

# Expanding Financial Inclusion of Refugees in Uganda

## *Diagnostic Study*

August 2018

**npM** platform for  
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## Acronyms and Abbreviations

AMFIU	Association of Microfinance Institutions in Uganda	MNO	Mobile Network Operator
BOU	Bank of Uganda	MSME	Micro, Small and Medium-sized Enterprise
CRB	Credit Reference Bureau	NFS	Non-Financial Services
CRRF	Comprehensive Refugee Response Framework	NIRA	National Identification and Registration Authority
DFCU	Development Finance Corporation Uganda	OPM	Office of the Prime Minister
DRC	Democratic Republic of Congo	ReHope	Refugee and Host Population Empowerment Strategy
FBR	Foreign-Born Resident	RIMS	Refugee Information Management System
FHH	Female-headed Household	RWC	Refugee Welfare Council
FSP	Financial Service Provider	SACCO	Savings and Credit Cooperative
KCCA	Kampala Capital City Authority	STA	Settlement Transformation Agenda
KYC	Know Your Customer	TA	Technical Assistance
MDI	Micro-Deposit taking Institution	UNCDF	United Nations Capital Development Fund
MFI	Microfinance Institution	UNHCR	United Nations High Commissioner for Refugees
MIS	Management Information System	VSLA	Village Savings and Loan Association

# 1. BACKGROUND AND INTRODUCTION

*The two main objectives of this study are: to compile data and evidence to increase Financial Service Providers' (FSPs) knowledge of the potential client segment of refugees; and to clarify the interventions and technical assistance needed by four participating FSPs to successfully offer or scale up financial services to refugees in Uganda.*

Like in many countries, there is a great information gap between refugees and Financial Service Providers (FSPs) in Uganda. Refugees and other Foreign-Born Residents (FBRs) are not well informed about local FSPs and will rarely initiate contact with them, due to lack of prior exposure and limited financial awareness, knowledge or trust, including faith-based reservations for access to secular credit; assumed ineligibility; and concerns about personal data safety, or loss of existing humanitarian aid. Ugandan FSPs (with the exception of one cross-border MFI) have focused almost exclusively on serving nationals. As a consequence, FSPs are unfamiliar with the economic strategies and livelihoods, skills, and bankability of FBRs, and refugees in particular, and perceive them as a very high-risk client segment. This lack of familiarity – ignorance – about the diverse, potential client segment of FBRs may be the biggest barrier to the expansion of financial inclusion of refugees in the country.

During May-August 2018, NpM, Platform for Inclusive Finance (NpM) in the Netherlands initiated a preparatory process to expand access to finance for refugees in Uganda. The NpM Diagnostic Study in Uganda provides an analysis of demand and supply side opportunities and constraints to advance the business case for financial inclusion of refugees and other FBRs, alongside low-income host community members. Based on a 2-months field assignment in Uganda in June-July 2018, the study has two main objectives: to compile data and evidence to increase FSP's knowledge of the potential client segment of refugees, and hence to dispel some of the myths and preconceptions that exist; and to clarify the interventions and technical assistance (TA) needed by four participating FSPs to successfully offer or scale up financial services to refugees in Uganda.

The Study broadly follows the business case framework and preparatory steps recommended in the global guidelines for FSPs wishing to serve refugees.<sup>1</sup> The draft version of the Diagnostic Study was submitted to the NpM Project Steering Committee<sup>2</sup> for comments and corrections, prior to finalisation by 20 August 2018. In addition to this report, four individual FSP Action Plans have been submitted to the participating FSPs in draft for comments and corrections prior to their finalisation and optional presentation by the FSPs at the NpM International Conference "Finance for Refugees – Making it Work" to be held in The Hague, Netherlands on 07 September 2018.<sup>3</sup> Participating FSPs have also been provided with a selection of data, resources and documents in a shared folder.<sup>4</sup>

The consultants would like to thank everyone who contributed time and insights to the Diagnostic Study, in particular the Boards, management and staff of the four participating FSPs and their investors, Triodos Investment Management, Triple Jump, Cordaid CIMBV, and ICCO that provided very helpful logistic support for the study in Uganda.

Any omissions or misrepresentations are the responsibility of the consultants, and the views and recommendations presented are those of the consultants, and do not necessarily represent the views of NpM or the FSPs.

1 Social Performance Task Force: Serving Refugee Populations: The Next Financial Inclusion Frontier - Guidelines for Financial Service Providers, March 2017. <https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf> (PDF)

2 Comprising representatives of ICCO, Oxfam Novib, Triple Jump, and Triodos Investment Management.

3 [www.financeforrefugees.nl/info](http://www.financeforrefugees.nl/info)

4 [www.dropbox.com/sh/qpmhblrbg9pko96/AABN0C3rfztNKfscb4zXZ0vua?dl=0](http://www.dropbox.com/sh/qpmhblrbg9pko96/AABN0C3rfztNKfscb4zXZ0vua?dl=0)

## 2. APPROACH AND METHODOLOGY

*This study compiled data from secondary sources as validated by a survey of 104 refugees in five locations in Uganda. While we are confident about the overall market scope, trends and general characteristics of the refugee population presented, some detailed data points are marred by uncertainties, and the absolute figures and percentages should therefore be used with caution.*

The Ugandan Diagnostic Study was contracted by NpM to a team of two consultants, led by financial inclusion specialist Lene M.P. Hansen, who also facilitated a joint workshop on Financial Inclusion of Refugees in Jordan for Lebanese and Jordanian FSPs in July 2018. The team compiled demand-side data mainly from the wealth of secondary sources of recent literature and research to present the refugee segment in Uganda by characteristics relevant to assessing their likely success as potential FSP clients.

REFUGEE SITES	# PEOPLE INTERVIEWED
Morobi	15
Bidibidi	50
Kampala	15
Kyaka II	9
Nakivale	15
Grand Total	104

To validate the results of the compilation, the national microfinance consultant Francis Zikusooka conducted brief data validation field work in refugee settlements in June 2018 in the northern West Nile region, Isingiro district in the South West, as well as in Kampala. Meetings were held with branch staff of three of the four participating FSPs,<sup>5</sup> and a total of four focus group discussions (FDGs) and 104 in-depth interviews were conducted with refugees in the settlements of Nakivale, Bidibidi, Morobi, and Kyaka II, and with self-settled refugees in Kampala as per **Table 1**.

To assess supply-side constraints and opportunities, the four FSPs were asked to provide documentation of their current business plan and strategies, policies, products, and processes, and to complete a questionnaire on current performance, and partnerships. In July, key stakeholders in the Ugandan market, including Financial Sector Deepening Uganda, the Association of Microfinance Institutions in Uganda (AMFIU), and UNCDF, were interviewed to validate contextual developments, prior to a kick-off workshop for all four participating FSPs in Kampala. This was followed by a 1-2 day Institutional Assessment with each FSP individually, which explored motivations, capacities and infrastructure to determine the level of 'readiness' for serving refugees.

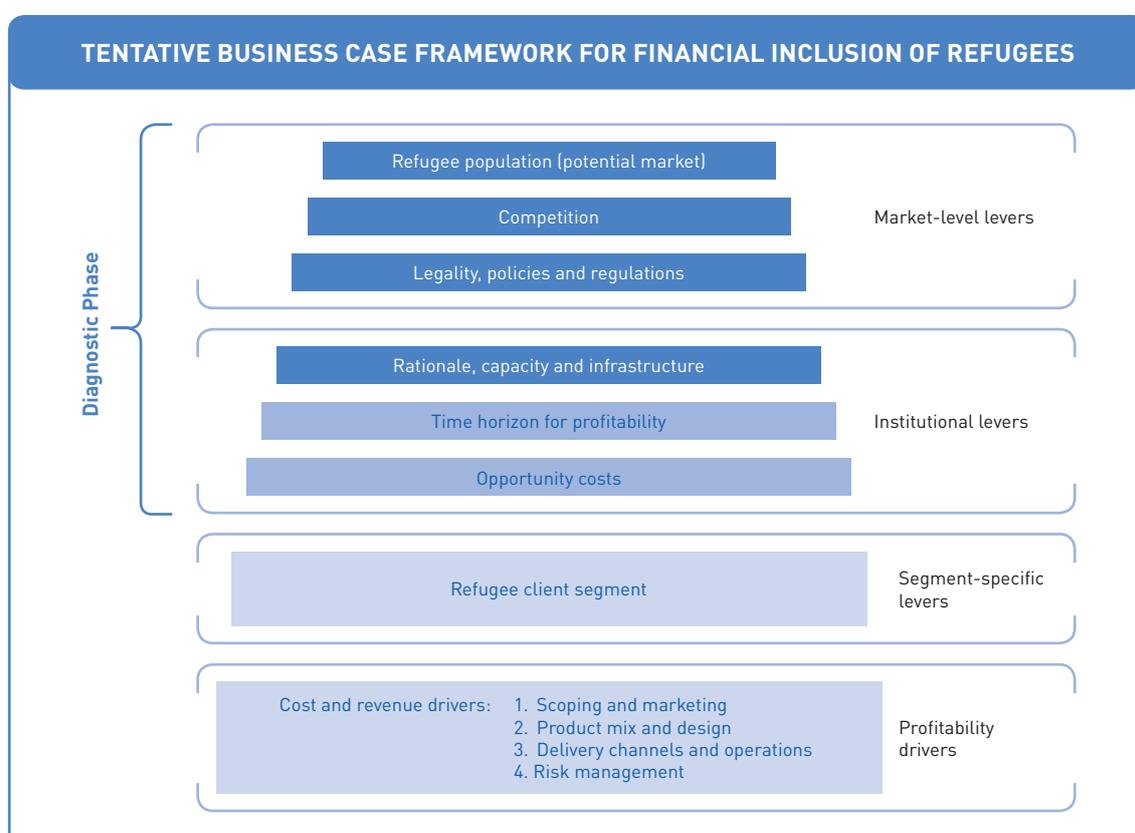
The findings formed the basis of 1-day Action Planning workshops with management and staff of each FSP to dispel preconceived ideas and assumptions about refugees, identify opportunities and challenges, and define a preliminary approach for including (more) refugees. Gaps in information, capacity and resources were discussed, and a preliminary budget envelope for TA and other support from investors and external funders was established. The field phase of the assignment concluded with presentations and a panel discussion by all four participating FSPs at a well-attended Microfinance Information Exchange event in Kampala, co-hosted by AMFIU. This Diagnostic Study report summarizes the two objectives of the NpM TA programme:

1. To provide more detailed information from available research and documentation on the potential client segment of refugees and other FBRs in Uganda to help close the existing information gap; and
2. To provide guidance for planning by participating FSPs to begin or expand their outreach to refugees.

<sup>5</sup> Despite several attempts, it was not possible to meet with branch staff from the fourth participating FSP. However, the management of this FSP engaged fully in the subsequent Institutional Assessment and Action Planning.

The report is structured broadly as the business case framework recommended in the Guidelines for FSPs on financial inclusion of refugee populations (see **Figure 1**).<sup>6</sup> **Section 3** provides a brief overview of the country context. **Section 4** presents a summary of the market levers in Uganda, including key socio-economic characteristics and demand for financial services among refugee populations, and **Section 5** summarizes the institutional levers identified with participating FSPs. The study concludes with an overview of the main external support requested by participating FSPs to become fully 'refugee-ready,' given available capacity and resources. All findings have been further detailed in the individual FSPs Action Plans submitted to the participating FSPs.

**Figure 1**



**A note of caution**

Refugee populations are possibly the most researched group of foreign-born residents anywhere in the world today, and this study compiles and presents data and statistics from a large body of studies, assessments, surveys, and research. While sources have been documented, not all of the research referenced was conducted within the same time frame, nor with representative survey sample sizes, and resulting data points are therefore not necessarily directly comparable. In addition, the majority of refugees in Uganda have fled conflicts in neighbouring South Sudan and the Democratic Republic of Congo (DRC), which are ongoing and volatile. While there is a core of refugees in protracted displacement in Uganda, refugee flows into Northern and Western Uganda (and back) are unpredictable, and numbers change on a monthly basis. The overall market scope, trends and general characteristics presented in this report depict the refugee population with an acceptable degree of verifiable accuracy, but it is presented with the caveat that significant uncertainty remains around some of the detailed data points provided, and the absolute figures and percentages presented should therefore be used with caution.

<sup>6</sup> Social Performance Task Force and UNHCR: Serving Refugee Populations Guidelines, op.cit.

# 3. THE SETTING FOR FINANCIAL INCLUSION OF REFUGEES IN UGANDA

## 3.1 Country Context

The economy has rebounded and GDP growth is high, largely contributed by micro and small enterprises, of which most are informal. Formal financial inclusion of nationals is relatively high at 76%, and the policy framework for refugees is accommodating and progressive.

The Republic of Uganda is a large, low-income, agrarian and landlocked country with a large rural population, displaying lower literacy rates but a relatively high labour force participation rate (see **Table 2**).

Since 1990, the contribution of the agricultural sector to GDP has declined from 55% to 26%, while the contribution of services increased to around 50% and industry to around 30%. Overall, the economy has rebounded to a 7.6% real GDP growth in 2017, led by ICT sector investments, and a 9.5% increase in food crops production, after adverse weather and pests affected the largely rain-fed agricultural output in 2016. Commercialization of agriculture is prioritised in the Agriculture Sector Strategic Plan (2015-20), but Uganda has low adoption levels of improved seeds, inputs, mechanization and technology, which smallholder farmers cannot easily afford, and as a consequence, productivity is low. A leasing law is in preparation, which could increase private investment in the industry.

Outside of the agricultural sector, Uganda's private sector is characterized by a proliferation of micro, small and medium enterprises (MSMEs) that account for 85% of all non-agricultural enterprises and contribute some 75% to both the total GDP value-add and to employment. However, most MSMEs are informal, and the informal sector contributes 45% of all economic activity. Net foreign direct investments (FDI) stood at 2.5% of GDP or USD 363 million in 2016/17, of which 42% was direct equity. South Sudan and the Democratic Republic of Congo (DRC) are Uganda's 2nd and 4th most important export markets, and the conflicts there have so far not significantly reduced exports. In addition, the influx of refugees from these countries has provided a net economic stimulus, as refugee savings and humanitarian aid are spent and new businesses are established,<sup>7</sup> and the inter-communal levels of tension are low, with refugees and Ugandans active in several value chains.

