



## Uganda

# Digital Financial Services in Uganda

2015

## Facts and figures

## Uganda's Tea Payments Profile

### An opportunity for digital financial services

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Uganda experiences the favourable climate that is necessary for tea growing. Tea growing was introduced during the colonial days, and by the mid-1950s, tea production and export had made tea Uganda's main estate crop. Today, tea is Uganda's second largest foreign export earner (after coffee), with over 21,000 hectares of land dedicated to its growth and harvest. The tea sector produces over 10,000 metric tons of tea per annum, about 90 percent of which is exported.

### Significance of tea production to Uganda

Tea growing is important in the following ways:

- It is a cash crop for around 50,000 small farmers.
- It creates employment for over 140,000 Ugandans.
- It is an important foreign exchange earner for the country.

Based on the importance and contribution of the tea sector, the Government established the Uganda Tea Growers Corporation to support the sector by providing inputs, arranging for training and facilitating the market for tea growers—in particular for small-scale tea farmers.

### Number of people employed and nature of transactions

An estimated 120,000 people are employed by tea estates in the western Ugandan districts of Bushenyi, Kabarole, Kanungu and Kyenjojo (see figure 1) and another estimated 20,000 in the eastern Ugandan districts of Jinja and Mukono. Employed as tea pickers, pesticide sprayers and weeders, they are paid in cash every two weeks. It is estimated

that, across the country, tea workers receive U Sh5 billion–U Sh7 billion or US\$1.8 million–US\$2.5 million (conversion rate US\$1=U Sh2,900, www.oanda.com, April 2015) in cash payments every month.

### Mobile Money for the Poor team visit to Kabarole

Upon learning that one of the tea companies, McLeod Russel,<sup>1</sup> drops money from moving aircraft over its tea estate in order to pay its workers, a Mobile Money for the Poor (MM4P) team together with Vital Wave, a consulting firm with bulk payment experience and expertise, conducted a three-day visit to explore the Ugandan tea industry and the potential for digital financial services (DFS) within the tea value chain. Below are the key findings.

#### 1. Types of tea estate farms

a) The first type of farm is estate/company owned. These estates own the tea plantations, employ their own staff and provide other benefits to staff like medical care. The average estate employs 6,000–7,000 staff. Another 150–200 people are employed in tea processing factories. The estates grow about 90 percent of the tea they sell, with the balance brought in from small-scale growers. McLeod Russel falls under this category, and the company's influence over its employees makes buy-in from senior managers essential for the success of any project, like DFS, involving the work force.

b) The second type of farm is small-scale farmer owned. Some 800–1,000 small-scale farmers grow tea on their individual plots and sell it to large tea processing companies. Each farmer has 15–30 employees, depending on the farm size, while others employ over 100 as tea pickers. Tea processing companies transfer payments to farmers' bank accounts, and the farmers

34.9 million

Total population

87%

Rural population

>75%

Population working in agriculture

28%

Financial inclusion rate



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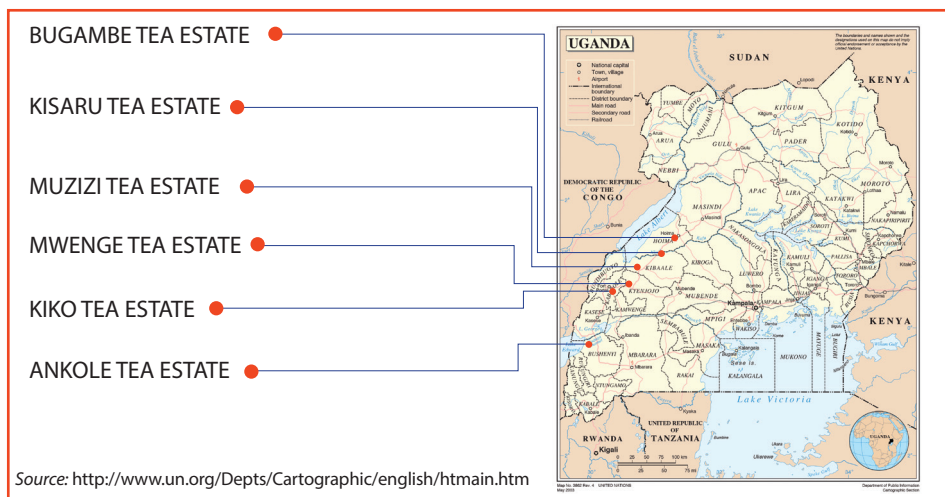
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LinkedIn group  
MOBILE MONEY FOR THE POOR

<sup>1</sup> <http://www.mcleodrussel.com>

Figure 1  
Tea growing areas of western Uganda



withdraw the money and pay their employees in cash. Again, buy-in of these small-scale farmers is critical for any DFS project in the tea value chain.

