudan, 17% were Congolese and 9% were from other nationalities such as Rwanda and Burundi. The sample size was skewed deliberately towards women (65%) as we wanted to understand the issues faced by women versus men (see Fig. 7).

Uganda defines youths as anyone aged between 12 and 30 years old[9]. By that definition, 55% of the respondents in the survey were youths (see Fig. 9) and this was once again deliberate. Most of the respondents (61%) had some primary level of education and 23% attained some secondary school education (Fig. 10) thus generally, the survey dealt with low education profile communities.

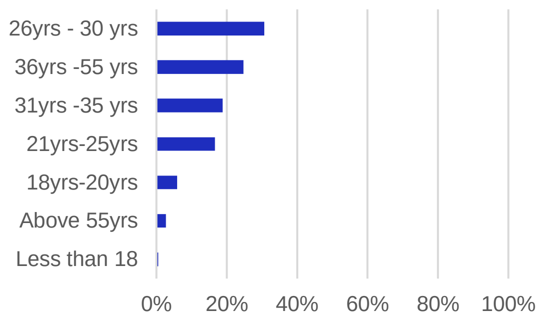
▶ **Figure 7: Nationality**



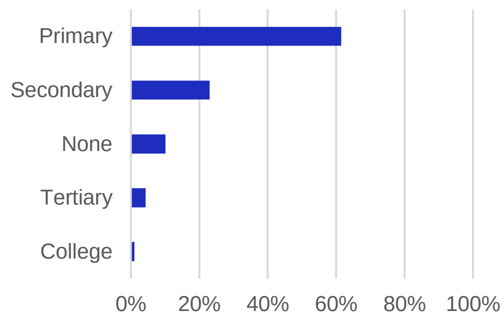
▶ **Figure 8: Gender**



▶ **Figure 9: Age analysis**



▶ **Figure 10: Level of education**



[9] https://www.youthpolicy.org/national/Uganda_2001_National_Youth_Policy.pdf

3.2. Economic activities of the target groups

Survey results show that business is the main source of income mentioned by 65% of the respondents, followed by remittances (13%) and grants/donations (12%) - see Fig 11. Analysis of income sources by refugee status revealed that almost all Southern Sudanese refugees interviewed (99%) get their income from business-related activities compared to 86% Ugandans, 74% Congolese and 88% other nationalities. Eight four per cent (84%) of youth indicated that they get their income from business sources, 22% from remittances, and 21% from grants/donations – see Fig. 12. More female respondents (91%) get their income from business than males (85%). It was interesting to note that most respondents treated agriculture as a livelihood source not necessarily an income source. During the FGDs, most discussants confirmed that they all engage in agriculture – both crop and livestock. In terms of monthly earnings, most respondents reported incomes between UGX 10,000 and 100,000, with the UGX 100,000 – 1,000,000 range coming in as the next most common.

Figure 11: Source of income by nationality

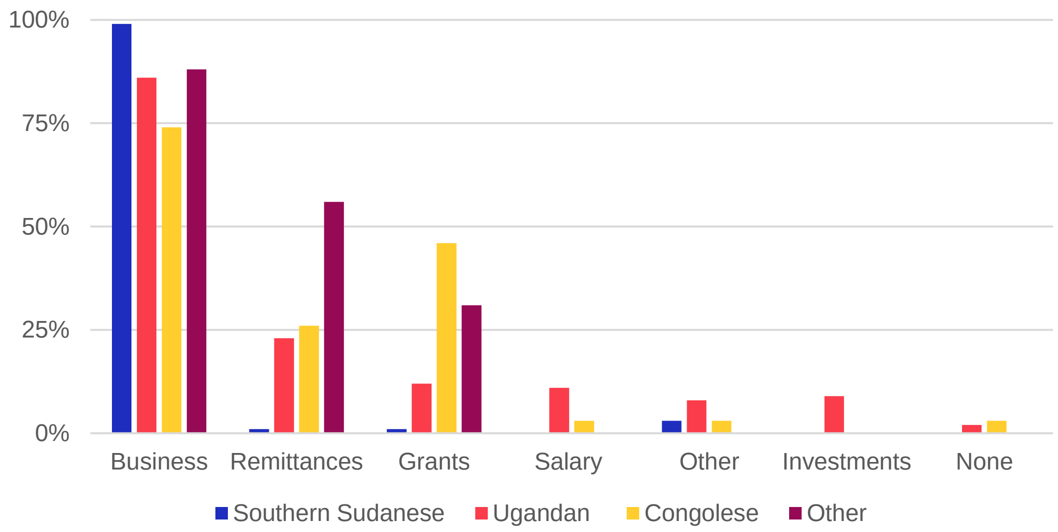


Figure 12: Income source vs age

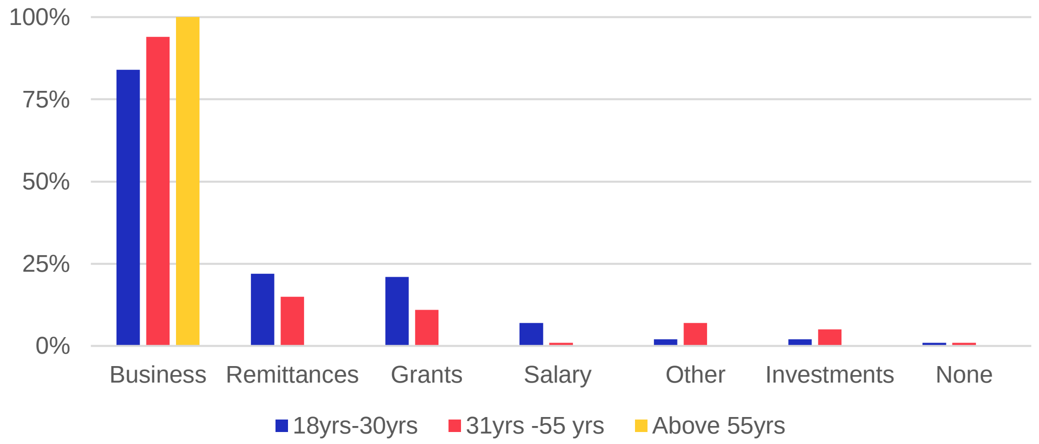


Figure 13: Income source vs gender

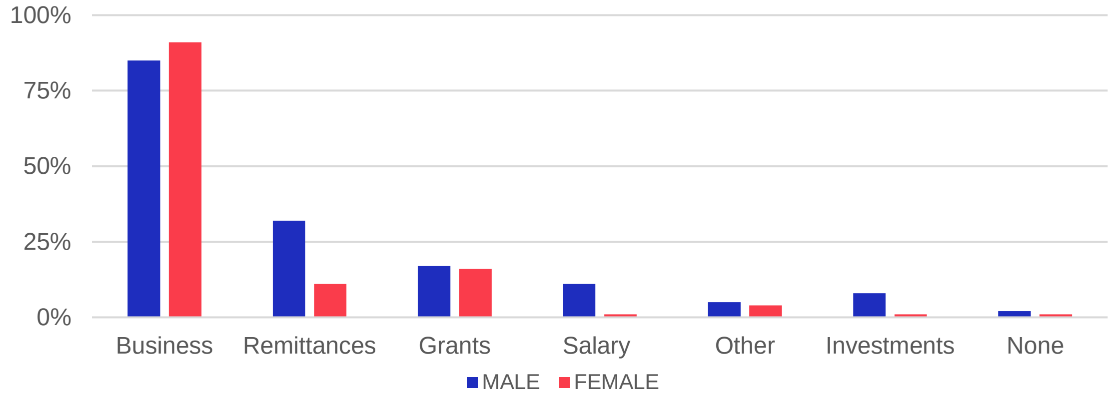
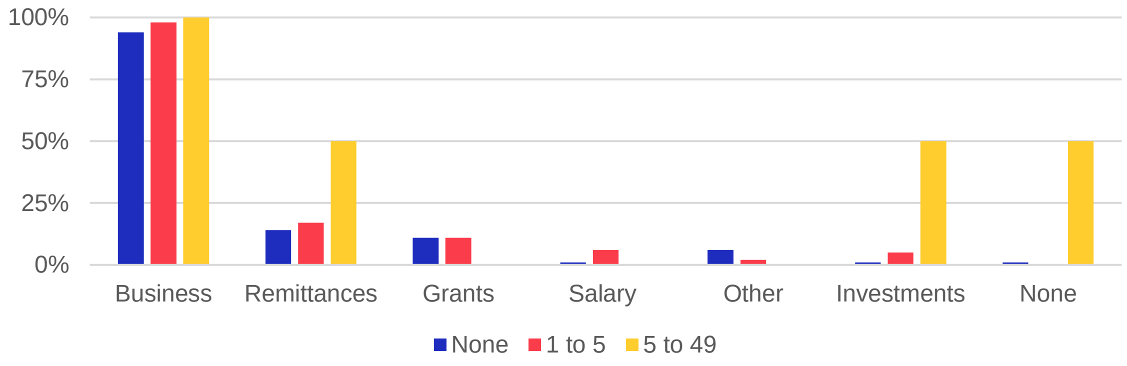


Figure 14: Sources of income by business size



A comparison of the businesses in terms of the MSME definition (using number of employees and asset base) showed that most of the enterprises we interacted with fell within the micro-segment. The business sizes are small as depicted in the pictures below and mostly not registered. Only 19% of respondents had registered their businesses.

Figure 15: Fish traders in Maaji II and Poultry farmers in Nakivale

Photos: Petronella Dhitima/Mustard Seed

Very few enterprises, most of whom were identified during key informant interviews such as NGOs, would qualify as small to medium enterprises. Such enterprises were located usually in the town center (not in the settlements) and were managed mostly by host communities.

▶ Example of MSME: Orungo

Orungo is a retail shop that was opened in 2013 and has 4 employees, plus the manager / owner. The shop sells both pico (small) and big solar systems, that includes TVs, solar panels and solar fridges. The shop is located in Adjumani town and it doesn't have any agents in Maaji settlement. The pico systems are usually in the range of 10-30W, they include lights and a small battery system. The shop is small and sells between 70-100 systems a year. Orungo has not borrowed before as the interest rates offered by banks are high and its turnover is low. The biggest challenge for business expansion is access to finance.

