

Uganda

# Digital Financial Services in Uganda

2014

Facts and figures\*

## Sector overview

Uganda's digital financial services (DFS) market is led by mobile network operators (MNOs), with the main operators—MTN and Airtel—managing the vast majority of users and transactions. Uganda is considered to be one of the markets with the potential to scale up DFS initiatives. Banks, MNOs and aggregators have entered into strategic partnerships to remain competitive. Most of these partnerships are bilateral relationships that create inefficiencies and risks in the payments systems. The payments systems are highly fragmented, but partnerships with organizations such as Interswitch can enhance interoperability initiatives.

Meanwhile, as demand for DFS grows, so do the risks for consumers. Instances of fraud in Uganda have put a damper on early efforts and successes. The Bank of Uganda has developed a consumer protection policy and has required DFS providers to comply with it. Finally, the DFS platform is still generally used as a payment tool (cash-in/cash-out, utility and bill payments), rather than a multipurpose channel. Eighty percent of the population depends on agriculture for a livelihood, creating specific challenges and needs that providers need to recognize and address.

## Key findings

### Policy and regulation

DFS are offered by MNOs that are regulated by the Uganda Communications Commission. A comprehensive regulatory framework for DFS has not yet been developed in Uganda; however, DFS providers are required by Bank of Uganda to partner with 'licensed' institutions in order to offer DFS and hold DFS

clients' funds in escrow accounts. Banks and other financial institutions are not allowed to provide DFS under the current Banking Act (2000) unless they partner with a DFS provider. However, Bank of Uganda is supportive of agency banking (agent recruitment and management by financial institutions).

### 37.6 million

Total population

### 28%

 (incl. 20% through banks)  
 Financial inclusion rate

### USD 1,410

GDP per capita (PPP)

### 52%

Mobile phone penetration

\*Source: EIB and UNCDF, 'Digital Financial Services in Africa', December 2014.


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## Delivery infrastructure

Uganda has made significant progress on its infrastructure agenda in recent years. Successful information and communications technology reforms led to an expansion in mobile coverage and market penetration. Power sector reform has also paved the way for improvements in power generation capacity, which in 2010 was at 305 MW—short of 440 MW peak demand. In spite of the improvements, an infrastructure gap remains; the country currently spends about EUR 802 million on infrastructure projects (11 percent of GDP) and requires a further EUR 1.1 billion to be spent per year over the next decade to address its infrastructure deficit.

## Providers

The Ugandan DFS industry utilizes the operator-centric business model, in which MNOs are the dominant stakeholders. There has also been an increase of non-MNO payment solution providers or aggregators that have developed technology platforms to support DFS; they partner with MNOs, financial institutions and donor partners to offer information services and DFS. Since banks have a limited role in the DFS ecosystem, there is no strong business case for them to serve the low-income segment. The operator-centric business model limits interoperability as banks are locked out of the market.

## Agent networks

The key challenges facing agent networks include an ambiguous agent selection process by providers, weak agent training, and inconsistent agent management. Poor liquidity management coupled with low penetration of agents in rural areas account for serious gaps within agent networks. Branch penetration in rural areas is very low, and as banks cannot operate DFS, their operations are limited to serving people in urban areas. Penetration of MFIs and credit institutions is poor with about 99 and 42 outlets, respectively, in rural areas. It should be noted that savings and credit co-operatives (SACCOS), which have about 880 outlets in Uganda, and village savings and loans association (VSLAs), which have about 1 million registered members, have a much stronger network to reach rural segments.

## High volume

High person-to-person (P2P) fees make the cost of sending small payments prohibitive. However, a high-level analysis of DFS transaction data suggests that m-wallets are used primarily for P2P payments and the beneficiaries immediately withdraw funds from their accounts. The lack of merchants accepting DFS as a form of payment limits the value that DFS has in people's daily lives. There are initiatives underway by companies like PesaPal, a merchant acquirer and solution provider, to help merchants allow customers to make digital payments for everyday goods and services. Uganda is a largely cash-driven economy; most Ugandans still prefer to use cash and cheques for transactions, accounting for about 85 percent of all payments.

## Customers

In general, poor financial institution penetration—including poor distribution channels (customer touch points) for financial services—accounts for the low percentage of banked population. Only a quarter of the 8.3 million unique prepaid SIM subscribers in the market are active DFS users (approximately 2.3 million as of 2012). An InterMedia study shows that households with registered DFS users are more likely than other types of households to engage in a greater number of financial activities, including sending and receiving remittances, making and receiving payments, and saving money. Therefore, DFS may strengthen the savings culture in the population.

## Key stakeholders

### Regulators



- Uganda Communications Commission
- Bank of Uganda

### Main banks

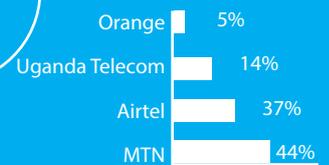


- Stanbic Bank
- Standard Chartered Bank
- Centenary Bank
- Crane Bank
- Barclays

### Mobile network operators



#### Market share



### Digital financial service providers



- MTN Mobile Money
- Uganda Telecom
- Airtel Money
- Orange Money

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