TABLE 2. ECONOMIC INDICATORS UGANDA	
	UGANDA
Population	42.3m
Population density	206.9 per km <sup>2</sup>
GNI per Capita (Atlas)	USD 621
GDP (2017)	USD 26.3 bn
Structure of GDP, 2017 (%)	
• Agriculture	21.5
• Industry/manufacture	26.6
• Services	51.9
Inflation rate (2017/18)	3.5
Urban population (%)	24.5
Poverty (% population below national poverty line)	21.4 (2016/17)
Life Expectancy	59.5 years
Labour market participation	70.7
Literacy (% of pop age 15+)	70.2

Sources: World Bank: Uganda Econ. Update, May 2018 and UBOS: Uganda Household Survey 2016.

<sup>7</sup> In 2016, it was documented that an average refugee household in two different settlements receiving cash food assistance increased annual real income in the local economy by Ugx 3.7-3.8 million (USD 1,106-1,072). [https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?\\_ga=2.75724629.1931253350.1535659280-607546768.1530806353](https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353) (PDF)

Core inflation has remained at around 3.5% in 2017, leading the Bank of Uganda (BOU) to lower the policy lending rate to 9% in February 2017, but private sector credit growth remained subdued, averaging 5.5% for 2017. The average Ugx lending rate of commercial banks declined to 21% by February 2018, and the high net interest margins are attributed to high overhead costs, including costs of conducting due diligence, as only some 6% of the population is covered by credit reference services,<sup>8</sup> and of expansion into rural areas.<sup>9</sup>

TABLE 3. FINANCIAL INCLUSION DATA (FINDEX 2017) <sup>10</sup>	
	UGANDA
Formal financial inclusion, %	59.1%
Has mobile money account (+15)	50.6%
Borrowed any money in past year (+15)	66.1%
Of these, from FSPs	14.7%
Of these, from family or friends	46.5%
Borrowed for farm/ME (+15) (2014)	22.3%
Saved in the past year (+15)	68.6%
Of these, saved with an FSP	12.7%
Of these, saved with ROSCA/non-family	37.5%
Sent or received (domestic) remittances	55.3%
Made or received digital payments	54.7%
Used cell phone/internet to access account	47.2%

As documented in the 2017 Findex, Ugandans, especially in urban centres, are well banked, as presented in **Table 3**. The formal financial inclusion rate of Ugandan adults has increased to 76% overall in 2018, with 58% being served by formal FSPs, and 56% of Ugandan adults have a mobile money account which they actually use. While only 20% of Ugandan adults rely exclusively on informal financial services, these services are still preferred by the 46% who borrowed (10% borrowed from FSPs) in 2017, and the 54% who saved (34% saved with formal FSPs). Overall, cash remains preferred by half of the rural adult population and a quarter of urban adults.<sup>11</sup> In November 2017, the BOU launched the 2017-2022 Financial Inclusion Strategy<sup>12</sup> that aims to rapidly increase digital financial services (DFS) acceptance and usage nationwide, particularly in more remote and marginalised areas of the country. Overall, 22% of adult Ugandans, or some 4.2 million people, remain financially excluded, of whom 85% are rural residents and 56% are women.<sup>13</sup>

Uganda's current National Development Plan II for 2016-2020 highlights the country's commitment to promoting refugee self-reliance and includes the 'Settlement Transformation Agenda' (STA), which aims to establish self-reliance and local settlement for refugees, while supporting social development in refugee-hosting areas. Led by the Office of the Prime Minister (OPM), the STA is supported by the Refugee and Host Populations Empowerment Strategy (ReHOPE) for all refugee hosting districts, which combines the efforts of United Nations agencies, the World Bank, donors, development actors, and the private sector to manage protracted forced displacement, as funded by a USD 50 million World Bank loan in 2017.

8 IFC: Doing Business Uganda, 2018.

9 <https://openknowledge.worldbank.org/handle/10986/29916> (PDF)

10 <https://globalfindex.worldbank.org/>

11 FinScope Uganda: Topline Findings Report, June 2018.

12 [www.bou.or.ug/bou-downloads/publications/special\\_pubs/2017/National-Financial-Inclusion-Strategy.pdf](http://www.bou.or.ug/bou-downloads/publications/special_pubs/2017/National-Financial-Inclusion-Strategy.pdf) (PDF)

13 FinScope Uganda: Topline Findings Report, op.cit.

Both the STA and ReHOPE are considered core parts of the Ugandan Comprehensive Refugee Response Framework (CRRF) process, informing interventions benefiting both refugees and host communities,<sup>14</sup> focused on rural settlements. As per the Ugandan refugee-hosting model, social services (schools, clinics, etc.) within settlements are used by refugees and nationals alike,<sup>15</sup> with a statutory sharing model of 70-30% that all humanitarian actors are expected to follow. Self-settled urban refugees are less of a priority in the CRRF. However, the Kampala Capital City Authority (KCCA) has recently adopted a “Strategic Response to Displacement, Migration and Resettlement,” and hosted its first round of consultations.<sup>16</sup> The Ugandan government is currently in the process of drafting a national refugee policy.<sup>17</sup>

## 3.2 Foreign-Born Resident Populations in Uganda

*The total market of foreign-born adult residents in the country includes refugees and asylum seekers, migrant workers and foreign investors, and is estimated at 796,450 people, 81% of whom live in rural areas, and of whom 48% are women.*

Uganda has a long history of cross-border trade and movement of people, impacted in part by conflict. The UN estimated that Uganda had a population of 1,692,120 foreign-born residents (FBRs) in 2017, making up 4% of the total population.<sup>18</sup> Of these, more than half (53%) are from South Sudan 53%, while 18% are from the DRC. An additional 24% come from other Sub-Saharan African countries, including Rwanda, Sudan, Burundi, and Kenya. FBRs in Uganda broadly comprise three categories: refugees, migrant workers and foreign investors, with a significant overlap between categories of nationals especially from South Sudan and the DRC.

The majority of FBRs in Uganda are **forcibly displaced**, and 87% (1.4 million) were registered with the OPM and UNHCR as refugees and asylum seekers as at 30 June 2018. Of these, about one million (72.4%) came from South Sudan, 20% from the DRC, and the balance from Burundi, Somalia, Rwanda, Ethiopia, Eritrea, and Sudan,<sup>19</sup> and 37% were in the productive age groups (18-64 years).<sup>20</sup>

There are no accurate market segment data on **foreign migrant workers** in Uganda, but the segment is estimated to comprise around 240,000 adults, clearly overlapping with the refugee segment. Refugees from South Sudan and the DRC are granted *prima facie* status in Uganda, which means that any person from these countries can register with OPM as a refugee. In 2012/13, a total of 9,161 work permits were issued to foreign workers, and 63% of these permits were for contractual employment. Of these, 38.6% were issued to Indian nationals, and 5.5% to Kenyans. Since then, Uganda, Rwanda and Kenya have agreed to stop requiring work permits for each other’s migrant workers, further complicating the scoping of the migrant worker segment.<sup>21</sup>

14 [https://reliefweb.int/sites/reliefweb.int/files/resources/DRC-May-2018-Kyaka-II-rapid-conflict-assessment\\_for-release-002.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/DRC-May-2018-Kyaka-II-rapid-conflict-assessment_for-release-002.pdf) [PDF]

15 *Ibid.*

16 [www.kcca.go.ug/news/280/press-statement-kcca-moving-to-improve-the-plight-of-migrants#.W3RUJehubIV](http://www.kcca.go.ug/news/280/press-statement-kcca-moving-to-improve-the-plight-of-migrants#.W3RUJehubIV)

17 [www.kas.de/wf/doc/kas\\_23354-1442-2-30.pdf?170815163122](http://www.kas.de/wf/doc/kas_23354-1442-2-30.pdf?170815163122)

18 [www.un.org/en/development/desa/population/migration/data/estimates2/estimates17.shtml](http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates17.shtml), Table 1.

19 <http://ugandarefugees.org/en/country/uga/>

20 UNHCR and OPM: Refugees and Asylum Seekers in Uganda by Country of Origin and Location, 31 December 2017.

21 [https://publications.iom.int/system/files/pdf/mp\\_uganda\\_25feb2015\\_web.pdf](https://publications.iom.int/system/files/pdf/mp_uganda_25feb2015_web.pdf) [PDF]

The small segment of **foreign investors**, business or trade owners, constituted only 10% of permits issued to FBRs in 2012/13. Of these 10%, 43% were for Indian nationals, and the balance for Pakistani and Chinese nationals.<sup>22</sup> It is estimated that there may be 15,000 FBR investors in Uganda. As the National Identification and Registration Authority (NIRA) rolls out registration services, the data may become more accurate, as all foreign, non-refugee residents are now required to obtain a so-called Alien's Card issued by NIRA to document their legal residence in Uganda.<sup>23</sup>

Based on the available data, we estimate that there is a total of around 796,450 adult FBRs in Uganda, as illustrated in **Table 4**.

**Table 4**

OVERALL ESTIMATED FBR MARKET IN UGANDA <sup>24</sup>					
	TOTAL FBRS	URBAN	RURAL	FEMALE	MALE
Total FBR adults (18-64 yrs)	<b>796 447</b>	149 382	647 065	384 126	412 321
Of whom, adult refugees & asylum seekers, June 18	541 762	65 490	476 272	295 206	246 556
Of whom, adult migrant workers est.	239 640	71 892	167 748	83 875	155 765
Of whom, foreign investors, est.	15 045	12 000	3 045	5 045	10 000

22 [https://publications.iom.int/system/files/pdf/mp\\_uganda\\_25feb2015\\_web.pdf](https://publications.iom.int/system/files/pdf/mp_uganda_25feb2015_web.pdf) (PDF)

23 [www.nira.go.ug/index.php/services-2/](http://www.nira.go.ug/index.php/services-2/)

24 Calculated from UNHCR/OPM data of 31 December 2017, UNDESA data as at 31 December 2017 and other sources.

## 4. MARKET LEVERS: EXTERNAL PARAMETERS FOR INCLUSION OF REFUGEES

*Of the total market, at least 220,235 refugees in the productive age groups whose IDs have been biometrically verified, have been in Uganda long enough to settle and assimilate. At least 63,750 are self-settled in Kampala, and the majority of the rest reside in the 17 settlements established before 2012, which resemble ordinary rural trading centers with functioning markets, agricultural value chains and trade supply chains that serve and employ both Ugandans and refugees.*

*Demographically, refugee populations in Uganda do not differ markedly from nationals. While economically more fragile on average, refugees display widespread eagerness to establish and grow businesses. Many refugees save in some 29,000 registered Village Savings and Loan Associations (VSLAs) or Savings and Credit Cooperatives (SACCOs), and their demand for financial services is similar to that of Ugandans, indicating no need for specific products. Thus, there is a large potential market for FSPs that are willing to offer financial services to refugees, and only newly arrived, less capacitated refugees would need non-financial services (NFS).*

### 4.1 Market Scope

#### **Decision Point 1: Is there a viable potential market size and scope in current areas of FSP operation?**

Of the overall refugee population registered in OPM's Refugee Information Management System (RIMS), 54% or a total of 782,626 refugees, have been biometrically verified as at 15 August 2018<sup>25</sup> in the ongoing verification exercise launched in response to allegations of fraud, inflation and double counting in the RIMS. While there was little divergence in the numbers of refugees in the older and well established settlements, numbers in the newly established settlements in the northern West Nile districts appear to be significantly lower than indicated in the RIMS.<sup>26</sup> To avoid inflating market scope data, **Table 5** presents the latest verified numbers of refugee adults per settlement,<sup>27</sup> assuming the same gender and age breakdown as in the latest factsheets for the settlements. While more refugees will no doubt be verified in West Nile, the total current potential market scope of refugee adults is thus around 344,120, prior to segmentation. The verification process is expected to be completed by year end 2018.

The majority of this population (up to 86%) resides in the 30 'settlements' established in the north and west of the country. There are 24 settlements in the northern West Nile region, of which 11 were established before 2012. The vast majority of residents in these settlements are from South Sudan. In addition, there are 6 'old' settlements in the south-west and mid-west. These settlements host primarily refugees from the DRC, but also large communities from Somalia, Rwanda and Burundi, the majority of whom have a long tenure in Uganda.

<sup>25</sup> <http://ugandarefugees.org/en/dataviz/23?sv=0&geo=220>

<sup>26</sup> See [www.unhcr.org/afr/news/press/2018/6/5b309b474/uganda-joint-statement-on-the-progress-of-the-opm-unhcr-joint-biometric.html](http://www.unhcr.org/afr/news/press/2018/6/5b309b474/uganda-joint-statement-on-the-progress-of-the-opm-unhcr-joint-biometric.html)

<sup>27</sup> Factsheets for most settlements are available at:

<https://reliefweb.int/search/results?search=Uganda%20Refugee%20Response%20Monitoring%20Settlement%20Fact%20Sheet>

**Table 5**

POTENTIAL LOCAL VERIFIED MARKET SEGMENTS BY DISTRICT						
DISTRICT	SETTLEMENT	ESTAB.	# REGISTERED REFUGEES <sup>28</sup>	FEMALE 18-59 YRS	MALE 18-59 YRS	TOTAL ADULTS
Kampala	Kampala <sup>29</sup>	-	103 694	29 545	34 211	63 756
<b>South west</b>						
Isingiro	Nakivale	1960	94 277	20 383	26 190	46 573
Isingiro	Oruchinga	1961	6 936	1 487	1 285	2 772
<b>Mid-west</b>						
Kamwenge	Rwanwanja	1964	63 486	12 285	12 589	24 874
Kyegegwa	Kyaka II	2008	17 699*	4 566	4 365	8 931
Hoima	Kyangwali	1962	37 843*	7 417	6 486	13 904
Bweyale	Kiryandongo	1990	54 304	9 807	8 270	18 078
<b>North (West Nile)</b>						
Arua	Rhino	1980	80 595*	16 699	15 805	32 504
Adjumani	18 settlements, Nyumanzi largest	1980-2014	108 831*	21 766	13 604	35 370
Maracha	Imvepi	2017	53 856	11 240	10 448	21 688
Moyo	Palorinya	2016	93 091*	20 154	12 502	32 656
Koboko	Lobule	2013	4 546	1 136	1 100	2 236
Yumbe	Bidibidi	2016	122 245*	19 400	12 652	32 053
Lamwo	Palabek	2017	29 333	5 427	3 297	8 724
Total current min. market by location			870 736	181 312	162 805	<b>344 118</b>
*Indicates that the OPM biometrical verification is still ongoing in the settlement. <sup>30</sup>						

Settlements in Uganda are not refugee camps, but are unfenced areas organised into ‘zones’ and villages, resembling ordinary rural villages or trading centres. The majority of refugee families receive a plot of land on arrival on which to construct a shelter and cultivate produce for consumption and sale. Most settlements have clinics, schools, and surrounding agricultural

28 To avoid inflating the market scope, the latest verified numbers of refugees are used, assuming the same gender and age breakdown as at end December 2017.