3.3. Financial services currently used

Survey results show that fifty-one percent (51%) of respondents use savings, thirty-nine percent (39%) use loans, seven percent (7%) use remittances while only one percent (1%) use insurance (see Fig 16) to protect themselves against shocks or to smooth their irregular income flows. Analysis of the usage of financial services by nationality shows that refugees use more savings than locals. More Southern Sudanese refugees (81%) have access to loans than both locals (60%) and Congolese (32%) – see Fig. 17. During the FGD discussions, it was clear that entities such as RUFI were perceived in Maaji II and III as an institution targeting refugees and had clients in the settlements. Indeed such are the roots of RUFI as the MFI expanded to Uganda following its clients in South Sudan who had fled conflict and were now treated as refugees in Uganda. Even though RUFI is now open to anyone including host communities, the perception still holds. Analysis of access to credit by age group shows that 86% of youth have access to savings and 59% have access to loans – see Fig. 18. More female respondents indicated that they have access to both savings (90%) and credit (64%) compared to their male counterparts – see Fig. 19 below. This is due to the fact that more women participate in Village Savings and Loans Associations (VSLAs) compared to men and VSLAs provide savings and loan services to their members. Most men indicated that the VSLAs were perceived as a feminine entity and men either created their own or a few bold ones joined the women's groups. Access and usage of insurance are very low which resonates with secondary literature which indicated that insurance penetration in Uganda is less than 1%

Figure 16: Access to financial services

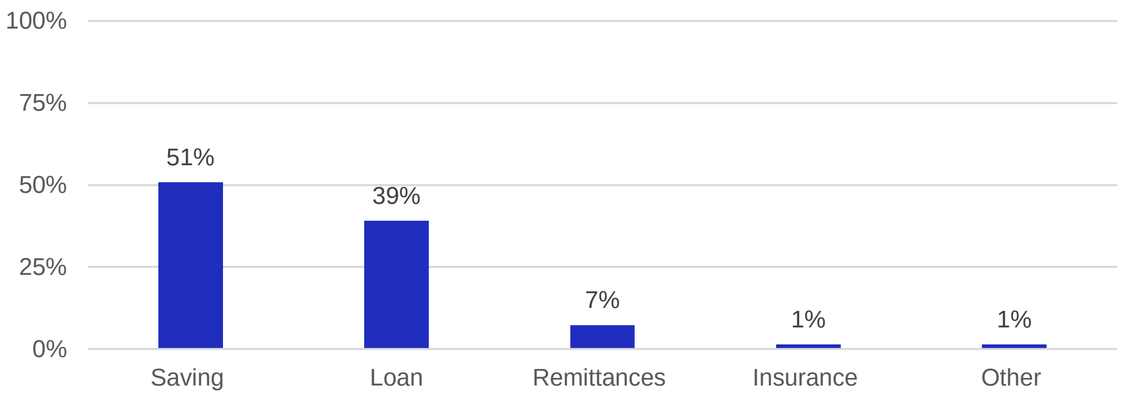


Figure 17: Access to financial services by nationality

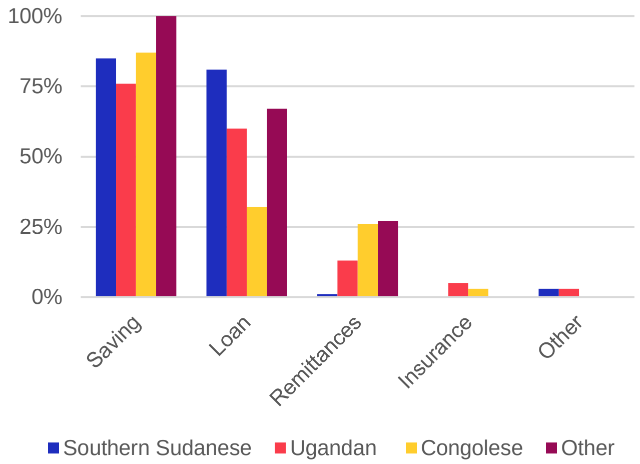


Figure 18: Access to financial services by age group

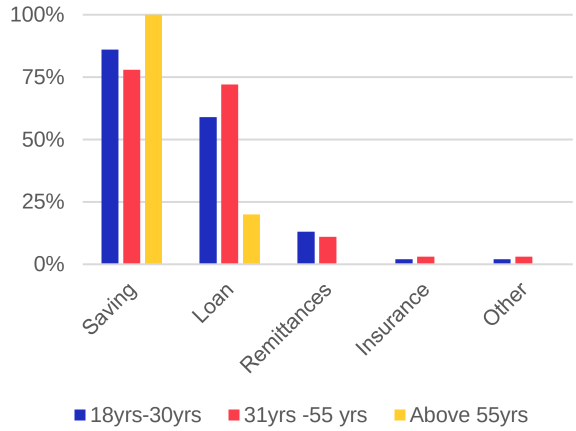


Figure 19: Access to financial services by gender

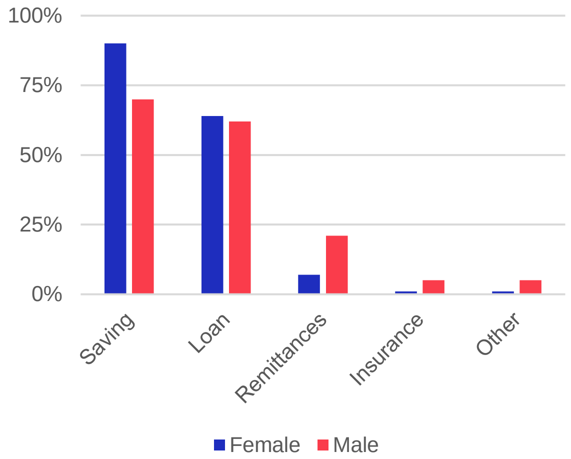
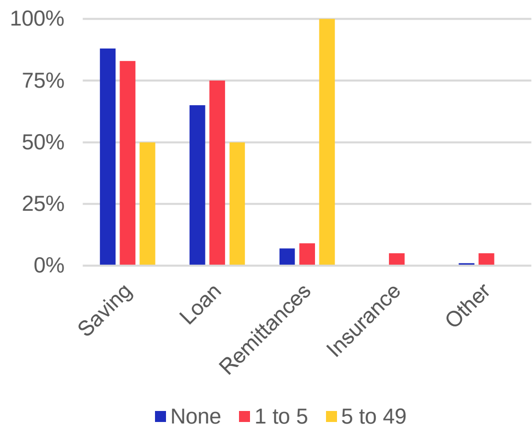


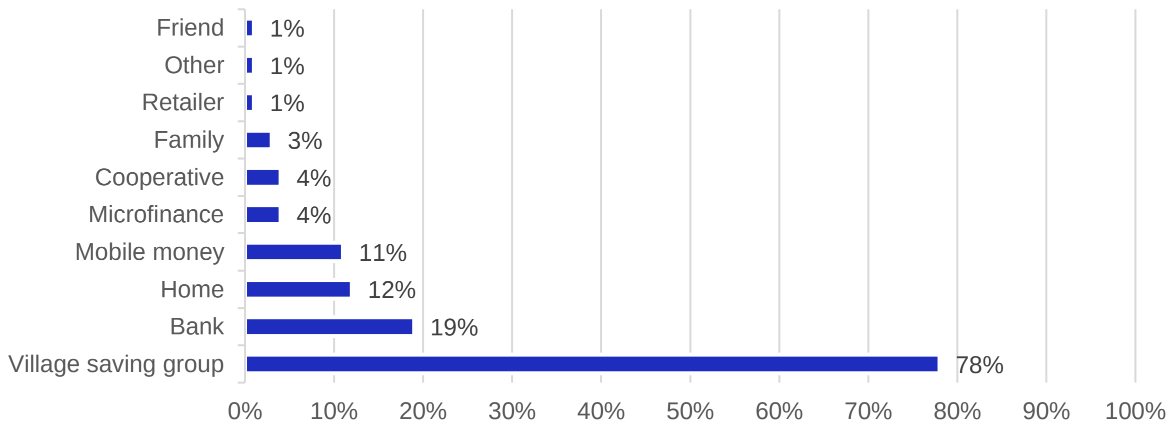
Figure 20: Access to financial services by business size



3.4. Access to savings facilities

Attitude towards savings is positive and 51% of respondents had greater access to savings than loans (39%), which is important especially for commercial banks or deposit taking microfinance institutions. The ability to mobilize savings and cross sell loans against a savings record is a typical approach and can be a useful proxy for business capacity to repay. In terms of access to savings facilities, most of those who saved (78%), were using VSLAs while only 19% saved with banks. Savings at home happens but by very few (12%) and one woman explained; "husbands take all the money saved", referring to household conflicts that arise if funds are kept in the home. Mobile money is not yet that common and the reasons for low uptake are discussed in section 4.1 below.

▶ Figure 21: Where respondents save



Analysis of savings by refugee status revealed that more refugees than locals save with VSLAs while more locals save with banks than refugees (see Fig. 22). A few reasons for low bank uptake by refugees included lack of full identity cards beyond the family attestation cards which are a requirement for most banks. Access to ID cards still takes a lot of time and effort, such that some refugees do not even bother. Eighty-three per cent (83%) of female respondents indicated that they save with VSLAs compared to 68% of males who also use VSLAs for savings. More males (regardless of nationality status) (39%) saved with banks compared to 8% of females. The issue of identification doesn't just affect refugees but also host community women. Sixty per cent (60%) of youths also indicated that they save with VSLAs while another 40% indicated that they save at home – see Fig. 23. Amounts saved though were small, ranging from UGX2,000 per week which would make UGX 8,000 per month (2USD). The persons saving in SACCOs or MFIs or banks were saving larger amounts though not exceeding 50 USD per month.

