

Uganda Annual Monitor 2015



Uganda, a landlocked country in Eastern Africa with a population of 39 million people, started the journey from a cash-dominated economy to a digital-based economy in 2009. Currently, several financial institutions, mobile network operators (MNOs) and third-party operators offer digital financial services (DFS) in the country.

The DFS offering is evolving from basic airtime top-ups and money transfers to more advanced products such as bulk payments, merchant payments, and saving and lending products. However, the market is still grappling with issues such as fraud at customer and agent levels. Other issues include low density of agents in rural areas, low mobile phone penetration levels and limited product offerings that meet customer needs.

At the regulatory level, the Financial Institutions Act (FIA) was passed by the Parliament in January 2016 and assented into law by the President in March 2016. The FIA legalized agency banking, so commercial banks are now able to engage in agency banking.

The United Nations Capital Development Fund (UNCDF) programme Mobile Money for the Poor (MM4P) uses a **theory of change** approach to DFS development, which focuses on making **shifts** between phases of market development, moving from Inception to Start-up to Expansion and eventually to a mature market known as Consolidation. Through each phase, MM4P takes into account the entire DFS ecosystem. This means MM4P plans activities at the levels of Policy & Regulation, Infrastructure, Providers, Agents, High Volume and Customers to improve market conditions and facilitate shifts. Uganda is currently making the shift from the Expansion phase to the Consolidation phase of DFS market development.



MM4P started operating in Uganda in early 2014, when the market was in the Expansion phase with several competing providers. The market then contained 14 million registered customers and 4,791,600 active customers on a 90-day basis.