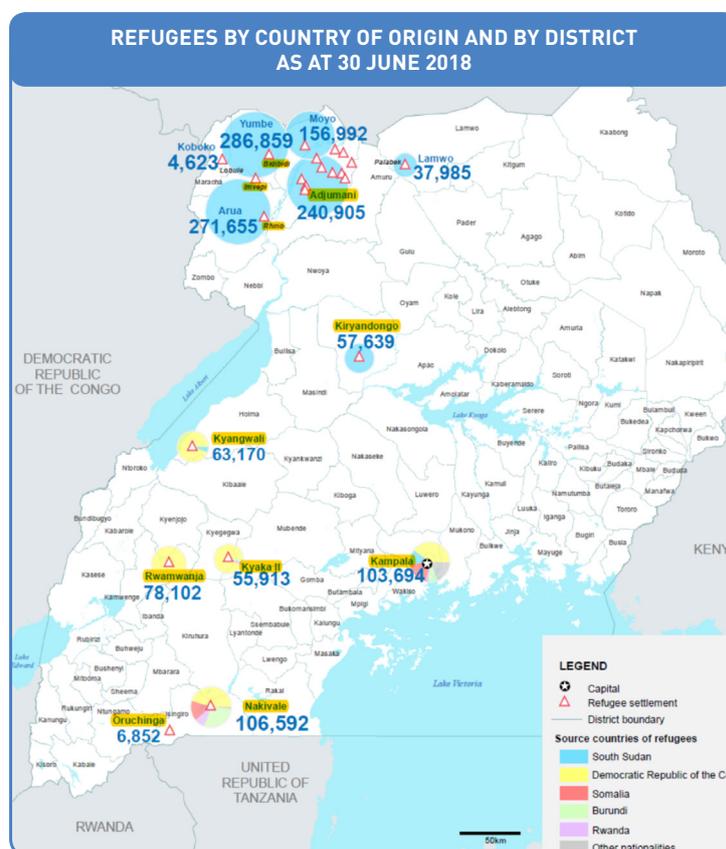
29 UNHCR and OPM: Statistical Summary Refugees and Asylum Seekers in Uganda as at 31 December 2017.

30 <http://ugandarefugees.org/en/dataviz/23?sv=0&geo=220>

land used for commercial farming and livestock. Older settlements have large and functioning markets, agricultural value chains and trade supply chains that serve and employ both Ugandans and refugees as part of the local economy.<sup>31</sup> The newer settlements in the North have less infrastructure and economic opportunities for the larger proportion of newly arrived refugees, but even there, markets are developing at a fast pace,<sup>32</sup> and telecom companies are continuing to expand coverage within the settlements.<sup>33</sup> Settlements are managed by elected Refugee Welfare Councils (RWCs) that mirror the Local Council structure of Ugandan district management, as well as by 'block leaders' reporting to a settlement commander employed by OPM. In addition to RWC leadership structures, there are also traditional dispute resolution mechanisms in many settlements, which include elders and clergy.

Some 8% of the refugees registered by OPM live in the capital Kampala as urban, self-settled residents (see **Figure 2**), and refugees have also self-settled in other urban centres of Uganda. Some families have retained registration of a member in a settlement, who travels to the settlement to receive monthly aid rations, either as in-kind food or cash. As most cities, Kampala and other urban centres will also have attracted a number of refugees and other FBRs who may not have full legal residence, e.g. refugees who are registered elsewhere, and refugees and/or migrant workers who have not registered with NIRA or OPM/UNHCR. However, based on currently available data, the segment of adult refugees with a Refugee ID card and/or an Asylum Seeker Attestation Letter and with legal residence in Kampala constitutes at least 63,756 people, of whom 29,545 are women.<sup>35</sup> The majority has started business activities, integrating in existing trade, value and supply chains in the capital city.

**Figure 2**



31 [https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?\\_ga=2.75724629.1931253350.1535659280-607546768.1530806353](https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353) (PDF)

32 Mercy Corps: Refugee Markets Brief - The power of markets to support refugee economic opportunities in West Nile, Uganda, February, 2018. [www.mercycorps.org/sites/default/files/WestNileRefugeeMarketsBrief\\_MercyCorps\\_Feb2018\\_2.pdf](http://www.mercycorps.org/sites/default/files/WestNileRefugeeMarketsBrief_MercyCorps_Feb2018_2.pdf) (PDF)

33 UNCDF: Uganda country assessment on affordable and accessible remittances for forcibly displaced and host communities, June 2018.

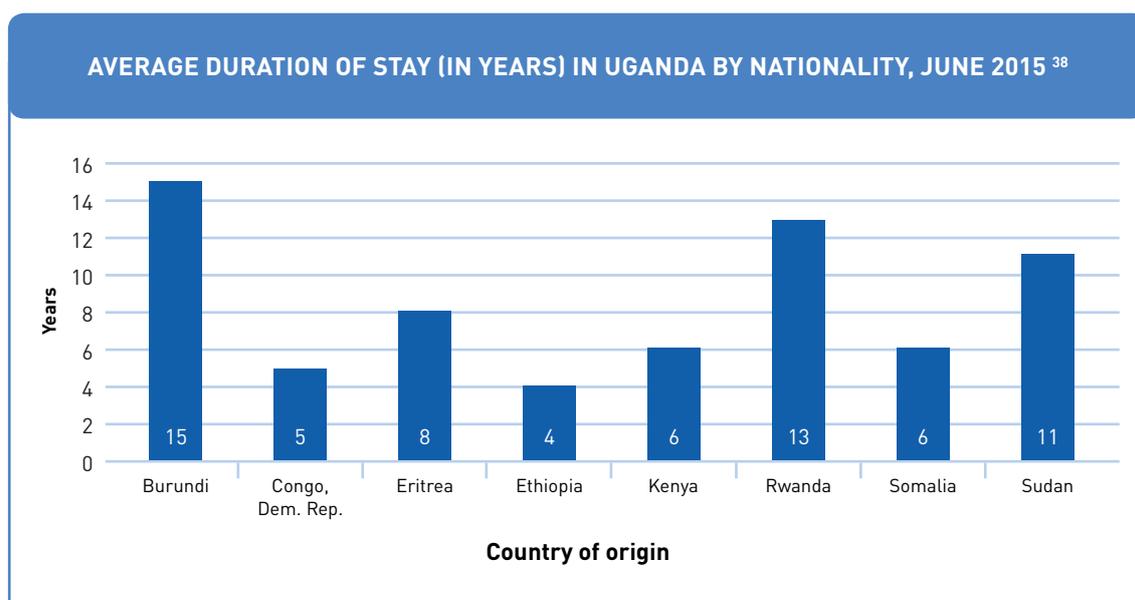
34 <https://ugandarefugees.org/analysis/settlements/>

35 UNHCR and OPM: Statistical Summary Refugees and Asylum Seekers in Uganda as at 31 December 2017.

### 4.1.1 Displacement Phase and Migration Path

Socio-economically diverse, the financial needs of refugees evolve over the time they spend in displacement and are shaped by their future plans for migration. The longer refugees stay in a host country, the more assimilated they are likely to become, and their demands for financial services will gradually mirror those of nationals in terms of building livelihoods to improve their standards of living. Their success will depend on human and social capital (e.g. education, marketable skills, and familiarity with the host culture), financial inclusion in their country of origin, the level of integration (acceptance) they meet in the host community, and – especially – the opportunities provided for applying their income generating capacities.<sup>36</sup> Developing social networks in exile helps refugees integrate faster, and of course it helps to speak the local language(s). In 2016, a South Sudanese refugee had been in Uganda for 2.9 years, and a refugee from DRC for 3.6 years on average,<sup>37</sup> and refugees from elsewhere had been in the country even longer, as illustrated in **Figure 3**.

**Figure 3**



However, the underlying drivers of conflict and violence in South Sudan and the DRC remain unresolved and fluid, and resulting refugee movements are thus relatively unpredictable. During 2017, some 441,850 new refugees fled to Uganda, 80% from South Sudan and 20% from the DRC. Since the beginning of 2018, some 85,000 refugees have been registered in Uganda, 60% from the DRC, and 40% from South Sudan.<sup>39</sup> Overall, about one third of adult refugees have been in Uganda for more than 3 years and are likely to have fully assimilated, whereas additional 35% have been in Uganda 1-3 years, as indicated in **Table 6**. This breakdown was generally confirmed in our validation interviews with refugees in four of the sites.

<sup>36</sup> <https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf> (PDF)

<sup>37</sup> [https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?\\_ga=2.75724629.1931253350.1535659280-607546768.1530806353](https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353) (PDF)

<sup>38</sup> World Bank: An Assessment of Uganda’s Approach to Refugee Management, 2016. p. 60, n = 350

<sup>39</sup> UNHCR Uganda: South Sudan Regional Refugee Response Plan End of Year Report, December 2017 and <http://ugandarefugees.org/en/dataviz/45?sv=0&geo=220>

**Table 6**

REFUGEE POPULATIONS IN UGANDA BY DISPLACEMENT PHASE, DECEMBER 2017 <sup>40</sup>			
1	Arrival, 1 – 6 months Focus: immediate, basic needs	Est. 85,000 arrived from SS/DRC since Jan 2018	6% of total
2	Early displacement, 6-18 months Focus: Housing, language, schooling, work/income	441,850 arrived during 2017	30% of total
3	Protracted displacement, 1-3 years Focus on improving standard of living, education for children	516,300 arrived Jan 15 – Dec 16	35% of total
4	Permanence > 3 years Focus on improving livelihoods, like national clients	416,850 arrived before Dec 2014	29% of total

While the South Sudanese and DRC refugee population is ‘younger’ overall, surveyed South Sudanese refugees self-settled in Kampala had been residing there for 3-5 years on average. Refugees that self-settle in urban areas often assimilate faster – because they have to. Self-settling generally means a loss of humanitarian assistance, but the urban environment also offers more opportunities to make a living. Similarly, the population of refugees displaced from Somalia, Rwanda, and Burundi living in the settlements in the South and Mid-West, have been in Uganda for a long time and have become more assimilated. Newly arrived Congolese refugees are being settled in Kyaka II and Kyangwali. The population of ‘old’ refugees in these settlements was considered well established and mostly self-reliant, cultivating large swaths of fertile agricultural land until end 2017, but the new influx has resulted in some pressure on access to land.<sup>41</sup>

While there is competition for access to services and income opportunities, the high degree of assimilation of the refugees in protracted or permanent displacement in Uganda has contributed to the generally peaceful co-existence with nationals. 66% of hosts versus 64% of refugees cite a generally positive relationship, with a very low level of tension.<sup>42</sup>

During 2011-17, only 15,735 refugees, or less than 2% of refugees in Uganda have been resettled in third countries.<sup>43</sup> Our validation confirmed that only a very small proportion (3%) of interviewed refugees had concrete plans to resettle abroad, and that most refugees in the South West are long-term settlers with no intention to go back or settle elsewhere. At least 60% do not intend to return home in the near future. Knowing this, FSPs can actually ‘self-insure’ against the perceived flight risk by serving refugees, helping them sustain a livelihood while in exile. Long tenure also correlates with more sustainable livelihoods and less intent to leave. **The estimated total potential market of biometrically verified, adult refugees that have been in Uganda long enough to settle and assimilate thus constitute 220,235 people, of whom 116,040 are women.**

40 [https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?\\_ga=2.75724629.1931253350.1535659280-607546768.1530806353](https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353) (PDF)

41 [https://reliefweb.int/sites/reliefweb.int/files/resources/DRC-May-2018-Kyaka-II-rapid-conflict-assessment\\_for-release-002.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/DRC-May-2018-Kyaka-II-rapid-conflict-assessment_for-release-002.pdf) (PDF)

42 Reev Consult for UNHCR: Livelihoods Socio-economic Assessment in the Refugee Hosting District, Final Report, February 2017.

43 UNHCR and OPM: Statistical Summary Refugees and Asylum Seekers in Uganda as at 31 December 2017.

## 4.1.2 Socio-Economic Characteristics – a Tentative Comparison

Lack of familiarity, data and knowledge are possibly the main barriers for FSPs to serve refugee populations. To begin to close the large information gap and help FSPs better understand refugees as potential clients, this section presents some core characteristics of refugee populations in Uganda, as much as possible highlighting the similarities and differences between Ugandan and FBR clients, as these may affect their access to and usage of financial services, and their potential success as FSP clients.

In terms of standard socio-demographics, refugees in Uganda are more similar than different from Ugandan nationals (see **Table 7**).

**Table 7**

TENTATIVE COMPARATIVES AMONG SUB-SEGMENTS OF THE POPULATIONS IN UGANDA				
INDICATOR	UGANDAN (16-59 YRS) <sup>44</sup>		REFUGEES IN UGANDA <sup>45</sup>	
	Urban	Rural	Urban	In settlements
% adult population	24%	76%	12%	88%
% adult women	52%	54%	53%	58%
Size of households (HH)	4.1	4.9	3.8	5.1
% female-headed HH	33%	30%	34%	64%
% literate	87%	69%	75%	55%
% with no schooling	7%	14%	8%	27%
% w/ primary education	36%	58%	52%	34%
% w/ 2nd education	38%	23%	25%	29%
% w/ KYC documents (ID)	84%	84%	80%	54%*
% who have/use cell phone	70%	46%	90%	55-89%

\* Verified biometrically as at 15 Aug 2018. Most refugees have a Refugee ID or an Asylum Seeker Attestation Letter.