▶ Figure 22: Where respondents save by nationality

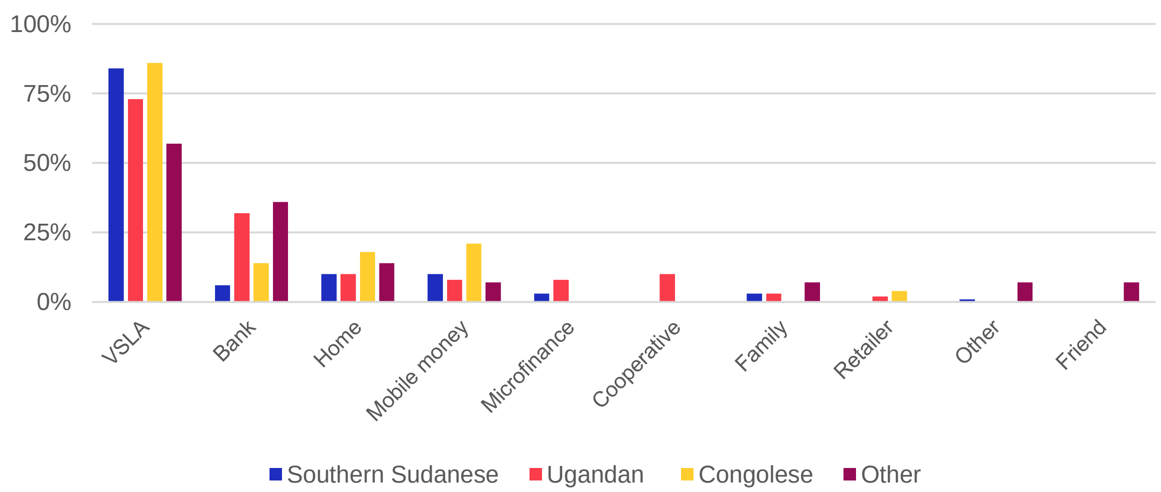


Figure 23: Where respondents save by age

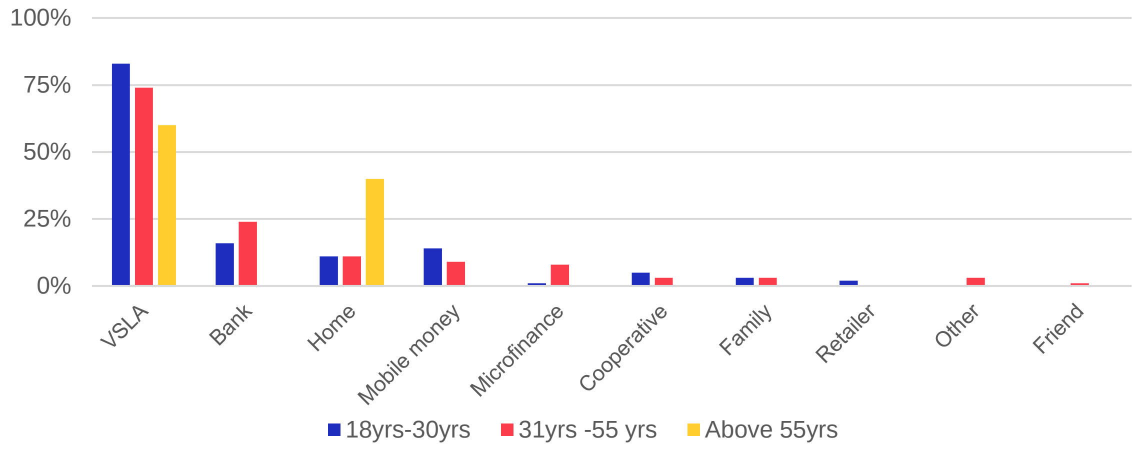


Figure 24: Where respondents save by gender

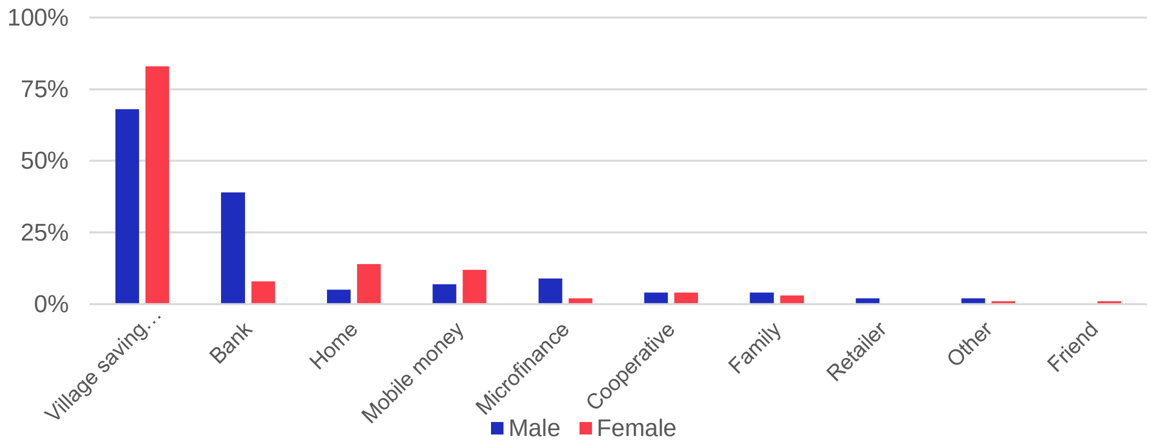
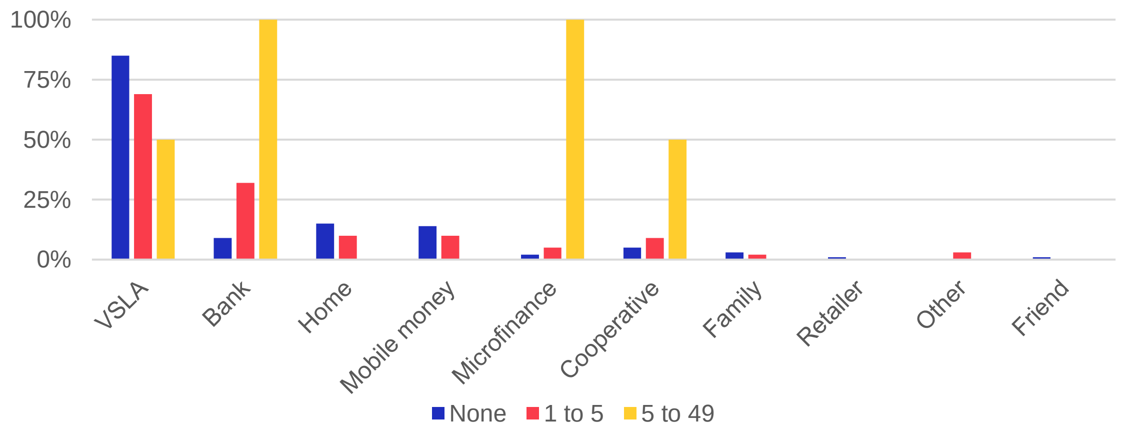


Figure 25: Where respondents save by business size

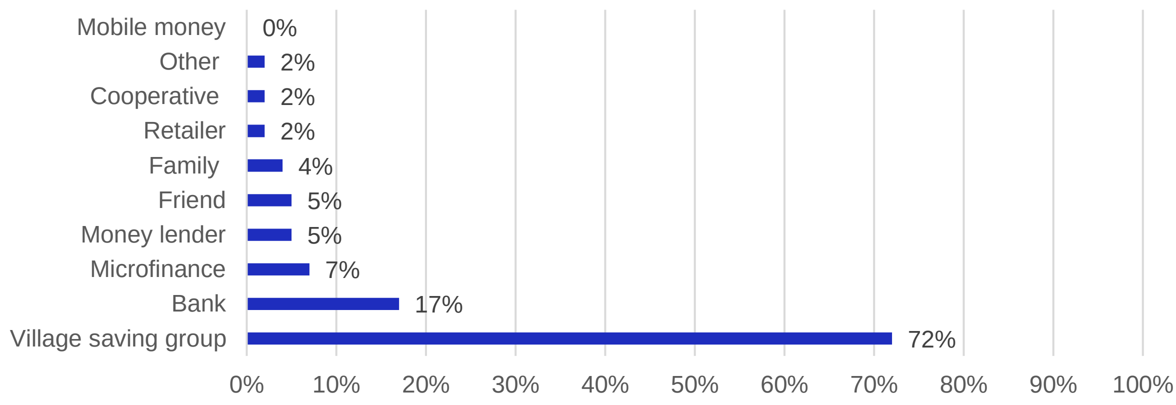


Those saving with formal financial institutions cited the following entities: OBUL, Vision Fund, Centenary (some through RUFI which is an agent of Centenary), and BRAC. Reasons for using VSLAs included proximity, guaranteed loan access once you save and quick access since there are no lengthy procedures. Members of VSLAs didn't even need to fill in an application form.

3.5. Sources of credit

The majority (72%) of respondents that borrowed accessed credit through VSLAs followed at a distance by those that borrowed from banks (17%) and from microfinance institutions (7%) - see Fig 26. The trend is logical since one of the motivations to save with a VSLA is the guaranteed access to loans. FinScope 2018, identified Family/Friends as the most frequently used source (53%) followed by VSLAs (46%) but in this study family and friends were barely 15%.

▶ **Figure 26: Source of credit**



Analysis of the sources of credit by refugee status reveal that more refugees rely on credit from VSLAs than locals. More locals rely on credit from banks than Congolese and Sudanese refugees – Fig 27. All respondents over 55 years old indicated that they rely on VSLAs as their source of credit followed by youths of whom 75% rely on VSLAs as their main source with a few of them getting loans either from a bank (3%) or from a friend (4%) – see Fig 28. Analysis of access to credit by gender shows that most women (86%) who participated in the survey rely on VSLAs as their main source of credit with a few getting their credit. Even their male counterparts who are not as enthusiastic about VSLAs still get most of their credit from VSLAs (47%), followed by banks (37%) - see Fig. 29. All (100%) the SMEs (which were very few) indicated that they get credit from banks, while 50% indicated microfinance institution and from friends – see Fig. 30. SMEs or rather larger businesses in the community need larger amounts of capital which usually the VSLAs would not be able to raise from the localised savings hence the SME over-reliance on banks.

