



Uganda

Digital Financial Services in Uganda

2015

Facts and figures

Coffee agro-value chain research: Untapped opportunities for digital financial services

By Donald Chepkutwo, *MicroSave*

Coffee is Uganda's top foreign exchange earner, contributing up to 20 percent of export earnings and employing about 2.8 million Ugandans (93 percent of whom are small-scale farmers owning an average of 0.33 hectares each, where

coffee is intercropped with subsistence products). Uganda produces 80 percent robusta and 20 percent arabica coffee, with production focused in the following regions: Mount Elgon, Lake Victoria, Rwenzori Mountains and West Nile.

The Mobile Money for the Poor (MM4P) Uganda programme commissioned *MicroSave* to carry out agro-value chain research in December 2014. The research goal was to identify opportunities for using digital financial services (DFS) in the coffee, fish and dairy value chains by achieving the following broad research objectives:

1. Identify coffee agro-value chain actors' activities and financial transactions.
2. Identify current and/or potential DFS touch points along the coffee agro-value chain.
3. Analyse coffee agro-value chain actors' usage, preferences and concerns about mobile money and other DFS channels.
4. Identify barriers, enablers and solutions to adoption of digital financial transactions along the coffee agro-value chain.

Qualitative research was carried out with coffee farming actors in the districts of Bududa, Manafwa, Mbale and Sironko. Individual interviews and focus-group discussions included 66 respondents.

37.6 million

Total population



19%

Mobile phone penetration rate



US\$694

Annual coffee export earnings



32

Number of digital financial service players
(7 mobile money providers + 25 commercial banks)



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Key research findings



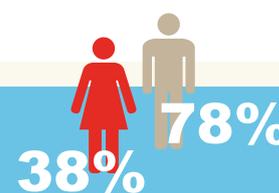
Coffee is a source of income for most households in the greater Mbale region.



Most farmers are unwilling to abandon coffee production despite challenges during production and distribution, making investment by DFS players more attractive.



Efforts to stimulate DFS in the sector need to consider periods of harvest and high income (i.e., February–March, August, and October–December).



Currently 38 percent of women and 78 percent of men engaged in coffee production own mobile phones.



Women are mostly engaged in production while men are engaged in marketing and sales activities.



Bududa, Bumusi, Lwabogo and Mutuufu have less than seven mobile agents each, despite high population. There are no banks in the four regions.



Coffee factories, primary societies and traders are anchor actors and crucial for those interested in encouraging DFS.



Savings and credit cooperatives (SACCOs) are common financial institutions in coffee producing areas.



Over 95 percent of transactions in coffee production are in cash.

Coffee agro-value chain actors' activities and financial transactions

The research found that the main actors are farmers, traders, primary societies and cooperatives. Farmers make payments for farm implements, inputs, seedlings, labour and transportation of the coffee to primary societies. Traders and primary societies make payments to purchase coffee from farmers. Cooperatives make payments to primary societies as well as directly to some farmers.

Traders, primary societies and cooperatives were identified as anchor actors due to their ability to influence coffee farmers in most sales and marketing activities, as they are considered to have a deeper understanding of the coffee business. These three actors interact with farmers on various occasions, such as coffee purchase, farmers' forums, village meetings and annual cooperative meetings where they speak on technical aspects of coffee farming.

Opportunities and potential touch points for digital financial services

The research revealed that payments by farmers—for farm inputs, seedlings and labour—were largely in cash. Payments made by traders to farmers were largely in cash as well as, to a smaller extent, by mobile money. Cooperatives and primary societies made payments with cash or cheque, with one cooperative physically carrying UGX 500 million from a bank to pay farmers.

Farmers and traders cited speed and convenience of cash payments, with the only delay occasioned by queuing on pay days. Signing for payments received from primary societies largely eliminates payment disputes as payment records are always provided.

However, all actors reported cases of fraud, loss of cash in transit, long queues on pay days and long distances that farmers travel to be paid. Cheque payments take four days to cash out, and most respondents reside over 40 kilometres from a bank branch.

Use of mobile money is very limited. Cited reasons include lack of proof of payment, unstable network, high transaction charges, inadequate knowledge of mobile money, and few agents (most with liquidity issues).

There are opportunities for promoting DFS usage by coffee farmers. Careful promotion by DFS players will be required to encourage usage. However, there is a stronger value proposition to pay farmers through DFS, given the risks and costs involved in cash payments.

Potential barriers, enablers and solutions for digital financial services

The research recommends that DFS players use existing financial mechanisms and anchor actors to ease DFS adoption along the value chain. Potential barriers to DFS adoption may be addressed through the following proposed solutions:

- Traders are numerous and move around with large sums of money to buy raw coffee from farmers directly or to sell processed coffee. Their strength is their ability to encourage farmers to accept DFS payments. Anticipated adoption challenges include transaction costs (who bears them: traders or farmers), agent liquidity (given that traders can carry large volumes of

cash, even UGX 5 million in one instance) and geographic dispersal of traders. Carrying out a pilot with a few traders, sensitising farmers and traders on the convenience and safety of mobile payments, and using selected farmers and traders as mobile agents may address some of these barriers.

- A quick win by DFS players would be to involve primary societies and cooperatives, as they make multiple cash payments to farmers and traders. They have considerable influence over farmers—being payment points, they could compel quick adoption of DFS. Barriers to adoption include potential failures in the transaction or network connection, limited knowledge of DFS amongst actors, lack of agents, and agent liquidity. Mitigation strategies could include piloting DFS systems before carrying out a phased rollout, transforming primary societies to become mobile and bank agents, and using a wallet-to-bank and bank-to-wallet facility. Sensitisation drives would help farmers understand DFS use.
- Bringing rural SACCOS into the ecosystem will significantly address liquidity challenges and provide an additional source of income to SACCOS. Anticipated barriers to adoption are unwillingness of SACCOS to be agents and their lack of knowledge on the use of mobile money. Mitigation strategies include having a strong working relationship with SACCO management to obtain their buy-in and creating awareness of their members and farmers through education forums.



Moving the coffee sector towards DFS would greatly assist value chain actors in reducing risks associated with cash. The willingness of most actors, including Kyagalanyi and Bugisu cooperative unions, to pilot any available digital channel that lowers cash risks offers opportunities for DFS providers.

Whilst opportunities exist, positive lessons can also be learned from existing DFS initiatives that were studied. SmartMoney offers payment services to coffee farmers, which have allowed them to overcome logistical and operational barriers and change their financial behaviour through use of low-cost mobile phones.

The Mercy Corps' Agri-Fin Mobile programme and Ensibuuko have partnered to pilot and roll out a robust information system that is able to track transaction history for farmers and increase access to information through mobile phones, thereby creating more trust and confidence by members in their SACCOs.

Farmers are now able to make deposits, receive loans and receive SMS alerts through their phones.

Another initiative involves the Uganda Coffee Farmers Association, which has developed an information technology

system that is able to track farmers' end-to-end activities including land size, residential locations, quality and quantity of coffee delivered, and amount to be paid. DFS players can learn from these cases to encourage adoption of mobile and branchless financial services.

For more information, contact
UNCDF-MM4P Technical Advisor
François Coupienne at
francois.coupienne@uncdf.org.

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