<sup>44</sup> UBOS: Uganda National Household Survey 2016/17 and FinScope Uganda – Topline Findings Report, June 2018.

<sup>45</sup> Reev Consult for UNHCR: Livelihoods Socio-Economic Assessment, op.cit.; UNHCR/OPM: Statistical summary, op.cit.; AGORA: Understanding the needs of Urban Refugees and Host Communities residing in Vulnerable Neighbourhoods of Kampala - A multisector analysis, July 2018; and Microfinanza for Grameen Agricole Credit Foundation: Assessing the Needs of Refugees for Financial and Non-Financial Services – Uganda, July 2018 [forthcoming].

While educational levels among refugees are lower than among nationals, educational attainment is not a good indicator of entrepreneurial abilities. The percentage of female-headed households (FHH) is larger among refugees, in part because more women than men have fled to the settlements in northern Uganda, but also because it is the norm among several South Sudanese ethnicities that women manage the agricultural work and households, while men tend to livestock,<sup>46</sup> so the typical assumption that FHH are more vulnerable does not necessarily hold in the settlements (but may hold in urban settings). Refugees in Uganda are technologically astute, and the majority of refugees own, have access to, and use mobile phones, including for digital financial services. In particular, settlement-based refugees acknowledge mobile money transfers as one way of overcoming the high transaction costs of access to regulated FSP outlets, which are typically far from settlements.

While 85% of the Ugandan adult population (16 years +) have personal identity documents, only 15% would have the prerequisite documents to verify their address, as required by the current Know Your Customer (KYC) regime.<sup>47</sup> FSPs in Uganda are thus used to working with alternative documentation to ensure KYC for their customers. Overall, the demographic profiles of refugee populations in Uganda do not differ markedly from nationals, and do not present any immediate challenges for FSPs to serve them effectively, if FSPs can extend their reach to the settlements where the majority resides.

### 4.1.3 Economic Participation

Today's refugees are as diverse as the conflicts and disasters that displace them, but the media often paints a homogenous picture of asset-less, relief-dependent victims in forlorn camps. For a vast majority of refugees, emerging research does not support this picture. Rather, there is evidence that a well-integrated refugee community contributes directly and in positive ways to the national economy,<sup>48</sup> is economically diverse, and is far from dependent on international aid.<sup>49</sup> Refugees form part of the wider systems of consumption, production, and exchange, and seek out entrepreneurial livelihoods in the formal and informal sectors,<sup>50</sup> alongside – and in competition with – the core microfinance clientele of urban and rural poor nationals. The influx of refugees to Uganda has provided a net economic stimulus in settlements.<sup>51</sup>

Refugees in Uganda are active participants in the local economy, even if their overall labour force participate rate was half of that for Ugandans in 2016 (see **Table 8**). Overall, 43% were actively engaged in the labor market, 12% in formal employment and 31% with their own businesses in 2016, but surveys in 2018 indicate that much higher 72% of refugees are running their own businesses.<sup>52</sup>

46 Reev Consult for UNHCR: Livelihoods Socio-Economic Assessment, op.cit.

47 FinScope Uganda – Topline Findings Report, June 2018.

48 [https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?\\_ga=2.75724629.1931253350.1535659280-607546768.1530806353](https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353)

49 Humanitarian Innovation Project (HIP): Refugee Economics – Rethinking Popular Assumptions, June 2014.

50 ODI: Protracted displacement: Uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.

51 An average refugee household in two different settlements receiving cash food assistance increased annual real income in the local economy by Ugx 3.7-3.8 million (USD 1,106-1,072) in 2016. [https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?\\_ga=2.75724629.1931253350.1535659280-607546768.1530806353](https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353) (PDF)

52 [www.worldbank.org/en/topic/fragilityconflictviolence/brief/ugandas-progressive-approach-refugee-management](http://www.worldbank.org/en/topic/fragilityconflictviolence/brief/ugandas-progressive-approach-refugee-management) and Microfinanza, op.cit.

**Table 8**

COMPARATIVE ECONOMIC PROFILES				
INDICATOR	UGANDAN NATIONALS <sup>53</sup>		REFUGEES IN UGANDA <sup>54</sup>	
	Urban	Rural	Urban	In settlements
Labour market participation (%)	78%	62%	59%	38%
<b>% adults by job type:</b>				
Agricultural (subsistence)	14%	54%	5%	78%*
Private, formal (wage employ)	40%	20%	12%	4%
Private, informal (incl. casual)	44%	20%	31%	55%
Own business (self-employed)	31%	16%	52%	66-72%
<b>% adults who:</b>				
Rent their accommodation		28%	90%	27%
Own land		58%		2%, 50% have access
Unemployment (%) 2016/17	21%	8.3%		
% adults not working		20%	13%	33-66%
* Often in addition to a business, hence the percentages do not add up to 100%.				

Higher economic participation is closely correlated with longer duration of stay in exile, as well as with residence in either an urban or an established ('old') settlement. The choice of economic activity is most often determined by what refugees did for a living in their home countries.

In rural settlements, 78% of refugees overall are engaged in agricultural activities for consumption as well as for income. The main crops grown are maize, beans, sorghum, cassava, potatoes, groundnuts, and bananas. Animals reared include goats, cattle, pigs, poultry, and rabbits. Crop surpluses sold in the refugee settlements have enabled direct supply and value chains to develop, in which larger refugee transporters and traders as well as Ugandan traders are important actors. Especially in the older settlements, a variety of nonfarm activities supplement agriculture, including retail and some wholesale trade, restaurants, hairdressing, milling, transportation and money transfers. In the older settlements, the overall economic activity rate is 66-87%, whereas about one third of refugees that have arrived more recently are not (yet) economically active. Our validation survey confirmed that typical enterprise activities in e.g. Bidibidi and Palorinya settlements include vegetable vending in the local markets; motorcycle transport services, retail of general merchandise (soap, sugar, clothes, sugar, drinks and other household items); and hairdressing salons.

53 UBOS: Uganda National Household Survey 2016/17 and FinScope Uganda – Topline Findings Report, June 2018.

54 Reev Consult for UNHCR: Livelihoods Socio-Economic Assessment, op.cit. AGORA: Understanding the Needs of Urban Refugees and Host Communities, op.cit; and Microfinanza, op.cit. [forthcoming].

In the urban environments, some 16-18% of Burundian and Congolese refugees who have been in Uganda many years, are working in the formal sector, while 41-55% are self-employed.<sup>56</sup> The businesses of the Kampala-based Tumaini Savings Group of Congolese refugees included mini supermarkets; shoe and second-hand clothing wholesale and retail trade, integrated with the import trade of Chinese merchandise by wholesalers who sell off their wares by container loads at designated points to the Congolese middlemen who in turn sell them to retail outlets at a mark-up. While some refugee communities excel in specific businesses (e.g. Somali refugees rarely engage in agriculture, but focus on trade), there are no discernable differences between the types of businesses run by refugees and Ugandans, neither in settlements or in urban centres.

Fewer refugees than nationals access formal employment, and there are indications that more refugees than Ugandans run or want to run private businesses. Recent UNHCR monitoring exercises in 13 settlements recorded a total of some 24,500 microenterprises. Assuming each enterprise employs one person, these businesses currently engage 12% of all refugee adults.<sup>57</sup> In terms of self-employment, women refugees in the old settlement of Rwamwanja were among the most active at 34% in 2016, followed by Kampala at 33%, Nakivale at 32% and the older settlements in Adjumani at 22% in 2016. Start-up capital for these businesses is often received from I/NGO projects, but savings and loans from VSLAs and savings groups also play a big part, especially for women. Around 40% of women refugees were members of VSLAs in 2016, compared to 13% of men.<sup>58</sup>

#### 4.1.4 Financial Profiles: Income, Savings and Debt

Not all refugees are poor, but the competition for scarce resources, income opportunities, and services is most pronounced among people at the lowest economic echelons in any community.<sup>59</sup> Unsurprisingly, however, refugee households are on average more financially fragile than nationals, with 15% more refugee households earning less than Ugx 1 million per year (Euro 233), as per **Table 9**.

Fewer refugees than Ugandans work, and they earn less from the work they do. More Ugandans than refugees have a formal job, and earn more from those jobs, but more refugee households than nationals receive remittances, especially while still newly arrived – remittances do not necessarily continue for refugees as their stay protracts, and while most refugees receive money for upkeep, a significant number also receive money for business or trade purposes.<sup>60</sup>

More refugee households receive humanitarian assistance than is the case for Ugandans, but the Ugandan 70-30% model for sharing of humanitarian aid between refugees and host communities in settlements ensures some sharing also of this support.

55 Mercy Corps: Mercy Corps: Refugee Markets Brief – The Power of markets, op.cit.

56 [www.worldbank.org/en/topic/fragilityconflictviolence/brief/ugandas-progressive-approach-refugee-management](http://www.worldbank.org/en/topic/fragilityconflictviolence/brief/ugandas-progressive-approach-refugee-management)

57 Microfinanza, op.cit.

58 World Bank: An Assessment of Uganda's Progressive Approach to Refugee Management, 2016.

59 Stefanie Lämmermann for European Microfinance Network: "Financial Exclusion and Access to Credit", Social Watch, 2010, and ODI: Protracted displacement - Uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.

60 UNCDF: Uganda country assessment on affordable and accessible remittances, op.cit.

Table 9

TENTATIVE COMPARATIVES AMONG SUB-SEGMENTS OF POPULATIONS IN UGANDA		
INDICATOR	UGANDANS <sup>61</sup>	REFUGEES IN UGANDA <sup>62</sup>
% earning <Ugx 1 million/year	65%	81%
<b>Main source of income</b>		
a. Selling agricultural produce/livestock	43%	19-23%
b. Business revenue	20%	22-67%
c. Wages/salary (incl. casual/cash for work)	25%	15-30%
d. Soc/hum. assistance	3%	15%
e. Remittances	7%	4-15%
<b>Average income/month</b> Ugx per household		
Urban	703,000	148,500
Rural/in settlements	303,000	72-177,000
<b>Ave. expenditure/month</b> Ugx per household	480,000	100-400,000
Of which, on rent	27%	44%
Of which on food	35%	34%
Of which on education	29%	16%
Monthly finance gap	0-177,000	50-59,000
Gap cover strategies		
a. Borrowing (formal: banks/MDIs/MFIs)	21%	7%
b. Borrowing (informal/VSLA/friends)	79%	54%
c. Hum./soc. Assistance (NGOs)	2%	15%
d. Remittances from family/friends	2%	15%

Humanitarian agencies are gradually shifting from in-kind food aid to cash-based assistance and are moving from distributions made by in-house teams to distributions made via FSPs, e.g. PostBank and Equity Bank. Aid distribution can be an entry point to the refugee market for some FSPs, providing opportunities to cross-sell other financial products, but the 'graduation' of an aid recipient to an FSP customer is neither automatic nor guaranteed. UNHCR estimated that 9% of refugees received cash assistance, 73% received in-kind food assistance from WFP, and 5% received both in 2017. Within 13 surveyed settlements, around 25% of refugees receive cash assistance from UNHCR.<sup>63</sup> As at October 2017, some 70% of eligible refugee households in the southwestern settlements received cash rather than food aid, resulting in dramatically greater food security,<sup>64</sup> but in the old settlement of Nakivale, for example, only around 5% of refugees rely on aid as a main source of income. Cash assistance is a more important source of income in the newer settlements in the West Nile. Cash recipients in West Nile spent 67% of assistance on food, whereas 4% was used to save or repay loans, and 9% was spent on education.<sup>65</sup>

61 UBOS: UNHH Survey 2016/17, Chapter 8, table 8.2, 8.5, and AGORA: Kampala Assessment, op.cit.

62 Reev Consult for UNHCR, op.cit.; Microfinanza, op.cit., and AGORA: Kampala Assessment, op.cit., the various data sources reflected in the ranges in Table 9.

63 Microfinanza, op.cit.

64 [https://docs.wfp.org/api/documents/WFP-0000068375/download/?\\_ga=2.38693603.1766643285.1534328065-07546768.1530806353](https://docs.wfp.org/api/documents/WFP-0000068375/download/?_ga=2.38693603.1766643285.1534328065-07546768.1530806353)

65 [https://docs.wfp.org/api/documents/WFP-0000068376/download/?\\_ga=2.131425871.1766643285.1534328065-607546768.1530806353](https://docs.wfp.org/api/documents/WFP-0000068376/download/?_ga=2.131425871.1766643285.1534328065-607546768.1530806353)

While the level of income among refugees is lower than among Ugandans, the main sources of income of refugees differ only marginally, as illustrated in a smaller but more recent survey, replicated in **Table 10**.

**Table 10**

MAIN SOURCES OF INCOME AND MEDIAN MONTHLY INCOME FROM SOURCES BY SEGMENT <sup>66</sup>				
MAIN SOURCES OF INCOME	UGANDANS	INCOME/MONTH	REFUGEES	INCOME/MONTH
Business earnings/ odd jobs	49%	Ugx 83,333	45%	Ugx 50,000
Agriculture	39%	Ugx 50,000	24%	Ugx 10,000
Wages from jobs (formal/ informal)	8%	Ugx 133,333	6%	Ugx 30,000
Remittances	2%	Ugx 80,000	15%	Ugx 150,000
Social/humanitarian assistance	1%	Ugx 833	6%	Ugx 15,000
No income	1%	0	4%	0

Even if income levels are very low, the capacity to save on a regular, mostly weekly, basis is very high (especially among women refugees). In a small but recent survey, 40% of Ugandans saved, and by comparison, 20% of refugees in the old settlement of Nakivale, 23% of refugees in Kampala and even 11% of the newly arrived refugees in Bidibidi saved.<sup>67</sup> While some households keep their savings in livestock which they can quickly sell off, most refugees save with VSLAs, saving groups or ROSCAs.