▶ **Figure 27: Source of credit by nationality**

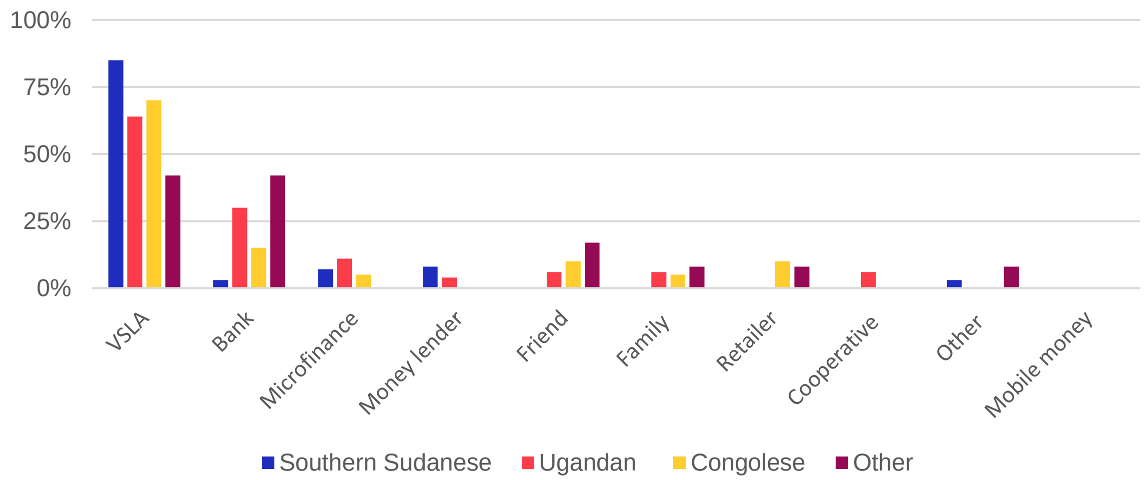


Figure 28: Source of credit by age

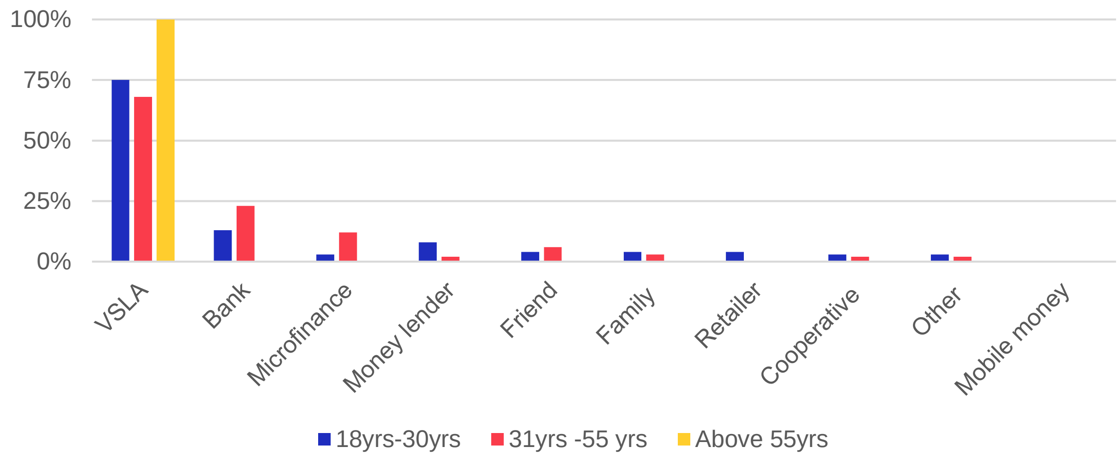


Figure 29: Source of credit by gender

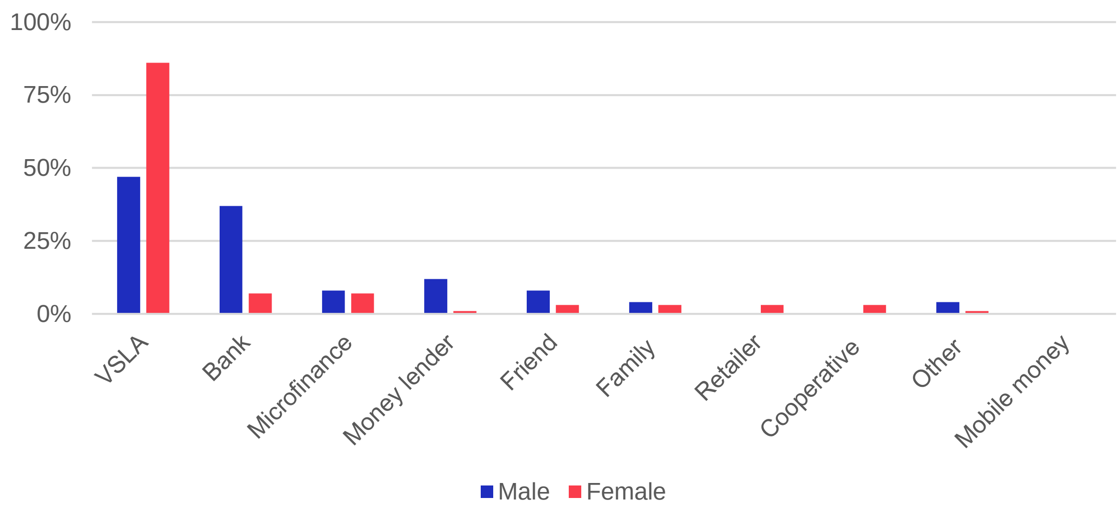
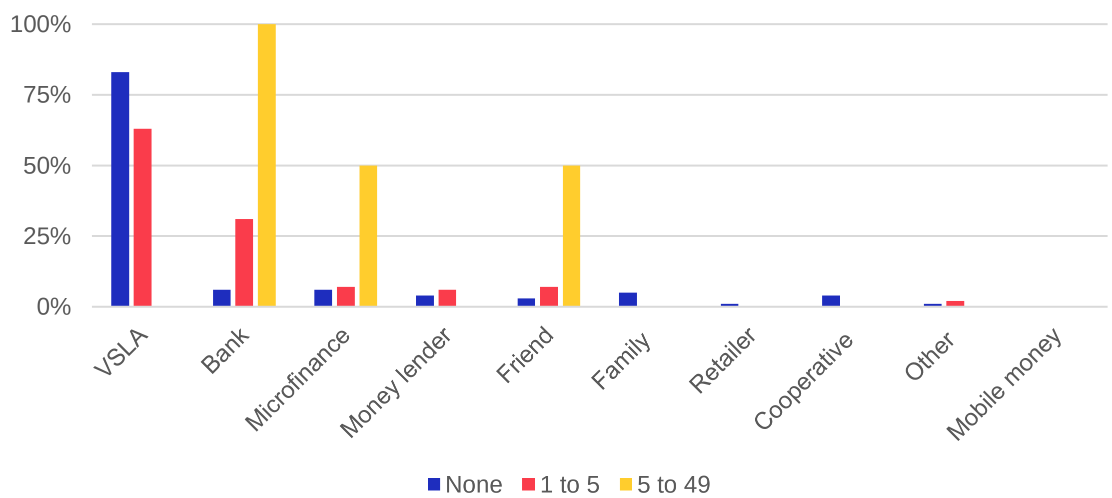


Figure 30: Source of credit by business size



When analysing access and sources by refugees, Congolese refugees were less likely to access credit (Fig.17) and as explained by the FSPs, this was due to the reputation that Congolese refugees had within the formal FSPs. Even though banks and MFIs were mentioned by few people, discussions in FGDs mentioned the following formal financial institutions:

- Maaji II and III: Vision Fund, Equity Bank, RUFI, Centenary Bank and SACCOs
- Nakivale: BRAC, OBUL, Ugafode, and SACCOs

3.6. Usage of digital financial services

Respondents were asked to indicate their usage of digital financial services and 54% confirmed that they use digital financial services. Figure 31 shows that there is higher usage (75%) of digital financial services by Southern Sudanese refugees than by other nationalities. Ugandans follow second at 52% followed by Congolese refugees at 26%. Slightly over 50% of youth indicated that they use digital financial services – see Fig. 32. Analysis of digital finance usage by gender shows that both females and males used digital finance services almost equally (53%) – see Fig. 33. All SMEs that participated in the survey indicated that they use digital finance services – see Fig. 34.

Figure 31: Use of digital services by nationality

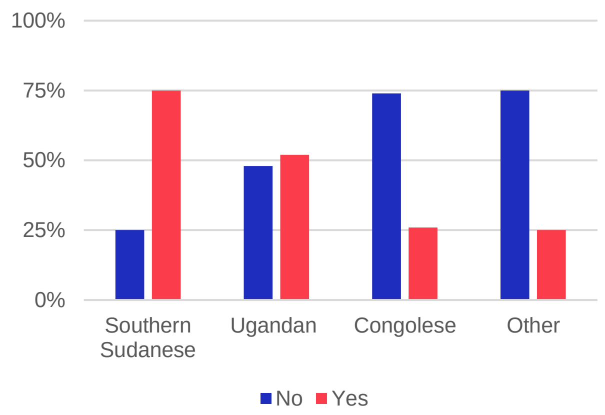


Figure 32: Use of digital services by age

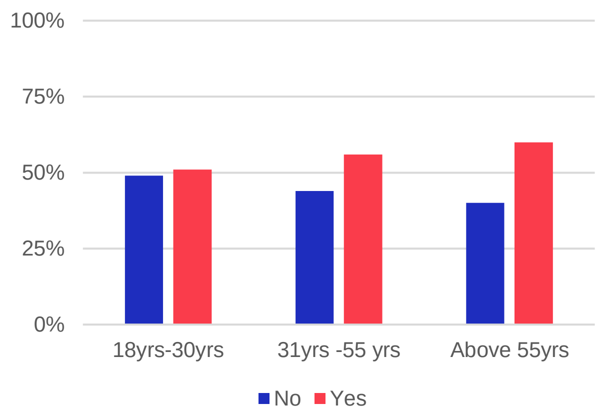


Figure 33: Use of digital services by gender

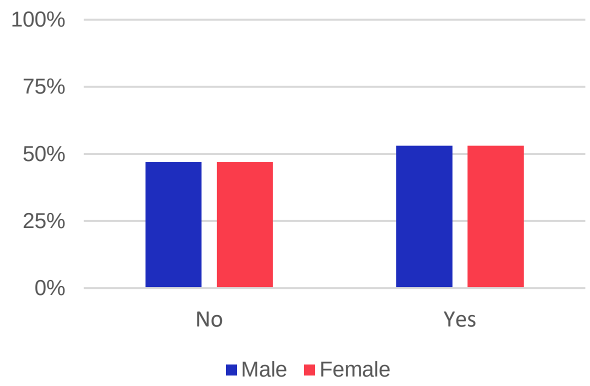
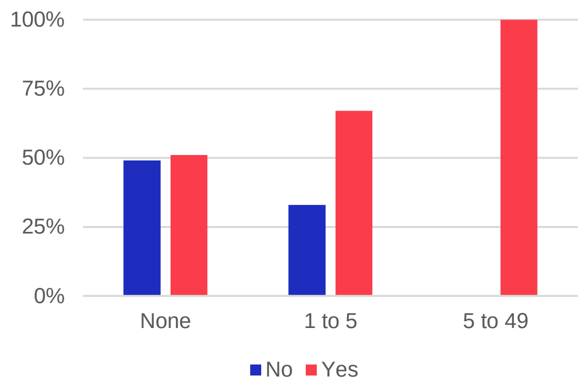


Figure 34: Use of digital services by business size



3.7. Barriers and enablers for financial services

While some respondents had accessed financial services, 50% of respondents indicated that they could not access financial services due to their inability to meet requisite eligibility criteria (necessary conditions for access). The next category was lack of mobile access (13%) which meant that they could not own a SIM card or a phone. In some cases, ownership of a SIM card was sufficient as they could borrow phone handsets to use and access their mobile wallet through another person's handset. However, unfortunately, such arrangements were not deemed safe and the lack of appreciation of how technically mobile wallets worked would result in one believing that their funds were accessible to the handset owner.

Analysis of barriers to accessing financial services by refugee status reveals that refugees are more adversely affected by failure to meet the eligibility criteria of the financial services providers than the locals - see Fig 35. The youths are inhibited by failure to meet eligibility criteria and fees – see Fig. 36. Analysis of access barriers by gender also shows that women are affected more than their male counterparts in terms of failing to meet eligibility criteria – see Fig. 37. Failure to meet eligibility criteria is the single most barrier for MSMEs – see Fig 38.

