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Objectives

The Platform for Remittances, Investments and Migrants’ Entrepreneurship (PRIME Africa), is an initiative of the International Fund for Agricultural Development (IFAD), through its Financing Facility for Remittances (FFR), in partnership with the European Union. It aims to address the development opportunities that remittances provide through innovations, partnerships and scalable products that promote more affordable and fast remittances transfers. PRIME Africa’s Objectives are:

1) To reduce remittance transfer costs to Uganda in support of the Sustainable Development Goal (SDG 10.c) and the Global Compact for Migration
2) Reduce the use of informal channels to Uganda
3) Enhance financial inclusion through remittance-linked financial services.

This Diagnostic provides an assessment of Uganda’s remittance market, especially in light of COVID-19, using a market-oriented approach. It covers a supply side analysis as well as a review of 3 key inbound corridors.

The findings and recommendations of this diagnostic study will inform the ‘Roadmap’ for a prioritised approach to interventions leading to the achievement of PRIME Africa goals. It is envisaged that funding will be made available for the public and private sectors for Roadmap implementation.

Methodology

Data and relevant information for this diagnostic study have been gathered using:

1. Primary Data Collection
   - Interviews with key stakeholders: regulators, associations, remittance service providers (money transfer operators, banks, mobile network operators, aggregators and fintech start ups offering cross border remittances)
   - Mystery shopping exercises for data related to service providers, pricing and products

2. Secondary data
   - Desk-based research -Review of relevant, recent and authoritative sources

Data collection was conducted between October and December 2020. Two-virtual National Task Force Meetings are scheduled for Q1/Q2 2021.
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<td>African Continental Free Trade Area</td>
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<td>ACH</td>
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<td>AML/CFT</td>
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<td>VSLAs</td>
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Summary

Migration and Remittances

- Uganda is a net receiver of immigrants, with over 1.7 million foreign nationals residing in the country in 2019, of whom 1.4 million are forcibly displaced persons (FDPs) mainly from South Sudan and DCR. FDPs are mainly beneficiaries of international remittances (UNDESA, 2019; UNHCR, 2020; Uganda Refugee Response Portal, 2020; GIZ, 2020).
- Majority of the Ugandan diaspora (estimated at ~875 thousand in 2019) reside in other East African countries (mainly Kenya and South Sudan), whilst the Middle East is also becoming a key destination for low-skilled labour migrants (UNDESA, 2019; GIZ, 2020).
- Uganda is a net receiver of remittances. The Bank of Uganda reported that remittance inflows into Uganda were USD1.2 billion in 2020 which was a reduction of USD200million from 2019 due to the COVID-19 pandemic. Remittances in Uganda account for 4 percent of GDP (2019) (World Bank, 2020; Afrobarometer, 2019).
- According to the BoU (2018) nearly a third of remittances came from Europe in 2018, led by the UK, whilst nearly a quarter of annual volumes came from the Middle East led by the UAE. The largest volumes from the European Union come from Sweden and Germany although volumes are estimated to be small (USD13 million and USD8 million). The largest outbound remittance markets are Kenya (USD191 million) and DRC (USD190 million) (World Bank, 2019).
- The Bank of Uganda publishes an annual Personal Transfers Survey that sheds more light on the profile of remittance senders and receivers, channels used to send money and use of remittances. Remittances in Uganda are predominantly an urban phenomenon to the Central Region and Kampala.
- The impact of the COVID-19 pandemic on remittances into and out of Uganda has not been studied extensively. An initial study suggested that remittance receipts went up, however, data from December 2020 from the BOU showed that remittances fell by USD200 million between December 2020-21. Non-Bank financial providers were significantly impacted as a result of the pandemic.
- The BoU’s annual remittance volumes are predominantly calculated based on extrapolating results from the annual Personal Transfer Survey. The survey also provides an additional layer of insight into these flows.

Financial Environment

- The BoU has been upgrading and developing the digital payments ecosystem with the introduction of an ACH in 2018, that facilitates cross border remittance payments and integration into the regional payment system (EAPS). Electricity and ICT infrastructure challenges in rural areas limit digital financial inclusion across the country (multiple sources).
- Interoperability between the different payment channels makes it easier for remittance service providers to reach the beneficiaries. Although the payments landscape is largely fragmented, Uganda has achieved interoperability at various levels mostly through bilateral agreements. The BoU acknowledges plans to facilitate improved interoperability (BoU, 2020; AFI, 2018).
Summary

Financial Environment cont.

- The formal financial sector in Uganda is made up of both banks and a range of different non-bank financial institutions. Each caters to different segments of society and provides tailored financial services. The BoU reports that 71 percent of the population lives within five kilometers of a financial services access point, which for a heavily rural country is good access (BoU, 2017) (multiple sources).
- Mobile money, and the blend of formal and semi-formal financial services, have driven up Uganda’s financial inclusion rate to 78 percent, the second highest in East Africa after Kenya (83 percent). This means that opportunities to send and receive remittances through digital channels are high. Men are more likely to use formal services than women, with a 9 percent gender gap (FSD Uganda, 2018; BoU 2020).
- Uganda has a well-developed mobile money market, with 7 operators, the two largest players are MTN and Airtel. There are over 17 million active customers in Uganda served through a wide network of agents. However, there is a digital divide where in 2018 surveys indicate that half of rural adults only use cash compared with a quarter of people in urban areas which affects access to mobile-based remittances and mobile-based financial services (multiple sources).
- There are seven mobile money providers in Uganda but MTN and Airtel have 80 percent market share, making it an oligopolistic environment. MTN and Airtel are the only two MMPs to offer cross-border remittance services (multiple sources).
- Third party providers enhance the basic products offered by MNOs, embedding payments in a variety of use cases in the market. Uganda has an active fintech environment, with FSD Uganda reporting 71 fintech and 16 innovation hubs, many riding the success of mobile money (multiple sources).
- In 2018 Uganda introduced a controversial one percent MM tax which added a cost layer to mobile wallets in the remittances value-chain. It took 18 months for MM transaction volumes to return to pre-tax levels (multiple sources).
- Uganda has a National Financial Inclusion Strategy (2017-2022) that outlines a framework for widening access and usage of quality financial services by all Ugandans, but there is no mention of the role of cross-border remittances as a driver for financial inclusion.
- Uganda has built a rapidly evolving set of identity solutions across the country since 2014. In 2020, two-thirds of the population had registered for a national ID, however, of which 34 percent had received their cards (GSMA, 2019; The Independent, 2020).
- Uganda is in the process of implementing an eKYC project based on the new digital ID, that will allow all supervised financial institutions to authenticate and verify customers through a real-time platform. The platform should reduce costs for financial service providers (including remittance businesses), improve safety and increase access (BoU, 2020; UNCDF, 2018).
- According to BOU (2020), the financial sector remained resilient to the economic disruption caused by the COVID-19 pandemic. Most supervised financial institutions (SFIs) maintained adequate capital and liquidity buffers to absorb the shock. There was increased usage of Digital Channels across various use cases including cross border remittances.
Summary

Regulatory Environment

- In Uganda, the National Payment Systems Act was recently passed, and the Foreign Exchange Regulations (2006) are currently under review; therefore, the status quo is subject to change in coming years. The NPS Act should result in clearer market for digital financial service providers and payment service providers and increase competition and consumer protection.
- Remittance licenses are issued according to classified categories, but the remittance activities that are permissible remain the same across all categories (Republic of Uganda, 2006).
- Guidelines for remittance service providers are generally clear and relatively open; however, wait times for approvals can be long and annual fees per branch limit network expansion. There are only guidelines for one classification on remittance business – Class B, and licensing for MMPs and agency banking, is currently undefined (UMRA, 2016).
- Uganda has passed conducive Data privacy and Financial Consumer protection laws; however, high-profile frauds involving mobile money threaten to undermine trust in digital financial services and digital remittances (multiple sources).
- Uganda has made significant progress in strengthening its AML/CFT framework in view of recommendations made by FATF after being placed on the ‘grey list’ of jurisdiction, but the effectiveness of these changes are yet to be realised. Being on the FATF grey-list can impact cross-border remittances as correspondent banks de-risk and require higher levels of scrutiny of transactions increase costs (Bowmans, 2019; ESAAMLG, 2020).
- Within the AML Act and regulation, Uganda has general rules providing for risk-based simplified customer due diligence (ESAAMLG, 2016; GSMA, 2019).
- Improved CDD with RSPs enhances remittance access opportunities by low-income, rural households, and particularly women, to enhance financial inclusion and sustainable development. It also reduces the cost base for RSPs. Remote-on-boarding is in the pipeline and proof of address is still a requirement. Ongoing eKYC efforts may ease this burden (FSD Uganda, 2018; Cenfri, 2020).

Remittance Market Structure

- The formal remittance market into and from Uganda has many different operators and is a busy space. This reflects the different migration patterns within and from the country including intercontinental diaspora in the Middle East, UK, USA and EU, inter-regional flows and the large number of FDPs from South Sudan and the DRC.
- In Uganda, mobile money is the most common way to receive international remittances, with 30 percent of households in 2018 receiving money into a mobile wallet, valued at USD196 million. Nearly a fifth of remittances are terminated into a bank account, which considering that only 11 percent of adults in Uganda are estimated to have a bank account, indicates that remittance beneficiaries tend to be more banked (BoU, 2018; FSD Uganda, 2018).
Summary

Remittance Market Structure cont.

- The BoU 2018 survey indicates that nearly a third of beneficiaries receive cash at an IMTO agents. There are 1,043 agents (proxy) across Uganda, which is low compared with peer countries, and analysis indicates that there are potentially lots of people with large distances to travel to an (IMTO) agent. According to the BoU, international remittances are however predominantly an urban phenomenon, in which case the urban divide in terms of access is not such a challenge.
- The BoU 2018 survey reports that 10 percent of remittance values are sent via informal channels, but 27 percent of people use informal channels. For remittances sent to neighbouring countries the prevalence is suggested to be much higher. Unlicenced forex bureaus, hawala, friends, family, traders and unregistered mobile money agents are the main channels used.
- UNCDF (2018) conducted an analysis on affordable and accessible remittances to FDPs in Uganda. The analysis shows that FDPs face additional challenges with respect to accessing remittances due to their remote location, challenges with liquidity of agents, access to identification and additional discrimination and costs.
- The average cost of sending remittances to Uganda is 11 percent of the send amount however this is skewed based on high-cost services from Tanzania. The average cost for sending money from the UK is 7.1%, Kenya 8.9%, Rwanda 6.5% and Sweden 6.1%. Margins on the FX rate make up a significant proportion of the total cost to consumers (World Bank, 2020).
- There is significant variation in pricing between corridors and channels; however, internet services are the most competitive and those relying solely on the use of agents pay the highest fees (World Bank, 2020).
- As a well-developed mobile money market, Uganda is one of the most integrated countries globally in terms of cross-border mobile money services. It is possible to receive money from 4 countries within Sub-Saharan Africa and send it wallet-to-wallet to 6 countries in SSA. The cost of using these services seems to be have come down between Q2 and Q4 2020 and are competitively priced (~4 percent of the send amount) in some corridors (World Bank, 2020).
- Cost transparency especially on remote transactions such as mobile-to-mobile cross-border remittance is low. This in turn means that customers do not make informed choices by knowing all costs involved in advance.
- International aggregators play an important role as hubs that facilitate interoperability between different payment channels across multiple countries, especially into mobile wallets. They take a fee per transaction and generally require partners to pre-fund accounts.
- Multiple factors contribute to high remittance costs in Uganda, understanding these cost drivers enables the establishment of suitable measures to reduce costs (Cenfri, 2020).
- PRIME Africa programme activities will be focused in three inbound remittance markets from the EU and Intra Africa: Sweden, Kenya and Rwanda.
Summary

Financial Services for Remittance Users
- FSPs in Uganda are increasingly offering Diaspora products largely focused on Savings and Current Accounts, use cases are limited (KATS, 2019; Connecting Africa, 2019).
- There is consensus on the demand for targeted remittance linked financial solutions, but good product fit and sustainable business models are lacking (FSD Uganda, 2018).

Stakeholders and Coordination
- A number of stakeholders are actively involved in Uganda's financial services ecosystem; however, more focus could be directed towards thematic areas covering remittance cost reduction and serving FDPs.
Summary Policy Priority Actions

A. To review BoU’s current remittance data collection framework. Assess options to improve data collection so that inflow and outflow data are based on actual remittance transfer data (e.g. through a common remittance transaction data portal) and that data is published at a disaggregated level.

B. Continued commitment to improve the digital payment infrastructure, especially to rural areas and interoperability at a national level and within the East African Community.

C. Continue to expedite the issuance of National Identification Number (NIN) and National Identification Cards (NICs) and the development of the eKYC authentication platform. Ensure the platform is open for non-bank providers (under well-defined frameworks) and allows for the remote onboarding of customers. Shorten issue times for FDPs Alien Cards and solutions for remote authentication.

D. With regards to the new National Payments Act, there is a need to disseminate and generate industry awareness of the new regulations (published March 2021) and provide clear guidance for the remittances industry. For the BoU to provide a well-structured regulatory framework for payment service providers to operate independently from IMTOs and banks to drive down costs. Ensure that the revised guidelines do not stifle innovation by setting proportionate company capital costs and consider a test-and-learn approach to innovation.

E. Improve clarity on remittance regulations with regards to licencing requirements for different institutions (SACCOs, MFIs etc). Ensure the focus from licencing the type of institution to the instrument. Ensure licencing fees are aligned to desired policy outcomes and reduce licencing wait times.

F. For the Financial Intelligence Authority (FIA) to pilot a change around proof of address (POA) requirements, given that FATF clarifies that POA is not a requirement.

G. For the BoU to consider issuing specific guidelines on KYC requirements for non-holders of NIN (including FDPs) whose identification cannot be authenticated, in alignment with the recent FATF guidelines on digital identity and identity proofing.

H. Improve transparency to be able to compare costs of remittance services, for both account holders and non-account holders, as outlined in the Financial Consumer Protection Guidelines including live pricing data to be mandatory as part of the licencing requirement for all digital services.

I. Joint effort for stakeholders to work together to bring down prices especially around FX margins and commissions paid on FX margins.

J. Orchestrated effort between government representative offices, regulators, supervisors and institutions to build the reputation of the Ugandan state compliance aimed at a reduction of de-risking trends and last resort pricing.

K. Implementation of risk-based approach within RSPs to reduce compliance costs.

L. Leverage the National Remittances Taskforce Meeting to create a Working Group for the coordination, implementation and review of improving Uganda’s remittance landscape.
Migration and Remittances

- Emigration and the Ugandan Diaspora
- Remittance flows into and out of Uganda
- Informal remittance flows
- Remittance data collection frameworks

This section provides an overview of the migration patterns and other socio-economic activities that drive inbound and outbound remittances in Uganda as well as a sender/receiver profile. It also examines informal flows, accuracy, consistency and accessibility of remittance data.

**Important note on data:**

There are a number of different data sources that are used in this next section. Data is not always consistent across the different sources. Data, where available, has been used by the Ugandan Government, but is supplemented by international databases where it is not.
Uganda is a net receiver of immigrants, with over 1.7 million foreign nationals residing in the country in 2019, of whom 1.4 million are forcibly displaced persons (FDPs) mainly from South Sudan and DRC. FDPs are mainly beneficiaries of international remittances.

- According to the UNDESA data (which does not include those residing in the Middle East), Uganda's diaspora was 735,000 in 2019 compared with 1.7 million foreign nationals residing in Uganda. The large spike in immigrants in the 2019 data (see graph below) originates from a steep influx of over 700 thousand refugees from South Sudan in 2016/2017.
- UNHCR data indicates that 80 percent of immigrants in Uganda are refugees. The UNDESA data on migrant stocks includes refugees and asylum seekers. The largest expatriate communities living in Uganda are South Sudan (63 percent) and DRC (18 percent) – both of which are the largest refugee communities. Non-refugee communities residing in Uganda are from Sudan, Kenya and Tanzania. These communities are relatively small – estimated at 3.9 percent, 2.1 percent and 1.3 percent of the immigrant population, respectively.
- Uganda hosts the largest refugee and asylum seeker population in Africa (1.43 million), followed by Sudan (1.09 million); Ethiopia (763,827) and DRC (522,924) (UNHCR, 2020). Through its Settlement Transformative Agenda (STA), Uganda pursues a non-encampment policy to refugee protection and assistance. Refugees are provided with a plot of land for housing and cultivation and can settle alongside their host communities and be gainfully employed or run businesses (Uganda Refugee Response Portal, 2019).
Majority of the Ugandan diaspora (estimated at ~875 thousand in 2019) reside in other East African countries (mainly Kenya and South Sudan), whilst the Middle East is also becoming a key destination for low-skilled labour migrants.

