



BANK OF UGANDA

# UGANDA NATIONAL *e*-PAYMENTS STRATEGY 2021-2026

The National Payment System Strategy [NPSS] builds on the National Payment System (NPS) Policy Framework (2017), the BoU Strategic Plan 2017-22, the National Financial Inclusion Strategy 2017-22 and the Country's National Development Plan (NDP III). It is a product of consultations with the key stakeholders in the financial sector including, the supervised financial institutions, the Payment System Providers/Operators (fintechs) and the Uganda Bankers Association. It is anchored on the opportunities provided by fintechs to promote innovations and competition in the Ugandan payments ecosystem. The NPSS is also aligned to the National Payments Systems Act 2020 thus aims to promote safe, efficient and inclusive payment systems in the country. The BOU Strategic Plan 2017 - 2022 lists the promotion of e-payments as one of the strategic initiatives aimed not only at enhancing financial system development and stability but also to minimise the use of cash and the associated costs of managing it.

Payments systems provide an entry point into the formal financial sector and this implies that payment systems and Fintechs play a pivotal role in the promotion of financial inclusion. According to the FINSCOPE Uganda Survey 2018, financial inclusion in Uganda stood at 78% while access to formal financial services was at 58%. The report further noted that 56% of the adult population in Uganda access formal financial services through the mobile money financial services, thus reflecting its importance to the national financial inclusion agenda. In addition, a 2020 survey conducted by FSDU to track the impact of the COVID-19 pandemic revealed that mobile money services were the most popular form of financial services accessed by Ugandans (54% usage).

In light of these findings, a financial sector-wide strategy for the promotion of electronic payment systems is required to harness the current innovations in the payments ecosystem.

## **Vision**

The strategy vision is; *"Empowering Ugandans with a broad range of innovative e-payment options which are safe, efficient, accessible, convenient and inclusive"*

## Strategic Priorities

Arising from the stakeholder consultations, infrastructure and interoperability challenges were noted to be key cost drivers, while some regulatory restrictions emerged as barriers to innovation. Other common issues included cyber security and consumer protection concerns. Based on these findings, the following strategic objectives will guide the pursuit of the national vision for e-payments over the NPSS period (2021 – 2026).

### Strategic Objectives



**Promote** Infrastructure Development and Interoperability.



**Operationalise** the NPS Act, 2020 and ensure adequate Legal and Regulatory Framework.



**Foster** Innovations, Competition, Consumer Protection & Digital Financial Literacy.



**Strengthen** Collaborative arrangements with SFIs, Fintechs, Gov't MDAs and Development Partners.

Each of the above strategic priorities will be supported by detailed initiatives in the short term, medium and long term as laid out on the following page.

## Monitoring and

### Evaluation

As part of performance assessment, a special monitoring and evaluation framework is proposed which aims at leveraging on the collaborative arrangements between Bank of Uganda and the key stakeholders with appropriate risk management and regulatory approaches. The Uganda Bankers Association Chief Executive Officers' forum and the Fintechs CEO forum [for payment system operators and payment service providers] will be key platforms for monitoring progress on the agreed actions.

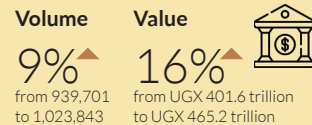
Bank of Uganda will communicate the agreed annual targets to promote e-payments to each UBA member and Payments Service Providers with specific timelines which will be monitored on quarterly basis to assess performance/progress.

# Key Trends in the National Payment Systems

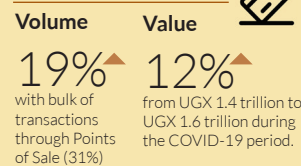
Electronic payments in Uganda have been characterized by transformative innovations that leverage technology to ease the speed, convenience and cost at which transactions are executed. However, cash transactions remain high, projected at 80% of total transactions (FINSCOPE 2018 Survey). This attracts handling costs, currency printing costs and the related cash processing risks.

Although the actions implemented to promote e-payments have so far had varying levels of success during the BOU SP 2017/2022 implementation period, the movement and social distancing restrictions imposed by Government to address the spread of Covid-19 pandemic provided an opportunity for increased public adoption of e-payments. Significant increase was noted in the use of electronic payments during the year 2020 when compared to 2019.