Figure 35: Barriers to financial services by nationality

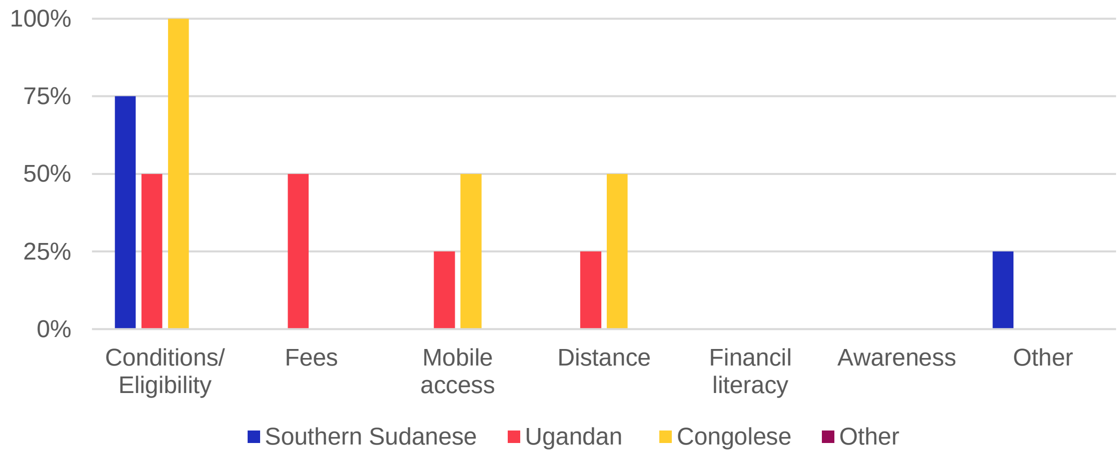


Figure 36: Barriers to financial services by age group

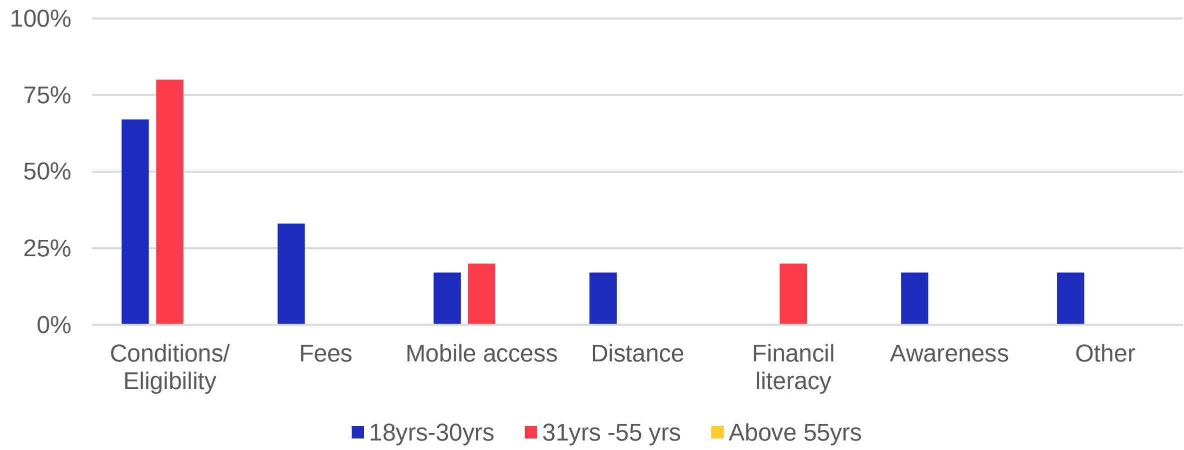


Figure 37: Barriers to financial services by gender

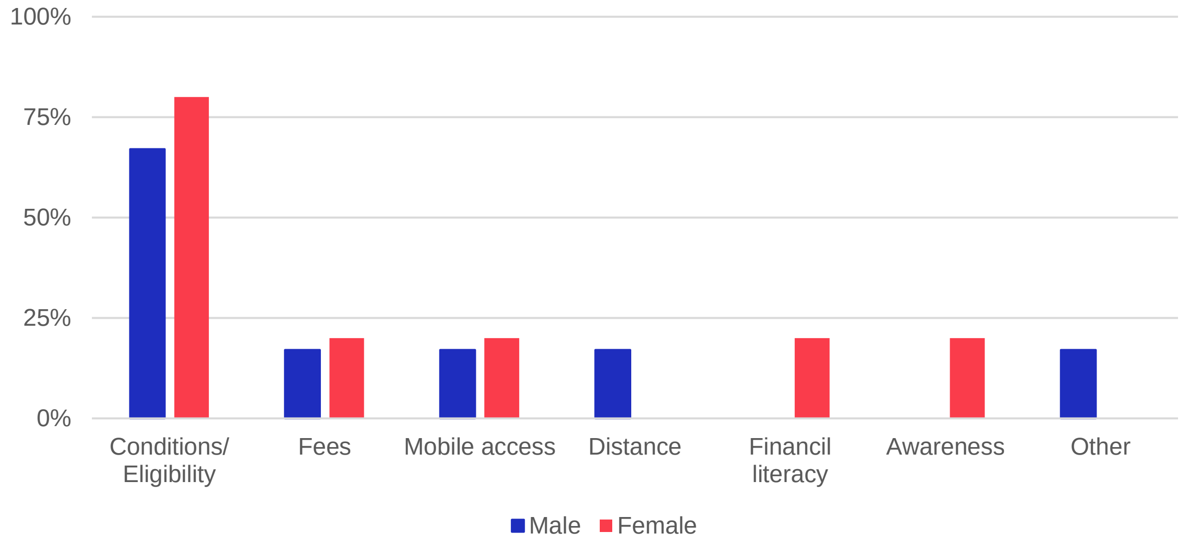
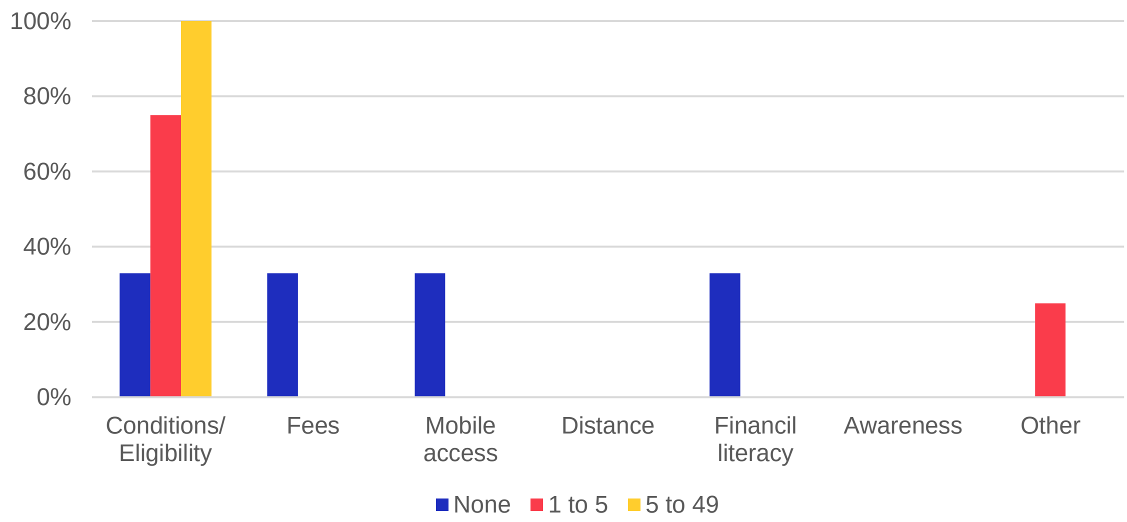


Figure 38: Barriers to financial services by business size



3.8. Additional financial services

When asked about other financial services they are not able to access, investments (34%) and insurance (33%) came up as top two inaccessible financial services. Remittances (16%) and savings (14%) were also mentioned to a much less extent – see Fig. 39. Analysis of inaccessible financial services by refugee status revealed that Southern Sudanese struggle with access to investments (87%), insurance (36%) and savings (36%) while Congolese mainly struggle with access to insurance (65%), investments (21%) and remittances (19%). Locals struggle with access to insurance (58%) and investments (42%) – see Fig. 39. Youths mainly struggle with access to insurance (59%) and access to investments (54%) – see Fig. 40. Analysis by gender shows that more females struggle with access to investments than their male counterparts. Both males (56%) and females (50%) face challenges with access to insurance – see Fig. 41. SMEs struggle with access to insurance in the main.

Figure 39: Additional financial services needed but inaccessible by nationality

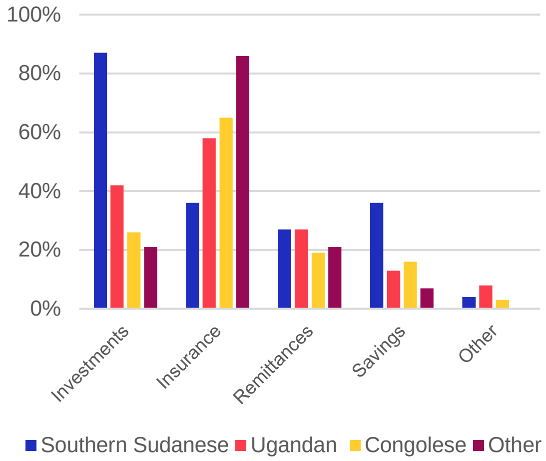


Figure 40: Additional financial services needed but inaccessible by age group

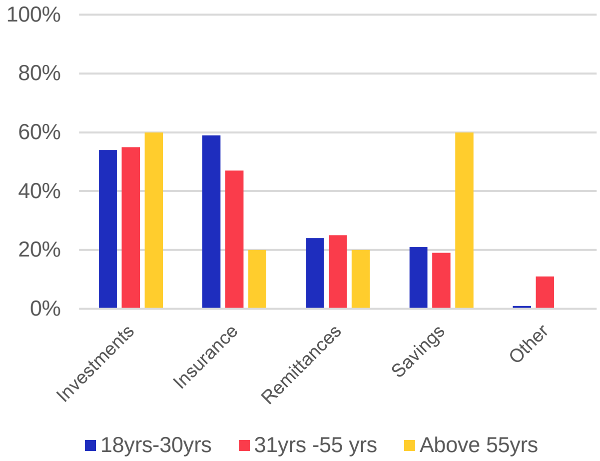


Figure 41: Additional financial services needed but inaccessible by gender

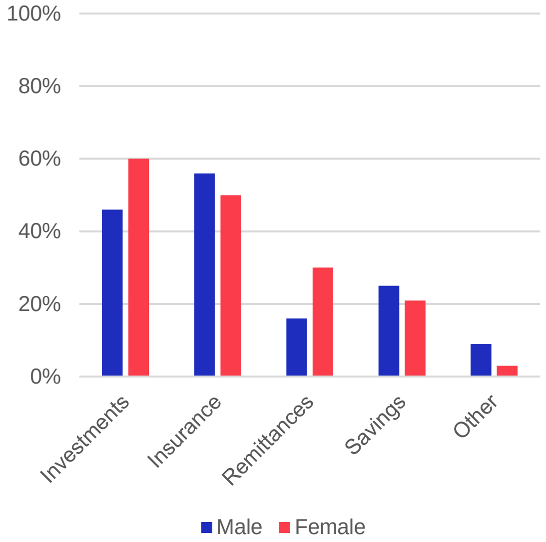
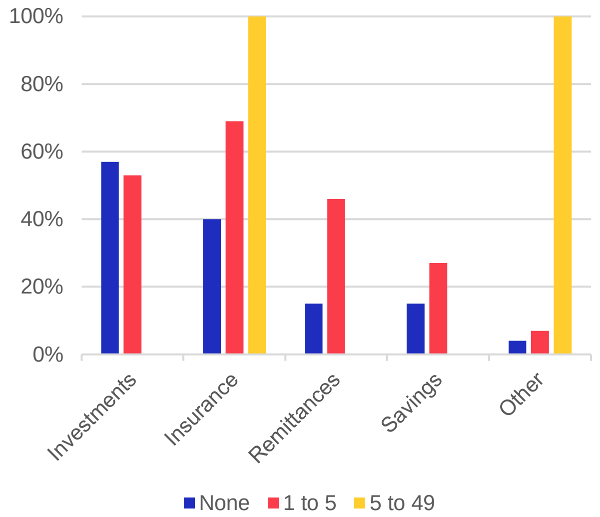


Figure 42: Additional financial services needed but inaccessible by business size (number of employees)



4. Findings of the regulatory framework and supply side analysis

4.1. Policy framework on refugees

Uganda is well known firstly, for being the host with the largest refugee population in Sub Saharan Africa and secondly, for its refugee policy which is widely recognized as an inspirational model and is cited as an example for other countries around the world. In 2016, Uganda adopted the Comprehensive Refugee Response Framework (2016 New York Declaration) and launched the framework in 2017. The refugee model includes an open border policy and approach which provides refugees with land for each family to settle and cultivate, freedom of movement, equal access to government-provided social services such as healthcare and education, and the right to seek employment and establish businesses[10].