Such savings and loan groups are prolific in all refugee settlements. An astonishing total of some 29,000 VSLAs, Savings and Credit Cooperatives (SACCOs) and savings groups have been recorded by UNHCR across 13 settlements in late 2017/early 2018. These groups serve both a social and a financial purpose, and are well appreciated by refugees. Most of the refugees we interviewed are saving to start a business, and/or to compile the minimum “compulsory savings amount” required for borrowing from VSLAs or SACCOs, but these small FSPs cannot meet the existing demand for credit. The average VSLA loan sizes are less than Ugx 300,000 (Euro 70), and not enough to start a small business.<sup>68</sup>

<sup>66</sup> UNCDF: Uganda country assessment on affordable and accessible remittances, op.cit. N = 120 FDPs and 48 Ugandans in Nakivale, Bidi Bidi and Kampala.

<sup>67</sup> UNCDF: Uganda country assessment, op.cit.

<sup>68</sup> <https://reliefweb.int/report/uganda/loan-cycles-innovation-researching-refugee-run-micro-finance>

A third of all credit to Ugandans are personal loans, primarily used for consumption (25%) and to pay for children’s education (23%), but 18% of all Ugandans borrowed for business purposes in 2016/17.<sup>69</sup> Borrowing is not a negative coping strategy, but over-indebtedness can be a problem in a fiercely competitive and partially saturated market like Uganda, where credit supply may outstrip repayment capacity. Multiple borrowing with the risk of over-indebtedness of households has been a concern in Uganda for many years. 55% of Ugandan microfinance clients had more than one concurrent loan from different FSPs in 2014. The regulatory requirement for licensed FSPs to submit borrower data to the central Credit Reference Bureau (CRB) was meant to clarify repayment capacity to FSPs. While 29% of microfinance borrowers had a financial card (CRB-verified credit history) in 2015, their Tier IV lenders were not subscribing to the CRB.<sup>70</sup>

**Table 11**

ILLUSTRATIVE COMPARATIVES OF FINANCIAL BEHAVIOUR AMONG SUB-SEGMENTS		
INDICATOR	UGANDANS <sup>71</sup>	REFUGEES IN UGANDA <sup>72</sup>
% who saved last year	53%	18-74%
<b>Main reasons to save</b>		
a. Cash flow smoothing	63%	5%
b. Asset acquisition (land, farm, business)	14%	18%
c. Operating/growing a business/investment	17%	66%
<b>Placement of savings</b>		
a. With formal FSP	34%	13-15%
b. With informal FSP (VSLA, SG, ROSCA)	50%	35-65%
c. At home	27%	28-37%
d. On mobile phone	23%	4%
e. In kind (stored grain, livestock)		14%
% who borrowed last year	46%	28-30%
<b>Main reasons to borrow</b>		
a. Cash flow smoothing/consumption	25%	10%
b. Education of children	23%	15%
c. Business equipment/capital/investment	18%	60%
<b>Source of credit</b>		
a. Formal FSP	6%	7-8%
b. Informal FSP (VSLA, SG, ROSCA)	52%	38-57%
c. Family/friends/neighbours	53%	35-63%

For refugees, who are more financially fragile, it is important for FSPs to avoid over-indebting new borrowers. Refugees in Uganda appear, however, to be well aware of the risk, and borrow significantly less than Ugandans, as illustrated in **Table 11**.

69 UBOS: Uganda National Household Survey 2016/17, Table 8.14.

70 AMFIU: Client Over-Indebtedness Study, December 2015.

71 FinScope 2018 and UBOS Household Survey, op.cit.

72 UNCDF: Uganda Country assessment, op.cit., Microfinanza , op.cit., and Reev Consult for UNHCR, op.cit.

Compared to the 40% of Ugandans surveyed in 2018 who had a loan, 39% of refugees in Nakivale, 22% in Kampala and 13% of refugees in Bidibidi had borrowed.<sup>73</sup> A different study mirrored these findings and found refugees to have borrowed on average Ugx 900,000 and had an average outstanding debt of Ugx 540,000 overall. This average loan size represents 56% of the average value of declared household assets.<sup>74</sup>

In a larger study from 2016, an additional 24% had tried to obtain a loan, but cited failure to raise collateral (43%) and failure to find credible guarantors (19%) as the main reasons, along with 6% of refugees who had experienced that “it was policy” of the FSP not to lend to refugees.<sup>75</sup>

#### 4.1.5 The Demand Profile – Matching the Needs

Many refugees demonstrate eagerness to establish economic activities (78% of refugees surveyed in 2018 planned to start a business<sup>76</sup>), while others want to expand their existing enterprises. Some have attended technical/vocational training (16%), while others have asked for support (including donations) from NGOs or relatives living abroad. 60% of recently surveyed refugees had already saved on average Ugx 200,000 and are expecting to save up to Ugx 1.5 million for their business. Around half of surveyed refugees are looking for credit at an initial level of Ugx 670,000 (up to Ugx 1-5 million for more established businesses), but credit to refugees is severely constrained.<sup>77</sup> There is a widespread demand for financial services among the refugees living in Uganda. There is hence a potential market for FSPs that are able and willing to offer credit, savings, money transfers, remittances, and other financial services to refugees.

##### **A secure and convenient place for savings**

Many refugees, especially in the rural settlements, belong to informal savings groups, and save regularly. The prolific number of saving groups used by refugee communities generally keep their money in boxes at the residences of the treasurers, and are prone to theft, fire and other risks of loss. In addition, most savings groups do not offer interest on savings. Refugees would like access to savings products that provide safety and bear interest, and FSPs should leverage the already existing saving groups and VSLAs as entry points, rather than establishing new, ‘proprietary’ (loan) groups. In addition, FSPs must recognise the inherent competitive concern of informal savings groups and SACCOs for cannibalisation – the prospect that licensed FSPs could potentially ‘steal’ their customers.

Savings need to be conveniently accessible, and thus relatively liquid, although some refugees would also consider fixed deposits for specific purposes (target products) or in return for a higher interest. In addition, mobile wallet accounts are well known and appreciated by many refugees, and understood as a convenient channel also for savings, especially among women refugees. However, refugees are price sensitive, and the 0.5% excise duty on each mobile money withdrawal levied on the recipient by Government of Ugandan recently may impact demand. In response, FSPs should note the demand for transparency – refugees prefer FSPs that publicly display fees, commissions and other costs of products.

73 UNCDF: Uganda Country assessment, op.cit.

74 Microfinanza, op.cit.

75 Reev Consult for UNHCR, op.cit.

76 Microfinanza, op.cit.

77 Ibid.

### **Box 1: Agent banking offers opportunities**

With agent banking regulations now in place, several FSPs are developing their agent networks. Centenary Bank has piloted more than 400 agents and hopes to have 1,000 agents by the end of 2018. The Centenary branch in Isingiro is considering an agent banking partnership with the MOBAN (Moral Brotherhood and Neighbour) SACCO in Nakivale, which is a refugee-owned and -managed FSP with 1,254 members, and total savings deposits of Ugx 1.054 billion as at June, 2018. Equity Bank has established more than 200 agents with support from UNCDF. A refugee SACCO in Bidibidi settlement has approached Kenya Commercial Bank to provide agent outlets within the settlement.

### **Credit for Business and Consumption**

VSLAs and SACCOs cannot meet the demand among refugees for business loans. Loan amounts are too small, and the product range is limited. SACCO loan amounts are limited by the amount of savings, shareholders have, and often require compulsory and illiquid savings of 20% of the loan amount. Most informal FSPs for example, do not offer asset financing, e.g. for solar panels or motorcycles, and many SACCOs do not provide loans for agriculture.

Refugees demand loans at an average of Ugx 540,000, but business loans in the Ugx 1 – 5 million range (up to Euro 1,170) are also in demand among settlement residents. The purposes of individual (or group) loans are no different than credit demand among Ugandans, and include business start-up and expansion, asset finance, as well as consumption or personal loans, especially to enable timely payment of the lump-sum school costs for children, including for tertiary education fees. In addition, some refugee-led SACCO members in settlements in the South West demand more specialised products, e.g. a post-harvest handling agricultural loan as requested by MOBAN members who are scaling up commercial agricultural production. All loan types and products so far registered as demand among refugee populations exist in the Ugandan supply market, and there is thus no need to develop new products specifically for refugees. In fact, this could signal a counter-productive favouritism of a specific sub-segment of customers, which existing clients are unlikely to appreciate.

Urban refugees in the fast-turnover trade sectors demand loans in the Ugx 3-5 million range but would prefer a shorter repayment period (3 months) to align better with their cashflow cycles. Conversely, start-up entrepreneurs in settlements complain that VSLA loans often have repayment terms that are too short for the cashflow cycles of small businesses in the settlements (e.g. honey production takes two years from start to harvest and sale). It is thus important for FSPs to offer business credit that aligns to the cashflow of financed businesses.

Credit from informal FSPs and SACCOs is not in general cheaper than formal FSP products (charged at 2-10% per month), but have less fees and commissions. FSPs should ensure full transparency, preferably at 'pre-application' information sessions to ensure that all terms, conditions and costs are fully understood by new customers. In addition, FSPs are advised to translate product flyers or brochures into languages relevant for targeted sub-segments of refugees, and augment the language capabilities of staff, e.g. to include Kiswahili.

Refugees have a good understanding of collateral requirements, and lament that FSPs often reject the collateral they can offer. Foreign-born residents in Uganda cannot own land, and titled property is a preferred security for loans among all FSPs. In lieu of land titles, refugees can offer savings deposits, chattel, and vehicle logbooks, and livestock or stored produce is commonly pledged as security when securing loans (see **Table 12**). Only one MFI in Uganda (RUFU) is able to accept land and property in South Sudan, given its cross-border operations. As microfinance is essentially relationship based, the prospective litigation and sale of physical collateral is perhaps less important than the incentive value of the security to its owner.

**Table 12**

EXAMPLE OF TYPICAL REFUGEE HH ASSETS FOR COLLATERAL <sup>78</sup>	
TYPES OF ASSETS	AVERAGE VALUE OF ASSETS (UGX)
Cash at home (n=7)	127,333
Savings in financial institution or VSLA/saving groups (n=27)	369,231
House/apartment (n=4)	3,225,000
Car or other means of transport logbooks (n=9)	1,854,500
Land (n=2)*	1,750,000
Livestock (n=15)	1,326,875
Enterprise equipment/machinery (n =15)	1,559,000
Other (n=7)	185,000
<b>Total assets as potential collateral on average</b>	<b>10,396,939</b>
* FBRs cannot legally own land, so even if a few refugees have purchased land privately, they are unlikely to have formal land titles in their names.	

The same principle holds true for guarantors. Many FSPs assume that nationals will be stronger guarantors, and require FBR clients to find a national (Ugandan) guarantor/referee for loans. Not only can this be difficult for many refugees (and other FBRs), but there is no evidence that a friend or neighbour will be a stronger guarantor for loan repayment than a 'power holder' within the refugee's own community. The strength of a guarantor is proportional to the reputational risk (of embarrassment or sanction) that the client would face upon the FSP calling the guarantor for repayment. For this reason, FSPs are cautioned against insisting on national guarantors, but the usage of introductory letters from the LC-1 (for urban refugees) or the RWC equivalent in settlements is a workable practice. In the same vein, trust levels and familiarity bonds are stronger within each refugee community than across nationality segments. In selecting loan groups, FBRs prefer their own community members and there is to date no evidence that FBR loan groups perform less well than mixed-nationality groups. In fact, the opposite is often true.

### Payments and remittances

Refugees express demand for easy and convenient access to deposit and withdrawal (cash-in cash out, CICO) services through digital channels and would like FSPs to expand mobile banking. From the demand-side, payment services extend to the provision of humanitarian cash assistance to beneficiaries' m-wallets, which refugee women and youth in particular, find to be a safer and more private way of receiving assistance.

78 Microfinanza, op.cit., p. 33.

Remittances in particular are in high demand among refugees (and other FBRs), primarily in the intra-African corridors. SACCOs and other Tier IV or informal FSPs are not permitted by the BOU to intermediate forex transactions. Regulated (Tier III) MDIs can and do act as agents for remittance providers, but they cannot transact in foreign currency, and refugees therefore have to cash out their incoming forex remittances in Ugx, often at unattractive exchange rates, and sometimes with ceilings for withdrawals. Refugees who receive remittances, especially from Europe and the USA, prefer to receive their remittances in USD and dislike having to exchange these into local currency. While agents of money transfer service providers exist in the settlements, the regulated agents e.g. of Western Union, MoneyGram, Express and World Remit are often located far from many residents, and are deemed expensive (at an average fee of Ugx 10,000 for every USD 100 received), or discriminatory in serving refugees.<sup>79</sup> Refugees expressed the need for a much cheaper delivery channel for their remittances, and we found a lack of knowledge among refugees that international remittances can be received into mobile wallets.

### **Box 2: Payments and remittances**

IFAD is funding PostBank to open accounts for at least 20,000 remittance-receiving refugees in a 3-year project, which started in 2017. DanChurchAid has run a pilot with Airtel to digitalize cash payments to refugees in Bidibidi in partnership with UNCDF. Other INGOs, including Norwegian Refugee Council, International Rescue Committee, and World Vision, are distributing digital cash assistance for WFP and UNHCR in several settlements.

All banks and many MDIs (with the above limitations) offer remittance services, and generally serve refugees and other FBRs who have ID documents. Payment products remain the area with the smallest demand-supply gap in Uganda.

### **Microinsurance**

Most MFIs, MDIs and banks underwrite their loan portfolios with an insurance against death of clients, which pays out an amount to cover burial expenses, and writes off outstanding loan balances. The cost of this insurance is transferred to clients at less than 1% of the loan balance, usually deducted before disbursement. Urban refugees in the Tumaini Savings Group queried the usefulness of this credit life insurance policy, and instead expressed a demand for fire, theft and stock insurance cover for their businesses, prepared to pay a premium for such additional microinsurance products. It is likely that crop and livestock insurance would be a welcome addition for many refugee farmers in the settlements as well, but so far, no microinsurance products appear to be available for refugees in Uganda.

