

Uganda Annual Monitor 2016



Uganda, with an adult population of around 22 million people, started the journey from a cash-dominated economy to a digital-based economy in 2009. The country is emerging as a strong performer in digital financial services (DFS). Two major mobile network operators (MNOs) dominate the market alongside active third-party providers. In 2016, most active customers used one or more 'second-generation services,' such as digital savings or lending products. While rural Ugandans are still half as likely to use a mobile phone, the growth rate parallels that of urban users—about 3% per year. New agency banking regulations offer a fresh opportunity for financial institutions to grow their client base.

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, Distribution, High Volume and Customers to improve market conditions and facilitate shifts. Uganda is currently in the Expansion phase of DFS market development. With a wide array of projects and activities, MM4P Uganda is facilitating further uptake of DFS. Its activities are measured across the three key result areas of DFS stakeholder outcomes, sector outcomes and customer outcomes and eventually at programme impact levels.



MM4P launched its programme in Uganda in early 2014. Since then, MM4P has supported market development through the following activities:

Supported development

of National Financial Inclusion Strategy

Aided the leading MNOs

with a permanent presence in rural area around Mount Elgon

Partnered with six banks

to develop agency banking strategies

Supported bulk payments to coffee farmers

Prepared for and researched high volume payments

in other agricultural value chains such as dairy, maize, tea and seed oil

Hosted

#DFS4Women, a knowledge-sharing event that convened partners and practitioners from around the world to examine how to accelerate DFS access for women

Supported go-to-market strategy

by Mobile Telephone Networks (MTN) for a mobile saving and loan product (MoKash)

Supported key government and regulatory bodies

to participate in conferences and exposure visits to develop a solid understanding of global DFS best practices

Over the next year, MM4P plans to continue to invest in the Ugandan DFS market with the goal of moving the market fully into the Expansion phase and the objective of 50% of the adult population actively using DFS (active use is defined as having used the account at least one time in the past 90 days).

In 2017, MM4P has planned to support the following activities:

Piloting (1) high volume payments to dairy, maize, tea and seed oil farmers (2) digitization of cash-based interventions for refugees (3) agency banking with five commercial banks (4) digitization of school fee payments with 15 secondary schools (5) roving merchant and agent model

Providing strategy consulting to three payment aggregators

Studying and mapping the market situation for payment service providers

Studying challenges and opportunities

regarding DFS know-your-customer requirements

Assessing market readiness for DFS+

Establishing Mobile Money Providers Association

Raising awareness of business case for open application programming interfaces (APIs)

Organizing quarterly FinTech4AG events, in collaboration with CGAP

Uganda

Facts and figures

Population^a

41.7 million



Adult population^a

22.0 million



Where we were 2014



(90 DAYS)

TOTAL ACTIVE DFS USERS^b

3,200,000

ACTIVE DFS USERS AS PERCENTAGE OF ADULT POPULATION^b

16%



(30 DAYS)

TOTAL ACTIVE AGENTS^b

8,712

ACTIVE AGENTS PER 100,000 ADULTS^c

43

Where we are 2016



(90 DAYS)

TOTAL ACTIVE DFS USERS^c

7,000,000

ACTIVE DFS USERS AS PERCENTAGE OF ADULT POPULATION^c

33%



(30 DAYS)

TOTAL ACTIVE AGENTS^d

58,280

ACTIVE AGENTS PER 100,000 ADULTS^f

277



MOBILE PENETRATION RATE^g

78%



FINANCIAL INCLUSION RATE^h

40%



PROVIDERS ENGAGED IN DFS

MNOs: Africell, Airtel, MTN, Uganda Telecom

Main banks: 28 commercial banks licensed by the central bank

Others: Airtel Money (Airtel), Ezeemoney, M-Sente (Uganda Telecom), MTN and CBAⁱ (MoKash), Orange Money (Africell), SmartMoney

^a UN World Population Prospects, 2016

^b InterMedia Digital Pathways to Financial Inclusion Survey, 2013 (excluding over-the-counter transactions)

^c InterMedia Digital Pathways to Financial Inclusion Survey, 2016 (excluding over-the-counter transactions) and UN Population Statistics, 2015

^d Helix Institute of Digital Finance, 2015 and 2017, and Bank of Uganda, December 2016

^e MM4P Results Measurement Framework (internal reporting), 2015 and UN Population Statistics, 2015

^f Bank of Uganda, Dec-2016; *Helix*, 2015; *Helix*, 2017

^g InterMedia, 2017

^h InterMedia, 2017 (including mobile money accounts, full-service bank accounts and full-service non-banking financial institution accounts)

ⁱ CBA, Commercial Bank of Africa

OPPORTUNITIES



- (1) Expected new regulations on agency banking
- (2) Mobile money interoperability



- (1) Expanding network coverage, especially in rural areas
- (2) Lower costs of MNO network infrastructure expansion



- (1) MNOs more willing to innovate in order to maintain market share
- (2) More competition, so potential decreases in mobile money transaction costs
- (3) More non-SIM based service providers active in the country



- (1) Innovation in agency distribution models (e.g., roving agents), including merchant payments
- (2) Growth in mobile money merchant payments
- (3) Possibility for shared agent infrastructure in agency banking



- Increase in second-generation products and services, such as insurance and savings, as well second-generation DFS, unlocking access to education, health services, water and energy



- Increase in smart-phone penetration



- Opening of mobile money platform by MNOs using open APIs to create better access for developer community

CHALLENGES

- Ambiguous know-your-customer requirements

- Lack of full network coverage, especially in rural areas, despite expansion

- Limited competition in the market

- Limited agent liquidity

- Few incentives to innovate

- (1) Lack of complete phone penetration, especially in rural areas
- (2) Still limited agent network in rural areas
- (3) Last mile service delivery issues (e.g., SIM swaps)

- (1) Value proposition not conducive for all necessary DFS stakeholders to go digital
- (2) Low literacy levels

2014 WHERE WE WERE Early Expansion phase:

- Bank of Uganda was still using 2013 mobile money guidelines for DFS
- Bank of Uganda and Ministry of Finance concluded amendments to Financial Institutions Act guidelines; however, banks were still prohibited from launching agency banking
- MTN 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 Orange Money (Africell) and M-Sente (Uganda Telecom)
- 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

MID-2018 WHERE WE WANT TO BE Consolidation phase:

- Approved and implemented agency banking regulations
- 50% of adult population actively using DFS
- Greater number of transformative, competing second-generation services and DFS+
- >100 active agents per 100,000 adults

2016 WHERE WE ARE Expansion phase:



- All major banks prepared for agency banking



- Increased presence of providers in rural areas, including refugee settlements



- Increased competition among major providers



- Growing number of bulk payments made across major agricultural value chains



- (1) Increased agent network liquidity
- (2) Decreased costs for merchant payments



- Increased usage of human-centred design when developing high volume payments within agricultural value chains