However, despite such policy, refugees are still largely underserved or completely excluded by the financial services sector except for incidences of cash transfer programs. Though cash transfers are prevalent, these are not exactly signs of full financial inclusion as the accounts opened for refugees are merely to facilitate humanitarian assistance. Currently, the same accounts used for cash transfers, cannot be used to access other formal financial services as savings, insurance or credit.

Even for the banks that are keen to extend services to refugees, legal barriers are a strong disincentive for refugees to access financial services. For example, refugees endure a long process of verification before being issued with a refugee identification document. Such processes take months and lead to exclusion of refugees due to failure to fulfill the Know Your Client (KYC) requirements by formal FSPs. In 2019, the Uganda Communications Commission UCC suspended the use of Refugee Identification documents (Refugee Cards and Attestation Letters) issued by the Office of the Prime Minister (OPM) for use to register SIM cards due to a scam that involved the use of forged refugee cards. Refugees were required to use passports if they wanted to access SIM cards - a gateway to financial inclusion. Although the decision was rescinded months later, it had had negative effects on financial services including accounts opening, individual mobile phone banking and linkage banking for saving groups popular with refugee settlements located in remote areas.

Finally, social pressure, fears of fraud and money laundering augmented by media reports can create a negative political environment in which it requires courage for FSP managers to argue for social and financial inclusion and integration within their institutions[11].

4.2. Financial sector regulatory framework

The Ugandan financial sector has been classified into four categories according to the different segments of population the FSPs serve. Each category is governed by different regulatory laws and regulators (Table 3).

▶ Table 3: Laws and regulators

Tier	Type of Institution	Key regulations	Regulator	Min. Capital
Tier 1	Commercial Banks	Financial Institutions Act (2004)	BoU	UGX120 Billion
Tier 2	Credit Institutions	Financial Institutions Act (2004)	BoU	UGX 20 Billion
Tier 3	Deposit-taking MFIs	Micro Finance Deposit-Taking Institutions Act, 2003	BoU	UGX 8 Billion
Tier 4	Other MFIs, credit institutions, SACCOs, VSLAs etc.	The Tier 4 Microfinance Institutions, Money Lenders Act, (2016) Cooperative Societies Act, 2019	UMRA	NA

[10] Uganda Comprehensive Refugee Response Framework (CRRF) Office of the Prime Minister, 2018

[11] Serving Refugee Populations: The next Financial Inclusion Frontier Guidelines for Financial Service Providers (UNHCR and SPTF, 2017

Source: Bank of Uganda

The government aims to ensure equal access to financial services across all tiers, but our assessment indicated that rural populations predominantly rely on Tier 4 entities. This is because these institutions have branches or outreach points in Tier 4 localities, whereas those categorized in Tiers 1-3 often lack such presence in rural areas.

Tier 4 institutions in Uganda include Savings and Credit Cooperative Organization or Society (SACCOs), non-deposit taking microfinance institutions (MFIs), self-help groups, community-based microfinance institutions and money lenders. Historically unregulated, the enactment of the Tier 4 Microfinance Institutions and Money Lenders Act in May 2016 led to the establishment of the Uganda Microfinance Regulatory Authority (UMRA) tasked with overseeing these Tier 4 entities. The objective of UMRA is to protect the savings of depositors (for SACCOs or VSLAs that collect member savings), limit predatory lending and unethical practices, and to build confidence in the system to promote financial inclusion. In 2022, UMRA licensed over 1,500 institutions which included Money lending companies, Non-Deposit Taking Microfinance Institutions and SACCOs[12]. The creation of UMRA together with the enactment of Security Interest in Movable Property Act (SIMPA) 2019 and the introduction of the electronic chattels securities registry have reinforced the importance of Tier 4 microfinance in Uganda. This regulatory environment facilitates the use of movable assets as collateral, benefiting borrowers with limited access to formal financial institutions, including refugees, while providing lenders under UMRA's purview with enhanced credit protection. This is a critical step towards responsible and inclusive access to finance through Tier 4 financial institutions. In August 2023, UMRA announced that they will soon issue digital lending guidelines to be rolled out in December 2023. These guidelines will help regulate an emerging digital finance subsector, which holds promise for enhancing financial inclusion but also prevents various challenges.

Other policies and legal instruments developed to facilitate greater financial inclusion include:

- The 2008 launch of the National Microfinance Policy with the aim of ensuring microfinance services are delivered across the country.
- The enactment of the National Financial Institutions Amendment Act in 2016, designed to provide an enabling environment for the launch of new products such as BancAssurance, Agent banking, Islamic banking as well as other ancillary services that such as the Credit Reference Bureau and the Deposit Protection Fund to safeguard depositors funds.
- The Capital Markets Master Plan of 2017, focusing on the development of the capital markets to attract international capital.
- National Financial Inclusion Strategy (NFIS) for the period 2017 – 2022 with 5 pillars that include;
    - Reduction of exclusion and barriers to access,
    - Develop the credit infrastructure;
    - Build the digital infrastructure;
    - Deepen and broaden formal savings, investment and insurance usage; and
    - Protect and empower individuals with enhanced financial capability
- The introduction of agent banking after the 2017 adoption of the agent banking laws which resulted in 9,477 agents nationwide as of the end of September 2019;
- The Security Interest in Movable Property Act of 2019, which provided for establishment of the Security Interest in Movable Property Registry System (SIMPRS). The system allows individuals, MSMEs, and other businesses to use their moveable assets as loan collateral.
- The completion of the 2019–2024 Strategy for Financial Literacy Development.

4.3. Financial policies governing ESG, climate change, green finance

Issues of climate change as discussed before are likely to hinder progress in addressing poverty especially for livelihoods that are dependent mostly on agriculture as targeted populations. Their ability to adapt to climate change and mitigate resultant shocks will consequently affect their ability to move upwards along the

[12] UMRA publication available here

poverty ladder. Bank of Uganda has made its intentions clear on Environmental Social and Governance framework. Although there are no guiding principles or policy documents yet BOU has embarked on an effort to raise awareness among financial sector players on the importance of ESG for long term sustainability. The bank is also developing a climate risk policy and guidelines for institutionalizing ESG within service providers. Eventually, the bank should be able to (at least for entities under its jurisdiction) supervise the institutionalization of these policies with the aim of ensuring that FSPs:

- Are channelling funds and investments into sustainable and inclusive growth ensuring value for communities affected by such investments;
- Are managing financial risks which emanate from climate changes and
- Are ensuring and upholding transparency in their operations and service delivery.

The Uganda Bankers Association (UBA)[13] has also taken up the ESG agenda as part of its priority areas for the year 2023 and is collaborating with BOU in raising awareness among FSPs. In 2021, Parliament of Uganda enacted the Climate Change Act to provide a legal framework for developing a policy around climate change as well as financing climate-smart investments. The act provides for the creation of "Framework Strategy for Climate Change" and appointment of an Advisory Council to spearhead and advise on climate change issues. BOU is also encouraging FSPs to adopt, access and develop Green Finance products. In the same vein, aBi Trust recently launched a Green Fund which FSPs are supposed to take advantage of, but most of them were hesitant, citing the need for capacity strengthening in that space. In June 2023, aBi started a capacity building program for FSPs and this will complement efforts of the Green Banking Uganda[14]. These efforts are still nascent but clearly demonstrate a national and political commitment and willingness to address the climate change cause. Further work especially in developing green and climate smart products, need to be done to ensure the FSPs can take advantage of the positive environment created.

4.4. Digital financial services

Digital finance in this report is referring to use of technology to provide financial services which could be savings, loans, insurance, or remittances/payment services that are offered through the mobile phone and or other technological driven platforms such as internet banking. Given the limited internet access compared to mobile phone availability among the target demographic, mobile-based financial services are prevalent. Digital technologies offer advantages such as reduced transaction costs by surmounting geographical barriers, enhanced transaction speed, security, and transparency, and the provision of tailored financial services to better meet consumer needs. Enhanced access to fundamental financial services is crucial as it correlates with increased productivity and growth for micro and small businesses, elevated incomes, and greater resilience, thereby enhancing the welfare of marginalized groups including youth, women, and refugees. The regulation of the Digital Finance Service sector falls under the purview of the Bank of Uganda. The ecosystem comprises mobile network operators (MNOs), commercial banks, and non-bank financial institutions, all subject to relevant laws and regulations based on their classification. Legal frameworks governing digital financial services includes:

- The National Payment Systems Act of 2020, which regulates digital payments, supplemented by the national payment systems policy approved in 2017.
- Legislation including the 2010 Contracts Act, the 2011 Electronic Transactions Act, the Computer Misuse Act, the Electronic Signatures Act, and the 2013 Anti-Money Laundering Act, ensuring robust security measures for digital transactions.
- Issuance of mobile money guidelines by the Bank of Uganda in 2013.
- Amendments to the Financial Institutions Act in 2016 to allow for agent banking, Banc assurance, and Islamic banking, alongside the issuance of agent banking regulations in 2017.

