

# Building Resilience Through Digital Financial Services

Africa COVID-19  
Digital Finance Market Impact Series

## Uganda

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

**Uganda** has a medium-sized economy. The services sector is the largest contributor to GDP while agriculture is the largest source of employment and export earnings. Despite a slowdown in economic growth over the last decade, structural transformation has been driving a decline in poverty in Uganda. This transformation was characterized by a reduction in the workforce employed in agriculture to between 60–65% from 75% a decade ago, and a take-off in industrial production, largely in agro-processing ([World Bank, 2021](#)).

Mobile money usage is very high amongst the population with 68% of the adults registered. Internet penetration is high and growing with active social media users estimated at 2.5 million of which 92% get online through their mobile. **This large access and acceptability levels are encouraging conditions for further increase in the uptake of DFS in Uganda.**



## UGANDA: KEY COUNTRY STATISTICS (2020)



**45.7 million**

Population



**30.7 billion**

Current GDP (US\$ billion),  
671.8 GDP per capita (US\$)



**41.3**

International poverty rate (\$19)<sup>a</sup>



**42.8**

Gini Index<sup>a</sup>



**102,7**

School enrollment,  
primary (%gross)<sup>b</sup>



**63**

Life expectancy at  
birth, (years)<sup>b</sup>

Source: WDI, Macro Poverty Outlook, and official data.

Notes: (a) Most recent value (2016), 2011 PPPs (b) WDI for school enrollment (2017); Life expectancy (2018).

## IMPACT OF THE COVID-19 PANDEMIC

The widespread closures of firms, permanent layoffs in industry and services, and a rapid slowdown of economic activity, especially in the urban informal sector that followed the onset COVID-19 pandemic have reversed the declining poverty trend from the past decade. The economic slowdown is likely to persist over the long run as real per capita income will struggle to catch up with levels expected before the crisis ([World Bank, 2021](#)).

### Socio-economic impact:

The preliminary assessment made by the Minister of Finance, Planning and Economic Development (MFPED) on March 20, 2020 of the short-term impact of the pandemic was, among others, the increase in the number of poor people by 2.6 million and a decline in economic growth in FY2019/20 from 6% to about between 4.6% and 5.1% under the worst-case scenario.

### DFS Impact:

- **18 banks** are live on Agent Banking Company's interoperable shared agent banking system (SABS) and 4 are scheduled to be connected in the fourth quarter of 2020.
- **The value and volume of transactions processed via the SABS dipped significantly at the peak of Covid-19 lockdowns** in April and May 2020 as consumers could not access agents.
- This was followed by a sudden exponential growth from end of May to July, followed by stagnation from August into September 2020 as the economic effects of COVID-19 became more strongly felt. The **stagnation testifies to the economic hardship the population experienced in the face of the COVID-19 outbreak.**

In this context, **the government, the Bank of Uganda and the donor community responded with large-scale fiscal packages and support measures** including tax reduction, liquidity injections, expansion of the social protection program, etc. Financial service providers (FSPs) also adapted their service offering to encourage the use of DFS.

<b>Bank of Uganda (BoU)</b>	<ul style="list-style-type: none"> <li>• <b>Reduced interest rate</b> by 100 basis point to 8% which lowered the cost of services to clients</li> <li>• <b>Provided liquidity</b> to commercial banks for a period of up to 1 year</li> <li>• <b>Further cut the policy rate to 7%</b></li> <li>• <b>Granted exceptional permission to restructure loans of corporates and individuals</b></li> <li>• Encouraged banks to <b>standardize ATM transaction fees</b></li> <li>• Granted a <b>moratorium on loan repayment</b> for up to 12 months to business and individual borrowers affected by the pandemic.</li> </ul>
<b>World Bank Group (WBG)</b>	<ul style="list-style-type: none"> <li>• Provided <b>\$300 million in budget support</b> to the government to:               <ul style="list-style-type: none"> <li>• stimulate recovery of private sector</li> <li>• provide tax relief for businesses in distress</li> <li>• support liquidity measures from BoU to commercial banks, microfinance institutions (MFIs) and credit institutions</li> </ul> </li> </ul>
<b>Banks</b>	<ul style="list-style-type: none"> <li>• Waived transaction charges for 30 days until May 2020.</li> <li>• Conducted above the line (ATL) promotions for customers to use digital channels.</li> </ul>
<b>Mobile Network Operators (MNOs)</b>	<ul style="list-style-type: none"> <li>• <b>Suspended temporarily mobile money transactions fees and wallet-to-bank</b> transactions,</li> <li>• <b>Offered discounts</b> on P2P on the same network and mobile wallet-to-bank transactions. These fees were gradually re-introduced at a 50% discount for 30 days then full charges were reinstated. In June 2020, customer-to-merchant transactions were reinstated to normal charges</li> </ul>

