

Executive Summary

Access to finance has emerged as a critical challenge facing forcibly displaced persons (FDPs) in Uganda. Despite their entrepreneurial spirit, FDPs are credit-constrained, hindering their ability to transition from relying on humanitarian assistance to achieving self-reliance through income-generating activities.

This diagnostic explores the feasibility of cross-border data sharing to promote credit inclusion for FDPs in Uganda. It yields the following insights, issues, and recommendations for IFC to consider.

Uganda's 2022 Financial Institutions (Credit Reference Bureau) Regulations allow for cross-border credit data sharing. Reciprocity arrangements and the harmonization of laws between FDP corridor countries can go a long way in developing cross-border credit information markets. Clause 38 of the credit reference bureau (CRB) regulations details the rights of consumers, which aligns with the 2019 Data Protection and Privacy Act and the conditions for cross-border data sharing. Data can only be shared between supervisory bodies, such as central banks of countries, or as reciprocal arrangements between authorized institutions in other countries that legally permit cross-border data sharing. Additional conditions of cross-border data sharing include the fulfillment of robust data protection requirements with clear guidance on the purpose of data usage in a time-bound manner.

With 90 percent of FDPs in Uganda from the two largest corridors—the Democratic Republic of Congo (DRC) and South Sudan—harmonizing fundamental laws and the

building blocks around credit data sharing frameworks between these countries is vital in speeding up credit information exchange (see further details in section 1). Based on key informant interviews and reviews of financial sector regulations, the DRC and South Sudan do not have CRB regulations that permit cross-border data exchange at the time of writing this report.

As a “test and learn approach,” we recommend that IFC pilot the “indirect access” credit sharing model, starting with one corridor in partnership with the interested central bank. In the indirect access model, a creditor residing in country A that wishes to get the credit data of a borrower from country B will access verifiable credit history from the credit reporting service providers—the CRB and public credit registry of country B—through a credit reporting service provider located in country A. The creditor reports on credit performance to the local registry in country A, which has a sharing arrangement with country B. IFC could pilot a version of this model, providing valuable lessons in building credit infrastructure between the two corridors.¹

Uganda's 2022 CRB regulations made significant strides on collection of borrower behavior and reporting requirements, increasing transparency on credit risk at borrower and financial institution level. Clause 19 (collection of information) of the regulations requires CRBs to collect negative information on the background and credit history of non-performing borrowers. The clause also requires CRBs to collect positive economic, commercial, and financial obligations of customers to determine their overall debt exposure and ability to repay.

¹ Note that the test must comply with local data protection laws.

However, when it comes to mandatory submission of negative information to CRBs, all licensed financial institutions, microfinance institutions (MFIs), and accredited credit providers² (ACPs) are required to submit negative borrower behavior without requiring any explicit consent from the borrower (clause 20). Clause 21 (disclosure of positive information), on the other hand, gives reporting institutions the option to provide positive borrower information to CRBs with the express written consent of the customer (capture of consent is further explained in the regulations).

Additionally, every CRB is required to share borrower information received from ACPs with other CRBs within 180 days of receiving that information (clause 34(d)). This reduces financial institution and systemic exposure to individual borrower credit risk.

ACPs offer goods or services to businesses and borrowers on credit (for example, utilities and provisions). They can be a great source of non-traditional financial data trails if the process of accreditation is simplified. According to the CRB regulations, a credit provider that wishes to be an ACP must first be accredited. Once accredited, the credit provider can submit and receive borrower information. The accreditation process requires that the provider apply to any CRB in line with criteria jointly developed by the Bank of Uganda and the Uganda Microfinance Regulatory Authority. The CRB issues the accreditation, duly notifying the

central bank. The application process is extremely tedious and complex for small credit providers. One of the most common points of failure is the standards and procedures around the handling of customer data and alignment with the Data Protection and Privacy Act. Most businesses, including informal credit providers, are not set up to meet these stringent criteria.

The Credit Information Providers Association of Uganda is working with all credit providers and CRBs to advocate for legal and regulatory reforms around credit information sharing and providing technical assistance to help providers build good-quality data.

Opening deposit accounts for FDPs in Uganda is easy, but getting credit from formal institutions is challenging due to traditional credit assessments. Uganda provides refugee IDs as legal “know your customer” (KYC), allowing refugees to open bank and mobile money accounts. They can deposit, withdraw, and pay bills using these accounts.