[13] Uganda Bankers Association Annual Report https://ugandabankers.org/UBA%20Annual%20Report%202022.pdf

[14] A capacity building initiative focusing on green financing instruments and products https://www.renac.de/projects/current-projects/green-banking/green-banking-uganda

4.5. The insurance sector

Uganda's insurance penetration rate is still very low although it improved from 0.796% in 2021 to 0.876% in 2022[15]. Insurance density – a measure of the extent of insurance deepening – also increased from UShs28,059 to UShs31,315, representing an 11.6% growth over the same period. Despite this growth, insurance penetration in Uganda has remained at below 1% for years. This is partly because of the perception within the public domain that insurance players do not easily pay or compensate policy holders when losses occur[16]. Furthermore, and as was revealed during this analysis, the majority of rural and low income earners are not aware of the importance of this service. Efforts by the government such as the 2016 launch of Uganda Agriculture Insurance Scheme (UAIS) have not necessarily reached the masses hence the limited awareness, access and usage of insurance target group as discussed under demand of financial services. The UAIS scheme provides insurance cover for crops and livestock, for both small and large-scale farmers. As of 30th July 2023, Uganda had 30 insurance companies, two re-insurers, 27 loss assessors, 20 bank assurance agents, three re-insurance brokers and 48 insurance brokers. The Insurance Regulatory Authority of Uganda supervises and regulates the insurance sector. By providing insurance cover tailored to the needs and vulnerabilities of the target groups, such as crop and livestock insurance, insurance companies can contribute significantly to mitigating risks and promoting resilience among refugee communities. Efforts to raise awareness and enhance accessibility of insurance services among the target groups are important steps to be considered when enhancing financial access in Uganda.

4.6. Support infrastructure

Several factors have contributed towards improving financial inclusion in Uganda, among which is appropriate regulation via the 2016 Financial Institutions (Amendment) Act and the Deposit Protection Fund reform. Access to financial services has also benefited from the development of bank assurance and the gradual increase in the number of bank branches and ATMs to 544 and 821 respectively in 2017, compared to 496 and 714 in 2012. The implementation of PROFIRA in 2014 also contributed significantly to Uganda's journey towards enhancing financial inclusion. Launched by the Government of Uganda and the International Fund for Agricultural Development, PROFIRA aims to extend financial services to rural communities, thereby addressing poverty alleviation. Administered by the Ministry of Finance, Planning, and Economic Development, PROFIRA has been included in the Third National Development Plan (NDPIII), reflecting its pivotal role in the country's development agenda.

4.7. Mapping of financial service providers

The financial sector in Uganda hosts a variety of institutions tailored to different demographics. Table 4 below provides a succinct summary of these entities, including their market reach, funding streams, clientele, services, and lending practices. Regarding financial services aimed at specific groups, some of the commercial banks like EBUL, Post Bank, Stanbic Bank, and Centenary Bank have been identified as providers for refugees. Similarly, UGAFODE and RUFI, alongside non-deposit-taking MFIs, are actively engaged in serving these targeted demographics within the microfinance sector.

[15] IRA INSURANCE SECTOR POSTS STRONG GROWTH IN 2022 - The Insurance Regulatory Authority of Uganda (ira.go.ug)

Table 4: Financial sector overall mapping

Type of Institution	No. of Actors	Size of Portfolio/ Market share	Sources of fund	Target clients	Service Offering	Lending to the target group
Commercial Banks	Central Bank of Uganda, there are 25 commercial banks in Uganda. As of June 2022, the total number of branches of commercial banks and credit institutions in Uganda were 702, decreasing from 703 in December 2021 (Statista 2022).	The Central Bank reports that as of 2021. At least 57% of Uganda's banking sector assets were held by 5 banks, Stanbic, Standard Chartered, Centenary, DFCU and Absa[17]. From 2017 the sector assets increased from UGX 26.5 Bln to UGX 45.6 Bln(USD 13 mil[18]) by 2022	• Public offerings • Private Sector • Deposits	• Individuals • Institutions • Banks • SMEs	• Checking • Savings • Time deposit accounts for individuals and institutions in local and international currencies. • Buy and sell foreign exchange • Issue letters of credit • Make loans to depositors and non-depositors.	The formal banks that have been recorded to offer service to refugees include EBUL, Post Bank, Stanbic Bank (Agent Network) and Centenary Bank
Microfinance Sector	In 2017, the microfinance sector included 5 deposit-taking MFIs, 70 Tier 4 MFIs, 1,900 savings and credit cooperatives and informal community-based microfinance services, including Village Savings and	As of Dec 2019, SACCOs had a total gross loan portfolio of Ugx. 125 Bln (USD 37.5 mil), Non-Deposit Taking Microfinance Institutions had Ugx. 236 Bln, Microfinance Deposit	• NGOs • Private Sector • Deposits	• Dec 31st 2019: • 677,387 borrowers and 2,220,778 depositors across the MFI sector19.	MFIs provide credit services and, to some extent, savings facilities to micro and small business owners as well as low-income households that are unable to access these services via tier 1 financial sector.	UGAFODE (MDI) and RUFI non deposit taking MFI offer services to the target groups.

[17] https://www.african-markets.com/en/stock-markets/use/uganda-dfcu-bank-dividend-payout-reduces-by-more-than-60-per-cent

[18] 1 UGX = USD 0.0003 in 2017-19

[19] https://www.amfiu.org.ug/resources/studies-and-reports

	Loan Associations (VSLAs), Rotating Savings and Credit Associations (ROSCAs) and investment and savings clubs (MFW4A 2019).	Taking Institutions had Ugx.324 Bln and the Tier1&2 had Ugx.440 Bln.				
The Digital Finance Sector	Mobile money service providers (MMSPs) predominate the Ugandan market for digital financial services (DFS). Mobile network operators (MNOs), commercial banks, non-bank financial institutions, the BoU, third-party operators, and technology suppliers make up the ecosystem. Currently, seven MMSPs—MTN Uganda, Airtel Uganda, UTL, Africell, M-Cash, EzeeMoney, and Micropay—offer a variety of financial services on their platforms.	Total transaction value in the Digital Payments market is projected to reach US$3,319.00m in 2023. Total transaction value is expected to show an annual growth rate (CAGR 2023-2027) of 20.02% resulting in a projected total amount of US$6,887.00m by 2027. The market's largest market is Mobile POS Payments with a projected total transaction value of US$2,321.00m in 2023.	• NGOs • Private Sector • Deposits • Banks • Government (SAGE)	• NGOs • Private Sector • Deposits • Banks • Government (SAGE) • Individuals	• Domestic and Domestic and International money transfers • Airtime and Data top-up • Savings and Credit Ability • Insurance Ability • Utility and Bill payments • Bulk payments • ATM withdrawals • Mobile ticketing • Merchant payments	
The Insurance Sector	In 2022 the industry included 2 Reinsurers, 21 non-life insurers, 8 life insurers, 2 Micro insurers, 51 were Insurance Brokers, 27 Loss Assessors, 3 Reinsurance Brokers, 2 HMOs, and 19 were Banc assurance Agents.	The aggregated gross written premiums increased from UGX 728 Billion (USD 202 million) in 2017 to UGX 1,441 Billion (USD 397 million) in 2022	• Public offerings • Private Sector • Deposits	• Individuals • Government • Corporates	The industry is dominated by non-life insurance, which accounted for 62.43% of all gross premiums issued in 2022 and life gross written premiums at 34.82% with micro insurance at 0.14%.	

4.8. Financial service providers in the target areas

While many financial service providers (FSPs) operating in the targeted regions predominantly focus on delivering humanitarian cash assistance, this assessment has identified specific institutions within Table 6 that offer conventional microfinance products such as savings and credit. These encompass various tiers of financial institutions, ranging from Tier 1 commercial banks like Centenary and OBUL, to Tier 2 MFIs such as BRAC, and Tier 3 deposit-taking MFIs like UGAFODE, and even down to Tier 4 MFIs such as RUFI, SACCOs, VSLAs, and Vision Fund, alongside mobile network operators (MNOs) like Airtel. Moreover, the potential impact of technical assistance (TA) and grants in influencing FSPs to expand their services to the target demographic is examined for each entity in the table. Referred to as "additionality," this assessment also identified the existing TA and guarantee programs while aiming to explore if any additional interventions could serve as decisive factors in prompting FSPs to broaden their offerings.

▶ Table 5: Mapping of FSPs with the potential to serve the target group

Name of FSP	Type / Tier	Presence in target areas	Potential to serve target group
Airtel	MNO	All areas	TA for both client and FSP likely to enable entity to scale up quicker.
BRAC	Tier II MFI	Nakivale & West Nile	Access to a grant could result in expansion of both the client TA services through the NGO and provision of financial services through the microfinance arm.
Centenary	Tier I Bank	West Nile	Access to TA may enable bank to scale up outreach to target group. As a large bank, it has capacity to leverage large guarantees and reach many. Capacity to diversify geographic concentration risk.
OBUL	Tier I Bank	Nakivale	Availability to scale lending activities already going on if guarantee is available - already has access to TA.
RUFI	Tier IV MFI	West Nile	As a small entity, grant would enable entity to scale up client training, mobilize more groups and has capacity to manage a MF graduation scheme; already has access to TA.
SACCOs (selected)	Tier IV entity	Nakivale & West Nile	These would be individual SACCOs in each area. Scaling up member training efforts, digitizing operations through TA grants could lead to more community members joining vibrant SACCO; potential for these to run a graduation MF scheme.
UGAFODE	Tier III Deposit-taking MFI	Nakivale	Could easily scale up loans and savings to target group and leverage a guarantee facility; former guarantee facility beneficiary.
VSLAs (selected)	Tier IV entity	Nakivale & West Nile	These would be individual VSLAs in each area selected on the basis of maturity. Scaling up member training efforts and digitizing operations through TA grants could lead to more professionally run groups. Possible to link VSLAs to banks so the former acts as agents or front office of the bank.
Vision Fund	Tier IV MFI	West Nile	As a small entity, grant would enable it to scale up client training, mobilize more groups and has capacity to manage a MF graduation scheme.

4.9. Overview of organizations currently providing guarantees or challenge funds

Guarantee facilities for the financial services sector have been utilized in Uganda for some time now and some of the FSPs that interacted with the analysis had some experience with such facilities and had important lessons learnt. It was not possible to interview the recipients or funders of the guarantee facilities listed below during the analysis period. Key issues came out as prerequisites for making guarantees work better, especially for Tier 1 entities:

i) Provision of a portfolio guarantee instead of a specific guarantee applied for by the end beneficiary e.g. Portfolio guarantee covering lending to SMEs in the target regions
ii) Ensuring the set up costs of such guarantees are not exorbitant – FSPs tend to pass these onto the clients which end up increasing the cost of the loan to the end beneficiary, the MSME.
iii) The guarantee should be funded and not paper-based. The FSPs in this analysis have indicated that Tier 1,2, and 3 entities that are regulated by the central bank under the Financial Institutions Act 2004, have to comply with strict provisioning regulations wherein, any guarantee which is not liquid cannot be used to offset provisioning.