Sources: [World Bank \(2020\)](#), [Bank of Uganda \(2020\)](#), [World Bank \(2021\)](#), [UNDP \(2020\)](#)

## DFS MARKET OVERVIEW

### *The ecosystem is diverse and competitive*

The keys DFS players include:

- 2 major MNOs provide mobile money – Airtel and MTN
- 22 banks offer agent banking services
- Agent Banking Company (ABC) offers an interoperable Shared Agent Banking Systems (SABS) to 18 live banks on a “plug and play” basis
- Fintechs and integrators provide digital solutions and integrations between MNOs and banks.

### *SMEs bet on e-commerce to stimulate growth*

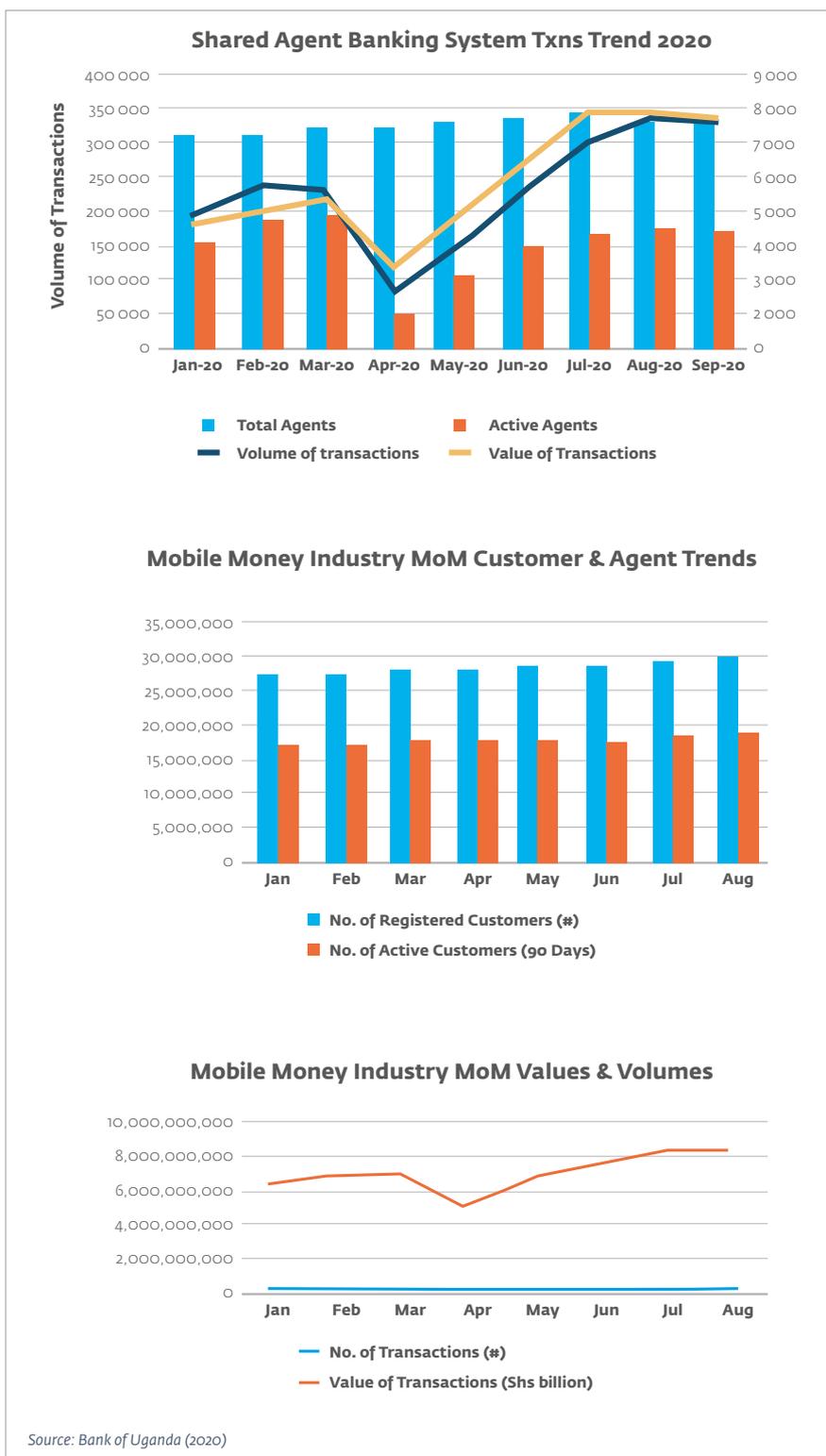
- The UNDP-Jumia Food partnership was conceptualized upon realization that the lockdown and stay-at-home measures are affecting millions of Ugandans who depend on informal businesses for employment.
- Various other SMEs in Uganda continue to advertise and sell goods and services online ever since the lockdown, to date including by leveraging the network of “boda boda” informal transporters.