Financial institutions often regard FDPs as riskier credit clients. Lenders typically use the 5Cs of credit to evaluate a borrower’s creditworthiness and assess the risk of lending them money: character, capacity, capital, collateral, and conditions. Character refers to the borrower’s ability to repay based on their credit history, reputation, and financial behavior. In developed financial markets this information is easily found in credit reports. However, for most FDPs this information is not easily available and, where it is available, the information is often outdated and therefore considered irrelevant by lenders. Additionally, FDPs in Uganda are

² In Uganda, an accredited credit provider (ACP) is an institution that provides goods or services on credit to the public. Although not licensed by the Bank of Uganda, it is authorized to submit and receive credit information from a licensed CRB after meeting specific accreditation criteria. Essentially, ACPs are non-bank entities that participate in the credit market and use the CRB system for credit information management.

not always static. Borders are porous and FDPs frequently cross borders, which gives lenders the perception of instability. Capacity usually assesses the borrower's ability to repay. FDPs in Uganda, especially in settlement camps, have high levels of income volatility—a red flag for many lenders. Displaced people often have very few assets like investments, movable property, and land that meet lender capital and collateral assessments. Lastly, lender conditions around accessing the loan (documentation, regulatory requirements), loan terms, and how these might affect the borrower's ability to repay or the lender's ability to collect also play into the lending decision.

Credit assessments are evolving beyond traditional methods, leveraging alternative data to enhance decision-making, especially for individuals with no credit history. Alternative data such as digital wallet transactions, merchant payments, income from freelance or traditional work, remittance flows, and social media can be used for borrower cash-flow analysis, assessing behavioral patterns, income verification, and broader risk profiling. Lenders, especially fintechs, are increasingly leveraging these and other real-time, relevant data to build credit scoring engines to offer credit to previously excluded populations like FDPs.

FDPs in Uganda are generating data trails, including credit trails—but their digital trails are limited. Most FDPs in Uganda did not have access to formal financial services in their countries of origin, resulting in their having very little credit history. However, informal savings groups that are largely cash-based have become a credit lifeline for FDPs and are a primary source of credit. Of the 66,000 savings groups in the country, 10 percent (6,600 groups) belong to FDPs. Digitizing FDP trails could provide rich information on FDP transactions, incomes, savings, and ability to repay loans.

Tier 3 (deposit taking) and Tier 4 MFIs such as FINCA, VisionFund, and the Rural Finance Initiative (RIFI) are

lending to well-established FDP savings and loans groups to increase the groups' capital base. These loans are often backed by donor soft capital (grants, guarantees) as a de-risking mechanism since FDPs have little to no collateral and very little formal credit history. However, a downside of these groups is that the available credit ticket size is dependent on the aggregate volume of the group's savings. If the group is wealthier, then the weekly saving into the group "pot" is higher. This means a member can get a higher loan, which could be used for productive uses (such as farming, business, and investments). If the group is not wealthy, then the loan size might be insufficient to invest in income-generating activities.

Borrowers that successfully save and borrow from these groups are graduating up the credit ladder and can get credit directly from these institutions. Strategic partnerships that digitize these records and then report this credit behavior to the CRBs can significantly expand access to credit for FDPs.

Digitizing the financial and alternative trails of FDPs could result in richer data on FDPs and enhance their overall creditworthiness. These financial and alternative trails include:

- **Credit and savings data:** Digitization of records of the 6,600 FDP savings groups by various fintechs including True African, Ensibuuko, FutureLink Technologies, and MobiPay AgroSys is ongoing. MFIs such as VisionFund and RIFI are at the forefront of these digitization efforts. Digitizing borrower information, starting with the mature groups, and reporting it to CRBs will enhance FDPs' credit and savings histories, thereby strengthening their credit profiles.
- **Mobile money (wallet) data:** Mobile money is the preferred digital payment method of many FDPs who have access to mobile phones. At least 53 percent of FDPs own a basic phone. Through mobile money, FDPs generate some digital trails (for example, cash-

in, cash-out and peer-to-peer payments). However, this information is insufficient on its own to assess the income and repayment potential of FDPs, which are key to determining creditworthiness. This point assumes that the user of the wallet and the SIM card (KYC) associated with the wallet belong to the same person (which is often not the case).