- In 2019 Uganda’s population was 44.3 million. According to compiled estimates from UNDESA (2019) and GIZ (2020), there are an estimated 874,951 Ugandans residing outside of the country (2 percent of the domestic population).

- According to UNDESA (2019), 64 percent of the Ugandan diaspora reside in other East African Community (EAC) states, including Kenya, South Sudan and Rwanda. There are 309,490 Ugandans residing in Kenya and 149,303 and 96,724 in South Sudan and Rwanda, respectively (UNDESA, 2019).

- Other top destinations are the UK 9 percent (82,054); USA 6 percent (49,354), Canada 2 percent (14,058) Sweden 1 percent (5,051) and Germany 0.3 percent (2,395) (UNDESA, 2019).

- The Uganda Association of External Recruitment Agencies (UAERA), reports that close to 140,000 Ugandans are working in the Middle East (GIZ, 2020).
Uganda is a net receiver of remittances. The Bank of Uganda (BoU) reported that remittance inflows into Uganda were USD1.2 billion in 2020 which was a reduction of USD200 million from 2019 due to the COVID-19 pandemic. Remittances in Uganda accounted for 4 percent of GDP in 2019. Remittance outflows were USD573 million in 2019.

- Uganda is a net receiver of remittances. The Bank of Uganda (BoU) reported that formal remittance inflows in 2020 were USD1.2 billion, down by USD200 million from USD1.4 billion in 2019 due to the COVID-19 pandemic (Daily Monitor, 2021). According to the BoU, in 2018 USD376.8 million were remittances ‘in-kind’ (28 percent) and USD961 million were cash remittances (72 percent).

- Uganda is one of the few countries to have estimates on remittances sent through informal channels and to include these flows in their national statistics. Of the cash-remittances received in Uganda, 10.2 percent was received through informal channels in 2018, equating to USD98 million with money received mainly through friends in Uganda. However, it should be noted that there maybe deliberate efforts to minimise or conceal the scale of informal remittances, hence even the best estimates may not paint a true picture.

- In 2019 remittances accounted for 4 percent of the country’s GDP (BoU) at USD1.4 billion and, according to Afrobarometer survey (2019), 19 percent of the survey respondents had a family member living in the diaspora of these, 13 percent depended on remittances for upkeep.

- Remittance outflows from Uganda through formal channels are reported by the World Bank to be USD573 million in 2019. The BoU does not currently report remittance outflows or by corridor.

![Uganda Annual Remittance Values](image)
According to the BoU nearly a third of remittances came from Europe in 2018, led by the UK, whilst nearly a quarter of annual volumes came from the Middle East led by the UAE. The largest volumes from the European Union come from Sweden and Germany although volumes are estimated to be small (USD13 million and USD8 million). The largest outbound remittance markets are Kenya (USD191 million) and DRC (USD190 million).

- According to the BoU, remittances from Europe amounted to USD414.0 million led by United Kingdom while USD304.2 million came from the Middle East, majorly United Arab Emirates.

- From North/South America remittances amounted to USD302.6 million predominated from United States of America, followed by Africa (USD263.5 million), with the major source country being South Sudan (BOU, 2018).

- The BoU does not have data on remittances from the European Union (EU), although according to the World Bank’s Bilateral Remittance Matrix 2018, the largest corridors from the EU are from Sweden (USD13.1 million) and Germany (USD8.3 million).

- The World Bank Bilateral Matrix 2018 estimates that the largest outbound corridors from Uganda are Kenya USD191 million (33.3 percent); DRC USD190 million (33.1 percent); South Sudan USD54 million (9.4 percent) and Tanzania USD31 million (5.4 percent).

- There is no data available on remittance inflows and outflows by and to FDPs in Uganda.
The BoU publishes an Annual Personal Transfers Survey that sheds more light on the profile of remittance senders and receivers, channels used to send money and use of remittances. Remittances in Uganda are predominantly an urban phenomenon to the Central Region and Kampala.

- The BoU conducts an annual survey on remittances. The last Personal Transfers Survey Report 2018[155] provides deeper insights into remittances in Uganda looking at the profile of receivers, the use of remittances and the channels used to send and receive. Data was collected between April-May 2019.

- The survey sample was 1,008 remittance receiving/sending households across Uganda.
  - Even though Uganda is a predominantly rural country (75 percent of the population live in rural areas (Worldometer, 2020))[148], 85 percent of remittance receiving households were found to be in urban areas. Further, 94 percent of the cash received in 2018 went to households in urban areas. Central region accounted for the largest share with 36.5 percent of the total cash receipts, followed by Kampala with 31.8 percent; at 7.1 percent, Eastern region received the smallest share of receipts. The BoU originally had proportional representation in its survey but had so few remittance recipients in the rural areas that they have intentionally skewed the sample towards urban areas.
  - The bulk of the cash received in 2018, 89.8 percent (US$ 862.8 million), was remitted through formal channels.
  - Most remittance beneficiaries receive remittances once per year. About 60 percent of recipient households are reported to have received personal transfers once during 2018, while 10.3 percent received funds monthly during the same period. Most recipients (60 percent) received inflows only once during the year, with the highest receipts reported in the months December, February and September.
  - The bulk of the funds (69 percent) were used for consumption related expenses, such as general household expenses, education and health.
  - The survey also publishes data on remittances in-kind, cash and informal methods. There is also additional data on the main pay-out channels for terminating remittances. Published data in the survey is not disaggregated by corridor or region, so it is not clear how trends vary between regions or corridors.
The impact of the COVID-19 pandemic on remittances into and out of Uganda has not been studied extensively. An initial study suggested that remittance receipts went up, however, data from December 2020 from the BOU showed that remittances fell by USD200 million between December 2020-21. Non-Bank financial providers were significantly impacted as a result of the pandemic.

- Uganda's COVID-19 restrictions were initially among the strictest in the continent with lockdowns and curfews in place and borders shut. The borders reopened in September 2020. Financial service providers including banks, MDIs, MTOs, MFIs etc. were allowed to remain open within prescribed safety guidelines. However, there were temporary closures of several locations in response to COVID; 12 percent of Forex Bureaus remained temporarily closed in August 2020 (BoU, 2019).
- A Working Paper by the BOU (December, 2020) indicated that in the first 6 months after the pandemic hit, the average the volume and value of inward and outbound cross border remittances were higher in the six months after the official declaration of a COVID-19 case in Uganda compared to a similar period before.
- However, by December 2020 the BOU reported that remittance inflows had fallen over the past year by USD200 million.
- **Socio-Economic Impact:** Real GDP growth fell to 2.9 percent in FY20, from 6.8 percent in FY19 as major trade partners faced a recession, travel restrictions impacted the tourism industry, and the sharp decline in world oil prices stifled foreign direct investment inflows. At the same time, job losses and reductions in the diaspora led to reduced remittance inflows and outflows. Partial and full closures of enterprises both large and small disproportionately affected low- and middle-income earners, raising vulnerability of the poor and introducing the new poor a segment of the population estimated at between 1.1 to 3.2 million people. The presence of 1.4 million refugees in Uganda—Africa’s largest hosting country and third largest in the world—also added to the enormous pressure of delivering essential services during this crisis period.
- **Impact on Non-Bank Financial Service Providers:** Savings and Credit Cooperative Societies (SACCOs), Village Savings and Loans Associations (VSLAs) and Microfinance Institutions (MFIs), which together form the backbone of Uganda’s agricultural finance ecosystem, were worst affected by COVID-19, experiencing liquidity challenges due to reduced cash flows and accumulation of bad debt. Survey respondents associated with SACCOs and MFIs noted that since March 2020 lines of agricultural credit had ‘significantly’ (30-50 percent) or ‘severely’ (more than 80 percent) reduced. As a result, SMEs and smallholders – the largest client base for local-level financial institutions – experienced the greatest reduction in access to capital (WorldBank, 2020). Commercial banks, which prior to March 2020 provided 93 percent of formal lending by volume in the sector, have continued to lend, but at a slightly lower rate, and mostly targeting existing customers with low-risk profiles.
- The BOU expects COVID-19 to impact Uganda directly through decline of inflows such as inward remittances, foreign direct investment (FDI) and official development assistance (ODA). Longer term indirect effects anticipated include: morbidity and mortality, disruption of supply chains, contraction of domestic demand due to loss or decline in income and increased government expenditure on COVID-19 management (BoU, 2020).
The BoU’s annual remittance volumes are predominantly calculated based on extrapolating results from the annual Personal Transfer Survey. The survey also provides an additional layer of insight into these flows.

- The BoU publishes annual remittance data that is calculated based on results from their annual Personal Transfer Survey. Stakeholder interviews suggest that the BoU considers this system to be more accurate than the reporting by financial institutions. Data is disaggregated according to cash-remittances, in-kind and within that, the proportion sent through informal channels and region.

- The BoU also collects data from licensed MTOs, banks, Mobile Money Providers (MMPs) and fintechs, however feel that the quality of the data received does not reflect the real value of remittances including trade payments. The BoU has conducted sensitisation campaigns and training to try to improve the quality of the data, but still consider that the survey method is more accurate.

- Licensed RSPs produce extensive reports within five working days that include: (i) Money Remittance (Send/Receive) Weekly Return in designated forms and process; (ii) Money Remittance (Send/Receive) Monthly Returns in designated forms and process outlined in the regulations; (iii) summary of Monthly Transactions (Money Remittance) in designated forms and (iv) submission of audited accounts, within three months after expiry of the financial year.
  - Additional reporting guidelines exist for forex Bureaus e.g. daily returns on exchange rates, foreign exchange inflows and outflows etc.
  - Amendments to these schedules as well as any other useful information is communicated to service providers by BoU through circulars.
  - Interim remittance inflows reported by BoU are generate from MTOs reports, once the Annual Personal Transfer survey is completed, figures are adjusted to reflect the survey outcomes (Stakeholder Interviews, 2020).

- The Uganda Communications Commission provides Mobile Network related data.\(^{18}\) Data is presented in the Market Performance Reports that details data including mobile money (MM) subscriptions, broadband usage, phone ownership and an active link to the ‘Kompare’ price comparison website.\(^{19}\)
Migration and Remittances

Priority Policy Actions

- Review BoU’s remittance data collection methodology and assess alternatives to improve data collection so that inflow and outflow data are based on real-data rather than extrapolating annual survey data. Assess the desirability for a common data portal that collects remittance data from the financial institutions processing the transactions.

- For the BoU to publish remittance outflow data, and also by corridor and market share data on operators would be insightful.

- The Annual Inward Personal Transfers survey is commendable and provides useful information for stakeholders seeking to understand remittance recipient behavior and sender profiles. This impact can be extended by including:
  - More detailed analysis on how remittance behaviours and preferences change by sending-region (and largest corridors).
  - Review Uganda’s Personal Transfer Survey against the recent remittances survey in Nigeria by the Institute for African Remittances (AIR) to work towards establishing a template and try to get some standardisation across the continent in terms of surveying remittances.
  - Additional focus on informal remittances through qualitative surveys and anomalies in trade statistics.
  - Revisit the sampling frame and ensure that there is a still such an urban-bias towards remittances.

- Address access for BoU and PSPs to access ad-hoc country data and insights and provide secure and controlled access to interface (RemitScope and others) where they can access, or make requests for, non-confidential data and insights.

- The BoU in 2020 has published some initial analysis on the impact of COVID-19 on the economy and on financial behaviours. It is recommended that there is an analysis of COVID-19 on remittances and changes in remittance-user behaviour and traits that may be useful to inform future short- to medium- product and channel development.
Financial Environment

- Uganda's National Payments System Infrastructure
- Payments Interoperability
- Financial Service Providers and Distribution Network
- Financial inclusion
- Mobile Money Usage and Growth
- Know Your Customer Requirements
- COVID

- The payment system infrastructure in Uganda that supports the remittances market
- Identification and addressing systems that are required to access remittances and other financial products
- Financial inclusion in Uganda and the use of digital payment instruments
The BoU has been upgrading and developing the digital payments ecosystem with the introduction of an ACH in 2018 that facilitates the payment of international remittances and integration into the regional payment system (EAPS). Electricity and ICT infrastructure challenges in rural areas limit digital financial inclusion across the country.

- Developing the digital payments ecosystem is a priority for the BoU. The BoU is responsible for ensuring the overall effectiveness and integrity of the payment system. The BoU is in the process of passing a new National Payment System Act 2020.

- In 2018, the BoU launched the Automatic Clearing House (ACH) to speed up transactions through the banking sector. The ACH is an automated system for clearing cheques and EFT transactions. The system processes both debit and credit EFTs and cheques in five currencies of UGX, USD, EUR, GBP and KES. All banks are participants under a single clearing platform.

- High-value and time-critical payment transactions are processed by the Uganda National Interbank Settlement (UNIS) System, an advanced interbank electronic payment system which facilitates safe, secure and real-time transmission of high value funds between accounts in different financial institutions. The UNIS System participation is open to banks and non-banks. Currently there are 27 registered UNIS System participants.

- The RTGS also supports the East African Payment System (EAPS) and the Regional Payments and Settlement Systems (REPSS). The EAPS facilitates transactions across the East African Community (EAC) and allows transfer of value in the various EAC currencies.
  - EAPS is currently operational between Kenya, Uganda and Tanzania linking Kenya Electronic Payment and Settlement System (KEPSS), Tanzania Interbank Settlement System (TISS), and UNIS.
  - The EAPS does not move high volumes as expected, this is mainly attributed to low awareness amongst targeted high volume trade flow users and costs of using the platform.
  - EAPS has the potential to be used to directly facilitate regional cross-border remittances, as the structure of the EAPS is sound and has scope to scale. This would require direct participation by institutions regionally and in hard currency.

- REPSS supports the transfer of value across the Common Market for the East and Southern Africa (COMESA). The settlement is currently done in United States Dollars and the Euro.
  - In its current form REPSS is more appropriate for trade where speed of settlement is not factor, rather than for remittances.

Electricity and ICT Infrastructure Challenges in Rural Areas

Other infrastructure gaps exist in the digital financial ecosystem. There are electricity supply bottlenecks. Whilst access to electricity has been growing, there is inadequate access to electricity in rural areas (40 percent of the population have access versus 60 percent in urban areas, World Bank, 2020). Three quarters of Ugandan live in rural areas (Worldometer, 2020).

The digital infrastructure (internet and overall telecom connectivity) are largely urban based which limit digital financial inclusion into rural areas (BoU, 2020).

The inadequate access to electricity is one of the primary causes of huge discrepancies in urban–rural internet use and mobile phone penetration rates in Uganda (Gillwald, Mothobi, Ndwalana & Tusubira, 2019). 80 percent of Ugandans have access to a mobile phone, but only 16 percent smart phones.
Interoperability between the different payment channels makes it easier for remittance service providers to reach the beneficiaries. Although the payments landscape is largely fragmented, Uganda has achieved interoperability at various levels mostly through bilateral agreements. The BoU acknowledges plans to facilitate improved interoperability.

- Interoperability is considered a key driver of account activity, offers customers convenience and lowers access barriers to financial services, especially to serving underbanked populations (AFI, 2018).

In terms of remittances, interoperability between different payment channels makes it easier for RSPs to reach a beneficiary and, by improving the digital payment ecosystem, reduces the need for beneficiaries to cash-out and the associated costs.

- In Uganda interoperability across networks is not yet seamless. Presently in Uganda, interoperability exists at the following levels:
  - MM to MM – MTN, Airtel and Africell networks have account to account interoperability enabled through bilateral agreements with payment aggregators (such as Pegasus and Interswitch). These arrangements typically use a pre-funding model for settlement which has cost implications. API integration also runs in parallel but may have received a huge blow with the suspension of Pegasus services following a fraud incident in December 2020.
  - MM to bank and bank-to-wallet transactions was facilitated by third party provider Pegasus under a bilateral model. However, in October 2020, Pegasus suffered a cyber-attack leading to loss of an estimated USD 270,000 funds from three FSPs: Stanbic Uganda Bank, MTN and Airtel (New Vision, 2020). This now happens bilaterally.
  - Interswitch, a private payment aggregator, currently plays key role in interoperability in Uganda. It has enrolled 19 Supervised Financial Institutions, 3 MNOs to provide interoperable switching services including; ATM transactions, Points of Sale, Bill Payments and Agent Banking (BOU, 2020).
  - ATM/Card – Interswitch (Verve & UnionPay), Europay, Mastercard and VISA (EMV) cards can be used within similar integrated ATMs, POS locally and abroad.
  - Shared Agency Banking Network – Enables interoperability amongst 19 out of 25 banks in Uganda. This is the first model of its kind in SSA.

- The BoU acknowledged plans to facilitate interoperability and include other non-bank participants. The BOU is considering leveraging existing regional payments systems KEPSS or REPSS as opposed to setting up a new switch. Timelines and the structure of this are currently unclear.
The formal financial sector in Uganda is made up of both banks and a range of different non-bank financial institutions. Each caters to different segments of society and provides tailored financial services. The BoU reports that 71 percent of the population lives within five kilometers of a financial services access point, which for a heavily rural country is good access (BoU, 2017).