▶ Table 6: Examples of guarantee facilities (see Annex 2 for a longer list)

Guarantee provider	Description of guarantee facility	Achievements
The Agricultural Business Initiative (aBi)	Its focus is to increase agricultural production & value addition by extending matching grants & Business Development Services (BDS) and guarantees to banks dealing with agribusinesses, and farmer organisations.	• Expansion of production for many small-scale chilli farmers in Lira and other northern Ugandan • The loans from aBi are fairly priced and partner institutions receive capacity building e.g. staff training, infrastructure development, and technical advice and guidance • Guarantee covered Ugafode, the Vision Group
The corporate bond guarantee for MTN Uganda	The corporate bond guarantee for MTN Uganda was Sweden´s first independent guarantee. MTN issued a corporate bond on the local bond market to fund the rollout of the mobile telephone system into rural areas. The guarantee covered 100% of the principal amount up to 80 million SEK. Sweden charged MTN a fee of 3% annually.	The project was a commercial success. MTN repaid the bond before its maturity and the guarantee was not drawn down and the intervention served to speed up the expansion. The instrument's long-term objective of financial market development was not met. The bond market remains limited in Uganda.

4.10. Opportunities and enablers for financial service providers

FSPs are cognizant of the opportunities that lie in pushing the frontier to the selected target groups. Opportunities and enablers identified by the FSPs during the analysis include:

a. *Legal Framework*: Uganda has a conducive legal framework which allows refugees to move and work freely.
b. *Shrinking Government, expanding private sector and growing 'Gig economy'*: Government privatization agenda; fewer state-owned Enterprises
c. *Uganda's large youthful population:* including young refugees - a huge resource in terms of labor but is also tech savvy which makes it an ideal potential market for financial services
d. *Capacity building services* for the target groups provided by many players especially NGOs, can be leveraged and present avenues for partnerships – FSPs do not have to do everything on their own.

e. *Proliferation of digital lenders*: BoU's initiatives for digital lenders to try out their digital products. UMRA has moved fast to draft regulations to ensure that the sub-sector thrives.
f. *Expansion of banking services across the border with South Sudan* due to increased movements between Uganda and South Sudan can be exploited through the refugee avenue or independently.

4.11. Key barriers for financial service providers

Barriers identified by FSPs during the FSP roundtable were categorized into the physical environment; demand-side constraints, and supply side (internal) challenges. See figure 43.

Figure 43: Key barriers to formal FSPs expanding outreach

Physical	Demand	Supply
- Road, electricity, connectivity to network - Government policies may change especially with regards to refugee settlements - Security issues with long distance drive from Kampala to remote villages - Permission to operate takes long	- Porous borders = flight risk - Refugees don't own land therefore lack collateral - Low financial and digital literacy levels – requires more than just funds - Refugees & HC in remote areas don't have IDs to fulfil KYC	- FSPs don't have the right business model for such segments - Balancing social and commercial priorities is a challenge - High cost of funds which will result in high interest rates - High cost of doing business - Need to balance digital & human

The issues highlighted above under 'physical', may be difficult to address beyond the digitalization of banking services, however, supply side issues can be solved if there are financial instruments to address the challenges. The high credit risk emanating from flight risk and low collateral access by refugees means that this segment creates an unsecured portfolio which means higher provisioning expenses for formal FSPs. A guarantee structure, de-risking lending to refugees, could therefore be an option enabling FSPs to extend loans to this segment.

5. Conclusions

The findings from the demand side analysis reveal that the target groups have expressed the need for loans, particularly for business expansion and working capital. They have some access to financial services like savings and credit through channels such as Village Savings and Loans Associations (VSLAs) and microfinance institutions with presence in the settlements. However, challenges persist in accessing finance, particularly from formal financial institutions, due to eligibility criteria, identification issues, limited mobile phone access and low financial literacy.

On the supply side, the study found a comprehensive and inclusive regulatory framework that covers small, medium and large financial services providers. In addition, digital and agency banking frameworks exist that foster the growth of digital financial services. The regulator is increasingly focusing on sustainable and inclusive economic growth in line with environmental, social and governance (ESG) principles. Some FSPs recognize opportunities in serving the target groups, such as benefits from the potential market expansion, from offering digital financial services, and bundling capacity building with financial services. However, FSPs, currently serving the target groups, face barriers such as inadequate infrastructure, uncertain government policies regarding refugee identification documents, security risks and lengthy KYC processes for refugees. They also encounter high funding costs, expensive operations and the need to optimize digital and human resources. Furthermore, the FSPs perceive the refugees' mobility and lack of collateral due to land ownership restrictions as additional challenges.

The study estimated the financial gap in Adjumani and Nakivale at approx. USD 1.07 million (Table 7). While this may not be a large enough amount to attract Tier 1 and 2 FSPs or to justify a guarantee, it is essential to explore with Tier 1 and 2 FSPs whether lending to the target groups can be included in their existing larger portfolios. It is also important to keep in mind that FSPs will take a decision on whether to work with a particular client group or in a particular geographical region by considering not only credit but also other potential sources of revenues, like those from services such as payment, savings and others.

▶ Table 7: Financial gap estimate

	Adjumani	Nakivale	Total (Adjumani + Nakivale)
Total Population	219,361	183,384	402,745
Less elderly & below 24 (29%)	63,615	53,181	116,796
Target age population	155,746	130,203	285,949
Assuming 30% may need credit	46,724	39,061	85,785
Assuming only 10% qualify	4,672	3,906	8,578
Average loan size (USD)	125		
Total Loan Demand (USD)	**584,049**	**488,260**	**1,072,309**

Based on this analysis, a series of recommendations was made on how instruments such as guarantees and challenge funds, alongside technical assistance to financial intermediaries and their clients, can contribute to Sweden's strategy goals in the development cooperation with Uganda. These recommendations might inform future actions by Sweden in the country. More information on Sweden's guarantee instrument can be found here.

Annex 1 – Simplified Theory of Change

PROBLEM

Limited access to finance is one of the obstacles for MSME growth, reducing the possibility to invest in productive assets, increase production and hire new employees.

Lack of appropriate products, high transaction costs for servicing MSMEs, lack of understanding of MSME market, makes borrowing more expensive or unavailable to MSMEs

The financial sector in certain regions remains underdeveloped

Financial needs of firms and individuals are not met due to low levels of financial inclusion – information asymmetry, collateral needs not met, non-available financial products, lack of experience developing business case

INPUTS

Sida

- Guarantee
- Subsidy of fees (sometimes)
- TA as required
- Definition of sectors, target groups – dialogue with partner

- Disposition to offer services to target group
- Disposition to conduct data collection and reporting to Sida
- Disposition to participate in TA as required

Assumptions
Supportive local regulation
Technical competence

ACTIVITIES

Sida

- Accompanying partner to adapt systems and monitoring
- TA activities implementation and monitoring

- Implementing and using guarantee instrument
- Identification of needs to reach target group – implementing actions
- TA activities to support implementation process

- Consulted to identify challenges and needs for loan access
- Participating and benefitting from TA activities

Assumptions
SMEs need a loan to purchase services /equipment and are creditworthy
Lenders wouldn't have issued the loan without guarantee

OUTPUT

- Increased capacities to meaningfully serve the target group
- Participate in TA activities and benefits

- Using (new) financial services
- Purchase services and equipment needed
- Benefits from TA – improve businesses / access to finance

Assumptions
SMEs use the loans as intended
Conducive business environment

OUTCOMES

- Increased / additional lending - capital mobilization to MSMEs
- Increased business opportunities for the guaranteed partner

- Business growth
- Increased competitiveness
- Increased business opportunities for women and young people

- Improved opportunities for productive employment

IMPACT

- Systemic change – policies/system adopted to serve target group

- Increased profits

- More poor people find employment and increase their incomes
- Improve working conditions

- Inclusive economic development

Assumptions
Guaranteed partner finds SME market profitable

Annex 2 - Examples of guarantee facilities

Credit Guarantee Fund	Description	Achievements
The Agricultural Business Initiative (aBi)	Its focus is to increase agricultural production & value addition by extending matching grants & Business Development Services (BDS) and guarantees to banks dealing with to agribusinesses, farmer organisations.	• Expansion of production for many small-scale chillie farmers in Lira and other northern Ugandan • The loans from aBi are fairly priced and partner institutions receive capacity building e.g. staff training, infrastructure development, and technical advice and guidance • Guarantee covered Ugafode, Vision group
Sweden's guarantee instrument GCAMF	Sweden provides guarantees in order to encourage banks and other investors to engage in small enterprises. This makes it easier for firms and entrepreneurs in developing nations to acquire financing, encouraging investments that help alleviate poverty.	The guarantee has set up a credit facility of up to EUR 5 million during the period 2019–2024 where 50% is guaranteed by Sweden.
The SME health sector programme in Uganda (12-2019)	A portfolio guarantee scheme, where Sweden cooperated with USAID and the Centenary Rural Development Bank. The guarantee covered loans to SMEs, micro-enterprises as well as healthcare workers - 60% shared by Sweden and USAID - private healthcare in rural areas in Uganda.	The Health guarantee would enable the CRDB to expand its loan scope into the private health sector and to some extent this was achieved. According to the Sweden Evaluation Report (2018), the CRDB management in Kampala also stressed that, prior to the project, they were wary of the health sector but now they are more comfortable with lending to the health sector. Later guarantee was extended to the EcoBank
The corporate bond guarantee for MTN Uganda	The corporate bond guarantee for MTN Uganda was Sweden´s first independent guarantee. MTN issued a corporate bond on the local bond market to fund the rollout of the mobile telephone system into the rural areas. The guarantee covered 100% of the principal amount up to 80 million SEK. Sweden charged MTN a fee of 3% annually.	The project was a commercial success. MTN repaid the bond before its maturity and the guarantee was not drawn down and the intervention served to speed up the expansion. The instruments long-term objective of financial market development was not met. The bond market remains limited in Uganda

The African Guarantee Fund in 2021	rolled out a USD 75 million Women Guarantee Fund to support Equity Bank Kenya and three of the Groups subsidiary operations in Rwanda, Uganda and DRC.	The purpose of the fund was to derisk women owned and managed MSMEs access credit at affordable interest rates in order to recover and thrive in a Post Covid - 19 environment.(equitygroupholdings.com)
GVEP in 2008-2013	GVEP International (Global Village Energy Partnership) is an international non profit organisation seeking to reduce poverty through accelerated access to modern energy services.	**GVEP in 2008-2013** implemented 9 Loan Guarantee funds with five financial institutions in Uganda for loans that supported the energy sector. 5 were allocated to one institution, 3 to SACCOs and 1 to an MFI. As a result of the loan guarantee financial institutions were able to lend to energy entrepreneurs and end users helping to transform the market for renewable and improved energy in Uganda.
USAID/Uganda (Multi-Bank Loan Portfolio Guarantee	**Uganda** proposed the use of the Development Credit Authority in order to introduce a multi-bank loan portfolio guarantee into Uganda that would provide desperately needed access to finance for microfinance institutions (MFIs) and micro, small, and medium enterprises (MSMEs).	• 2002 loan portfolio guarantees with seven different Ugandan banks in 2002 Incl Barclas Bank. Over a five-year period, more than $26 million in loans were made to over The guarantee was well utilized, default rate was low under 2%. • expand sustainable economic opportunities for rural sector growth and represents an integration of environment, agricultura • contributed to increasing rural household incomes.

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