- **Microfinance data:** The 2022 CRB regulations now allow Tier 3 and Tier 4 MFIs, registered societies, and ACPs to report credit information to CRBs. This is in addition to Tier 1 and Tier 2 (banks and credit institutions). Permitting lower-tier institutions (such as non-deposit-taking MFIs, village savings and loan associations, and savings and credit cooperative organizations), where the bulk of FDPs access credit, to gain accreditation and report to existing CRBs creates an immense opportunity to formally digitize FDPs' credit histories.
- **Remittances:** FDPs receive remittances from their diaspora and sometimes send money. Unfortunately, only macro aggregate remittance data are available on remittances to and from Uganda. Moreover, most FDP remittances are informal. The Hawala informal money transfer system is popular among Somali and South Sudanese FDPs because it is cheap, fast, and anonymous. That said, the Bank of Uganda is working with the International Fund for Agricultural Development's (IFAD's) RemitSCOPE³ to better understand remittance segmentation. FDP remittance data, once segmented and/or digitized, would be a valuable input into credit scoring models.
- **Transactional data:** FDPs generate non-financial data trails from, for example, pay-as-you-go solar asset repayments or purchases of provisions from stores on credit. However, as described in this report, capturing

these trails is difficult. For example, asset financing companies are not always concerned with KYC data if customers can provide the required deposit and make the required weekly payments. This makes it difficult to attribute repayment data that FDPs generate across different businesses to a unique individual ID. There are some exceptions, however. Increasingly, productive asset financing companies (mostly motorcycle or car financing such as Tugende and Watu) are capturing KYC data; however, not many FDPs have a steady income to qualify for access to these assets.

- **Retail merchant payments:** Based on key informant interviews and literature reviews, most FDP retail transactions, such as merchant payments, are in cash. This is the case for both a consumer and a business owner making upstream (supplier) and downstream payments (employees), limiting their data trails in the formal system. Digitizing these trails could reduce information asymmetry and perceived risk around FDPs.
- It should be noted that **cash aid** is delivered and cashed out through digital channels (bank and mobile money). Cash aid is provided to bolster FDPs' food security and is calculated based on the minimum expenditure basket, which is the cost of basic foodstuffs per person per month. While there is a digital data trail, financial services providers (FSPs) cannot use this data point for credit scoring because it is used for food consumption and is not a metric of income or investment that could be used to repay loans.

FDP ID verification, a fundamental requirement of customer due diligence, is a roadblock. FDPs face multiple barriers when it comes to securing a refugee ID and other documentation. First, the process of obtaining a refugee ID can be extremely long. All FDPs have family attestation documents given at the border, but obtaining an official individual refugee ID (official legal name in

³ RemitSCOPE (launched by the United Nations IFAD) is a free and interactive web platform providing essential data on global remittances—money sent home by migrant workers from developing countries.

Uganda) takes time, often several months and, in some extreme cases, years.

The Ugandan refugee ID is the only KYC document required when opening a mobile money account and bank account. In the case of mobile money services, once an FDP is onboarded with the right KYC documentation, they can make cash deposits, withdrawals, and bill payments. However, based on key informant interviews and secondary literature, the refugee ID seems insufficient for deposit-taking institutions. On-the-ground qualitative feedback shows that, depending on the risk appetite of the institution, FDPs can be asked to present both their refugee IDs and family attestation documents. Since family attestation is only given to the heads of households, they are often required to be present for access to these services.⁴

Additionally, Uganda's Anti-Money Laundering Act (2017), in reference to customer due diligence, specifically requires accountable persons to "verify" the client's identity using reliable, independently sourced documents. The current process of independent verification of FDPs' IDs often requires financial institutions to manually call the Office of the Prime Minister. This is cumbersome and time-consuming, disincentivizing financial institutions from extending formal financial services to FDPs.

Additionally, proof of address is still a requirement under the Financial Intelligence Authority despite the Financial Action Task Force (FATF) stating that proof of address is not a requirement for access to formal financial services. Generating proof of address is not straightforward for FDPs.

Biometric real-time verification of FDP IDs for financial services would be a game-changer. The United Nations High Commissioner for Refugees (UNHCR)-Ugandan government FDP biometric ID database⁵ is unavailable for

third-party access due to security reasons. Given that three-quarters of FDPs have been biometrically registered, if this database were made accessible for verification purposes, it would be a game-changer. Alternatively, approaches like a static mirror database with restricted and encrypted access under the supervision of the National Identification and Registration Authority or the Office of the Prime Minister could be explored.

Private sector alternatives can also be piloted with, for example, Commonlands (a community verification ID model on blockchain backed by land for credit) or MasterCard's Community Pass,⁶ which includes unique digital IDs.

FDPs are perceived to be higher risk by FSPs. Reasons for this perception include uncertainty that FDPs might move back to their home countries, defaulting on their loan facilities. FDPs have the right to repatriation, and UNHCR will repatriate them irrespective of whether they have outstanding loan balances or not.

FDP settlements are also governed by other rules that protect FDPs. One such rule is the "do no harm" rule enforced on all providers working in settlements. Financial providers fear being reported on this rule and having their access to camps revoked. This has a perceived impact on whether defaulter loan collection practices would be considered harmful.