<table>
<thead>
<tr>
<th>Banks, Credit only Institutions and MDIs</th>
<th>NBFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of licenced entities</strong></td>
<td>25 (BoU, 2020a)</td>
</tr>
<tr>
<td><strong>Branches / outlets</strong></td>
<td>549 branches &amp; 7,479 agency banking locations (51% active) (Statistica, 2019)</td>
</tr>
<tr>
<td><strong>Users / customers</strong></td>
<td>80 branches</td>
</tr>
<tr>
<td><strong>Pay in / out international remittances</strong></td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>Offer core banking services to their customers plus internet banking services offered by major banks, and Stanbic Bank, Absa Uganda and Equity Bank offer an app for customers</td>
</tr>
</tbody>
</table>
Mobile money, and the blend of formal and semi-formal financial services, have driven up Uganda's financial inclusion rate to 78 percent, the second highest in East Africa after Kenya (83 percent). This means that opportunities to send and receive remittances through digital channels are high. Men are more likely to use formal services than women, with a 9 percent gender gap.

- Financial inclusion indicators provide insight into the extent to which Ugandans are able to access digital remittance services (such as onto/from a mobile wallet, a bank account or card etc). The indicators also provide insights into current financial practices and help to identify areas where remittances may be used as an additional use-case or conduit to help drive and deepen financial inclusion.

- The most recent FinScope survey was in 2018 and surveyed 3,000 people. The survey found that 78 percent (14.4 million) of Ugandan adults are financially served (both formal and informal) whilst 22 percent (4.2 million) are financially excluded. The survey also found that:
  - Nearly 60 percent of people have an account or wallet at a formal financial institution, including 56 percent with MMPs; 11 percent with commercial banks and MDIs; and 5 percent with SACCOs. This shows that mobile money wallets have driven financial inclusion in Uganda.
  - Twenty percent of the population use only semi-formal (informal) services. These include 37 percent at saving groups/VSLAs, 25 percent goods and services on credit and 12 percent ROSCAs. 2 percent report to use informal money lenders. It should also be noted that the access strands exclude category overlaps and that a significant number of formal account holders will still be using predominantly semi-formal services.
  - Financial inclusion (both formal and informal) is higher amongst the urban population: 86 percent of urban-dwellers are financially included compared to 75 percent of those residing in rural areas.
  - The gender gap in financial inclusion is 9 percent higher for men than women. 63 percent of males and 54 percent of females are formally served (FinScope, 2018). Females (57 percent) are more likely than males (54 percent) to use informal services.
  - The survey shows there are gaps in financial inclusion according to urban/rural and gender that need to be addressed and catered for.
Uganda has a well-developed mobile money market, with 7 operators, the two largest players are MTN and Airtel. There are over 17 million active customers in Uganda served through a wide network of agents. However, there is a digital divide where in 2018 surveys indicate that half of rural adults only use cash compared with a quarter of people in urban areas which effects access to mobile-based remittances and mobile-based financial services.

- In September 2020, there were registered 30.3 million MM customers of which 19.3 million were active users (64 percent) (BoU, 2020).
- There are seven MMPs: MTN, Airtel, Uganda Telecom (mSente), Africell, M-Cash, Ezeemoney and Micropay. There is a duopoly with MTN market share at 45 percent (7.4m active) and Airtel at 34 percent (5.6m), other players account for 24 percent market share (Stakeholder Interviews and BoU, 2019/20).
- By September 2020, the total number of mobile money agent points across the country stood at 376,111, which is impressive compared to the 105,000 MM agents in September 2015 (BoU, 2020).
- MM agents are 250-fold compared to the combined 1,534 SFI access points (695 SFI and 839 ATMs) reported by the BoU in 2018 (BoU, 2020). However, stakeholder interviews suggest that only a third of these are active agents. Liquidity is also important for the pay-out of international remittances that are typically larger in value than domestic p2p payments.
- Uganda is a well-developed MM market offering a combination of first- and second-generation products, including a few savings and loan products (such as MoKash and Wewole) and bill payment products. The main MM service used is P2P transactions and use of MM for buying goods and services and paying bills etc. is still developing.
- Despite the significant increase in mobile money, the most recent FinScope survey found that still 43 percent of adults only use cash; and this increases to 47 percent of women and 49 percent of adults in the rural areas. Findings showed that 49 percent or rural adults compared to 24 percent of urban adults rely only on cash for payments (FinScope, 2018). This suggests that there remains work to be done in improving the use-cases for digital payments and digital financial literacy.

The graph above shows the trends in mobile money usage in Uganda over recent years. The graph also tracks four major disruptions to MM and the impact on the market, including:
1. 3-day system upgrade in 2014
2. 2016 nationwide shutdown including mobile money due to presidential elections
3. Introduction of mobile money taxation
4. COVID-19

Sources: Bank of Uganda (2020)
There are seven mobile money providers in Uganda but MTN and Airtel have 80 percent market share, making it an oligopolistic environment. MTN and Airtel are the only two MMPs to offer cross-border remittance services.

<table>
<thead>
<tr>
<th>Provider</th>
<th>MTN Money</th>
<th>Airtel Money</th>
<th>M-Sente</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year Launched</strong></td>
<td>2010</td>
<td>2012</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Active Accounts</strong></td>
<td>7.4m</td>
<td>5.6m</td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Market Share</strong></td>
<td>45 percent</td>
<td>34 percent</td>
<td>3.6 percent</td>
</tr>
<tr>
<td><strong>Cross Border Remittances</strong></td>
<td>MTN Homeland for receiving from EU and UK to Africa, does not offer Intra Africa send options. MTN also offers OB from Uganda to EAC countries: Tanzania, Kenya, Burundi and Rwanda. Also, partnership with World Remit, Western Union, MoneyGram for inbound and outbound to 17 countries in MENA</td>
<td>Inward IMT: IB from 12 countries: Rwanda, Tanzania, Malawi, South Africa, Zambia, Kenya, UK, USA, UAE, Qatar, Oman &amp; KSA. No fees OB to 10 countries: Rwanda, Zambia, Tanzania, Kenya, Malawi, Burundi, Zimbabwe, Ethiopia and Botswana at UGX 900 (USD 0.24) to UGX 58,000 (USD 16)</td>
<td>Not provided</td>
</tr>
</tbody>
</table>
Third party providers enhance the basic products offered by MNOs, embedding payments in a variety of use cases in the market. Uganda has an active fintech environment, with FSD Uganda reporting 71 fintech and 16 innovation hubs, many riding the success of mobile money.

This slide provides an overview of some of the payment service providers and fintech operating in Uganda:

Interswitch – a Nigerian owned aggregator: Currently has 19 out of 25 banks and three mobile money networks. Interswitch network links participating institutions and enables their customers to access shared ATMs, Points of Sale (POS), bill payments and connects the Agency Banking Network through ABC Company owned by Uganda Bankers Association (BoU, 2020).

Pegasus is a third-party payments provider aggregating bulk payments, merchant services, bill payments between mobile providers and banks Uganda. In October 2020, Pegasus experienced a cyber-attack that impacted bank-to-wallet transfers leading to the loss of USD2.7m. Their services have been suspended for safeguarding reasons (The Independent, October, 2020).

Cellulant launched Tingg: An all-in-one, multi-functional consumer super-app integrating payments including cross-border payments, e-commerce and financial services into a single platform. It is available in Nigeria, Kenya, Ghana, Uganda, Tanzania, Mozambique, Zambia and Botswana as a mobile app, USSD short-code service or web-based application.

PaywayUganda: Third party provider enabling utility payments, airtime purchase and data top-up and car lease payment via mobile money, cards either online, at a kiosk or at a POS. The service also offers PayWay wallet, an agnostic mobile wallet offering (Tangerine, Smile, MTN, Uganda Telecom, Roke Telecom, Airtel, Vodafone, Africell).

Yo! Payments (formerly Yo! Uganda): A mobile payments aggregator facilitating Business to Consumer (B2C, B2B and C2B) payments through agnostic mobile money accounts. The C2B service has enabled various educational institutions in Uganda to receive school fees digitally. At the same time, value chains have been digitized for B2B and B2C payments for example to farmers using the bulk payment facility.

Xente: A cards and payments platform focused on streamlining and modernising businesses’ administrative and financial processes. “Smart” Xente Visa cards are linked to a Xente business wallet, employees’ digital wallets and a management portal that improves transparency and enables limits to be set on how, when and where money is spent. Mobile money, airtime, and data can also be sent and received from multiple service providers.

Ensibuuko: Uganda based Fintech that provides a platform that's uniquely designed to help SACCOs and Lending companies go paperless and become more efficient by digitizing how they manage customer data and transactions. The Fintech also offers Savings Group platforms, Mobile Money Integration and Crop Insurance products.
In 2018 Uganda introduced a controversial one percent MM tax which added a cost layer to mobile wallets in the remittances value-chain. It took 18 months for MM transaction volumes to return to pre-tax levels.

- A controversial one percent tax on all mobile money transactions and daily levy on social media usage came into effect in July 2018. This tax has since been reduced to 0.5 percent for cash withdrawals.
- MNOs in particular are advocating for a review of this policy given the potentially catastrophic effects on uptake and usage of mobile money, disproportionately affecting low-income consumers. Digital government-to-person (G2P) payments are affected just as much as person-to-person (P2P) payments.
- There are other pre-existing MM taxes payable by consumers in Uganda. In 2014, an excise duty of ten percent had been placed on the fees of MM. This was subsequently increased to 15 percent in 2018. Unlike the MM transaction taxes, the amended excise duties also apply to agency banking service fees (GSMA, 2020).
- GSMA (2020) has studied the impact of the MM tax on the market and found that it took 18 months for the number of transactions and values to recover. Large transactions migrated to agency banking and lower-value transactions to cash.
- Some analyst argue that MM taxation disproportionally hurts the poor by taxing the users and is regressive. They suggest that the focus should be on taxing the large transnational telecoms and the broader digital economy (ICTD, 2020).
- MMPs suggest that taxation undermines investment at a time when mobile operators are already under significant cost pressure to expand networks and improve service quality, in line with the national financial inclusion strategy.
- There is an on-going case study on the impact of tax by Digitax at the International Centre for Tax and Development and there is an ongoing debate on how best to raise tax through the digital economy.
Uganda has a National Financial Inclusion Strategy (NFIS) (2017-2022) that outlines a framework for widening access and usage of quality financial services by all Ugandans, but there is no mention of the role of cross-border remittances as a driver for financial inclusion.

- The National Financial Inclusion Strategy (2017-2022) is Uganda’s strategy for promoting financial inclusion. It articulates a vision for Uganda in which all Ugandans have access to, and use, a broad range of quality and affordable financial services by 2022. It is built upon five pillars:
  1. Reduce Financial Exclusion and Access Barriers to Financial Services
  2. Develop the Credit Infrastructure for Growth
  3. Build Out the Digital Infrastructure for Efficiency
  4. Deepen and Broaden Formal Savings, Investment and Insurance Usage
  5. Empower and Protect Individuals with Enhanced Financial Capability
- The NFIS highlights usage drivers such as emergency savings, formal savings, insurance and stored value accounts but is silent on the role of remittances both as a priority usage type and driver of Financial Inclusion especially amongst the underserved such as FDPs. It also highlights weak competition leading to high prices and insufficient customer experience. Prices are high for mobile money especially for cashing-out, which for remittances can be an additional unknown cost of using the service.
- The BoU does communication campaigns and financial education seminars around the country.
- The National Agriculture Finance Strategy highlights remittances as one of the key use case especially for youth entrepreneurs in Agriculture. (FAO, 2019)

Agency banking to drive financial inclusion
- As part of its drive to improve access to formal financial services, the BoU permitted agency banking in 2017 and the UBA launched an innovative, shared-interoperable agency banking network model. Agents can carry out deposits, withdrawals, bill payment, 1st level account opening for member banks, balance inquiries, provide mini statements, and remit school fees payments (MSC, 2020).
- According to BoU Agents are permitted to Cash-in/cash-out and others only cash-in, which would also apply to international remittance transactions. Agents are required to have a brick-and-mortar location. See Annex 1 for more details.
Uganda has built a rapidly evolving set of identity solutions across the country since 2014. In 2020, two-thirds of the population had registered for a national ID, however, of which 34 percent had received their cards.

- In 2015 the Registration of Persons Act (ROPA) brought civil registration and national ID under one organization and resulted in the creation of the National Identification and Registration Authority (NIRA). NIRA oversees all foundational identity infrastructure in Uganda, including the issuance of National Identity Cards (NIC) and National Identification Numbers (NIN) to all citizens. To support the roll-out, NIRA undertook a successful national campaign called “My Country, My Identity”.

- When registering for a NIC, all fingerprints and a high-quality facial photo are collected. This biometric data is stored on the NIC’s smart chip, and a machine-readable barcode on the back of the card allows the data to be validated. The biometric NIN is a very robust identifier and can be self-verified or authenticated through a biometric scanner.

- As of March 2020, NIRA says that 29.3 million Ugandans have registered for National IDs, NIRA has managed to issue only 15.2 cards, leaving 14 million without IDs (The Independent, 2020). Registration is ongoing. According to a GSMA’s (2019) case study on Uganda’s Digital Identity, “Uganda has rapidly built an evolving set of identity solutions across the country, and has recognised the importance of these components to effective public service delivery .. The country’s efforts to mobilise the population to enrol for identity solutions — and to understand the benefits of identity. This work has been impressive and may offer lessons to other countries” (p. 17).

- Diaspora are able to apply for a NIN abroad through their embassies; there are currently 8 embassies where these can be issued overseas

- There have been challenges with the roll-out including
  1. Low birth registration rates (only 30 percent of births were registered in 2011). [However, according to UNICEF, the campaigns have helped to increase birth registrations to 60 percent by 2016 (GSMA, 2019)]
  2. Disintegrated civil registrations
  3. Complaints about NIRA delays in issuing national IDs have been increasing (The Independent, 2020)
  4. Challenges of obtaining and / or replacing national IDs despite it being a stringent condition for all kinds of KYC. In order to claim a replacement NIC after theft or loss, individuals must travel to NIRA’s office in Kampala to submit their details and a police report. This process reportedly involves a 60-day waiting period for a new card to arrive, and its centralised nature presents difficulties to those living far from the capital city.
Uganda is in the process of implementing an eKYC project based on the new digital ID, that will allow all supervised financial institutions to authenticate and verify customers through a real-time platform. The platform should reduce KYC costs for financial service providers (including remittance businesses), improve safety and increase access.

- In order to ease NIC verification by supervised financial institutions (SFIs), in 2020 the BoU, NIRA, National Information Technology Authority (NITA), Uganda Bankers Association (UBA) and Financial Sector Deepening Uganda (FSDU) embarked on implementation of e-KYC project.
- The project expected to ease structural challenges that drive cost of financial services and enhance AML/CFT compliance in the financial sector. BOU-supervised banking institutions will have access to a platform for the remote real time authentication of the identify of consumers. As of June 30th 2020, development works in progress (BoU, 2020).
- Financial service providers will have access to a joint system to verify if the customer’s identification is authentic and correct. This makes the KYC (know-your-customer) checks easier, less risky, and less cumbersome. BoU believes the system will offer a secure, multi-factor digital authentication that will eventually be available to all companies in the financial services sector.
- At this stage it is not clear whether the system will also have an API for biometric information and whether it will allow for triangulation of biometric information because the NIN will remain as the main KYC document and banks will be required to have access to the registry for e-KYC verification. This is currently in testing phase. This should significantly reduce compliance costs for the financial and payment service providers.
- Biometric infrastructure and ecosystems are currently not in place and scanners will be required for biometric authentication and verification.

Foreign Displaced Peoples’ Access to Formal Services

- Asylum seekers and Refugees are issued Alien cards upon registration, but the process remains problematic for FDPs.
  1. FDPs are issued temporary documents while waiting to receive Alien cards, the latter takes a long time to process and FSPs can only provide limited or no services during the waiting period.
  2. Alien cards are easily replicated.
  3. Even after receiving Alien cards, strict AML controls are placed as Alien cards cannot be authenticated and incidences of fraudulent documents usage are prevalent.
  4. Additionally, some FDPs come from AML/CFT-sanctioned countries such as South Sudan and Congo, FSPs therefore carry out additional due diligence and this sometimes excludes some FDPs from receiving financial services (UNCDF, 2018).