### Agent Banking drives transactional activity

- **The Agent Banking Company (ABC) has 18 live banks** on interoperable Shared Agent Banking System (SABS).
- **The value and volume of transactions processed via SABS dipped significantly (65% and 45%) in April 2020** as customers were not able to access the channel.
- Then, in June 2020, there was a 195% increase in volume of transactions and 131% increase in value of transactions. The growth continued until August, then faced a decline again.

### The mobile money sector experienced exponential growth

- As of August 2020, Uganda had **29.9 million registered mobile money subscribers**, of which **18.9 million were actively using the service, representing 68%** of the registered population.
- The onset of the COVID-19 pandemic saw the metrics of mobile money in Uganda decrease drastically at the peak of the lockdown from **monthly average transaction value of USD 1,97 million (UGX7 trillion) in January to March to USD 1,4 million (UGX5 trillion) in April 2020.**
- In addition, a notable decrease in the volume of transactions was recorded from a **monthly average of 275 million since January 2020, down to 245 million in April**, though the trend has since shifted to a higher trajectory since June, recording 312 million transactions.
- **However, the trend has since shifted exponentially since June to USD 2,5 million (UGX8.7 trillion) by August 2020**, a sign that consumers use mobile money heavily as social distancing measures continue to be enforced.
- The exponential increase in both; values and volumes of transactions is a positive trend that DFS remains the best alternative to drive consumer transactions in COVID-19 times.



## OPPORTUNITIES FOR MARKET GROWTH

DFS growth opportunities exist by focusing on various use-cases such as government payments, merchant payments and e-commerce or value and supply chain payments, on specific users groups such as women or refugees as well as on improvement to the ecosystem such as through e-KYC and digital credit scoring methods.

### GOVERNMENT TRANSFERS & PAYMENT

- Public wages and cash transfers to the vulnerable (G2P, G2B)
- Leverage on cross-Border payments – MPesa

### MERCHANT PAYMENT & E-COMMERCE

### REFUGEE TRANSFERS AND PAYMENTS

- 1 million Refugees with demand for digital financial products & services

### DIGITAL KYC

- Online KYC project to increase online access points
- Digital authentication, mobile ID solutions

### B2B & SUPPLY CHAIN

- Wage payments to employees and digital tax payments to government
- Existing mobile money integrations (Airtel & MTN) with URA

## DFS GROWTH OPPORTUNITIES

### DIGITAL SME FINANCE & CREDIT SCORING

- Simplified & digitalized loan application process for MSMEs
- Alternative credit scoring models

### AGRI-FINANCE – VALUE CHAIN PAYMENTS

- Leveraging initiatives such as end-to-end mapping of value chains from the smallholder farmers to the market and the end consumer, mapping of payment channels and mapping of the value-added channels to develop more tailored DFS
- Push to ensure payments are made on time with little human touch to increase transparency, traceability and efficiency.

### GENDER SPECIFIC DIGITAL FINANCE PRODUCTS

- Gender intentional digital transfers and product design

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