Louis Kasekende: Improving rural access to finance in Uganda

Opening remarks by Dr Louis Kasekende, Deputy Governor of the Bank of Uganda, at the official launch of the Uganda Rural Challenge Fund, Kampala, 19 April 2013.

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Your Excellency Klaus Dieter Düxmann – the Ambassador of the Federal Republic of Germany

Distinguished guests

Members of the Press

Ladies and Gentlemen,

Good afternoon.

I am delighted to be here this afternoon to witness the official launch of the Uganda Rural Challenge Fund. The Fund will provide grants aimed at supporting innovations that will lead to increased access to finance for rural enterprises in Uganda, the bulk of which are still locked out of the formal financial sector. The "rural unbanked" as you will all agree with me pose some challenges in as far as the financial sectors contribution to growth through financial intermediation is concerned. Firstly, the rural population cannot be ignored given its substantial contribution to GDP through agriculture estimated at about 23 percent of the total. Secondly, the rural population constitutes a large share of the total population estimated at about 85 percent of the total population. There is therefore a large potential market for savings mobilization which is yet to be tapped by the financial sector.

Looking at the financial access statistics, only 38% of Ugandans receive financial services from both formal and informal sectors moreover when drilled down further only 20% use formal sector financial institutions i.e. commercial banks Tier 1, credit institutions (Tier 2) and microfinance Deposit Taking Institutions (Tier 3). This means that nationwide, 62% of Ugandans are not served by any financial institution or groups (formal, semiformal or informal). Further, the disparity between urban and rural access to financial services is so wide with urban access at 48% compared to rural access at 35%. This would suggest that more than 12 million adults in rural areas do not have access to financial services. So definitely there is a lot of work to be done if the financial sector is to reach the more than 12 million rural adult population.

Further as of 2012, Uganda's savings to GDP ratio of about 11.8 percent is among the lowest in Sub-Saharan Africa. Impediments to organized savings are among others, high fees, high minimum deposits and physical distance from banking institutions.[1] According to the World Bank Financial Inclusion index (Findex) 2011, maintaining a checking account in Uganda costs the equivalent of 25 percent of GDP per capita annually, and about 54 percent of non-account holders cite cost as a reason for not having an account. These costs are still high and there is scope for lowering them.

There are a number of options available that could be tapped into to address some of these problems. For instance banks, credit institutions and microfinance could open branches even where they are unprofitable in the interim so long as they could be funded by other profitable branches; extending mobile banking services, set up agencies etc. Developments in new technology particularly mobile and internet banking could be leveraged to provide a notable platform for improving financial inclusion and an opportunity to move towards branchless

[1] Odongo, Albert. "Why Ugandan Banks should start promoting a saving culture." 26 March 2012. Accessed on 17th January 2013. [http://www.africa-uganda-business-travel-guide.com/why-uganda-banks-should-start-promoting-a-saving-culture.html]

banking. With technology costs falling over time this is one opportunity for addressing some of the cost issues.

This notwithstanding, commendable growth in terms of products, size and intermediation has been registered in Uganda's financial sector over the last decade or so. This growth has however not compromised its soundness, owing in part to the prudent regulation and supervision by the Bank of Uganda. For instance, Commercial banks' lending to the private sector increased from Shs. 681.9 billion in December 2001 to Shs 7,755.3 billion in December 2012, yet the Non performing loans as a ratio of total gross loans declined from 6.5 percent to 4.2 percent over the same period. Other positive developments in the sector include the increase in the number of banks from 20 in 1999 to 24, bank branch network to more than 455 branches compared to 153 in 1999, and ATM's to more than 600 from 430 four years ago. Amid these developments, there have been other equally important developments in form of massive investment in human capital accumulation in the sector, leveraging of technology to deliver better services, and continued innovation to meet user demands as evidenced by some new products such as internet banking and mobile banking, dedicated products for SME's, credit cards, points of sale services with major service providers and retailers, etc.

It is in this regard that I wish to appreciate and applaud KfW/GTZ/GIZ whose programs in microfinance, rural and agricultural finance and setting up of the credit reference bureau have contributed towards improvements in the sector and augur well for future improvements to the sector. I therefore thank the German government for the continued support to Uganda in many aspects, but particularly, the support through KfW and GIZ which is geared towards developing the financial sector in Uganda.

I wish to highlight the fact that the Bank of Uganda is cognizant of the challenges in the financial sector and is taking several steps to address them. One such move is our financial inclusion agenda that aims at improving the access and quality of financial services, enhancing consumer protection and creating a larger population that is literate in financial matters and values savings. In order to facilitate the extension of financial services at a greater convenience and cheaper cost to the unbanked population, the Bank forwarded to the Minister of Finance, necessary amendments to the Financial Institutions Act 2004 and the MDI Act 2003 to allow agency banking and Islamic banking. In order to augment the safety of savings of the predominantly rural clientele, the amendments further include bringing the large Tier 4 microfinance institutions that may surpass a set threshold under the regulatory ambit of the Bank.

We at Bank of Uganda see the Rural Challenge Fund as another timely and significant initiative that will help cover some of the costs that the financial institutions incur in their endeavor to extend financial services to rural areas. The fund is also expected to motivate the financial institutions to try out new rural focused approaches that they could not undertake single handedly because of the perceived risk. While we welcome this initiative that largely addresses the supply of loanable funds to the rural sector, we must remain mindful of the need to address the issues that constrain rural enterprises like Agricultural small holder farmers from accessing formal credit and being profitable. Failure of delivery of necessary public goods and services such as quality extension services, market information and rural infrastructure may impede the effectiveness of great innovations like the Rural Challenge Fund.

I am personally excited about the Rural Challenge Fund, more so because it compliments Government efforts in improving access to credit to transform a predominantly agriculture based-rural sector through among others-the Agricultural Credit Facility (ACF). I thus encourage eligible financial institutions to take advantage of this great opportunity.

Thank you very much for listening to me.