- Financial Service providers are developing clear processes regarding the use of Alien or waiting cards to ease access to financial service for FDPs. DTB and La-Cedri store customers verified documents for future e-KYC while Equity has developed a strategy to bank FDPs and is building a framework to accept the Alien card as sufficient for account opening (UNCDF, 2018).
According to BOU, the financial sector remained resilient to the economic disruption caused by the COVID-19 pandemic. Most supervised financial institutions (SFIs) maintained adequate capital and liquidity buffers to absorb the shock. There was increased usage of Digital Channels across various use cases including cross border remittances.

- To support digital transactions uptake in lockdown, banks and MNOs waived transaction fees for person-to-person transactions below UGX30,000 (USD 8) from March to June 2020, this included all bank-to-wallet as well as wallet-to-bank fees, merchant transactions (MM based) and withdrawals at agency banking outlets. In May 2020, fees were reinstated. The BoU (2020) also increased daily transaction and wallet size limits for mobile money transactions from .

- The BoU extended a Moratorium on Loan Repayments from March 2020 for a period of 12 months to commercial banks, MFIs and credit institutions supervised and licensed by the BoU. This applies to both business and individual borrowers adversely impacted by movement restrictions implemented to manage the pandemic (BoU, 2020).

- **Deposits**: on average the volume and value of deposits were lower in the six months after the official declaration of a COVID-19 case in Uganda compared to a similar period before. This is attributed to lost or lower earnings for example in the informal and tourism sectors as the national lockdown progressed from March 2020 through June 2020.

- **Withdrawals**: These also decreased within six months after the official declaration of a COVID-19 case in Uganda compared to a similar period before. This was attributed to a more savings-oriented outlook by customers in view of the looming uncertainty. Alternatively, customers may have decided to take advantage of the mobile money fee waivers therefore lower cash outs than before.

- **Transaction Volume and Value**: These increased in the six months after the official declaration of a COVID-19 case in Uganda compared to a similar period before. The higher outturn of P2P volume and value of transactions was expected on account of the national lockdown and social distancing guidelines which made other channels of remittance relatively inaccessible (BoU, 2020).

### Comparison of P2P Volumes and Values before and after COVID 19

<table>
<thead>
<tr>
<th>P2P Volume and Value</th>
<th>12 months before (March 2019 to Feb 2020)</th>
<th>6 months after (Sept 2019 to Feb 2020)</th>
<th>6 months after (March 2020 to August 2020)</th>
<th>CY 2020 (Jan 2020 to August 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trx Volume (Million s)</td>
<td>Sum: 11,960</td>
<td>67,324</td>
<td>103,595</td>
<td>126,238</td>
</tr>
<tr>
<td></td>
<td>Average: 9,997</td>
<td>11,221</td>
<td>17,266</td>
<td>15,780</td>
</tr>
<tr>
<td>Trx Value (UGX millions)</td>
<td>Sum: 8,427,502</td>
<td>4,676,810</td>
<td>7,068,241</td>
<td>8,649,434</td>
</tr>
<tr>
<td></td>
<td>Average: 702,292</td>
<td>779,468</td>
<td>1,178,640</td>
<td>1,081,179</td>
</tr>
</tbody>
</table>

Source: BoU, 2020
Financial Environment (1)

Priority Policy Actions

- **Interoperability** - The BOU to look at improving interoperability between the different payment channels and institutions in Uganda to provide a more seamless and cheaper ecosystem. Explore different options and methods e.g. a common ISO digital value bearing instrument.

- **Regional retail payment platform** – For the BoU to review the existing EAPS business model to see whether it has the capacity to achieve the scale required to evolve it’s functionality to become a regional retail payment system. This would require direct participation by institutions regionally and in hard currency. Include an analysis of current known settlement systems.

- **Mobile money taxation & taxing the digital economy** – Continue to review the mobile money and digital tax policy through stakeholder consultation. Continue to review, impact on the market including on remittances and remittance pricing potentially in partnership with the Digitax programme at The International Centre for Tax and Development (ICTD),

- **Biometric identification and national identifier number (NIN):** Continue to roll out NIN and issuance of NICs. For NIRA to improve efficiencies in turn around times in issuing cards and to address the challenges in replacing NICs.

- **eKYC -** Access to KYC data with NIRA for authentication is in progress for BoU licensed banks; this should also be considered for non-bank providers (including remittance businesses and agents) under well-defined frameworks. The BoU should consider allowing remote onboarding of customers and including the authentication of biometric data for triangulation purposes.

- **Review turn-around times for FDPs Alien Cards** and solutions for remote authentication.

- **Distribution networks for accessing remittances and other financial services are evenly spread out across the country; however, an assessment of quality and performance factors is required.** For example, for ABC to assess the declining number and activity rates of Agency Banking providers while Mobile Money providers are increasing and opportunities for improving liquidity management.
Financial Environment (2)

Priority Policy Actions cont.

- **Financial inclusion strategy** – International remittances should be explicitly included in the National Financial Inclusion Strategy. International remittance senders and recipients have their own set of needs in terms of consumer protection, access, financial products and services and financial education. International remittances can be used as a conduit to drive and deepen financial inclusion.

- **Financial education** - There is a need for stakeholders especially regulatory authorities and financial services providers to undertake financial literacy activities targeted at popularising the safe use of digital financial services and digital remittance services. Financial education targeted specifically for prospective migrants, migrants, remittance beneficiaries and returnees.
This section presents analyses the key regulations in Uganda governing cross-border remittances and the extent to which they are conducive and supportive of innovation in the payments sector in general and in line with PRIME Africa goals.

It also highlights regulatory gaps and the impact on the market.
In Uganda, the National Payment Systems Act was recently passed, and the Foreign Exchange Regulations (2006) are currently under review; therefore, the status quo is subject to change in coming years. The NPS Act should result in a clearer market for digital financial service providers and payment service providers and increase competition and consumer protection.

The Bank of Uganda is autonomous and has oversight for regulating and supervising financial institutions.

National Payment System Act, 2020

- The National Payments Systems Act, 2020 (Act) is a key piece of regulation recently gazetted (Sept 2020) to become law. Key provisions of this regulation include:
  1. Providing regulatory oversight for payment systems and service providers, issuers of payment instruments and issuers of electronic money. All these will now require licenses issued by the BoU with the exception of payment systems operated by the BoU. This is key as it clarifies categories of service providers who can issue e-money and provides a licensing framework.
  2. MM providers will be required to set up separate payment entities from their parent company which in turn will be solely regulated by the BoU. In practice, most of the MNOs have already affected the creation of these financial service entities (GSMA, 2020).
  3. The new Act gives the BoU the power to make regulations on liquidity, fair competition, customer diligence, anti-money laundering and transaction limits.
  4. Introduces a regulatory Sandbox under which a person may obtain limited access to a payment system or eco-system to test innovative financial products or services without obtaining a licence.
  5. Companies with previous approval to operate payment services will have 6 months to get licenced
- The new Act and forthcoming regulations [published March 2021] should create a clearer regulatory environment for digital financial services and payment service providers (including digital remittance businesses and payout partners) and increase competition and consumer protection.

Foreign Exchange Regulations

- Established in 2006 under the Bank of Uganda Act and by sections 9(5), (6) and 18 (1) and (2) of the Foreign Exchange Act, 2004. The Foreign Exchange (Forex Bureaus and Money Remittance) Regulations, has been undergoing review since April 2019.
- The Bank of Uganda proposed several amendments to the regulation, to:
  i. Strengthen provisions in the existing law that are considered inadequate for the effective execution of BoU's mandate regarding to supervision of forex and money remitters;
  ii. Increase capital requirements and enhance due diligence for applicants
  iii. Make regulatory provisions for new business trends and technological developments that were not provided for;
  iv. Ensure effective implementations of new national legislation such as the Anti Money Laundering Act, 2013;
  v. Adopt international best practice with regard to the supervision and regulation of FX bureaus and money remitters; and
  vi. To harmonize the regulatory regime with the East African Monetary Union Convergence Criteria as agreed with the East African Community Partner State.
- Regulations await the enactment of the Foreign Exchange (Amendment) Bill given that most of the proposals in the Regulations are premised on the proposed amendments to the Act.
- BoU issued Guidelines for the Licensing and Operation of Forex Bureaus and Money Remittance Companies in 2018 in the interim period awaiting enactment of the amended bill into law.
Licences are issued according to classified categories, but the remittance activities that are permissible are the same across all categories.

- Remittance activities are regulated according to the BoU’s The Foreign Exchange (forex bureaus and money remittance) Regulations 2006[^1] and the BoU has oversight of the market. Bank and non-bank entities are permitted to offer Remittance Services, they must hold or be eligible to obtain a Foreign Exchange license.
- There are Guidelines for the Licensing and Operation of Forex Bureaus and Money Remittance Companies, 2018 that outline application requirements, process, timelines and subsequent renewals and reporting frameworks. Licensing categories are defined as follows:
  - Class A—International Money Transfer Agency License;
  - Class B—Forex Bureau and Money Remittance License;
  - Class C—Direct Entrants License; or
  - Class D—Sub-Agency License
- The BOU only publishes the list of Class B licensees.

<table>
<thead>
<tr>
<th>Banks, Credit Only Institutions &amp; Deposit Taking Microfinance Banks</th>
<th>CLASS A International Money Transfer Agency License</th>
<th>CLASS B Forex Bureau and Money Remittance License</th>
<th>Class C Direct Entrants License</th>
<th>Class D Sub-Agency License</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permitted to carry out foreign exchange transactions and inbound/outbound (IB/OB) money remittance, do not need an additional licence.</td>
<td>Carry out IB/OB remittance business through commission-based Agents – mostly commercial banks in the designated countries</td>
<td>Licensed by BoU to conduct money remittance business forex bureaus need MT license in order to offer IB &amp; OB remittances.</td>
<td>Local entities in Uganda offering IB/OB remittance services including digital providers such as BT Payment</td>
<td>Institutions governed by BoU only. They offer remittance services under a Bank, MFBs, IMTO agent, Direct Entrant etc because they do not have capacity for direct licensing. Some progress to direct entrants’ licence.</td>
</tr>
</tbody>
</table>

Ecobank has own remittance product - Rapid Transfer. UBA has Africash PostBank has Speedie. All banks (incl. e.g. DTB, KCB, Ecobank) offer SWIFT and are partners with the IMTOs

Western Union, Money Gram, World Remit, UniMoni, Xpress Money etc – Only WorldRemit has applied and received letter of intent to issue license.

Forex bureaus have to be in operation for two years before applying for MTO license.

MTN Uganda, BT Payments and other local MTOs and fintechs

Rural Community Banks, forex bureaus etc.

The Post Office has just received its licence (2021).

[^1]: Note: This reference is likely to be a URL or a citation that is not visible in the image.
Guidelines for remittance service providers are generally clear and relatively open; however, wait times for approvals can be long and annual fees per branch limit network expansion. There are only guidelines for one classification on remittance business – Class B, and licencing for MMPs and agency banking is currently undefined.

- **Banks and Deposit taking MFIs** only require approvals from BoU to offer their own remittance products or to become agents of IMTOs.
- **International, Regional and Local Money Transfer Operators** are permitted to deal in foreign exchange-based business and can therefore offer both inbound and outbound remittance services.
- **MMPs are permitted to provide both inbound and outbound remittances under a parent bank** for purposes of foreign exchange management and currently also only require an approval from BoU. This is expected to change with the enactment of the NPS Payments Act which will give them full capacity for licensing. They are required to form subsidiary financial institutions that will be supervised by the BoU. Agent Banking Regulations permit agents to provide “money transfers” so they can act as agents of licenced entities but prohibit agents from conducting “foreign exchange transactions.”
- MTOs applying for licenses are required to pay a security deposit of UGX 50 million (USD13,500); nonrefundable application fee of UGX 1m (USD270), have minimum unimpaired paid-up share capital of not less than UGX 50m (USD 13,500) and **pay annual license fees of UGX 2 million (USD542) per branch.**
- BoU gives a lead time of 21 days for feedback on approval, upon submitting all required documentation, however, stakeholders interviewed indicated extremely lengthy wait times of up to six months or more. For example, for Uganda Post the money remittance licence took more than 12 months.

Notable differences between Uganda and Kenya in the remittance licensing framework include:

- Requirement for IMTOs such as Western Union, MoneyGram, World Remit etc. to be licensed and to present a recommendation from the regulatory authority in their base country, while this is not the case in Kenya.
- Forex service providers are permitted to offer services directly unlike Kenya, where they are mostly sub agents under MTOs or Banks. If they get elevated to MTOs, they must change name to Money Transfer company even when offering Forex services as a secondary business.
- BOU also approves Sub agents recruited by MTOs/Banks.
- In Kenya MNOs are licensed directly as Money Transfer Operators.

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**Microfinance Institutes Act, 2016**

In May 2016, the Tier IV Microfinance Institutions Act was passed by Parliament. This Tier consists of a range of semi-formal and informal financial institutions including savings and credit cooperatives (SACCOs); credit-only microfinance non-governmental organizations (NGOs); private businesses and individuals engaged in financial services (including money lenders); and other community-based and informal financial groups, such as village savings and loan associations (VSLAs).

**A key provision of the Act is the establishment of the UMRA, which has the mandate to license, regulate and supervise all Tier IV financial institutions.**

Uganda Microfinance Regulatory Authority – UMRA is an autonomous government agency (UMRA, 2016).

At present Tier IV institutions are not able to pay out international remittances and they are not able to access the shared agency banking network (ABC).
Uganda has passed conducive Data Privacy and Financial Consumer protection laws; however, high-profile frauds involving mobile money threaten to undermine trust in digital financial services and digital remittances.

- Uganda’s Data Protection and Privacy Act 2019, a data processor or controller based in Uganda can process or store personal data outside Uganda, where the country in which the data is processed or stored has adequate measures in place for the protection of personal data at least equivalent to the protection provided for by the Act; or the data subject has consented to their data being store externally.
- Financial Consumer Protection Guidelines (FCPGs) 2011 Applies to all BOU supervised financial institutions: commercial banks, credit institutions and MDIs) and their agents. These are built on three principles: fairness, reliability and transparency.
- The guidelines seek to: (a) promote fair and equitable financial services practices by setting minimum standards for financial services providers in dealing with consumers; (b) increase transparency in order to inform and empower consumers of financial services; (c) foster confidence in the financial services sector; and (d) provide efficient and effective mechanisms for handling consumer complaints relating to the provision of financial products and services.
- There have been concerns in Uganda that consumer protection has not kept pace with changes in technology. The new Payment System Act and forthcoming regulations for payment service providers aim to improve data privacy and consumer protection for digital financial service providers. This should help to increase trust in these services and therefore use of digital financial services and digital remittances.
- Delays and challenges in finalising regulatory changes over e-payments and Fintech players creates concerns about cyber security and money laundering.

Fraud in mobile money in Uganda

In October 2020, bank to mobile wallet transactions using Pegasus Technologies were hacked, affecting Stanbic Bank, MTN and Airtel mobile money accounts and leading to the suspension of all bank to wallet transactions and services. Estimated at USD2.7m, the fraud was committed using around 2,000 mobile SIM cards.

Fraud on this scale has been reported before in Uganda, with 6 MTN employees prosecuted in 2015 for internal fraud amounting to UGX 10 billion (CGAP, 2015). At the agent level, in 2016, 53 percent of mobile money agents had experienced fraud in the last year, which was the highest in the region (CGAP, 2017).

Moreover, the Uganda Communications Commission has warned that increased use of digital financial platforms during the COVID-19 pandemic has resulted in increased mobile money fraud.
Uganda has made significant progress in strengthening its AML/CFT framework in view of recommendations made by FATF after being placed on the 'grey list' of jurisdiction, but the effectiveness of these changes are yet to be realised. Being on the FATF grey-list can impact cross-border remittances as correspondent banks de-risk and require higher levels of scrutiny of transactions increase costs.

- The Financial Intelligence Authority (FIA) was established by the Anti-Money Laundering Act, 2013 (AMLA) to combat money laundering, counter terrorism financing and proliferation. It has facilitated transition from manual reporting systems to the goAML electronic system for 24 banks and MM providers in Uganda.

- **Uganda has a fully liberalised capital account and there are no exchange restrictions or controls on the transfer of funds from Uganda.** However, all payments in foreign currency to or from Uganda, between residents and non-residents, or between non-residents, must be made through a bank. Additionally, transfers into Uganda of sums of USD10,000 and above, or the equivalent in any other currency, are subject to reporting obligations by the financial institution for purposes of anti-money laundering compliance (Bowmans, 2019).

- **Uganda is a jurisdiction on the ‘grey list’ (Jurisdictions Under Increased Monitoring) according to FATF due to strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing.** The ‘grey list’ is officially referred to as Jurisdictions Under Increased Monitoring. Like the blacklist, countries on the FATF grey list represent a much higher risk of money laundering and terrorism financing but have formally committed to working with the FATF to develop action plans that will address their AML/CFT deficiencies.