### UNISS [RTGS] Transactions



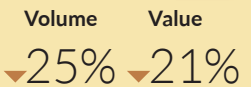
### Card Transactions



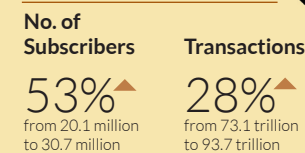
### EFTs



### Cheques



### Mobile Money



The monthly velocity of mobile money reached UGX.10.6 trillion in March 2021 with the Escrow account balance of UGX. UGX.1.03 trillion.

# Outcomes from the Stakeholder Engagements

NPSD held consultations with the key stakeholders, including the Uganda Bankers Association, Supervised Financial Institutions, Payment Service Providers and Payment Systems Operators and the Membership of the Fintech Services Providers Association. The common outcomes from the consultations are highlighted below.

includes mobile communication and internet services which affects the delivery of digital financial services. Additionally, the current settlement systems are only available during business hours, therefore limiting the window within which financial transactions can be settled.

- Low levels of financial and digital literacy:** Whereas the general level of financial inclusion in Uganda increased to 78 percent in 2018 from 52 percent in 2013, financial literacy levels remain low. This therefore calls for a deliberate effort to build customer confidence in the e-payments and related digital financial services.
- Limited interoperability:** This remains a key barrier to the adoption of digital payments, mainly because it increases transaction costs on settlement which are eventually passed on to the customer. It also increases the points of failure in the transaction process and affects efficiency. The promotion of shared infrastructure such as a national switch can support interoperability and contribute to a reduction in transaction costs through economies of scale.
- Large informal sector:** Uganda remains a predominantly cash based economy, with a significant informal sector. This constrains efforts to promote the usage of financial services.
- Poor and limited network connectivity:** This
- High transaction costs:** Owing to the limited interoperability, the high cost of compliance and significant infrastructure costs, the transaction costs for electronic payments are considered high. This remains a major barrier especially for the bottom of the pyramid customers.
- Reported cases of fraud and cybercrime:** This combined with low levels of financial literacy undermines confidence in the systems, creates fear and lack of trust from the financial services consumers.
- Regulatory concerns:** Despite the enactment of the National Payment Systems Act, 2020 and the Regulations thereunder, concerns have been raised by stakeholders over some of the licensing requirements which are considered stringent and that might impede innovation. Similar concerns have been raised for the recruitment of bank agents under the Financial Institutions Act, 2004. Relatedly, the delayed amendment of the Microfinance Deposit-taking Institutions Act, 2003 to allow for agent banking services is considered a major regulatory restriction.

# Initiatives, Deliverables, Timelines, and Outcomes

Strategic priorities	Initiative/Activities	Deliverable/ Milestone	Timeline	Outcome	Responsibility
1. Promote Infrastructure Development & Interoperability	1. Replicate data for PSPs at BOU.	1. Business case for the data replication project 2. Server installed at BoU	Jul. - 2021 Sept. - 2021	1. Independent data access, security & activity monitoring by BOU 2. Prompt corrective actions	BOU NPSD PSPs
	2. Establish a National Switch	1. Feasibility study report. 2. Business case for the national switch 3. Project Initiation Document (PID)	Jun. - 2021 Jul. - 20 21 Dec.- 2021	1. Ownership & Governance Structure 2. National Switch Project 3. Increased Transparency 4. Stakeholder involvement	BOU - NPSD UBA - DFS & Investment Committee SFIs/PSPs/ Fintechs AfDB/FSDU
	3. Support e-KYC	1. e- KYC interface systems for SFIs, PSP/O, fintechs etc.	Dec.-2021	1. Increased use of e-KYC solutions 2. Increased use cases/ adoption of e-payments	BOU - NBFI/NPSD NIRA NITA UBA - DFS Committee Fintechs/PSPs
	4. Integration security depositories (USE )	1. BoU and USE RTGS Interface	Jun.- 2022	1. Integrated securities trading platforms and RTGS 2. Increased Activities	BOU - NPSD/ BAUD USE CMA
2. Operationalise the NPS Act, 2020 and ensure adequate Legal and Regulatory Framework	1. Implement the regulatory sandbox framework and regulations	1. Vibrant Fintechs/ financial innovations office	Ongoing	1. Success stories 2. Increased e-payments use cases 3. Entities graduating from the sandbox 4. Lessons learnt 5. Trained Staff and adequate resources	BOU - NPSD Fintechs Dev't Partners
	1. Review the NPS Act & Regulations.	1. Revised minimum capital requirements for PSPs/ e-money issuers.	Jun. - 2021	1. Reduced regulatory barriers. 2. Increased DFS use cases. 3. Increased use of e-payments	BOU - NPSD MOFPED FPC
	2. Harmonise the requirements for Banks and other SFIs.	2. Guidance note on application of the NPS Act to SFIs.	Sept-2021		
	1. Develop guidelines for management/ distribution of the interest earned on trust accounts for the benefit of the customers.	1. Guidelines for the management/ distribution of interest.	Sept. - 2021	1. Fund for customer oriented sector Payment ecosystem development. 2. Improved Infrastructure/ connectivity 3. Reduced costs 4. Increased use of e-payments	BOU - NPSD PSPs
	4. Review the Agent Banking Regulations 5. Amend the MDI Act, 2003 to allow MDIs to conduct agent banking.	1. Amended Agent Banking Regulations 2. Regulations Gazzetted 3. Amended MDI Act, 2003 4. Consumer Protection Regulations	Sept - 2021 Sept - 2021 Dec. - 2021	1. Expanded reach of agent banking services that involves MDIs. 2. Reduced regulatory barriers for agent banking 3. Increased uptake of DFS & Financial Inclusion	BOU - CBD/NBFI MOFPED FPC UBA
	6. Collect and analyse data on e-payments 7. Disseminate information to key stakeholders.	1. Quarterly statistical reports to stakeholders 2. Policy recommendations	Jul.- 2021 onwards	1. Policy/regulatory interventions informed by empirical evidence. 2. Empowered & protected individuals 3. Increased uptake of DFS.	BOU - NPSD SFIs PSP/O Fintechs