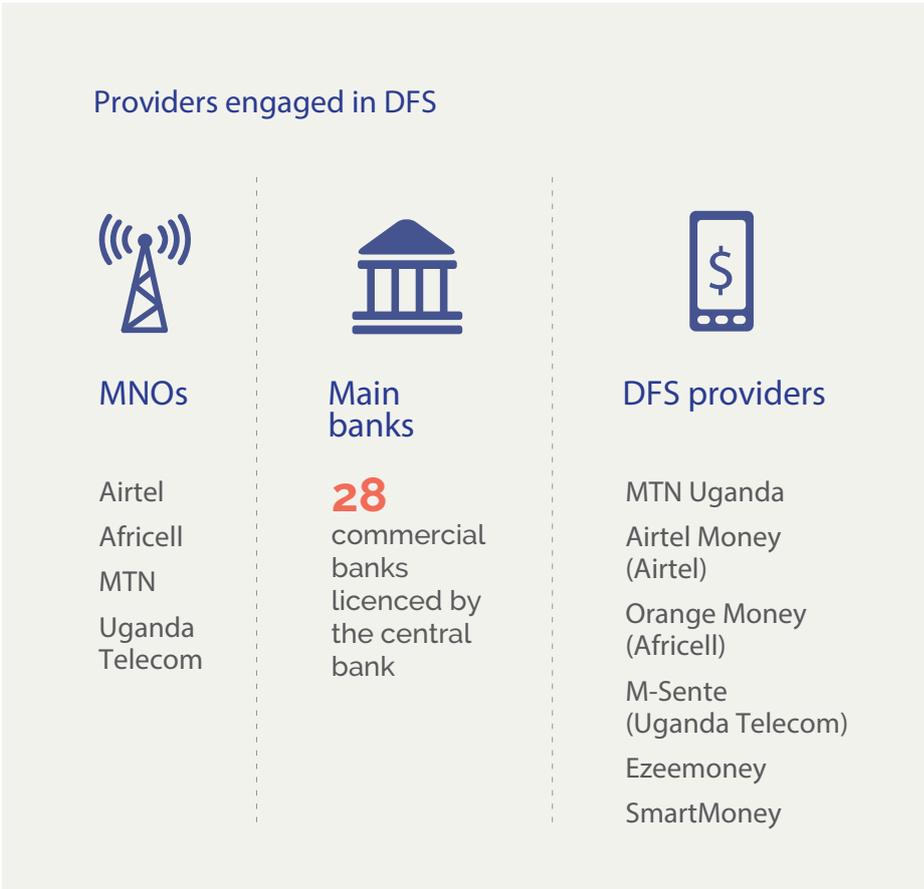
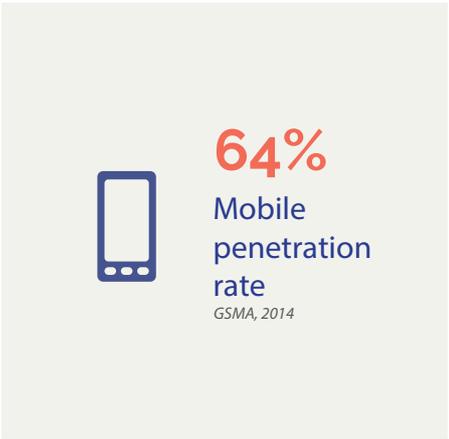
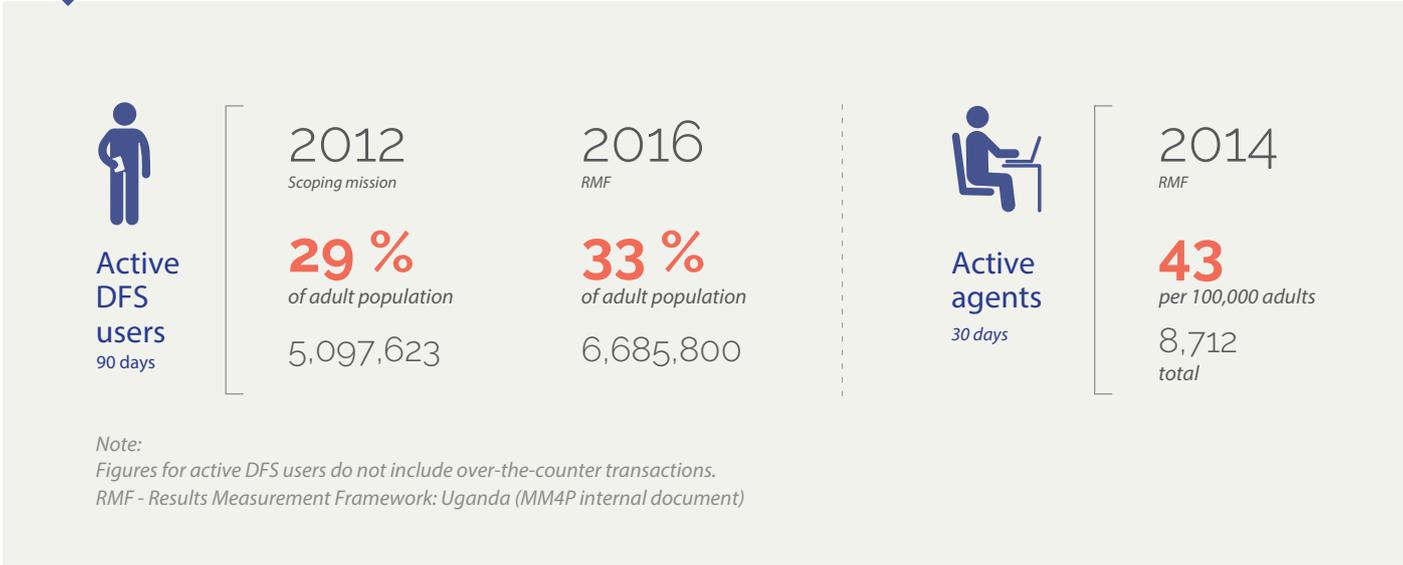
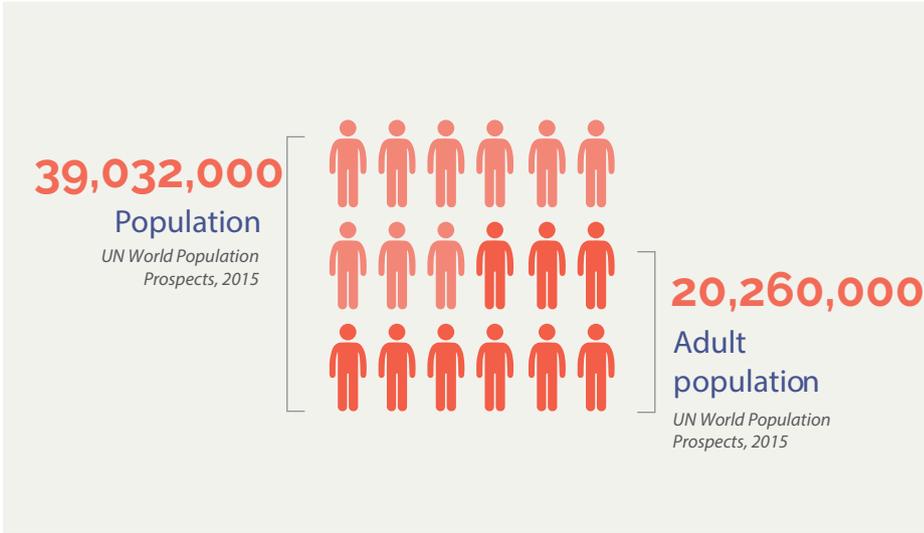
In 2015, MM4P supported the DFS market through the following activities:

- ☑ MM4P identified and successfully funded seven projects with Centenary Bank Uganda, Equity Bank Uganda, FINCA Uganda and MTN Uganda. Some of the funding involved cross-cutting partnerships that brought together DFS providers and other key stakeholders, such as Fenix International (solar company), Kyagalanyi (coffee exporter) and Yo Uganda (telecom-focused software company).
- ☑ MM4P identified 20 investment opportunities to be further explored in 2016. These investments involve technical assistance and grants to improve providers' operations and agent networks in rural areas, to adapt DFS products to meet rural customer needs, to increase uptake of DFS in seed oil, tea and dairy agro value chains, and to explore DFS in the tourism value chain and with savings and credit co-operatives (SACCOS) and village savings and loans associations (VSLAs).
- ☑ MM4P conducted market research in agro value chains to inform providers, and shared the results of a payment diagnostic and a regulatory impact assessment with the Government of Uganda. The opportunities identified for digital payments included bulk payments to farmers and high volume areas such as government-to-person (G2P) and business-to-government (B2G) payments.
- ☑ MM4P successfully hosted the DFS Goes Rural conference, a global knowledge sharing event that brought together partners and practitioners from all around the world to examine DFS in a rural context.
- ☑ MM4P reinforced its relationship with regulatory bodies, such as the Bank of Uganda and the Ministry of Finance, through sponsored visits to other markets to learn from successful DFS regulatory counterparts. MM4P also strengthened its relationship with MNOs by forming an MNO collaboration group that brings together MNOs to talk about general market issues and identify ways of resolving them. MM4P formed a bankers' collaboration group as well, although it is still in its infancy.
- ☑ MM4P continued to increase the capacity of its partners in managing an agent network. In March 2015, 19 people from 10 institutions travelled to Mbale to complete the five-day Core Agent Network Accelerator course by the Helix Institute of Digital Finance.
- ☑ MM4P ended the year with a G2P exposure visit to South Africa to study the South African Social Security Agency's programme. Five MM4P countries including Uganda were represented in the 20-person delegation of government officials.

To consolidate the work completed in 2014 and 2015, the MM4P team will continue to use the ecosystem approach to improve market conditions and facilitate a shift to the Consolidation phase for DFS in Uganda. The programme's objective in Uganda is that 50 percent of the adult population has an active registered account (active is defined as having used the account at least one time in the past 90 days).



Facts and figures Uganda



Opportunities

- Ministry of Finance is increasingly using digital bulk payments
- Adult literacy rate equals 73%
- Phone penetration stands at over 18 million
- Regulatory guidelines establish flexibility and certainty
- Open and non-exclusive agent networks are mandated
- Enhanced interoperability exists between banks and MNOs through increased number of bank-wallet deployments
- Network coverage reaches more than 90% of the country
- Half of households with registered mobile money users store money in their wallets
- Youthful population has high level of awareness and appreciation of digital payments

Challenges

- Low levels of financial literacy and consumer awareness
- Geographic dispersion
- High reliance on agriculture
- Lowest insurance penetration in the East Africa region (0.85% of GDP)
- Weak collections component (such as bill payments, food purchases, etc.) in the ecosystem to connect the 'last mile' in rural communities
- High level of fraud within the ecosystem, which may dampen confidence
- Low level of branch/ATM penetration in rural areas
- Inability of banks to launch agent networks
- High network downtime
- Few large retail chains with national presence
- Limited collaboration among DFS market players

Where we were

**beginning
2015**

Expansion phase

Bank of Uganda was still using the 2013 mobile money guidelines for DFS

Bank of Uganda and Ministry of Finance concluded the amendments to the FIA guidelines; however, banks were still prohibited from launching agency banking

MTN Uganda was still the market leader in mobile money with over a 60% share; meanwhile, there was continued growth of Airtel Money after the merger with Warid Pesa and slower growth with Africell's Orange Money and Uganda Telecom's M-Sente

Some interoperability existed between banks and mobile wallets, with growth in the pull-and-push functionality

Advanced products such as bulk payments entered the market

Where we are

**end
2015**

Expansion phase

Interoperability continues between banks and mobile wallets, with growth in the pull-and-push functionality

Advanced products such as bulk payments are entering the market, and there are plans for savings and lending products from MNOs

Mindset of MNOs is shifting to look at developing the whole ecosystem

MNOs and financial institutions are looking at tapping into value chains and reaching rural communities

Where we want to be

**end
2016**

Consolidation phase

Tiered know-your-customer (KYC), agent, customer protection enabling policy

More collaborations in agro and tourism value chains

Banking partners operating agency banking services

45% active DFS users as percentage of adult population

Several transformative and competing services

>100 active agents per 100,000 adults

Financial services available (credit, insurance, savings)

>40% active users in the adult population