- The countries on the grey list are subject to increased monitoring by the FATF, which either assesses them directly or uses FATF-style regional bodies (FSRBs) to report on the progress they are making towards their AML/CFT goals. While grey-list classification is not as negative as the blacklist, countries on the list may still face economic sanctions from institutions like the IMF and the World Bank and experience adverse effects on trade. For example, correspondent banks can de-risk in high numbers or require higher degrees of scrutiny as well, even to the level of per transaction due diligence which adds costs and challenges with settling cross-border payments.

- In February 2020, Uganda made a high-level political commitment to work with the FATF and Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to strengthen the effectiveness of its AML/CFT regime. Some of the key actions included: adopting a national AML/CFT Strategy, implementing risk-based supervision of Financial Institutions, instituting policies for recovery of proceeds of crime etc.

- **According to the latest FATF report, Uganda is nearly technically compliant (ESAAMLG, 2020).** However, the effectiveness ratings are still poor (FAFT-GAFI). It was deemed Highly Effective for 0 and Substantially Effective for 0 of the Effectiveness & Technical Compliance ratings. The e-KYC project that gives access to remote and real-time authentication of customer identity for BoU supervised institutions will help to address existing challenges.
Within the AML Act and regulation, Uganda has general rules providing for risk-based simplified customer due diligence.

**ID and KYC**

- In February 2019, the BoU issued a directive making the NIC the primary identification document for KYC purposes in all financial institutions under its supervisory purview.
- All SIM cards in Uganda must be registered against an individual’s NIN by law. Despite a significant number of initial issues arising from the new SIM card registration regulations, the introduction of new authentication technology that enables the Uganda Communications Commission to validate customer identity documents against a central database in real-time has proven effective.
- While women in Uganda are only two percent less likely than men to own a NIC, they are 10 percent less likely to use their NIC to register a mobile SIM in their own name (GSMA, 2019).
- There are no lower-risk/ basic accounts (banking or mobile money) accounts in Uganda.

**Risk-Based Approach to Consumer Due Diligence**

- FATF promotes a risk-based approach to CDD for money transfer operators to foster financial inclusion and make sure formal services are accessible, especially to low income, rural and undocumented persons (FATF, 2016). The AML Act 2013 in Uganda requires a risk-based approach to customer due diligence, and this regulation is the AML framework for money transfer businesses. However, there is no explicitly mention of a RBA to CDD in the Money Remittance Guidelines (2018).
- There are general rules for providing risk-based simplified CDD in the AML Regulations (2015). There are no CDD tiers set up by laws or regulations. All FIs to do regular risk assessments. For banking agents, the principal bank sets the limits for AML/CFT purposes and notifies the central bank (CGAP, 2019).
- The AMLA requires that reporting entities apply customer due diligence on a risk sensitive basis and in particular for higher risk categories of customers, reporting entities are to perform an enhanced due diligence, [s. 6(e) of the AMLA]. The authorities indicate that this information is required to be incorporated into their AML/CFT risk management policies. However, this is not backed by any legal obligation provided by the law. Reporting entities are also required to have appropriate risk management systems to determine whether a customer is a politically exposed person (ESAAMLG, 2016). At this time the report suggests that the application of this approach among market participants is weak.
Improved CDD with RSPs enhances remittance access opportunities by low-income, rural households, and particularly women, to enhance financial inclusion and sustainable development. It also reduces the cost base for RSPs. Remote-onboarding is in the pipeline and proof of address is still a requirement. Ongoing eKYC efforts may ease this burden.

Remote Onboarding

- FATF recommends that agent-based and remote CDD should be accommodated in the rules, along with delayed verification. The FATF guidance on digital identity states that digital can be lower risk and FATF policy submissions under consideration are that face-to-face onboarding or verification can be higher risk than digital, and that remote onboarding should be the norm.
- Agent-based and remote CDD in Uganda - For agent account opening: MFS providers must ensure that their agents are licensed or registered and that they have effective, up-to-date AML/CFT policies and systems. The principal remains liable for proper completion of CDD. Limits set by providers subject to central bank review. There is currently no digital remote-onboarding as there is no eKYC platform.

Proof of Address (PoA)

- FATF’s clarification that PoA is not a requirement. However, in Uganda PoA is still a requirement, even after the establishment of the NIN.
- Countrywide, only 14 percent (2.6 million) of adults have the documentation to prove both identity and residential address. Male adults are more likely than females to have proof of both identity and residential address – 17 percent (1.5 million) versus 11 percent (1.1 million).
- Additionally, urban-based adults are significantly more likely than rural-based adults to have both proof of identity and residential address – 22 percent (1 million) versus 11 percent (1.6 million) (FINSCOPE, 2018).
- The request for additional documentation could be drawn from the current inability of FSPs to query the National Identification register for authentication purposes. Ongoing e-KYC efforts are expected to ease this burden of identification.
Regulatory Environment

Priority Policy Actions

- **Data:** for the BoU only publishes the list of Class B licensees. This should be extended to all Class types to bring more transparency to the remittances market.

- **New National Payments Act:**
  - Ensure that the revised guidelines do not stifle innovation through high capital requirements, especially if there are capital requirements per licence category.
  - The NPS system should move closer towards the BIS Principles for Financial Market Infrastructures (PFMI) with regard to the inclusion of MM and fintech on a risk proportionate basis. Even as direct clearing and in some case settlement participates.
  - Sandboxes can be resource intensive for a developing country with limited outcomes. Regulation for innovation and test-and-learn approaches seem to be more effective where capacity and resources are limited.

- **Remittance regulations:**
  - Make it clear through the Guidelines and regulations whether IMTOs operating in Uganda have to get a Class A licence if they are partnering with licenced entities.
  - Review the remittance regulations to ensure Tier 4 licence holders, including SACCOs and MFIs that meet certain criteria can cash-in/cash-out remittances.
  - Wait times for licencing are long and therefore hinder competition in the market.
  - Licencing fees are particularly high, especially because they are charged per branch and this may stifle network expansion. BoU indicates a shift to licensing fees based on annual turnover.

- **ID and CDD:**
  - For FIA to pilot a change around proof of address requirements, given that FATF clarifies that POA is not a requirement.
  - Laws and regulations for KYC practices do not explicitly state requirements for onboarding FDPs, creating both a barrier and lack of clarity among FDPs and service providers. Beyond the Alien card, BoU should issue guidelines on KYC requirements for non-holders of NIN whose identification cannot be authenticated. This is to standardise access to Financial Services for categories such as FDPs. The FATF guidance on digital identity states that digital can be lower risk and FATF policy submissions under consideration are that face-to-face onboarding or verification can be higher risk than digital, and that remote onboarding should be the norm.
Remittances Market Structure: Inbound and Outbound

- Remittances value chain
- First Mile: market structure
- Third Mile: market structure
- Access
- Pricing and Cost Drivers
- PRIME Corridor Analysis

This section analyses Uganda’s remittance market structure in 3 key sections, it also assesses the structure and competition in the main send and receive markets, pricing, key cost drivers as well and access options available to remittance users.
The formal remittance market into and from Uganda has many different operators and is a busy space. This reflects the different migration patterns within and from the country including intercontinental diaspora in the Middle East, UK, USA and EU, inter-regional flows and the large number of FDPs from South Sudan and the DRC.

- The map indicates the various channels and service providers used to send money by region. Annex 3 provides additional information on the different types of operators providing services and the remittances value-chain.

North America and Europe (Inbound)
- Traditional IMTOs incl. Western Union, MoneyGram, Ria
- Online and app-based IMTOs incl. WorldRemit and SendWave, SimbaPay etc.
- Banks via SWIFT

Middle East (Inbound)
- Regional IMTOs incl. Dahabshiil, Transfast, Juba Express, Kaah Express, Amal Express
- Hawala

Intra-Africa (Inbound and Outbound)
- Informal through buses and traders (neighbouring)
- Informal: Hawala
- MNOs: Airtel and MTN
- Ugandan-registered money remittance businesses, incl. Dahabshiil, Kaah Express, Amal Express and foreign exchange bureaus (78 licenced) etc.
- Pan-regional banks especially for white collar, higher-income workers and larger values (Stanbic Bank, Centenary Bank, EcoBank, Postbank, UBA, Equity, KCB etc, including their own money transfer platforms *AfriCash, Speedie etc)
- IMTOs and pan-African MTOs
- African FinTech – small but growing, including ChipperCash, Eversend, Mukuru

North America and Europe (Inbound)
- Traditional IMTOs incl. Western Union, MoneyGram, Ria
- Online and app-based IMTOs incl. WorldRemit and SendWave, SimbaPay etc.
- Banks via SWIFT

Middle East (Inbound)
- Regional IMTOs incl. Dahabshiil, Transfast, Juba Express, Kaah Express, Amal Express
- Hawala

Intra-Africa (Inbound and Outbound)
- Informal through buses and traders (neighbouring)
- Informal: Hawala
- MNOs: Airtel and MTN
- Ugandan-registered money remittance businesses, incl. Dahabshiil, Kaah Express, Amal Express and foreign exchange bureaus (78 licenced) etc.
- Pan-regional banks especially for white collar, higher-income workers and larger values (Stanbic Bank, Centenary Bank, EcoBank, Postbank, UBA, Equity, KCB etc, including their own money transfer platforms *AfriCash, Speedie etc)
- IMTOs and pan-African MTOs
- African FinTech – small but growing, including ChipperCash, Eversend, Mukuru
In Uganda, mobile money is the most common way to receive international remittances, with 30 percent of households in 2018 receiving money into a mobile wallet, valued at USD196 million. Nearly a fifth of remittances are terminated into a bank account, which considering that only 11 percent of adults in Uganda are estimated to have a bank account, indicates that remittance beneficiaries tend to be more banked.

- The BoU (2018) Personal Transfer Survey sheds light on the different channels used to receive money in Uganda as well as consumer behaviour patterns. Data is not currently published by the BOU on how this market structure varies according to different regions or corridors (request pending with BoU).
- The survey shows that 30 percent receive money into a mobile wallet. MTN and Airtel have the largest market share in mobile money in Uganda. Since 2018 the prevalence of mobile money has been growing across Uganda and so it may be expected that the proportion of funds received this way is now higher.
- Mobile money in Uganda is served by a network of 376 thousand agents (BoU, 2020). Given the important role of mobile money as a pay-out it is important that agents have the liquidity to cash-out international remittances, that there is consumer protection especially at agent locations and that the downstream digital payments ecosystem for mobile is developed to remove the need for people to cash out their remittances (and incur additional costs).
- Only 2 percent receive money by a local MTO. The survey suggests that only a very small number of people receive money through the local MTOs (mainly forex bureaus), and that 19 percent receive money into bank account. This can be money sent via IMTO into a bank account or money sent from bank account to bank account. This is higher proportionally than those that have a bank account in Uganda (11 percent of adults, Finscope 2018).

### Percentage of households reporting channels used to receive inbound transactions and value of inbound transactions per channel

<table>
<thead>
<tr>
<th>Category</th>
<th>Channel</th>
<th>% of recipient households reporting use of each channel 2017</th>
<th>% of recipient households reporting use of each channel 2018</th>
<th>Value of transactions (percentage share) 2017</th>
<th>Value of transactions (percentage share) 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>International MTO</td>
<td>37.8</td>
<td>28.1</td>
<td>42.7</td>
<td>14.4</td>
</tr>
<tr>
<td></td>
<td>Bank Account</td>
<td>14.4</td>
<td>18.7</td>
<td>26.9</td>
<td>25.3</td>
</tr>
<tr>
<td></td>
<td>Local MTO</td>
<td>6.9</td>
<td>2.3</td>
<td>7.8</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>Mobile Money</td>
<td>27.3</td>
<td>29.9</td>
<td>14.4</td>
<td>20.4</td>
</tr>
<tr>
<td></td>
<td>Post Office</td>
<td>0</td>
<td>0.1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-total Formal Channels</strong></td>
<td><strong>86.4</strong></td>
<td><strong>79.1</strong></td>
<td><strong>91.8</strong></td>
<td><strong>89.8</strong></td>
</tr>
<tr>
<td>Informal</td>
<td>Friends in Uganda</td>
<td>9.6</td>
<td>12.7</td>
<td>3.0</td>
<td>6.9</td>
</tr>
<tr>
<td></td>
<td>Friends Abroad</td>
<td>5.0</td>
<td>4.8</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td>Traders</td>
<td>2.1</td>
<td>2.8</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Self</td>
<td>6.1</td>
<td>6.6</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-total Informal Channels</strong></td>
<td><strong>22.8</strong></td>
<td><strong>26.9</strong></td>
<td><strong>8.2</strong></td>
<td><strong>10.2</strong></td>
</tr>
</tbody>
</table>

Source: BoU Personal Transfer Survey, 2018

[Image of IFAD - Investing in rural people]
The BoU survey indicates that nearly a third of beneficiaries receive cash at an IMTO agents. There are 1,043 agents (proxy) across Uganda, which is low compared with peer countries, and analysis indicates that there are potentially lots of people with large distances to travel to an MTO agent. According to the BoU, international remittances are however predominantly an urban phenomenon, in which case the urban divide in terms of access is not such a challenge.

- 28 percent of remittance beneficiaries receive money at an IMTO agent. This requires a remittance beneficiary to physically visit an IMTO agent to collect the funds in cash.
- Agents are Tier 1, Tier 2 and Tier 3 financial institutions and remittance business outlets (mainly FX bureaus). There is no exclusivity between MTOs and agents in Uganda and as such agents can pay-out for multiple MTOs, which increases access and competition in the market.
- Proxies from Western Union and MoneyGram find that there are 1,043 unique physical agents across Uganda for paying out/in remittances (WDL primary research, 2020). Posta Uganda has just received their licence for money transfers (January 2021) which will add an additional 252 locations to the physical pay-out network.
- By international standards the number of physical agents per 100 thousand of the population is low (2 locations versus 7 in Kenya) and rural Uganda is not well-served. The map (WDL, 2020) indicates that there are rural areas where there are over 3,000 people per square kilometre that have to travel more than 40km to a remittance pick-up location (not including MM agent). This lack of access in rural areas underpins the need for larger distribution networks and diversity of types of businesses that can cash out.
- It is also worth considering however that, according to the BoU survey (2018), 85 percent of remittances in Uganda are received in urban areas where access to agents to collect money is better served. Foreign Exchange bureaus are concentrated in Kampala and Entebbe (93 percent) of the total 231, only 15 (or 7 percent) are located outside the two main cities in Gulu, Arua, Mbarara, Fort Portal and Jinja.
- Access is key for remittance senders and receivers, 46.4 percent of receivers cited access as a key determinant of channel choice (BoU, 2018).
- A recent study by UNCDF (2018) on FDPs highlighted that proximity to agents with liquidity to pay-out remittances was a problem in the more rural refugee settlements (such as BidiBidi). [UNCDF, 2018].

Source: WDL data scraping, Q2 2020
The BoU survey reports that 10 percent of remittance values are sent via informal channels, but 27 percent of people use informal channels. For remittances sent to neighbouring countries the prevalence is suggested to be much higher. Unlicenced forex bureaus, hawala, friends, family, traders and unregistered mobile money agents are the main channels used.

- Whilst the BoU report that 10.2 percent of inbound remittances are informal, but that 27 percent of people receive money through informal channels. This would suggest that money sent informally is comparatively low in value, [89]
- In some neighboring corridors it is suggested that the proportion sent through informal channels may be significantly higher. A section of Ugandans in the diaspora send remittances through friends and family, those close to the borders use buses destined for more rural and remote areas where formal services are not present. Others send through traders and shopping outlets. A high level of informality is recognised from stakeholders in the Kenya to Uganda corridor and Rwanda to Kenya corridors.
- Unlicensed forex bureaus are increasingly sending informal remittances through forex bureaus and traders in other key destinations as a way of balancing their foreign exchange. Forex bureaus have been especially proactive in their marketing in response to COVID-19 as forex transactions have dropped and so some have focused on cross-border. The BOU is aware of these activities and conducts campaigns to bring awareness to the risks of using informal operators. According to CENFRI (2018) [89], some informal services do not charge any fees yet are more reliable and trusted than formal remittance services.
- Mobile Money channels have long been used to send informal remittances from Uganda to Kenya. In 2015, Safaricom blocked roaming services from M-PESA Agent Sim cards to curb this practice. However, the practice keeps evolving and has proven difficult to eradicate fully. Informal transactions are now sent through personal M-PESA wallets. Senders pay in UGX and receivers can cash out in Kenya. Notably, the reverse- informal transfers from personal MTN or Airtel wallets in Kenya to Uganda via Mobile money but stakeholder consultations suggest this is not as prevalent, this is most likely due MTN personal lines switching off after one month when overseas and the notoriety of M-PESA and association with P2P transfers for Kenyans.
- FDPs (especially Somali and South Sudanese) use hawalas that operate from mobile money shops, grocery shops, etc. and are usually unregistered, relatively anonymous, fast and inexpensive. Although there are contraindications that they are often low on liquidity hence extending the period for the receiver to access their funds.
UNCDF (2018) conducted an analysis on affordable and accessible remittances to FDPs in Uganda. The analysis shows that FDPs face additional challenges with respect to accessing remittances due to their remote location, challenges with liquidity of agents, access to identification and additional discrimination and costs.