## 2. Migrant workers

Work on tea estates is shunned by the local indigenous people of tea growing areas—they regard it as below their status. For this reason, workers come from other districts and even as far as Rwanda. The people interviewed estimated migrants to be 40–60 percent of the workforce, depending on the size of the estate. These migrants leave their homes for close to six months and only send money home through private contacts or buses, though a few have started to use mobile money.

## 3. Mobile phone penetration

The adoption rate of mobile phones is 30–50 percent, depending on the type of worker. Most use their mobile phone for voice services only, with only a few using it to send and receive money. Respondents attributed low mobile phone penetration to the high cost of handsets. They noted that there might be an increase in mobile phone use if the price were lower.

## 4. Prior efforts to digitise cash payments

Several payment organisations have visited the tea companies, with plans to help them move away from their risky cash transactions. These organisations include banks, mobile network operators and third-party operators, amongst others. However, none of them returned with a feasible solution to move tea estates to digital payments. Pilot studies were done at Mpanga Growers Tea Factory, with a number of employees undergoing know-your-customer (KYC) registration, but no follow-up efforts materialised to take the pilot to launch and scale. Such failures have resulted in some reservations and doubts amongst the tea factories about the ability of DFS providers to find a workable solution to digitise their cash payments.

## 5. Will and desire to digitise cash payments

The most senior management at both McLeod and Mpanga were interviewed to assess their

desire to digitise payments. At both tea factories, senior managers expressed their desire to find any digital solution that would reduce or eliminate the use of cash. However, concerns were raised in regards to the cost of transactions for the factory and the employees. Other concerns cited were the availability of a reliable telecommunication network signal, the agent network to support huge payouts, and the support mechanism from payment institutions.

Middle managers, who run the smaller units within the estates, were interviewed as well and expressed the same need for digital payments. Given the fact that most of them have already seen the benefit of digital payments, their interest is significant because they are potential ambassadors to lower-level employees.

The MM4P team also conducted focus-group discussions with lower-level employees, including tea pickers, pesticide sprayers and weeders, who represent the primary beneficiaries and target segment of potential DFS projects. It was not surprising that they too were keen on receiving payments digitally. Some reported that, whenever they receive cash payments, they have to travel 30–40 kilometres to get to a reliable mobile money agent to help them remit money to their families. Having their pay transferred directly to their registered mobile wallet would save them the time and money taken to travel to town to send these remittances. Their concerns revolved around affordability of transaction costs and of mobile phone handsets.

## 6. Value-added services

The employees interviewed also expressed a desire for DFS beyond remittances and airtime top-ups: they sought savings and micro-lending services too. While they have an informal membership savings organisation, it does not offer interest on their savings as it only works as a stored value tool. Money lenders have taken advantage of the situation since they have had the power to determine loan size and interest rate—typically based on the urgency of the borrower's need. Money lenders charge more than

50 percent (in some instances up to 100 percent) per month, thus indebting the employees for the entire work season.

## 7. Agent network

The tea estates are often in remote rural areas, and lacking a clear business case, the current DFS providers are not investing much in rural agent network development. While there were just a handful of agents around the estates visited, it is an area with massive potential for DFS business if the payment/value chains are digitised. The observed agents lack the capital to hold the liquidity necessary to service the tea estate workers. They often have to decline customers who need to make transactions of more than U Sh300,000 (US\$120). These customers are left with no alternative but to travel 30–40 kilometres to town to complete their transactions. The need for an improved agent network was consistently articulated by both management and employees as a factor for any successful project that seeks to digitise cash payments.

## 8. Telecommunication coverage

Telecommunication network problems were discussed but did not emerge as a real hindrance for digital payments. One or more mobile network operators provide network coverage in most, if not all, of the areas visited. Senior management reported that they offer free land to any telecom company wanting to invest in a base transceiver station (BTS) mast to improve their coverage for both voice and mobile money services. This offer was extended to include space for agents' outlets: anybody willing to open a reliable mobile money agency was welcome onto the estate.

The MM4P team visit highlighted the need and opportunity to help tea factories move away from risky and costly cash payments to an efficient and effective system of digital payments. This transition would require working with willing DFS providers such as banks, aggregators and mobile network operators, amongst others.

In addition to addressing the pain points around pricing, poor agent network and poor mobile phone penetration highlighted by respondents, there needs to be a clear articulation of the value proposition. Such a proposition will involve the following:

- Salary payments, which will drive adoption;
- Person-to-person (P2P) remittances, which will drive usage;
- Interest-bearing savings accounts, which will create value for users; and
- Consumer and micro-credit, which will create value for lenders.

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These highlights are brought to you by MM4P, a UNCDF programme funded by

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