



POLICY BRIEF

Empowering Ugandans: Strategic Roadmap for Financial Inclusion

Okot Nicholas.

Kasekende Elizabeth.

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Key Messages

The goal of 75% formal financial inclusion by 2028 is achievable if innovations are supported with appropriate policies. This requires policymakers to:

- Harmonize the legal and institutional frameworks governing DFS;
- Enact and implement competition law;
- Review taxes on DFS; and
- Strengthen cyber security.

What's the issue?

Financial inclusion is crucial for sustained growth and development. However, it relies on an appropriate policy environment to ensure confidence. Digital Finance Services (DFS) are believed to enhance financial inclusion by promoting efficient access for the vulnerable. With a mobile money penetration rate of 51%, Ugandans are poised to benefit from digital financial innovations. The other DFS channels are internet banking, financial cards, e-commerce, and integrated payment platforms.

In the last decade, Uganda has made significant strides to promote access, uptake, and usage of DFS to reach the unbanked share of the population. The goal of the National Financial Inclusion Strategy is to achieve 75% formal inclusion by 2028. This milestone seems ambitious, given Uganda's financial infrastructure and social structure. This could be achieved if the country maintains the current trajectory of DFS adoption supported by an adequate policy and institutional framework aligned with global best practices to

engender equity across the social divide. Do these policies lead to higher levels of financial inclusion?

Why is this important?

Financial inclusion in Uganda has experienced remarkable growth, rising from 28% in 2009 to 58% in 2018, driven by the adoption of DFS like mobile money. The granting of license for the first mobile money services to MTN Uganda marked the transition to DFS and Fintech revolution. This has spurred innovations and opened doors for Ugandans to access affordable, efficient, and secure financial services. DFS contributes to growth and social welfare - consistent with the UN Sustainable Development Goals 9 (Industry, innovation, and infrastructure) and 5 (Gender equality).

This transition has been supported by tailored but scattered digital policy mandates in a set of government agencies. The legal and regulatory arrangements have boosted confidence in the digital finance space. Disentangling the impact of digital finance policies on boosting financial inclusion requires clear DFS policies that continue to empower individuals, uplift low-income households, enhance the transmission of macroeconomic policies and financial stability.

What should policy makers do?

There is potential to empower more Ugandans through financial inclusion if policymakers act promptly to: unify the DFS policy framework; enact economy-wide competition laws and policies, review taxes on DFS; and strengthen cyber security.

Unify DFS laws and regulations: Despite progress, there are gaps and duplications in the current legal and institutional framework, which has created situations where some DFS entities must adhere to the requirements of two or more regulators. This lack of unified regulatory framework is costly, hinders SMEs' entry and growth, and could perpetuate fraud. There is need for a unified forward looking DFS law and policies that is accommodative and flexible to promote financial innovations in the DFS ecosystem. The policy can be accompanied by increased awareness campaigns to address emerging needs.

Enact and enforce economy-wide competition law: The current competition environment is likely to stifle innovations and adoption of DFS. There are limitations, for instance banks cannot freely collaborate with FinTech to rollout DFS and vice-versa. Moreover, stringent capital requirements and anti-competition practices in the finance sector creates barriers for new firms to

enter and thrive. The need to tackle these economy-wide policy shortcomings is urgent, especially for sectors where a few large firms predominate.

Review the current DFS tax regime: The current taxes were identified as a source of barrier to access, uptake, and usage of DFS. Taxation of transactions and gadgets are considered discriminatory and counter intuitive to promotion of DFS. Although it provides reliable source of fiscal revenue, these taxes should be reviewed to limit their impact on the vulnerable poor who bear a relatively large burden.

Institute measures to limit cyber fraud: Key informants observed that cyber fraud remains a risk to person-to-person and business-to-person usage of DFS. This could reverse the gains achieved with inclusion if government does not enforce stringent cyber security legislations, penalties on offenders, risk-based supervision, and implementation of anti-money-laundering requirements. There is need for urgent intervention to maintain confidence in the digital ecosystem.

Sources

Okot, N. and Kasekende E. (2023), “Digital Policy and its impact on Financial Inclusion in Uganda”, African Economic Research Consortium (AERC) Collaborative Research – *Forthcoming*.



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African Economic Research Consortium
Consortium pour la Recherche Economique en Afrique
Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@ercafrica.org