- In 2018 UNCDF\cite{footnote1} conducted a comprehensive study looking at the challenges and barriers FDPs in Uganda face in accessing remittances.
- The study found that remittances to FDPs mostly come from family and friends in Europe, US and home countries. Remittances are a main source of income for new arrivals but may be received less frequently by FDPs who have been in the settlements longer. Although remittances are mainly received to meet consumption needs, many FDPs receive money for business or trade purposes. Remittance channels are chosen by the sender, rather than the receiver.
- Many FDPs use formal remittance services to receive money, but a significant proportion continue to use informal agents to receive remittances. Informal providers such as hawalas are more accessible to FDPs as they are found within the refugee settlements, while most formal providers are located in the nearest town. Many MM agents offer M-Pesa in Uganda, despite not being officially authorized, as well as Airtel Congo. The main formal providers include Western Union; MoneyGram; Dahabshiil; Juba Express; Centenary Bank; MTN; Airtel; and UGAFODE.
- The main challenges for FDPs are:
  - Distance to access points: This is a key determinant of channel choice; for instance, FDPs in Bidi Bidi commonly receive remittances via MM, despite very expensive cash out fees, as the alternative is travelling for an hour+ to the nearest MTO agent. FDPs often incur travel costs to meet providers (~USD10) and/or must pay middlemen facilitators.
  - Whether the access point accepts the FDPs’ ID documents: there is a lengthy process to acquire the government-issued refugee ID and often FDPs must present additional documents to certify the legitimacy of their refugee ID.
  - Agent liquidity: As most FDPs cash out MM, agents that serve the Nakivale and Bidi Bidi settlements quickly exhaust their cash reserves and FDPs have to wait for 2-3 days to withdraw all their money.
  - Network availability: Connection issues can delay receipt of funds but are also a tactic used by bank staff – in addition to issues around misspelled names or requests for larger denominations – to elicit bribes from FDPs.
The average cost of sending remittances to Uganda is 11 percent of the send amount however this is skewed based on high-cost services from Tanzania. The average cost for sending money from the UK is 7.1%, Kenya 8.9%, Rwanda 6.5% and Sweden 6.1%. Margins on the FX rate make up a significant proportion of the total cost to consumers.

- At 11 percent (Q4 2020), the average cost of sending USD200 to Uganda is the highest after Malawi and highest of the four East African countries – Rwanda, Tanzania and Kenya. It is also marginally higher than the average cost in SSA of 8.47 percent (RPW, Q3 2020) but way above the SDG 10.0c recommended price.
- Sending from Tanzania to Uganda has high average fees due to a few banks charging exuberant fees which distorts the data.

- The average cost of sending from Sweden is 6.1 percent of the send amount when sending USD200 equivalent and from Rwanda to Uganda 6.5% of the send amount.
- It should be noted that average costs can be misleading and are not necessarily reflective of the amount people are paying to send money home.
- Furthermore, whilst the USD200 equivalent is representative for the average transaction size from the EU/UK/USA corridors to Uganda, this is a high price point for intra-regional remittances where stakeholders report that 90 percent are under USD120.
There is significant variation in pricing between corridors and channels; however, internet services are the most competitive and those relying solely on the use of agents pay the highest fees. This underpins the need for financial inclusion to support access to the cheaper services.

- Pricing data was collected from RPW (2020) and mystery shopping giving a total of 63 different services from five send countries in Q4 2020. The focus is on Uganda as a receive country.
- Analysis of pricing data shows that there are significant variations in pricing between corridors and types of service providers. The spread in prices between similar services is also relatively high.
- The average cost of sending money (fee + FX margin) through an MTO is roughly the same across the five corridors, between 5.6 percent from Kenya to 7.6 percent of the send amount from Rwanda.
- The average cost of using bank-led services is relatively more expensive from Kenya and Tanzania, but competitively priced from Rwanda due to low prices from KCB and EcoBank.
- Online services are generally competitively priced, even a negative exchange rate on the day of mystery shopping from ChipperCash.
- Visiting agents is on average more expensive across all corridors, where the average cost is around 9 percent of the send amount. The costs of using mobile money to send money across border seems to vary significantly between Kenya and Rwanda.

Source: Mystery shopping and RPW data, Q4 2020
As a well-developed mobile money market, Uganda is one of the most integrated countries globally in terms of cross-border mobile money services. It is possible to receive money from 4 countries within Sub-Saharan Africa and send it wallet-to-wallet to 6 countries in SSA. The cost of using these services seems to be have come down between Q2 and Q4 2020 and are competitively priced (~4 percent of the send amount) in some corridors.

- In August 2020 it was possible to send money to a mobile wallet in Uganda directly from mobile wallets in Kenya, Rwanda, Tanzania and Zambia. From Uganda, it was possible to send money mobile wallet-to-mobile wallet to Burundi, Kenya, Tanzania, Malawi, Rwanda and Zambia.
- It is not possible with the current data available, to ascertain the volume of cross-border remittances being sent directly mobile wallet to wallet.
- Operators in the region report average transaction sizes at USD60-USD100. As such this price point (USD200) will distort the data, as prices may be significantly higher proportionally for lower-transaction amounts.
- The cost of sending money from MTN to Rwanda (Airtel and MTN) is found to be relatively high at 9.9 percent of the send amount, whereas the total cost of sending money from Kenya to Uganda is around 4 percent of the send amount. According to mystery shopping in Q2 2020 the cost of sending USD200 from Kenya to Uganda was 9.3 percent of the send amount for sending USD50 equivalent and 8.4 percent for sending USD200 equivalent. Therefore, Q4 2020 data suggests that total costs have been brought down in the last 6 months.
- There are additional costs involved with using mobile money in terms of cashing-out fees. A mystery shopping exercise in Q2 2020 found that there was an additional 2-2.3 percent cash-out fee from an agent. Anecdotally we have also heard that in rural areas, agents may also levy an additional cash-out fee for OTC transactions which is often accepted by the recipients but ultimately makes the service more expensive and less desirable.
- The high fees from Rwanda may be a result of lack of attention on the cross-border as the MNOs focus on the domestic market. Traction on the Rwanda to Uganda corridor has not been as high as expected given the number of Ugandans in Rwanda.

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Source: RPW Q4 2020, World Bank + Mystery shopping

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Cost transparency especially on remote transactions such as mobile-to-mobile cross-border remittance is low. This in turn means that customers do not make informed choices by knowing all costs involved in advance.

- Understanding which services are available for cross-border mobile-wallet to mobile-wallet is not straight-forward in the region and comparing costs even more tricky.
- There is poor transparency on services and costs, where it is usual to have a local mobile wallet and a recipient telephone number to check prices and therefore comparing across service providers is challenging.
- This is not in line with the Financial Consumer Protection Guidelines. Furthermore, through mystery shopping there have been additional fees levied when making the real transaction that were not transparent upfront. The recipient from the screenshot got UGX20 less than stated (Dec. 2020). Also, the fee is not provided upfront.
- Fees, FX margins and cash-out fees make comparing and understanding the real cost of using mobile money services challenging to the consumer, which will be driving use of informal channels. Cash out fees in Uganda are on average 2.1 percent of the send amount.
International aggregators play an important role as hubs that facilitate interoperability between different payment channels across multiple countries, especially into mobile wallets. They take a fee per transaction and generally require partners to pre-fund accounts.

International Aggregators
- International aggregators play an important role in connecting RSPs to pay-out networks across multiple countries.
- Facilitate API integration across Remittance service providers: MMPs, payment card issuers, banks, MTOs, thus extending reach, expanding payment options and value-added services. These models typically depend on RSPs prefunding accounts.
- International aggregators typically take a fee per transaction ~ USD0.05 / 1.5 percent or less per transaction
- International aggregators are testing interesting models of linking international remittances with other financial services and bill payment options.
- Play an important role in intra-regional trade. That drives volumes

Local Aggregators
- Niche aggregators are also emerging with headquarters in Uganda and offering remittance services, airtime top up and bill payments. These include Paytota and International Airtime Top Up Ltd. Local aggregators aim to be able to offer more competitive rates than regional and international players.
Multiple factors contribute to high remittance costs in Uganda; understanding these cost drivers enables the establishment of suitable measures to reduce costs. The tables in this section present the different cost contributors according to industry and presents potential solutions.

- The following table has been created based on interviews with remittance service providers and aims to outline the various different cost contributors to remittance businesses. The table also provides indicative cost implications of each cost driver to the business, and offers potential solutions on how these can be streamlined.

<table>
<thead>
<tr>
<th>COST DRIVER</th>
<th>ABOUT</th>
<th>Cost Implication to the RSP</th>
<th>PROPOSED SOLUTION</th>
</tr>
</thead>
</table>
| Compliance and Reporting                         | Remittance service providers are required to comply with local AML/CFT frameworks. CENFRI (2020) created base-case scenarios on the cost of compliance to RSPs. A lack of risk-based approach implemented by RSPs and no eKYC as yet will mean that compliance costs will remain comparatively higher than other countries. | High                       | • More effective RSP risk assessment processes and models which enable more proportionate and cost effect risk mitigation.  
• Digitalization of onboarding processes, transactions, document handling and operational logistics which are key to a broader digital footprint. The planned eKYC database will assist in reducing KYC and compliance costs.  
• More effective risk based supervision which enables more effective risk management by RSPs as well as proportionate retail responses, lower due diligence costs by correspondent banks and more competitive correspondent corridors. Including improved supervision technology in BOU to improve supervision of the market.                                                                 |
| Administrative e.g Annual Licensing per branch   | Various costs accompany licensing and operations such as renewals and adding new outlets. E.g. licensed money remittance businesses must pay a security deposit of USD13,500; non-refundable application fee of USD270, have minimum unimpaired paid-up share capital of not less than USD13,500 and pay annual license fees of USD542 per branch. High costs drive some to operate illegally without licenses. | Moderate                   | • Well defined selection criteria and licensing by MTO turnover and not per branch opened. BOU is considering a change in the licensing payments structure to be based on turnover as opposed to blanket amounts.                                                                                                                                                                                                                                                                            |
Multiple factors contribute to high remittance costs in Uganda; understanding these cost drivers enables the establishment of suitable measures to reduce costs. (2)

- The following table has been created based on interviews with remittance service providers and aims to outline the various different cost contributors to remittance businesses. The table also provides indicative cost implications of each cost driver to the business, and offers potential solutions on how these can be streamlined.

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<tbody>
<tr>
<td>Agent Commissions</td>
<td>MTOs paying 8-20 percent fee and FX to both send and receive agents and less than USD1.5-USD0.5 depending on volume - for mobile wallet. This is fairly standard across different countries. Due to the oligopoly situation with MMPs and the significant market share of these operators in processing remittances overall remittance prices remain high.</td>
<td>High</td>
<td>• Foster market competition through increased non-traditional access points for First and Third mile e.g. Agency Banking, MNO agents, SACCOs, Retail Chains etc</td>
</tr>
<tr>
<td>Partnerships with banks</td>
<td>Fee to the bank, cash handling fees and also cost passed on by the banks for additional compliance costs. Providers facing de-risking increase compliance with significant cost implications. Being on the FATF grey-list also attracts higher compliance and additional costs as a result.</td>
<td>Moderate</td>
<td>• Correspondent bank relationships and providers such as MNO's and Fintechs having to partner with commercial banks adds another layer of costs due to administrative and compliance costs. Direct licensing can address this. Remittance transactions carried out and settled in local currencies would also address this to a large extent.</td>
</tr>
<tr>
<td>Volatility in Exchange Rates</td>
<td>Uganda has a history of exchange rate volatility which has led to increased FX margins as operators factor in this perceived risk (see Annex 2 for further details on the exchange rate).</td>
<td>High</td>
<td>• Commitment by IMTOs for elimination of FX spread and use of mid-market exchange rates.</td>
</tr>
</tbody>
</table>
Multiple factors contribute to high remittance costs in Uganda; understanding these cost drivers enables the establishment of suitable measures to reduce costs. (3)

- The following table has been created based on interviews with remittance service providers and aims to outline the various different cost contributors to remittance businesses. The table also provides indicative cost implications of each cost driver to the business, and offers potential solutions on how these can be streamlined.

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</tr>
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</table>
| Tradeability of local currencies | MNOs, MTOs and Fintech face challenges keeping funds prefunded - being able to get funds out. Risks are higher for countries with exchange controls. | High | • Regional forex hubs and markets (concept note).  
• Direct regional clearing through a shared switch attached to regional RTGS  
• Digital value bearer instruments jurisdiction currencies via MM and national switches |
| Pre-funding accounts and float and re-balancing agents | Cross-border remittance business require high liquidity. MTOs prefund aggregators and pay-out partners which ties up capital. Agents also require float and to re-balance when it runs out, this requires management and capital. | Moderate | • Regional forex hubs and markets |
| Integration through Aggregator APIs | International aggregators charge about USD0.25 fee per transaction. They also offer FX rates with a small margin <1 percent for intra-Africa corridors between MM (Thunes). MFS - 1.5 percent or less per txn in E.Africa. | Low | • There are currently only four major aggregators and a number of domestic ones thus increasing competition in the market.  
• Some respondents opined that if Interoperability was well structured in Africa, these costs would be avoided. |
Multiple factors contribute to high remittance costs in Uganda; understanding these cost drivers enables the establishment of suitable measures to reduce costs. (4)

- The following table has been created based on interviews with remittance service providers and aims to outline the various different cost contributors to remittance businesses. The table also provides indicative cost implications of each cost driver to the business, and offers potential solutions on how these can be streamlined.

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<th>Cost Implication to the RSP</th>
<th>PROPOSED SOLUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of competition</td>
<td>Poor pricing transparency in the market makes it difficult for consumers to compare price of services (fee + FX). Furthermore, monopolistic and oligopolistic behaviour of some of the MMPs may be keeping costs high due to limited competition.</td>
<td>Moderate</td>
<td>• New innovative digital models operating independent of IMTOs and banks are driving costs down but require well structured regulatory frameworks</td>
</tr>
<tr>
<td>Taxation</td>
<td>Mobile money transactions are taxed in Uganda with the cost borne by the user. This increased cost of remittances terminated via MMPs.</td>
<td>Low</td>
<td>• Applied for all MM cash outs. Targeting higher tiers could ease for lower amounts.</td>
</tr>
</tbody>
</table>

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PRIME Africa programme activities will be focused in three inbound remittance markets from the EU and Intra Africa: Sweden, Kenya and Rwanda.

- The following three slides provide a little more detailed information on each of these three inbound remittance corridors that will be the focus of PRIME Africa programme in Uganda.

- **KENYA to UGANDA:** According to the World Bank’s Bilateral Matrix it is estimated that Kenya is the largest send-market to Uganda, with inflows at USD423 million in 2018 accounting for 32 percent of Uganda’s total inflows. This data is not consistent with the data reported by the BOU (2018) by region on formal flows. However, According to the FinAccess Survey 2019 in Kenya, 24 percent of households in Kenya sent money to Uganda making it the most common send-market from Kenya. This data is especially interesting as it does not distinguish between formal and informal flows.

- **RWANDA to UGANDA:** The World Bank estimates that inflows from Rwanda are USD125 million in 2018, accounting for 9 percent of Uganda’s total inflows. There are an estimated 96 thousand Ugandans residing in Rwanda.

- **SWEDEN to UGANDA:** Sweden is the largest EU send-county and sent an estimated USD13 million in remittances to Uganda in 2018.