Strategic priorities	Initiative/Activities	Deliverable/ Milestone	Timeline	Outcome	Responsibility
3. Foster Competition, Consumer protection and Digital Financial Literacy	1. Promote e-payments (includes Electronic Funds Transfer, Internet Banking, Mobile Money Service, Debit Cards, Credit Cards, Point of Sales, Bank Agents & ATMs).	1. Joint public awareness campaigns (minimum messages sent by UBA member banks per month & joint campaign in the annual bankers' awareness week) 2. Reduced third Party Cheques.	Jun. - 2021 Onwards  Jul. - 2021	1. Increased adoption of e-payments & reduced use of cash	BOU - Comms UBA- DFS Fintechs Dev't Partners
	2. Training with focus on digital financial literacy for vulnerable groups, SLAs/SACCOs & the provisions of the NPS Act.	1. Public awareness campaigns 2. Training of Trainers sessions	Jul. - 2021, Onwards	1. Empowered Trainers 2. Empowered customers & less complaints 3. Increased adoption of e-payments 4. Licensed PSPs and PSOs	BOU - NPSD UBA SFIs Fintechs
	3. Promote adoption of cyber security standards within the industry	1. Cyber security guidelines for SFIs, PSPs & PSOs (UBA CS centre project; BOU CS guidelines)	Jun.- 2022	1. Enhanced IT security systems 2. Protected individuals 3. Increased uptake of DFS	BOU - CBD/NBFI/ NPSD UBA - CS Committee Card Issuers Dev't Partners
4. Strengthen Collaborative Arrangements with SFIs, Fintechs, Gov't MDAs and Dev't Partners	1. Performance Monitoring and Reporting	1. Quarterly Progress Reports on Key Initiatives (monthly meetings for the DFS) 2. Agreement with SFIs on annual targets for the growth of e-payments	Jul. - 2021 Onwards	Quarterly Performance Monitoring and Evaluation Reports on key initiatives	BOU UBA/SFIs, Fintechs Gov't MDA Dev't Partners
	2. Initiate Governor's forum with CEOs of PSP/O [ Fintechs]	1. Minutes of quarterly meetings 2. Action points from the meetings	Jul. - 2021 Onwards	1. Increased stakeholder collaborations 2. Regulatory interventions & policies	
	3. Lobby MOFPED to promote e-Payments and minimise fiscal policy disruptions	Action plan on promotion of e-payments by Government	Jun.- 2022	Increased adoption of e-payments in Government transactions	BOU MoFPED NITA-U UBA SFIs PSPs
	4. Explore collaborative arrangements with SFIs, Development partners & other Regulatory Authorities	1. Signed MOUs with Partners (UNCDF,FSDU,KfW etc) 2. Proposals for joint initiatives (URBRA, UMRA, UCC, UBA, IRA etc)	Jul.-2021 onwards	1. Empowered & protected individuals 2. Increased stakeholder collaborations	BOU SFIs Fintechs Dev't Partners