The FATF lists South Sudan and the DRC, where 90 percent of FDPs are from, as high-risk countries—raising money laundering and terrorism financing fears. This invites higher KYC scrutiny of inbound and outbound transactions conducted by FDPs.

4 Anderson, Lezanne, Rashid Muhammad, and Masiwa Rusare. 2022. "Enhancing Identity Verification for Refugees in Uganda." *Cenfri*, October 21, 2022. <https://cenfri.org/articles/enhancing-identity-verification-for-refugees-in-uganda/>.

5 The biometric ID database is owned by UNHCR globally, even though the biometric ID collection and verification is a joint initiative by the government of Uganda and UNHCR.

6 For more information on MasterCard's Community Pass, see <https://www.mastercard.com/global/en/for-the-world/prosperity/community-pass.html>.

As a response to these actual or perceived risks, FSPs typically transfer the bureaucratic burden of documentation onto FDP customers or just do not serve them at all. Low levels of financial literacy are also a significant risk factor for FSPs. FDPs lack basic digital and financial literacy skills. This means they might not understand the terms and conditions of financial products and how they work. While FSPs can invest in educating customers about their own products, providing FDPs with fundamental skills does not usually fall within their mandate.

Recommendations

IFC has an important role to play in bringing about systemic change to the credit ecosystem, impacting in-country and cross-border data flows to facilitate access to credit for FDPs. Possible actions and solutions led by IFC are outlined in Table 1.

TABLE 1

Five key thematic recommendation areas that IFC could influence

Insight/issue	Possible actions led by IFC
<p>1. Legislative/regulatory intervention: The feasibility of cross-border data flows between the two largest FDP corridors—Uganda and South Sudan, Uganda and the DRC—is low, but with the right pilot and commitment from regulators there is promise.</p>	<ul style="list-style-type: none"> • IFC along with the World Bank and other development actors could help amend the legal frameworks in these two countries to allow for cross-border credit data sharing models. Cross-border data sharing is a reciprocal arrangement. This will require a detailed legislative and regulatory analysis of the credit information system in both countries. • Based on information shared, IFC already seems to be working with regulators in the region to improve their credit information systems. • A sandbox arrangement or no objection letters that allow the central bank of the DRC or South Sudan to pilot credit data sharing arrangements with the Bank of Uganda could be an alternative option.
<p>2. Legislative/regulatory intervention: FDP ID issuance and real-time verification are a huge issue and need to be addressed urgently.</p>	<ul style="list-style-type: none"> • IFC could consider direct or joint advocacy with the World Bank on modifying the Anti-Money Laundering Act to make proof of address non-mandatory. • Advocate for access to the UNHCR-government of Uganda refugee database for real-time ID verification—that is, verifying if the ID presented by the customer is a valid one or not. This verification can be a binary yes/no at the start. • If the above is not feasible, alternative solutions can be devised (for example, a mirror database). • Partner with viable private sector providers like MasterCard’s Community Pass or Commonlands for third-party ID verification that can be acceptable to banks and approved by the regulators (Bank of Uganda and Financial Intelligence Authority). • Tiered KYC proportionate to risk should also be considered for FDPs.

Insight/issue	Possible actions led by IFC
<p>3. Supply-side intervention: Credit portability models.</p>	<ul style="list-style-type: none"> • IFC could test an indirect access model for cross-border credit data portability with one FDP corridor country and build a framework for the East African Community. This could be effective for the single digital market work⁷ being led by the World Bank.
<p>4. Supply-side intervention: Support to the Tier 4 microfinance sector: Digitizing the non-digital trails of FDPs could result in richer data on them and enhance their creditworthiness.</p>	<ul style="list-style-type: none"> • Support policy makers and regulators in the DRC and South Sudan in changing regulations and incentivize all lenders to report to the CRBs. • Support the scale-up of fintechs digitizing village savings and loan associations and savings and credit cooperative organizations. • Support the CRB Association and the Credit Information Providers Association in helping non-traditional credit providers become accredited more easily to increase the number of ACPs reporting to the CRBs, enriching borrower profiles.
<p>5. Demand-side intervention: Financial literacy is still a significant barrier to the uptake of formal financial services.</p>	<ul style="list-style-type: none"> • The Cash Working Group (chaired by the World Food Programme and UNHCR) along with other donors is working on financial literacy programs. • IFC can work with the Uganda Bankers' Association, the National Payment Systems Providers Association, and the Financial Technology Service Providers Association of Uganda to support these literacy efforts.

⁷ For more information on this work, see <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/809911557382027900/a-single-digital-market-for-east-africa-presenting-vision-strategic-framework-implementation-roadmap-and-impact-assessment>.