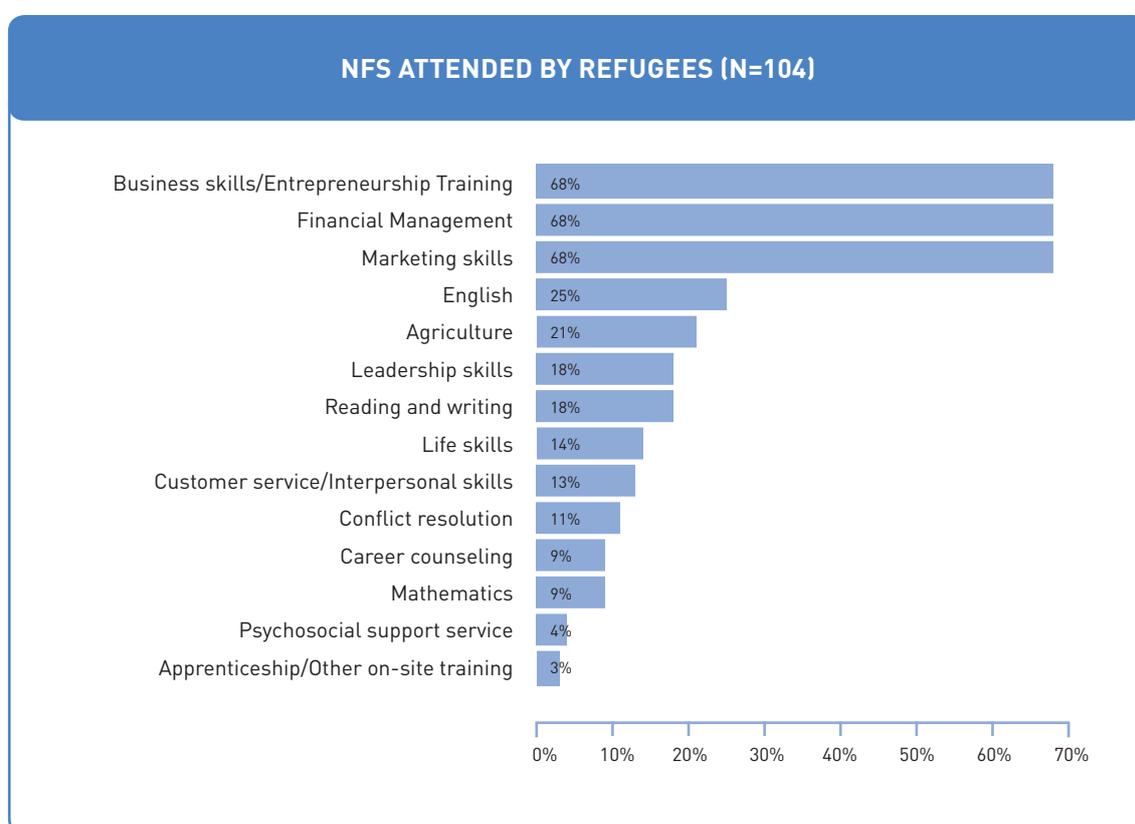
### **Non-Financial Services**

To augment the capacity for refugees to successfully run a micro-enterprise and thus better manage a loan, non-financial services (NFS) could be a very welcome add-on, if tailored specifically to the needs of sub-segments. Since 2013, the Bank of Uganda has had a Financial Literacy Strategy in place and five working groups have been formed to implement its activities,

79 UNCDF: Uganda Country assessment, op.cit.

which include the development of comprehensive trainings aids for (Ugandan) farmers.<sup>80</sup> Most NFS for refugees in Uganda has been provided by UNHCR-supported I/NGOs since 2010, and has included financial literacy and business management training, support to establish savings groups and VSLAs, as well as some vocational skills training. As part of the validation exercise, we asked refugees which NFS they had been provided, and the results (see **Figure 4**) confirmed the types of NFS on offer. Among all the trainings attended, the most useful to participants had been financial management (37%) and business skills training (34%), confirming the high level of entrepreneurial aspirations (see **Figure 5**).

**Figure 4**



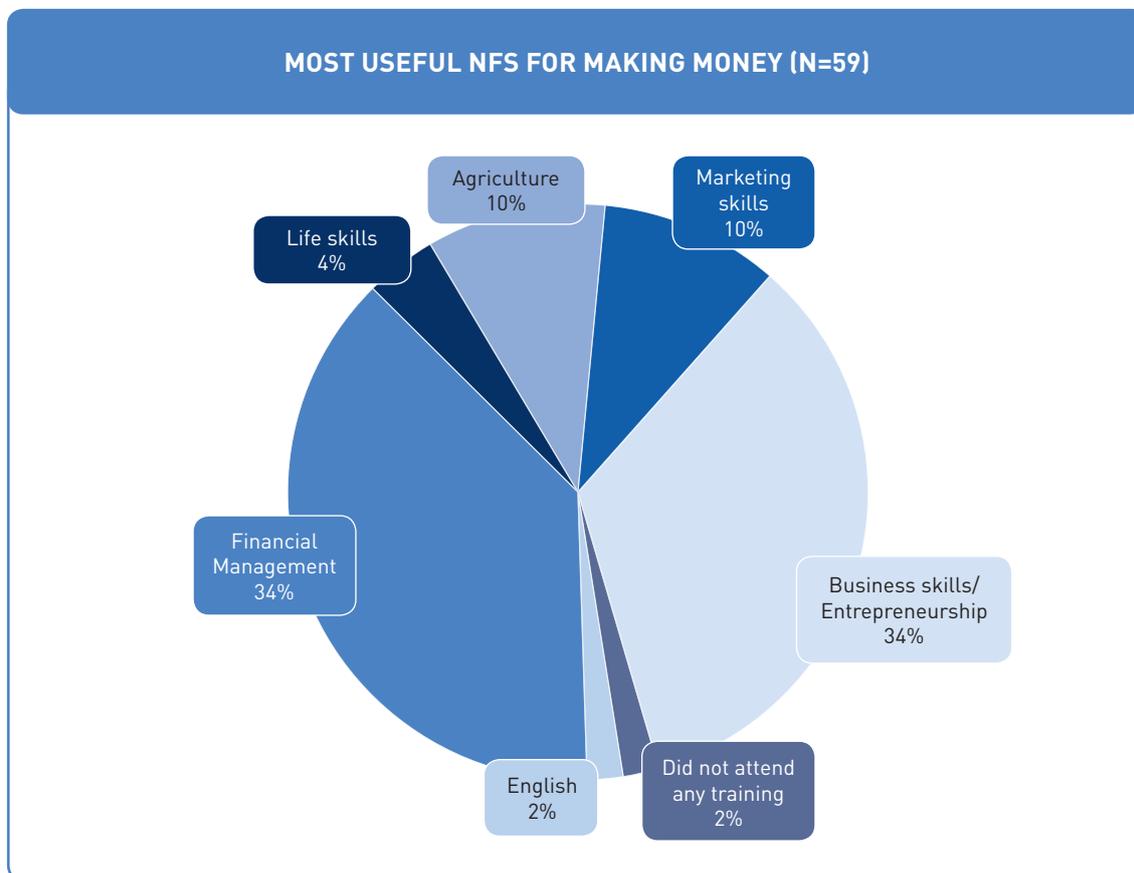
In Bidibidi (higher proportion of new arrivals), NFS has been considered useful. In addition, some FSPs prefer to target a sub-segment of newer arrivals with less prior experience and capacity, e.g. BRAC. For this segment, a range of tailored NFS, in particular BDS services geared towards strengthening the entrepreneurial acumen of potential loan clients, would be in demand, and serve to increase their chances of business success, and hence lower credit risk. NFS can also serve an important social networking and cohesion-building objective of integration between communities of Ugandans and refugees.

However, not every refugee client will necessarily need or demand NFS, especially not if s/he has already been running a business for many years. In Kampala, about half of refugees met, expressed appreciation of the NFS on offer, provided primarily by InterAid and the JRS training center, as well as by some FSPs. In Nakivale, refugees told a recent survey team that the provision of NFS was “an ‘excuse’ for not providing the necessary capital that people need.”<sup>81</sup>

<sup>80</sup> Bank of Uganda: National Financial Inclusion Strategy 2017-22.

<sup>81</sup> Microfinanza, op.cit., p. 50.

Figure 5



With appropriate segmentation, FSPs would be able to identify a first batch of new clients who would be capable of managing their loans and businesses without NFS. While demand-driven NFS can be very valuable, it is not a requirement for successful customer acquisition among well-segmented refugees in Uganda.

## 4.2 Competition

### Decision Point 2: How competitive is the environment?

*The national microfinance market is fiercely competitive and showing signs of saturation. Conversely, the market of FBRs including refugees is severely underserved with all products, except money transfers and remittances. The competitive pressure of free services by humanitarian I/NGOs could be transformed into more effective partnerships.*

The Ugandan banking sector is relatively crowded, and competition for deposits and payments (including remittances) is high among licensed FSPs. The national microfinance market, which includes licensed credit institutions (Tier II), micro-deposit taking institutions (Tier III), SACCOs, and credit-only (Tier IV) MFIs, is fiercely competitive and showing signs of saturation in some urban areas.

The market of FBRs including refugees, on the other hand is severely underserved, with only payments providers having begun serving the segment at any scale either directly (offering payments and remittances) or as distributors of cash-based assistance from protection and humanitarian organisations. Some banks have opened savings accounts for FBRs including a limited number of refugees, but formal FSP credit is extremely limited. DFCU, PostBank and Equity Bank have all engaged to various extents in the niche distribution of cash assistance from humanitarian agencies and INGOs to refugees via mobile or digital channels.<sup>82</sup> The refugee market segment thus presents as a market growth opportunity for first mover FSPs.

Competitive pressures can be expected from a credit risk perspective, as many I/NGOs are providing free in-kind business assets and supplies, grants and concessional loans to refugees for business start-up.<sup>83</sup> While these livelihoods projects are generally small in scale and one-off interventions, they could contribute to a level of credit market contamination (refugees confounding free services and repayable loans), especially in the West Nile. FSPs will need to distinguish themselves clearly from these providers of 'free services,' and ensure branches are able to segment the new target market segment carefully to avoid on-boarding customers with an entitlement or aid-dependent attitude. On the other hand, partnerships with the I/NGOs having specialised in livelihoods and taking a market systems development approach could be mutually beneficial. The key I/NGOs promoting more commercial linkages with private sector market actors in the West Nile include Mercy Corps,<sup>84</sup> DanChurchAid, Danish Refugee Council, and World Vision that are all members of the Livelihoods Cluster Technical Working Group led by UNHCR. A separate group of I/NGOs, MNOs and Telcos meet regularly in the Cash Technical Working Group.

### 4.3 Legal and Regulatory challenges

#### **Decision Point 3: What are the key legal, policy, and regulatory parameters to take into account?**

*Compared to most other markets, Uganda has a conducive legal, regulatory and policy-related environment that does not present obstacles for FSPs to serve refugees. However, FSPs need to adjust internal eligibility and appraisal criteria to be fully 'refugee-ready.'*

While 85% of Ugandan adults had a national ID card or similar personal identification documentation, only 15% could present KYC-compliant documentation of residence (address) in 2018.<sup>85</sup> Ugandan FSPs are therefore to some extent familiar with the need for alternatives to formal KYC documentation. However, a key concern of FSPs participating in the NpM Diagnostic Study was the legal status and documentation available to refugees, and their own ability to meet KYC requirements for refugees (and other FBRs). Refugee participants in our validation interviews confirmed that it is difficult for them to access formal financial services, due to their legal status. However, Uganda's famously progressive legislative framework for refugees<sup>86</sup> presents no specific regulatory constraints for their financial inclusion.

82 [www.unCDF.org/article/3755/uganda-country-assessment-on-affordable-and-accessible-remittances-for-forcibly-displaced-persons-and-host-communities](http://www.unCDF.org/article/3755/uganda-country-assessment-on-affordable-and-accessible-remittances-for-forcibly-displaced-persons-and-host-communities)

83 See e.g. <https://globalpressjournal.com/africa/uganda/despite-ugandas-worthy-efforts-refugees-south-sudan-challenges-still-around/>

84 See e.g. [https://www.mercycorps.org/sites/default/files/WestNileRefugeeMarketsBrief\\_MercyCorps\\_Feb2018\\_1.pdf](https://www.mercycorps.org/sites/default/files/WestNileRefugeeMarketsBrief_MercyCorps_Feb2018_1.pdf) (PDF)

85 FinScope Uganda: Topline Findings Report, June 2018.

86 The Refugee Act of 2006 <http://www.judiciary.go.ug/files/downloads/Act%20No.%2021of%202006%20Refugees%20Act2006.pdf> and the Refugee Regulations of 2010 <http://www.refworld.org/docid/544e4f154.html>

Irrespective of nationality, refugees and asylum seekers are registered and provided with travel documents (even if this may be a long and cumbersome process). As the counterpart for UNHCR, the OPM is mandated by the 2006 Refugee Act to “issue refugee identity documents (and numbers) to refugees and all members of their family (Art. 42).” The renewable Refugee Identity Card is valid for 5 years,<sup>87</sup> and refugees are required to notify the OPM of any change in their residence (Art. 47). The Refugee ID card and – as the issuance of these ID cards are often delayed – the Asylum Seeker Attestation Letters issued by the OPM meet the KYC requirements for personal identity, and can be verified with the RIMS, albeit currently only via email requests. As Refugee IDs are often only issued to the head of refugee households, the Asylum Seeker Attestation Letter may be preferred by FSPs, as it includes the names of all registered refugee family members.

Registered refugees and asylum seekers are entitled to free movement, have the right to own and dispose of movable property and to lease or sublease immovable property (but cannot own land), can engage in agriculture, industry, and business, can hold both formal and informal jobs, and can access Ugandan social, health, legal and education services. Uganda currently provides *prima facie* asylum for refugees from South Sudan and the DRC, and provides a (in some areas limited) plot of land to refugee households for their exclusive (agricultural) use. While permanent solutions to displacement (naturalization as citizens) are not *a priori* provided to refugees, and they therefore remain refugees for life, refugees can vote and be elected at the village level. As asylum seekers or refugees, East African Community (EAC) nationals are entitled to all the rights and privileges normally enjoyed by EAC citizens in Uganda.<sup>88</sup> This includes the right to enter and stay in Uganda with a national identification card from their EAC country of origin, and the legal parity between national ID cards of all EAC member states, including e.g. as personal identification to open a bank account. In earlier years, it was unclear (to some government agencies) whether refugees require a work permit,<sup>89</sup> but the consensus now, confirmed by OPM, is that refugees with a Refugee ID do not need work permits.