<table>
<thead>
<tr>
<th>Uganda Migrant Stock by Country (2019)</th>
<th>Remittances received from...... (USD millions), 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>309,490</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>82,054</td>
</tr>
<tr>
<td>South Sudan</td>
<td>149,303 and 857,268 FDPs</td>
</tr>
<tr>
<td>United States</td>
<td>49,354</td>
</tr>
<tr>
<td>Rwanda</td>
<td>96,724</td>
</tr>
<tr>
<td>Canada</td>
<td>14,068</td>
</tr>
<tr>
<td>Tanzania</td>
<td>4,355</td>
</tr>
<tr>
<td>South Africa</td>
<td>8,488</td>
</tr>
<tr>
<td>Sweden</td>
<td>5,051</td>
</tr>
<tr>
<td>Australia</td>
<td>4,401</td>
</tr>
<tr>
<td>Germany</td>
<td>2,396</td>
</tr>
<tr>
<td>DRC</td>
<td>6,019 and XXX FDP data</td>
</tr>
</tbody>
</table>
Corridor Analysis: Kenya to Uganda

- Kenya is home to the largest Uganda diaspora of over 300,000 migrants. The volume of remittances sent home from Kenya to Uganda is estimated to be between USD77mn (2017) and USD442mn (2018). Despite the uncertainty in the actual numbers, it is one of the largest Intra African remittance corridors to Uganda and FinAccess survey in Kenya suggests that 24 percent of remittances from Kenya are sent to Uganda and 9 percent of Kenyan remittances come from Uganda.
- The corridor is well served by a significant number of formal and informal operators including banks, MTOs and MNOs. The choice of formal money transfer services in Kenya seems to fall into four quadrants (see opposite) including those that favor the IMTOs and banks (who are often partnered), mobile money services, fintech and digital services and the smaller regional IMTOs.
- The average cost of sending money across all these operators is 8.9 percent of the send amount (assuming sending USD200) which is higher within than regional and global averages. However, it is sometimes skewed by the number of banks in the sample due to the wide variances in their fees.
  - Mobile to mobile: Cross border transfers are offered from M-PESA to both MTN and Airtel in Uganda. The M-PESA service did not have complete disclosure on fees ahead of the transaction, following a reduction from 9 percent in July 2020, the average cost of 3.8 percent of the send amount, is considered highly competitive. It will be interesting to see whether this reduction in costs drives uptake in usage.
  - Some regional banks UBA’s Africash and EcoBank Rapid Transfer Service also offer competitive services in this space. Equity Bank is interested in developing its regional offering further and Cooperative Bank Kenya is offering CoopRemit in partnership with Thunes.
  - Regional MTOs include services offered by Dahabshiil, Flex, Amal Express, Bakaal, Tawakal etc.
- There are also many informal channels for sending money from Kenya to Uganda
  - Unlicensed M-PESA agents and individual users in Uganda commonly facilitate both cross border transfers, and this is critical to driving informal preferences. Ugandans in Kenya build a relationship with an agent in Uganda near their family to send money home. These services are not always cheaper but are often thought to be. This is not helped by the lack of transparency around formal pricing.
  - Unlicensed Forex bureaus offering cross border transfers on a net off basis with other Forex bureaus or traders abroad.
  - Traders and buses

IMTOs and Banks
- at bank branches and with trusted IMTO names
- some with accounts and through account-to-account services

Mobile to Mobile
- still in its relative infancy and gaining awareness and traction
- pricing not significant to incentivise, in favour of convenience

FinTech and Digital IMTOs
- digitalised consumer and more tech-savvy and price responsive

Regional MTOs
- smaller MTOs
- price sensitive with low pricing and low margins
- cash-based services with agents
- tied-in with regional trade

The Average Total Cost of Sending USD200 equivalent by Service Provider from Kenya to Uganda, Q4 2020

Source: RPW & mystery shopping, Q4 2020
Corridor Analysis: Rwanda to Uganda

- Rwanda is home to the third largest Ugandan diaspora, with over 100,000 Ugandans residing there which is 13 percent of the Ugandan diaspora. There is a lack of information on the profile of Ugandans living in Rwanda.
- Uganda and Rwanda are involved in a diplomatic row that has seen major border crossings between the countries closed since late February 2019. Some of Rwanda’s border points have been closed to Uganda for almost 21 months now, with negotiations ongoing to reopen them.
- It is estimated that USD125mn (World Bank, 2019) is sent in remittances from Rwanda to Uganda, which is 10.1 percent of inflows total into Uganda.
- The average cost of sending money from Rwanda to Uganda in Q4 2020 is 6.5 percent of the send amount (when sending USD200) equivalent. Prices to send money from Rwanda is also fairly competitive at 4.8 percent of the send amount through agents, 3.8 percent online and 10.7 percent through mobile (not including cashing-out fees).[111]
- The remittance market is seemingly well-served by IMTOs, regional banks, digital IMTOs and cross-border MM and pricing, compared to other intra-African corridors, is relatively low. Cross-border MM from Rwanda to Uganda was first offered by MTN in August 2015. Apparently, the uptake and volumes of this service has been lower than expected in light of the World Bank data. The total cost of using MTN to send money to Airtel / MTN in Uganda is 9.9 percent of the send amount, including a high FX margin which may be affecting uptake of the service. Airtel Tigo not currently offering cross-border mobile money. According to website – only send to DRC and Tanzania from Airtel Rwanda.
- Anecdotal evidence suggests that there is high usage of informal remittance services historically between Rwanda and Uganda, especially using bus services and traders.
- Use of forex bureaus that are unlicensed to do money transfer, but who have informal relationships with other forex bureaus in Uganda and net off and settle occasionally.

Source: RPW and mystery shopping, Q4 2020
Corridor Analysis: Sweden to Uganda

- Sweden has the largest Ugandan diaspora in the EU, although the community is still small at 5,000 people in 2018.
- The World Bank estimate that USD13.1 million in 2018 from Sweden to Uganda, which is 1 percent of the total received in Uganda.\(^{(11)}\)
- Juba Express (a regional IMTO) has offices in Sweden and the online digital RSP, Transfer Galaxy, also serves this corridor.
- MTN Homeland is also apparently live from Sweden (2019/2020) – but costs have not been attained.
- Diaspora seems fairly well organised and connected through Facebook and events.

Profiling Cross border remittance provider MTN Homeland

- MTN Homeland is a cross border money transfer and airtime purchase service offered by MTN Group and powered by MFS Africa and targeting Ugandans in Europe and the U.K to send money back home to MTN recipients in Africa with MTN Mobile Money account.

First Mile:

- Registration: Requirements are a valid Mobile number, email address, personal details, Identification and proof of address. The latter must be issued or certified by relevant authorities sin the country of residence.
- Account is verified upon provision of all required documents then activated.
- Sending: Senders must be resident in the UK or Europe, to send, they will enter the destination country and receiver’s mobile number. The transfer can only be funded by a Debit or credit card (Visa, Maestro Visa, Visa Debit, Visa Electron, and MasterCard). Transaction notifications are sent via email to sender.
- Destinations: Reach of 22 million mobile wallets and can be sent to: Cameroon, Republic of Congo, Ghana, Guinea-Conakry, Rwanda, Uganda and Zamb.,
- Pricing: All transfers cost EUR4 regardless of amount sent, maximum amount sent is EUR1,000. FX is between mid market rate and bank rates, indicating an FX margin.
- Third Mile: Recipient gets an SMS notification of funds sent into MTN Mobile wallet and can cash out at any agent or maintain in wallet as e-value for other use.
Remittances Market Structure: Inbound and Outbound

Priority Policy Actions

- Orchestrated effort between government representative offices, regulators, supervisors and institutions to build the reputation of the Ugandan state compliance aimed at a reduction of de-risking trends and last resort pricing.

- Joint effort for stakeholders to work together to bring down prices especially around FX margins and commissions paid on FX margins.

- Review of taxation has been ongoing, and it is recommended this continues in order to reach a point of mutual benefit for the Government and citizens; for example, taxation of remittances above a defined threshold which ensures lower value remittances meant for family upkeep are not unduly taxed.

- Better transparency in the market to be able to compare costs as outlined in the Financial Consumer Protection Guidelines, including live pricing data to be mandatory as part of the licencing requirement for all digital services.

- More effective RSP risk assessment processes and models which enable more proportionate and cost effective risk mitigation.

- Mid- to long-term: Incentivise FSPs to develop suitable products for cross border trade, especially with the upcoming ACFTA, of which Uganda is a member. Trade flows routed via remittance channels skew the outlook and could be a driver of high costs and stringent KYC. Remittance volumes are likely to decline but will portray true personal transfers.

- Digital service providers should be supported in developing business cases that enable the passing on of gains from remote operations to customers.

- Established irregular informal services such as M-PESA, unlicensed forex bureaus and traders carrying out cross-border remittances should be addressed, either in-person or virtually through awareness and support for formality where the entities meet eligibility requirements.

- Furthermore, as digital financial literacy in rural areas. Good mobile connectivity is required across the country, especially in rural areas and in refugee camps, and liquidity of mobile agents to support the use of mobile money agents for international remittances.

- A survey or mapping study to understand the profile of Ugandans in Rwanda better would be useful. Outlining money transfer products/services offered and being used, and more broadly, their access and need for financial services.
Financial Services for Remittance Users

- Remittance-linked Financial Services
- Emerging Innovations in Remittances

Beyond the cross-border transfer of funds, remittances can potentially drive financial inclusion through suitably designed remittance-linked products. This section examines remittance-linked products in Uganda as well as emerging innovations and trends in remittances.
FSPs in Uganda are increasingly offering Diaspora products largely focused on Savings and Current Accounts, use cases are limited.

<table>
<thead>
<tr>
<th>Product Type and Segment Focus</th>
<th>FSPs’ Offering</th>
<th>Key Features</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diaspora Savings and Current Accounts (Sender focused)</td>
<td>Centenary, PostBank, Equity, Orient NCBA, Housing Finance Stanbic, UBA, KCB Uganda, ABC Capital</td>
<td>Interest Earning 3-5 percent p.a Remote access- ATM, PoS, Internet -Equity Banks offers a forex account -Housing Finance Uganda offers Diaspora Mortgage financing</td>
<td>Low: ID, PP photo, referral by bank customer Moderate: Centenary required Proof of Residence and Referral by bank customer of foreign attorney</td>
</tr>
<tr>
<td>Pension and Social Security Funds (Sender Focused)</td>
<td>NSSF Diaspora Connect</td>
<td>Web based access, funds transferred through VISA, Mastercard or American Express, three percent charge, Foreign currencies converted to UGX</td>
<td>Existing NSSF Account</td>
</tr>
<tr>
<td>Uganda Diaspora Investment Club (Sender Focused)</td>
<td>DFC</td>
<td>Investment opportunities, savings, access to affordable credit, Remittances</td>
<td>Standard Account opening and Membership to club</td>
</tr>
<tr>
<td>Bill Payment Sender/Receiver Focused)</td>
<td>Western Union, MoneyGram</td>
<td>Cross-border online bill payments for registered organisations (limited for Africa and low volumes)</td>
<td>Same as money transfer</td>
</tr>
<tr>
<td>Insurance – Life, Health (Receiver Focused)</td>
<td>Various</td>
<td>Health insurance product linked to remittance usage for key EAC corridors</td>
<td>Same as money transfer</td>
</tr>
</tbody>
</table>
There is consensus on the demand for targeted remittance linked financial solutions, but good product fit and sustainable business models are lacking.

- Remittance-linked products require use of bank accounts or MM to function effectively, cash-based transfers do not support
- Diaspora accounts do not offer attractive rates for cross-border transfers; hence, diaspora account holders could still use other providers for remittances. Only Equity offers a forex account and international transfers
- Beyond Diaspora Accounts, there are opportunities to offer Pensions, Life, Health insurance for sender and family and agricultural insurance to beneficiaries by leveraging solutions already existing in the market.
  - aYo Uganda: MTN linked hospital and life micro insurance solutions micro-insurance products- ‘Send with Care’ and ‘Recharge with Care’
  - Mazima Retirement Plan (MRP): Offers a retirement savings plan that is especially suited to those who are either self-employed or in the informal sector mostly targeting those aged between 30 to early 40s. MRP invests in treasury bills and bonds etc to fund interest on savings.
  - WeFarm Limited: A farmer-to-farmer knowledge sharing network offering detailed reports to insurance providers based on the millions of farmer interactions on its platform. This allows insurers to gain a better understanding of farmers and the agricultural sector.
  - Money Duka Services: Online shop for digital financial products where customers can compare, apply for, and purchase loans, insurance, and other financial products.
  - Mcash and Craft Silicon Uganda partnership offers an app-based retail micro-insurance solution and a cost-efficient suite of transaction processing, switching and mobile payment services.
- Crowdfunding to support needy cases, grocery vouchers have been tried in Southern Africa
- Fintechs such as Eversend provide apps that include a suite of financial services such as Payments, domestic transfers and remittances are included.
- Increasingly, partnerships between FSPs and MTOs enhance the access levels of remittances especially for FDPs. For example, KCB has partnered with Airtel, Dahabshiil with both MTN and Airtel, WorldRemit, Western Union and MoneyGram with MTN. The ability to send and receive remittances on a mobile phone has particularly improved access, convenience and cost savings in amounts previously used to travel long distances to reach bank or MTO branches.
Financial Services for Remittance Users

Priority Policy Actions

- Financial service providers could expand opportunities for diaspora products:
  - Beyond savings and credit accounts to facilitate remittances for family support back home and other recurrent expenses. This can be designed as periodic standing instructions - weekly, monthly, bimonthly etc with suitable incentives for senders.
  - Pensions, Life, Health insurance for diaspora member and/or family back home, crowdfunding to support needy cases in country of origin, grocery vouchers.
- Financial service providers can develop use-cases based on frequent purposes of remittances sent and facilitate direct payments e.g. to insurance, construction companies, schools etc. While these products exist in one form or another, business models are not compelling.
Stakeholders and Coordination
The Structure of Remittance Governance in Uganda

- Under the mandate of the Bank of Uganda Act 2000, the BoU is responsible for the formulation and implementation of monetary policy; ensuring financial stability; and regulating and supervising financial institutions (covering commercial banks, credit institutions, MDIs, FX bureaus and credit reference bureaus).

- Departments under BoU with oversight for Cross Border payments include:
  - Banking Supervision: issues licenses to eligible remittance service providers spanning IMTOs, MTOs, Banks, Forex Bureaus, Fintechs
  - National Payments System: oversees the implementation of Payment systems and development of laws and guidelines for the newly enacted law
  - Statistics: Disseminates reports including Annual BOU Statistical Abstract, Remittances reports, Informal cross border trade report and the Statistical bulletin report. The department also contributes to the Debts sustainability analysis and Risk analysis reports which are published by the MoFPED.
  - As the appointed secretariat, the BOU is also responsible for coordinating the implementation of the National Financial Inclusion Strategy (NFIS) 2017-2022 in partnership with Ministry of Finance, Planning and Economic Development, Alliance for Financial Inclusion and Financial Sector Deepening (FSD) Uganda.

- Financial Intelligence Authority: Uganda's national centre for receiving Suspicious Transactions Reports (STRs), Large Cash Transactions Reports (LCTRs) and cross border movement of cash and Bearer Negotiable Instruments (BNI) reports. It was established by the Anti-Money Laundering Act, 2013 (AMLA) and has the mandate to combat money Laundering, countering Terrorism financing and countering Proliferation (FIA, 2020a).

- Uganda Bankers Association: An umbrella organization for licensed commercial banks supervised by Bank of Uganda and has opened up membership to eight non-bank supervised Financial institutions (UBA, 2021).

Other relevant supporting entities:
- Ministry of Finance, Planning and Economic Development (MoFPED): BOU informs MoFPED of capital expenditures and currency position. COVID 19 relief funds were approved by MoFPED.
- Uganda Communications Commission (UCC): Operating as the communications sector regulator (including telecoms providers and the postal service), the UCC’s mandate also covers the Rural Communications Development Fund
- ESAAMLG East and Southern Africa Anti-Money Laundering Group: Uganda is a member of this 18-member group which aims to combat money laundering by implementing the FATF Recommendations (FATF, 2021). In December 2020, Uganda assumed the Presidency of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) (FIA, 2020b).

