BANK OF UGANDA

Remarks Delivered by Deputy Governor, Dr. Louis Kasekende,

on behalf of

Prof. Emmanuel Tumusiime-Mutebile,

Governor, Bank of Uganda,

At the Closure of the Financial Inclusion Week Get-Together

Pearl of Africa Hotel, KAMPALA

October 31, 2018

Representatives of our Development Partners,

Our guest speaker, Ms Catherine Wines,

Ladies and gentlemen,

Good evening!

Allow me to begin by thanking everyone at Financial Sector Deepening Uganda for the work they have done to organise this event and also to commend our keynote speaker, Catherine Wines, for the very insightful speech that we have just heard.

In recent years, financial inclusion has become a very prominent component of the overall agenda for financial sector development, and it is worth taking a few moments to consider why this is the case. I believe that there are two main reasons for the priority now accorded to financial inclusion in the financial development agenda.

The first pertains to the need to make economic growth more inclusive; i.e. to ensure that growth does not disproportionately benefit the richest sections of society. Traditionally, the customer base of formal financial institutions, such as commercial banks and stock exchanges, has mainly consisted of larger companies and the better off sections of the population, which curtails the direct contribution of financial sector development to inclusive economic growth. A more inclusive financial sector, with a much broader customer base, might be better placed to contribute to inclusive economic growth.

The second reason arises from the structure of many low income economies, including that of Uganda. Production and employment in these economies is dominated by informal micro and household enterprises. These types of commercial enterprises have usually found it very difficult to access the financial services that they need from the formal financial system. For example, many micro and household enterprises lack the collateral which is demanded by commercial banks to secure access to credit. In such circumstances, it is difficult to envisage how inclusive economic growth can be achieved if the micro and household enterprise sector, in which at least three quarters of the labour force in Uganda earns its living, is excluded from access to financial services.

The major constraint to financial inclusion is the difficulties which financial institutions face in delivering financial services to micro enterprises and other low income customers in a financially viable manner, especially in the rural areas. However, innovations in technology and the business models of financial institutions are reducing transactions costs and thus enabling financial institutions to serve a broader section of the population on a more financially sustainable basis. Two of these innovations are of particular importance for Uganda.

The first is the use of mobile phone technology to deliver financial services. The 2018 Finscope Uganda Report revealed that 57 percent of adults in Uganda use digital payments mechanisms such as mobile money and that 23 percent of adults in Uganda hold savings on their mobile phones.

The second, more recent, innovation is the advent of agent banking, made possible by the amendments to the Financial Institutions Act in 2016. Commercial banks in Uganda already have more than 4,500 agents operating in almost 6,400 outlets around the country. Agent banking is allowing banks to access customers at much lower cost than is the case in the traditional banking model, as the bank can achieve savings on their costs of bank branches and staff.

Probably the most difficult challenge pertaining to financial inclusion in Uganda is that of widening access to formal sector credit. The 2018 Finscope Uganda Report found that only 5 percent of adults access credit from a formal financial institution such as a commercial bank, SACCO or microfinance institution. Access to credit is a more challenging aspect of financial inclusion because financial institutions incur substantial costs related to credit risk, for example the costs of screening potential borrowers, the costs of monitoring borrowers and recovering loans, and where loans cannot be recovered, the costs of loan defaults.

About two decades ago, following the emergence and growth of the micro-finance industry in South Asia, it appeared that the micro-finance business model, often utilising group lending schemes, offered a way of lending to small borrowers which minimised default risks and this made this lending commercially viable. But that business model has been much less successful in Africa and microfinance institutions currently provide credit to only about two percent of the adult population in Uganda.

If access to credit from formal financial institutions is to be widened in Uganda, to include more than a very small share of the population, these institutions will need to develop innovative business models and products which can mitigate the risks of loan defaults.

Finally, I want to remind everyone that today is World Savings Day. This is an annual event held around the world for the purpose of encouraging people to save and may I add, to safely keep their savings in formal supervised financial institutions. There is a very clear symbiosis between the goals of financial inclusion and the promotion of savings. I hope that our efforts to enhance financial inclusion such as financial and entrepreneurial education, will contribute to raising the savings rate in Uganda, which in turn will enable more resources to be mobilised for the investment needed for the development of our economy.

Thank you for listening.