With a vision that “All *Ugandans* have access to and use a broad range of quality and affordable financial services which helps ensure their financial security,” the Ugandan National Strategy for Financial Inclusion (2017-22)<sup>90</sup> does not recognise FBRs or refugees. In general, the Bank of Uganda (BOU) has avoided issuing specific regulations or guidance related to refugees as customers of financial services. The BOU has on occasion issued letters in favour of financial inclusion of refugees, emphasising that the regulatory requirements in place for all customers need to be observed also for refugees.<sup>91</sup> These include:

- Regulations on Know Your Customer (KYC) and customer due diligence processes in the Anti-Money Laundering Act (2013), which require FSPs to verify the identity of a client, including true name, postal and residential address, employment status, and occupation;<sup>92</sup> and

87 The Refugees Regulations, 2010, FORM H, Regulation 42(3).

88 World Bank: An Assessment of Uganda’s Progressive Approach, *op.cit.*, referring to the Refugee Regulations [2010], Art. 9.

89 Refugees Studies Centre: Working Paper Series no. 86, *op.cit.*

90 [www.bou.or.ug/bou/bou-downloads/publications/special\\_pubs/2017/National-Financial-Inclusion-Strategy.pdf](http://www.bou.or.ug/bou/bou-downloads/publications/special_pubs/2017/National-Financial-Inclusion-Strategy.pdf) [PDF]

91 For example, letter from BOU to OPM of 07 November 2017 regarding Financial Inclusion of Refugees.

92 [www.bou.or.ug/opencms/bou/bou-downloads/acts/supervision\\_acts\\_regulations/Fl\\_Act/The-Anti-money-Laundering-Act-2013.pdf](http://www.bou.or.ug/opencms/bou/bou-downloads/acts/supervision_acts_regulations/Fl_Act/The-Anti-money-Laundering-Act-2013.pdf) [PDF] Art. 6.

- Rules on identification in the Financial Institutions (Anti-Money Laundering) Regulations 2010, which stipulate that “positive identification should be obtained from documents issued by official or other reputable sources such as passports or identity cards, drivers’ licence, or a voter’s roll card.” FSPs are required to check the address of applicants by appropriate means, such as recent utility or rates bills. However, the Regulations allow FSPs to obtain an introduction “if the prospective customer is unable to provide a valid address document.” Acceptable introductions can include letters from “the prospective customer’s employer, existing FSP customers, a member of the FSP’s staff, a registered accountant, lawyer/advocate, clergyman, headmaster and doctor or any other acceptable person or method of identification.”<sup>93</sup>

With regards to address verification, self-settled refugees may be able to provide a rental agreement signed by a landlord and a utility bill in the landlord’s names. Alternatively, refugees could be required to provide the allowable introduction, e.g. from LC-1 officials, Refugee Welfare Committees (RWC), or Block Leaders in settlements, and their residence could be physically verified by FSP staff.

A foreigner and members of his/her family may enter Uganda after obtaining a valid entry permit (EAC national ID, visa or similar), a certificate of temporary or permanent residence, or a pass.<sup>94</sup> Contracted FBR workers and employees may only enter Uganda with a valid work permit, which employers are expected to arrange if employment exceeds three months. Employers in Uganda are also supposed to file returns every six months with the Director of Immigration indicating the number of migrant workers in his/her establishment. Uganda has ratified most international conventions related to migrant workers.<sup>95</sup>

The Ministry of Gender, Labour and Social Development is responsible for the management of labour and industrial relations. The Employment Act guarantees the equality of opportunity for employment for persons who, as migrant workers or as members of their families, are lawfully within the territory of Uganda. Migrant workers that are legally resident in Uganda enjoy rights similar to those afforded Ugandan workers, including the right to practice their profession and to freely choose their employment, the right to equal pay for work of equal value, and the right to form or join a trade union. Conversely, it is unlawful for a person to employ someone without the appropriate papers, and if caught, irregular migrants can be (and have been) detained and deported from Uganda.

The Registration of Persons Act (2015)<sup>97</sup> transferred the responsibility to grant the required immigration permits, and to register and issue identity cards to foreigners (‘aliens’ in Uganda)<sup>98</sup> from the Ministry of Internal Affairs to the National Registration and Identification Authority (NIRA). This Act stipulates that NIRA shall issue a renewable Alien Identification number and card to all aliens, and that such a number and card shall be used to open a bank account and access financial services (among a host of other uses). This Act explicitly does *not* apply to “a refugee recognised by the Government and UNHCR under the 2006 Refugee Act.”<sup>99</sup>

93 [www.bou.or.ug/bou-downloads/acts/supervision\\_acts\\_regulations/FI\\_Regulations/FI\\_Anti-Money\\_2010.pdf](http://www.bou.or.ug/bou-downloads/acts/supervision_acts_regulations/FI_Regulations/FI_Anti-Money_2010.pdf) (PDF), Art. 7.

94 E.g. a dependent’s pass; student’s pass; or visitor’s pass.

95 See: [www.immigration.go.ug/content/work-permits-and-other-residence-facilities](http://www.immigration.go.ug/content/work-permits-and-other-residence-facilities)

96 Except the International Labour Organization Convention No. 189 (2011) concerning Decent Work for Domestic Workers.

97 [www.nira.go.ug/wp-content/uploads/Publish/Registration%20of%20Person%20Act%202015.pdf](http://www.nira.go.ug/wp-content/uploads/Publish/Registration%20of%20Person%20Act%202015.pdf) (PDF)

98 UN Committee on the Protection of the Rights of All Migrant Workers and Members of Their Families: Consideration of reports submitted by States parties under article 73 of the Convention pursuant to the simplified reporting procedure Initial reports of States parties due in 2004 – Uganda (report received by UN in 2015).

99 GOU Registration of Persons Act, 2015, Article 1: Application.

- Non-refugee FBRs can register with NIRA at the cost of USD 100, by providing copies of their passport, work permit, or Certificate of Residence.<sup>100</sup>
- Foreign-born residents can apply for a Ugandan Certificate of Residence upon marriage to a Ugandan citizen, or for 'long stay' (which requires evidence of socio-economic or intellectual contributions to the development of Uganda, and costs USD 2,500). While the processes require a significant number of documents, it is a possible pathway to legal residence.<sup>101</sup>

Compared to most other markets, the legal, regulatory and policy-related external factors that may limit access by refugees and other FBRs to financial services are minimal in Uganda, and should present no obstacles for FSPs to serve refugees. However, without specific guidance from the financial sector regulator, some FSPs have developed their own internal regulations curbing access by FBRs to services, sometimes citing regulatory requirements, and many FSPs need to adjust internal eligibility and appraisal criteria to be fully 'refugee-ready.'

<sup>100</sup> [www.nira.go.ug/index.php/registration-of-aliens-2/](http://www.nira.go.ug/index.php/registration-of-aliens-2/)

<sup>101</sup> See: [https://visas.immigration.go.ug/#/help/certificate\\_of\\_residence](https://visas.immigration.go.ug/#/help/certificate_of_residence)

## 5. INSTITUTIONAL LEVERS: INFRASTRUCTURE, CAPACITY, AND OPERATIONS

The NpM Diagnostic Study spent 1-2 days with management and staff at the head offices of each participating FSP to assess institutional levers, opportunities and challenges to the inclusion of refugees, broadly following the preparatory process for FSPs to include refugee and other FBR segments, as recommended in the global FSP Guidelines,<sup>102</sup> and summarized in **Box 3**.

### Box 3. Six Preparatory Steps for Including Refugee Clients

1. Conduct a scoping study
2. Generate the strategy
3. Make contact and conduct market research
4. Segment potential clients
5. Adjust eligibility and appraisal criteria
6. Conduct a pilot test

Based on the assessment, a 1 day Action Planning session was held with management and staff to map out recommended preparations or next steps in the process of helping each FSP become fully 'refugee-ready.' This section summarizes the key issues discussed. Each FSP has received a detailed Action Plan to guide its preparation processes.

### 5.1 Motivation and Rationale

#### Decision Point 4: What are the key motivations (rationale) of the FSP's engagement?

*All four participating FSPs acknowledged that serving refugees (and other FBRs) would align with their social mission, could present an important growth opportunity; and would provide reputational gains.*

The four FSPs participating in the NpM Diagnostic Study are very different, comprising a commercial (microfinance) bank, a licensed micro-deposit taking institution (MDI), and two Tier IV MFIs at the opposite extremes of the spectrum of size. Three of the FSPs have refugees on their books already, but only the newest and smallest MFI has a sizeable proportion of refugee customers in its loan portfolio, and stands out as one of, if not the, first cross-border MFI in East Africa.

All four institutions readily acknowledged that serving refugees (and other FBR) would align with their social mission, and hence be a social imperative. In addition, all four saw the FBR segment as a potentially important growth opportunity to meet financial goals in a national market, which is fiercely competitive and reaching saturation in some urban areas. There was also understanding of the reputational gains (visibility with funders and investors and the broader financial services industry) likely to arise from serving refugees and other FBRs as a first mover in the market. Only the cross-border MFI recognised the potential that serving refugees in exile now, could develop into an opportunity for expansion of operations in neighbouring States later.

Across departments, there was general buy-in for the prospect of on-boarding refugees for deposit and payment services, as well as for exploring credit offerings, as long as the business case could be demonstrated and the perceived risks could be mitigated. Senior management and boards, if they had been informed of the option, were generally supportive, but needed more

102 <https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf> (PDF)

information for decision-making. Whereas the initiative was driven by the business development departments in three of the four MFIs, frontline staff at branch level in one FSP was particularly eager to proceed.

## 5.2 Infrastructure and Capacity

### **Decision Point 5: What are FSPs' infrastructure and operational capacities for inclusion of refugees?**

*The FSPs generally have well placed infrastructure to expand into the new client segments. Capacity to serve refugees vary among the four FSPs, but with a strategy informed by feasibility studies in specific locations and backed by institutional buy-in, at least three FSPs could expand to serve different segments of the refugee market in the coming year.*

*While FSPs perceived legal KYC procedures and credit risk mitigation to be the biggest challenges, adjustments of internal policies and procedures is in fact the area where all four FSPs have the most work to do to become fully refugee-ready. In particular, eligibility criteria and collateral requirements for loan products would need adjustments. These adjustments have been detailed in the individual Action Plans.*

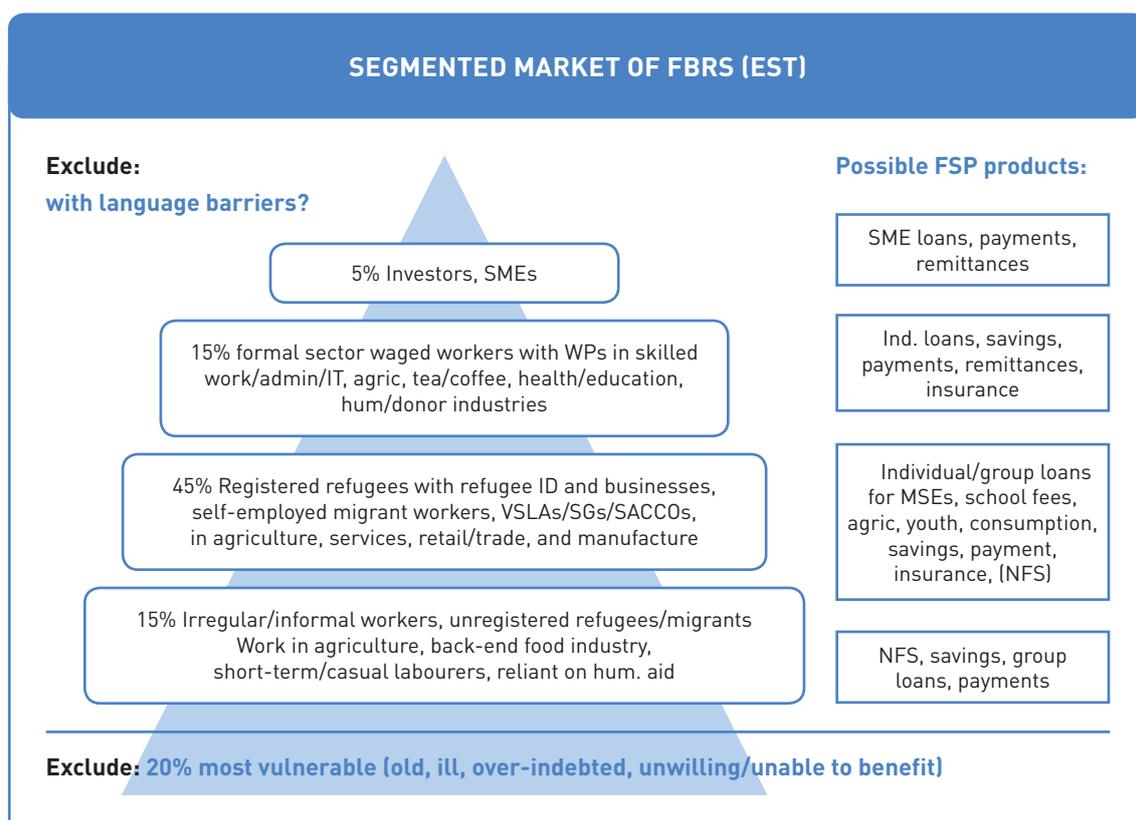
In terms of **infrastructure**, all four FSPs had branches located within reach of some settlements. Whereas the branches of both the commercial bank and the MDI are all located in main trading centres and thus far from actual settlements, both FSPs had digital delivery channels and expansion plans that could facilitate better access for up-country refugees, in addition to their branch networks in Kampala. One of the participating MFIs already had a branch located in a refugee settlement with the express purpose of serving former clients from South Sudan, who are now refugees in Uganda. In terms of outreach, therefore, all four FSPs are well placed to expand into the new client segments.