Migration and Remittances Financial Environment Regulatory Environment Market Structure Financial Services for Remittance Users Stakeholders and Coordination Recommendations

IFAD
Investing in rural people

PRIME AFRICA
69
A number of stakeholders are actively involved in Uganda’s financial services ecosystem; however, more focus could be directed towards thematic areas covering remittance cost reduction and serving FDPs (1)

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Thematic Areas of Focus</th>
</tr>
</thead>
</table>
| Uganda Bankers Association (UBA)                      | Highly active 35-member umbrella body for licensed commercial banks. It advises and builds Uganda’s banking sector through twelve member committees  
**Partnerships:** BoU, Agency Banking Association, UFRA                                                                                                                                                                                                                     |
| Uganda Forex and Remittance Association (UFRA)        | Public policy advocacy, good governance, information sharing, and self-regulating strategies that promote best practices in offering financial services  
**Partnerships:** BoU and UBA                                                                                                                                                                                                                                                                 |
| GIZ – Better Migration Management                     | Launched in 2018, supports policy harmonization and regional cooperation, capacity building, protection, and awareness raising. All forex bureaus and MTOs licensed and registered by BOU are members.  
**Partnerships:** EU, UNODC, IOM, British Council                                                                                                                     |
| IFAD                                                  | • **Financing Facility for Remittances (FFR):** Implemented PRIME Africa aimed at maximizing the impact of remittances for millions of families in Africa, contributing to foster local economic opportunities in the migrants’ countries of origin and includes UGANDA as a focus country.  
• **Global Forum on Remittances, Investment and Development (GFRID):** An event aimed at facilitating creation of partnerships and the exchange of best practices in maximizing the impact of remittances to the benefit of migrants’ communities of origin. GFRD event will be held in Nairobi, Kenya in June 2021.  
• Partnered with PostBank and Posta Uganda to leverage Postal Service touch points and products to advance Financial Inclusion.  
• **Partnerships:** PostBank and Posta Uganda                                                                                                                    |
A number of stakeholders are actively involved in Uganda's financial services ecosystem, however more focus could be directed towards thematic areas covering remittance cost reduction and serving FDPs (2)

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Thematic Areas of Focus</th>
</tr>
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</table>
| FSD Uganda        | Promoting greater access to financial services in Uganda through support innovation, conduct research, and support regulatory processes that shape the financial sector.  
Partnerships: BoU, UBA                                                                                                                                  |
| UNCDF Uganda      | Provides support to the GoU to create a functional planning and financial system for sustainable and inclusive local development.  
Partnerships: Conducted mapping study in partnership with UNHCR.                                                                                           |
| GSMA              | Mobile technology focus. Conducted studies on regulation and licensing, impact of taxation on MM services and pricing.                                                                                                  
Partnerships: Mojaalloo to pilot One Level network Interoperability                                                                                       |
| FSD Africa        | Supporting FSPs to serve refugees and asylum seekers with suitable financial service solutions.                                                                                                                      
Partnerships: CENFRI                                                                                                                                            |
| CENFRI            | Pan Africa Cross Border Remittance Research and Insights generation.                                                                                                                                                  
Partnerships: IFAD, FSD Africa                                                                                                                                    |
| UNHCR             | Partnered with UNCDF to conduct study on Forcibly Displaced Persons usage of Financial Services  
Partnerships: UNCDF                                                                                                                                             |
| FITSPA            | It represents Uganda’s local fintech community and global fintech institutions operating in the country. The Association was formed in partnership with the Financial Sector Deepening Uganda (FSDU) project. |

- Uganda has 16 active innovation hubs. 38 Some of them are Space Hub, Venture Labs East Africa, Outbox Hub, Design Hub Kampala, Hive Colab, Innovation Village, Afrilab, Techbuzz, and NFT Mawazo. These hubs are social communities that offer facilities, such as shared workspaces, mentoring and knowledge sharing, funding, subject-matter expertise on technology trends, and knowledge and strategic innovation management.
Stakeholders and Coordination

**Priority Policy Actions**

- Inclusion of remittances in the FinScope study to supplement efforts by BoU and provide body of knowledge. In 2013, FinScope covered domestic and cross border remittances but the same did not happen in 2018.

- Uganda exhibits high remittance activities that need coordination, liaise with BoU, UBA and Remittance Association to form a working committee that brings together players addressing remittance gaps and facilitating identification of opportunities in the market.
Recommendations
Migration and Remittances

- Review the BoU’s remittance data collection methodology and assess alternatives to improve data collection so that inflow and outflow data are based on real-data rather than extrapolating annual survey data. Assess the desirability for a common data portal that collects remittance data from the financial institutions processing the transactions.

- For the BoU to publish remittance outflow data, including by corridor; market share data on operators would also be insightful.

- The Annual Inward Personal Transfers survey is commendable and provides useful information for stakeholders seeking to understand remittance recipient behavior and sender profiles. This impact can be extended by including:
  - More detailed analysis on how remittance behaviors and preferences change by sending-region (and largest corridors).
  - Review Uganda’s Personal Transfer Survey against the recent remittances survey in Nigeria by the Institute for African Remittances (AIR) to work towards establishing a template and try to get some standardization across the continent in terms of surveying remittances.
  - Additional focus on informal remittances through qualitative surveys and anomalies in trade statistics.
  - Revisit the sampling frame and ensure that there is a still such an urban-bias towards remittances.

- Address access for BoU and PSPs to access ad-hoc country data and insights and provide secure and controlled access to interface (RemitScope and others) where they can access, or make requests for, non-confidential data and insights.

- The BoU in 2020 has published some initial analysis on the impact of COVID-19 on the economy and on financial behaviors. It is recommended that there is an analysis of COVID-19 on remittances and changes in remittance-user behavior and traits that may be useful to inform future short- to medium- product and channel development.
Financial Environment

- **Interoperability**: The BoU to look at improving interoperability between the different payment channels and institutions in Uganda to provide a more seamless and cheaper ecosystem. Explore different options and methods e.g. a common ISO digital value bearing instrument.

- **Regional retail payment platform**: For the BoU to review the existing EAPS business model to see whether it has the capacity to achieve the scale required to evolve its functionality to become a regional retail payment system. This would require direct participation by institutions regionally and in hard currency. Include an analysis of current known settlement systems.

- **Mobile money taxation and taxing the digital economy**: Continue to review the mobile money and digital tax policy and impact on the market including on remittances and remittance pricing through stakeholder consultation, potentially in partnership with the Digitax programme by the International Center for Tax and Development.

- **Biometric identification and national identifier number (NIN)**: Continue to roll out NIN and issuance of NICs. For NIRA to improve efficiencies in turn around times in issuing cards and to address the challenges in replacing NICs.

- **eKYC**: Access to KYC data with NIRA for authentication is in progress for BoU licensed banks; this should also be considered for non-bank providers (including remittance businesses and agents) under well-defined frameworks. The BoU should consider allowing remote onboarding of customers and including the authentication of biometric data for triangulation purposes.

- **Review turn-around times for FDPs Alien Cards** and solutions for remote authentication.

- **Distribution networks for accessing remittances and other financial services are evenly spread out across the country; however, an assessment of quality and performance factors is required**. For example, for ABC to assess the declining number and activity rates of Agency Banking providers while Mobile Money providers are increasing and opportunities for improving liquidity management.

- **Financial inclusion strategy**: International remittances should be explicitly included in the National Financial Inclusion Strategy. International remittance senders and recipients have their own set of needs in terms of consumer protection, access, financial products and services and financial education. International remittances can be used as a conduit to drive and deepen financial inclusion.

- **Financial education**: There is need for stakeholders especially regulatory authorities and financial services providers to undertake financial literacy activities targeted at popularising the safe use of digital financial services and digital remittance services. This includes Financial education targeted specifically for prospective migrants, migrants, remittance beneficiaries and returnees.
**Regulatory Environment**

- **Data:** for the BoU only publishes the list of Class B licensees. This should be extended to all Class types to bring more transparency to the remittances market.

- **New National Payments Act:**
  - Ensure that the revised guidelines do not stifle innovation through high capital requirements, especially if these are per licence category.
  - The NPS system could move closer towards the BiS Principles for Financial Market Infrastructures (PFMI) with regard to the inclusion of MM and fintech on a risk proportionate basis. Even as direct clearing and in some cases settlement participants.
  - Sandboxes can be resource intensive for a developing country with limited outcomes. Regulation for innovation and test-and-learn approaches seem to be more effective where capacity and resources are limited.

- **Remittance regulations:**
  - Make it clear through the Guidelines and regulations whether IMTOs operating in Uganda have to get a Class A licence if they are partnering with licenced entities.
  - Review the remittance regulations to ensure Tier 4 licence holders, including SACCOs and MFIs that meet certain criteria can cash-in/cash-out remittances.
  - Wait times for licencing are long and therefore hinder competition in the market.
  - Licencing fees are particularly high, especially because they are charged per branch and this may stifle network expansion. BoU indicates a shift to licensing fees based on annual turnover.

- **ID and CDD:**
  - For FIA to pilot a change around proof of address requirements, given that FATF clarifies that POA is not a requirement.
  - Laws and regulations for KYC practices do not explicitly state requirements for onboarding FDPs, creating both a barrier and lack of clarity among FDPs and service providers. Beyond the Alien card, BoU should issue guidelines on KYC requirements for non-holders of NIN whose identification cannot be authenticated. This is to standardise access to Financial Services for categories such as FDPs. The FATF guidance on digital identity states that digital can be lower risk and FATF policy submissions under consideration are that face-to-face onboarding or verification can be higher risk than digital, and that remote onboarding should be the norm.
Remittances Market Structure: Inbound and Outbound

- Orchestrated effort between government representative offices, regulators, supervisors and institutions to build the reputation of the Ugandan state compliance aimed at a reduction of de-risking trends and last resort pricing.
- Joint effort for stakeholders to work together to bring down prices especially around FX margins and commissions paid on FX margins.
- Review of taxation has been ongoing, and it is recommended this continues in order to reach a point of mutual benefit for the Government and citizens; for example, taxation of remittances above a defined threshold which ensures lower value remittances meant for family upkeep are not unduly taxed.
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- A survey or mapping study to understand the profile of Ugandans in Rwanda better would be useful. Outlining money transfer products/services offered and being used, and more broadly, their access and need for financial services.
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- Financial service providers could expand opportunities for diaspora products:
  - Beyond savings and credit accounts to facilitate remittances for family support back home and other recurrent expenses. This can be designed as periodic standing instructions - weekly, monthly, bimonthly etc with suitable incentives for senders.
  - Pensions, Life, Health insurance for diaspora member and/or family back home, crowdfunding to support needy cases in country of origin, grocery vouchers.
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Stakeholders and Coordination

- Inclusion of remittances in the FinScope study to supplement efforts by BoU and provide body of knowledge. In 2013, FinScope covered domestic and cross border remittances but the same did not happen in 2018.
- Uganda exhibits high remittance activities that need coordination, liaise with BoU, UBA and Remittance Association to form a working committee that brings together players addressing remittance gaps and facilitating identification of opportunities in the market.
Annex 1: Shared-interoperable agency banking network model

- The BOU published Agency Banking regulations in 2017 in Uganda, considered late given that other countries were already offering established Agency Banking services by then. Only Tier 1 banks are able to offer agency banking; Tier 3 – MFIs are not allowed.

- In 2018, the Uganda Bankers Association (UBA) pioneered the launch of Shared Agency Banking network and formed the Agency Banking company (ABC) which is jointly owned by UBA and Eclectics International, a technology service provider. ABC provides Agent Network Management. The platform is interoperable and permits member banks to use a central platform, one prefunded account and shared network management services through the ABC. (Agency Banking Company, 2020). Uganda is one of the first markets to successfully launch the shared platform and agent network management model. Not all agents are connected to the ABC, some banks have their own agents.

- This network benefits are:
  - Customers can be served conveniently, in close proximity to their homes/business, places of work without having to find an 'own' agent. Additionally,
  - Agents work with one prefunded 'float' account, terminal and agent management tools, yet earn commissions from multiple providers
  - Banks are able to offer a branchless banking option cost effectively and benefit from Agent Network Management services through ABC, an entity with good understanding of the Agent network.

- Agents can carry out deposits, withdrawals, utility bill payment, 1st level account opening for member banks, balance inquiries, provide mini statements, and remit school fees payments. (MSC, 2020). According to the BOU they are also permitted to cash-in/ cash-out and others only cash-in, which would also apply to international remittance transactions. Required to have a brick-and-mortar location

- Declining agent numbers and high inactivity rates- in September 2019, the platform had 9,477 agents, a 21 percent Yoy reduction. Additionally, at 51 percent, the number of inactive agents is comparatively high in a 2-year span. While the latter could be attributed to adverse COVID-19 effects, which particularly impacted MSME's, there's need for ABC to establish the presence of any underlying factors such as low agent profitability. Understanding such factors is useful because similar models are planned for other markets in developing countries.

- In future, ABC plans to launch mobile wallets and to transfer money regionally and internationally more cost effectively than the banking system.

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**Shared Agency Banking Status**

<table>
<thead>
<tr>
<th>Member Banks</th>
<th>18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Agents</td>
<td>7,479</td>
</tr>
<tr>
<td>Active agents</td>
<td>3,832 (51%)</td>
</tr>
<tr>
<td>Av. Monthly Transaction Value</td>
<td>USD 600M</td>
</tr>
</tbody>
</table>

Source: Agency Banking Company, Sept 2020
Annex 2: Uganda has a history of exchange rate volatility, while there has been increased stability over the last few years, higher Forex margins added to cushion this position appear to still be in place for some providers.

- Uganda has suffered a history of exchange rate volatility. A floating exchange rate regime entailed the use of monetary and other macroeconomic policies to steer the domestic economy. This caused some level of exchange rate volatility which is typical of small economies.
- Increasingly, policies instituted by BOU, have to a large extent been successful in restoring stability in the foreign exchange market even during times of excessive exchange rate turbulence. (BOU, 2019)
- UGX historical exchange rate volatility, is not overly excessive compared to peer countries, however, the exchange rate has experienced a few incidents of excessive volatility attributed to structural market deficiencies, segmentation driven by limited number of active market players, and smaller volume of transactions skewed towards spot (IMF, 2018)
- It is likely that some cross-border remittance pricing models still factor this in when determining forex margins or have not changed them to reflect the current position—significantly high forex margins drive up the overall cost of sending remittances to Uganda.
Annex 3: Profile of Cross Border Remittance Providers and Channels in Uganda

<table>
<thead>
<tr>
<th>International Money Transfer Operators (IMTOs)</th>
<th>Banks and MDIs</th>
<th>Digital MTOs and FinTech</th>
<th>Regional and Local MTOs</th>
</tr>
</thead>
</table>
| International MTOs can obtain a Class A license in Uganda or partner with a licensed entity such as Banks, MDI's and local MTO's as agents. Most IMTO's do not have physical presence in Uganda. | - Commercial Banks and Microfinance Deposit taking institutions are governed under the banking Act and do not require additional licensing to conduct inbound and outbound cross border remittances.  
- Ecobank (Rapid Transfer) and UBA (Afrimoney/Africash) are two banks in Uganda offering own pan-african remittance solutions.  
- SWIFT is the key remittance product offered by banks via account-to-account channels.  
- Other banks and MDIs partner with IMTOs and MTOs as agents or subagents. | - Digital MTOs use cashless channels to facilitate the sending and receiving of instant money transfers across borders. Key channels include Online, Mobile Money, Mobile App, Card and Account based.  
- Licensing: In Uganda, Digital MTOs can be licensed under any of the categories Class A, B, C or D depending on their primary business and may or may not have agents.  
- Partnerships: Are essential for Digital MTOs and often occur between banks for licensing of MTOs, Remittance aggregators for transaction processing and with MTO Agents for send and cash out to Uganda. | - MTOs are mainly non-bank providers licensed by BoU directly for cross-border remittance services. They either offer own remittance solutions or partner with IMTO as agents.  
- MTO's typically operate a brick and mortar model and may have several branches or service points. Forex bureaus with branches also get licensed under class C.  
- Posta Uganda is a unique provider in this category-given that it does not offer financial services but qualified for this license due its extensive network of branches countrywide |
Annex 3 cont. – The formal remittances value-chain involves sending providers and receiving providers with different options for processing the transaction

<table>
<thead>
<tr>
<th>1st Mile</th>
<th>2nd Mile</th>
<th>3rd Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sending channel</td>
<td>Sending Provider</td>
<td>Receiving Channel</td>
</tr>
<tr>
<td>Funder methods</td>
<td>Network / Hub</td>
<td>Payment Method</td>
</tr>
<tr>
<td>Sending Provider</td>
<td>Receiving Provider</td>
<td></td>
</tr>
<tr>
<td>in person, branch or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>money transfer outlets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile app</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Cash</td>
<td>• Traditional IMTOs</td>
<td>• In person, bank /</td>
</tr>
<tr>
<td></td>
<td>• Payment card</td>
<td>DT MFI or forex</td>
</tr>
<tr>
<td></td>
<td>• Bank account</td>
<td>bureau / agency</td>
</tr>
<tr>
<td></td>
<td>• Mobile Money</td>
<td>banking outlet</td>
</tr>
<tr>
<td></td>
<td>• ATM</td>
<td>• Cash</td>
</tr>
<tr>
<td>• In-person, money</td>
<td>• Digital IMTOs</td>
<td>• Bank Account</td>
</tr>
<tr>
<td>transfer outlets</td>
<td>• Corridor specialists</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Banks</td>
<td>• Mobile Money</td>
</tr>
<tr>
<td></td>
<td>• Mobile Money</td>
<td>• Airtime top up</td>
</tr>
<tr>
<td>Providers</td>
<td>Providers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mobile Money</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Providers</td>
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<td></td>
<td>• In person, bank /</td>
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<td></td>
<td>DT MFI or forex</td>
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<tr>
<td></td>
<td>bureau / agency</td>
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</tr>
<tr>
<td></td>
<td>banking outlet</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• On phone (airtime)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• ATM</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Home delivery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(food)</td>
<td></td>
</tr>
</tbody>
</table>

• Mastercard / Visa / MSF / Homesend / Terrapay
• Correspondent banking
• SWIFT
• Internal system
• Banks
• Post Office
• Bureau de Change
• DT MFIs
• FinTech
• Mobile Money Providers
• Mobile Money Providers
• Mobile Money Providers

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