Levels of 'refugee readiness' and thus **capacity** for serving refugees well differed significantly among the four FSPs, but all four acknowledged that the key concerns listed in advance of the NpM Diagnostic Study were perhaps based more on a lack of data, information and familiarity with refugees (and other FBRs) than on actual capacity constraints. The commercial bank is the most robust in terms of organisational capacity, and has an unusually high level of delegated authority to branches, which has in effect enabled branches to serve some refugees without necessarily informing head office. Several branches consider themselves ready to serve refugees locally, and are keen to proceed. However, in all four FSPs, the preparatory and pilot processes to serve (more) refugees would compete with a number of other priority institutional development processes, new product roll-outs, and organisational projects requiring staff attention. As a new initiative not yet linked to incentive schemes or targets, the expansion to serve refugees might not be allocated the staff time and resources that the recommended operational adjustments would require. For three of four FSPs, a specific internal structure to coordinate, communicate and manage the process of expansion to include refugees was recommended. One FSP is currently undertaking a massive organisational transformation, which would perhaps suggest that an expansion to serve refugees should be postponed till clarity on new share ownership, governance, and compliance to new regulations including upgrading of branch infrastructure has been completed, and the new range of products to be developed has been decided upon.

Across the four FSPs, **products** exist that meet some or all of the demands identified among refugee clients. There would be no need to develop specific products, and this could in fact be counter-productive for a truly inclusive portfolio. Regulatory limitations dictate what FSPs can and cannot offer, but within the existing product ranges of the four FSPs, there are sufficient products matching the demand within at least sub-segments of the new potential market. In addition to regular deposit, savings and remittance products, the wholesale savings and group loan products specifically targeting VSLAs and SACCOs would seem a good match, given the many existing refugee-led VSLAs. Products delivered digitally at transparent and affordable costs are likely to be popular, especially among women and youth. FSPs were cautioned against proceeding with ‘double-new’ expansions (a new product/channel to a new segment), but rather to start with products that are well-known to frontline staff. The FSPs had very different **approaches to NFS**, both in terms of staff time allocation, partnerships, and financing. None of the four FSPs, however, had systems in place to calculate their onboarding ratio (NFS participants/new clients), or the total client profitability ratio, including costs of NFS per client. While not an urgent need, all four FSPs were encouraged to track costs of NFS per client to be able to calculate total profitability (and cross-sale ratios) in the longer run, as investments in NFS are necessarily a cost driver.

FSPs requested additional information on how to contact and ‘KYC’ refugees. In addition, as can be expected in a competitive market, **client segmentation** was not strongly enforced in any of the four FSPs, and three FSPs specifically requested additional technical assistance for refresher training and tools to help frontline staff segment the new potential market to identify the sub-segments each FSP can best serve (see **Figure 6**). These sub-segments differ sufficiently among the four FSPs to minimize direct, local competition for new refugee clients, either by target segment characteristics, or by geographic focus, or both.

**Figure 6**



**Policies and procedures** was the area in which all four FSPs had the most work to do to become fully refugee ready. While two FSPs had product policy formulations that specifically excluded FBRs, all four FSPs would need to adjust procedures, criteria and formulations in policies, manuals, application forms, and loan contracts to some extent in order to on-board FBRs, and train staff accordingly. In particular, eligibility criteria and collateral requirements for loan products would need adjustments. Operational adjustments extended to the client identification and **monitoring systems, and the MIS**. For example, only one of the four FSPs had included 'Refugee ID' as an option in the menu of 'personal ID types' in the client registration page. Two of the four FSPs have recently or are currently migrating onto a new core banking system/MIS, and two are considering an upgrade, with all the associated short-term business disruptions, but for all four FSPs, the upgrade was/will be necessary to secure growth management going forward. In addition, all four FSPs could underpin their increased outreach to FBRs by translating marketing materials (product flyers, etc.) into additional languages, and strengthen the language capabilities of customer-facing staff at branch level and in call centres.

The four FSPs have different levels of liquidity **and available financing** to invest in a portfolio of credit to refugees/FBRs. Three of four FSPs have internal capital available to provide services to refugees/FBRs, but would welcome a partial credit guarantee to buy-down perceived risk of the inclusion of refugees, if the pricing is not excessive. Two of these FSPs already had a potential provider in mind for such a guarantee.

### 5.3 What will it take for FSPs to become (more) refugee-ready?

*The Action Plans set out preparatory or growth steps for each FSP to be elaborated into a strategy. The total indicative growth target by all four FSPs was to reach between 4,660 and 20,000 refugee borrowers by end of year 1. The FSPs had cross-cutting requests for external technical assistance (TA) and support to make this happen. The total indicative budget envelope to meet the TA requirements and operational grant support was Euro 1,035,245 (differing among the four very different FSPs).*

An Action Plan has been developed with management and staff for each FSP, which includes recommendations related to target markets, capacity improvements, and policy and operational adjustments in order to become (more) refugee-ready. None of these adjustments would excessively disrupt ordinary business, if detailed in a Strategy, supported by the Board and top management. In developing the Action Plans, the FSPs considered attainable targets in terms of refugee borrowers served by end of year 1. The total indicative target for all four FSPs was a **minimum of 4,660 credit clients reached and a maximum at end year 1 of 20,000 credit clients reached** (targets were set in number of borrowers, as 2 of 4 MFIs require borrowers to open deposit accounts prior to accessing credit products).

As part of the Action Planning process, FSPs also outlined expected **areas of technical assistance required** to proceed. While the Action Plans differ with existing levels of capacity, approach, and robustness of current systems and procedures, there were cross-cutting requests for external TA and support in the following areas:

#### **Information:**

- Case studies of FSPs having successfully included refugees, and benchmarks on refugee performance;
- Data and information sharing (UNHCR/OPM, Livelihoods Technical Working Group, Cash Working Group)
- Impact of US/UN regulations (sanctions) on remittances from sanctioned countries, and reactions from correspondence banks to receipt of remittances from such countries.

### Finance:

While three of four FSPs had capital available to expand lending to refugees (and other FBRs), the smallest MFI requires additional capital to expand and fully leverage its cross-border structure. Three of four FSPs would welcome a partial credit guarantee to buy-down perceived risk of the inclusion of refugees, if the pricing is not excessive. Two FSPs already had potential providers in mind for such a guarantee.

### Operational grants:

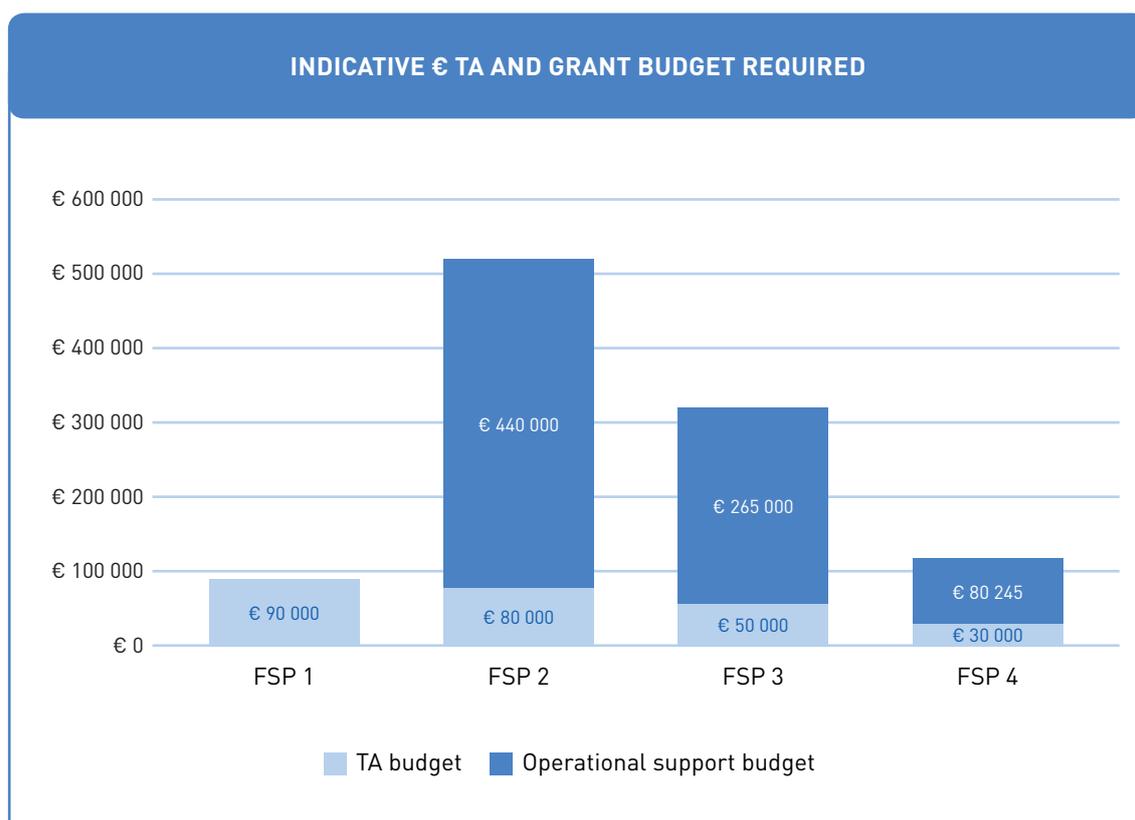
Three FSPs requested operational (grant) support to open new branches/outlets, or upgrade, staff, and operate existing branches piloting financial inclusion of refugees. The smallest MFI in particular needs **operational grant support**/equity to consolidate its cross-border structure, including the upgrade of its MIS, but it has significant competitive advantages for such an expansion.

### Technical assistance for:

- (TOR for) Feasibility study and strategy development, including for non-refugee FBRs;
- Staff training/sensitization, marketing, and making contact to refugees (partnerships);
- Client segmentation, data collection, monitoring, and credit risk management (KPIs, indicators);
- MIS adjustments (output report design and analysis of performance indicators); and
- Pilot project design and monitoring/review.

The indicative budget envelope to meet the TA requirements and requested operational grant support for branch expansion or upgrading of the four FSPs was **Euro 1,035,245**. This total was of course not evenly distributed among the four very different FSPs, as illustrated in **Figure 7**.

**Figure 7**



Finally, three **innovative solutions or partnerships** emerged from the NpM Diagnostic Study process:

1. Unexpectedly, all four FSPs individually expressed a longer-term desire to improve their portfolio performance monitoring, and in particular to incorporate better **Social Performance Management (SPM)** and client protection practices, and saw the expansion to serve refugees as an opportunity to make this investment. FSPs agreed that it would likely require external technical assistance to review and select SPM indicators (on client outcomes) that they would be able to reliably track and monitor over time;
2. FSPs recognise humanitarian agencies and development I/NGOs as convenors of potential clients and as NFS providers, but also as unfair competition and a risk to the soundness of the potential credit market, given that their services, business start-up kits and seed capital are usually free of cost for recipients. Informed by the Market Systems Development approach of key livelihoods I/NGOs in Uganda, however, all FSPs expressed interest in consulting with these organisations on potential **alternative models** to the typical grant-funded business development services and **'livelihoods interventions'** for refugees to reduce the risks of entitlement or dependency on the part of refugees, and of market destruction or displacement that free services can cause.<sup>103</sup> Such alternatives could see 'social enterprise' partnerships developed between I/NGOs and FSPs to link business-related NFS and financial services in ways that might present a lower risk of credit market contamination, e.g. through savings during training; training certificates with 'grades' potentially used as part of FSP segmentation/appraisals; and/or blended asset financing (grant + lease) for business equipment;
3. A specific innovative partnership was forged between two participating FSPs in the NpM Diagnostic Study process. A **linkage or agent banking** relationship is being explored by the commercial bank and one of the MFIs, to enable the MFI onboard depositors (and remittance customers) for the bank, against debt or equity finance from the bank for increased lending to refugees by the MFI, and thus sharing the perceived risk of the new segment.

In conclusion, the Diagnostic Study aimed to compile, validate and present data on the potential market of refugees and other FBRs in Uganda to the four participating FSPs in a manner that would make this largely unknown segment more approachable and assessable. The Institutional Assessments aimed to understand the unique networks, products, processes, and challenges of each FSP sufficiently to suggest ways each FSP could exploit its comparative advantages to serve (more) refugees. Suggestions were discussed in detail during the Action Planning sessions with each FSP to arrive at a tentative plan for engagement with refugees and/or other FBRs, including an outline of the required support from investors, funders, and TA providers. Four individual Action Plans have been submitted as a basis on which each FSP can elaborate its strategy and determine next steps. The NpM Diagnostic Study concluded with a wrap-up session at a Microfinance Industry Information Exchange event co-hosted by AMFIU. At this event, all four FSPs shared their learnings from the Diagnostic Study process and discussed challenges and opportunities with some 70 participants representing other FSPs, government, I/NGOs and other industry stakeholders.

<sup>103</sup> As explicitly recognised, e.g. in the recent Strategic Agreement between UNHCR and Government of Rwanda, there is a need to "rebuild the markets for those goods that are currently being provided for free to allow refugees and host community members to build their livelihoods around the provisioning of these essential goods or services, as well as built markets for goods or services not previously available to refugees. See: [www.unhcr.org/rw/wp-content/uploads/sites/4/2017/02/Economic-Inclusion-of-Refugees-in-Rwanda-Final-Version.pdf](http://www.unhcr.org/rw/wp-content/uploads/sites/4/2017/02/Economic-Inclusion-of-Refugees-in-Rwanda-Final-Version.pdf) (PDF)

The demand profile of refugees in Uganda is very similar to that of Ugandans, and there is no need for new or specific products to be developed for refugees. There are also no reasons to believe that inclusion of refugee clients in an increasing number of existing products would reduce profitability of these products. However, FSPs would need to train staff, and adjust internal policies, procedures, and criteria to become fully 'refugee-ready,' as detailed in the Action Plans. With adjusted approaches, the FSPs could expect an increase in both credit and non-credit revenue from remittances and payments, as well as in deposits and mobile wallet usage (for the FSPs licensed to offer these products). Refugee borrowers may perform better than nationals in terms of repayment, and client retention may also be higher among refugees, as they currently have less choices of providers, and are likely to display a higher level of loyalty to FSPs that come forward to serve them first. The impact of the expansion on the FSPs' profitability will obviously depend on the scale and speed of growth within the new market segment.

Despite the perceived risks of expansion into the new segment of refugees, it is hard to identify other growth strategies for the participating FSPs which would currently present a better social and financial return than serving refugees (and other FBRs) in Uganda. Conversely, it is likely that the opportunity costs of *not* including refugees would be significantly higher than their gradual inclusion on equal terms to national clients.

# ANNEX: PROCESS OF OBTAINING A REFUGEE ID IN UGANDA<sup>104</sup>

