



RemitSCOPE

Africa



Uganda
Country diagnostic

ACKNOWLEDGEMENTS

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ACRONYMS

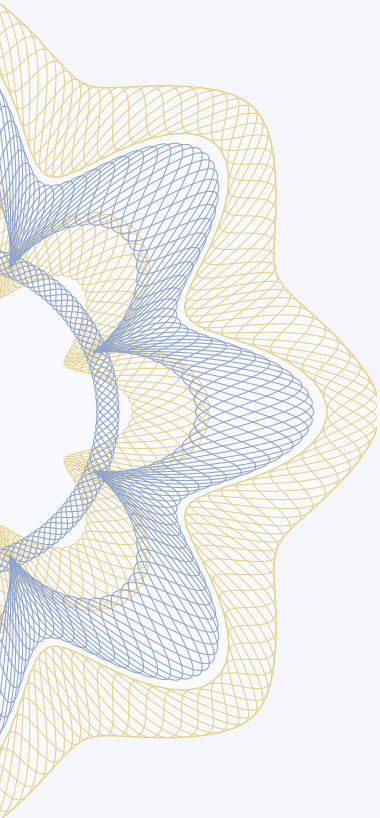
AML/CFT	anti-money laundering/combating the financing of terrorism
API	application programming interface
BoU	Bank of Uganda
Cenfri	Centre for Financial Regulation and Inclusion
CDD	customer due diligence
EAC	East African Community
EAPS	East African Payment System
e-KYC	electronic know-your-customer
EFT	electronic funds transfer
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FDP	forcibly displaced person
Fintech	financial technology
FSP	financial service provider
FIA	Financial Intelligence Authority
fintech	financial technology
G2P	government-to-person
GDP	gross domestic product
IB/OB	inbound/outbound
ICTD	International Centre for Tax and Development
IMTO	international money transfer operator
KYC	know-your-customer
MDI	microfinance deposit-taking institutions
MFI	microfinance institution
MMP	mobile money provider
MNO	mobile network operator
MTO	money transfer operator
NIC	national identity card
NIN	national identification number
NIRA	National Identification and Registration Authority
NITA	National Information Technology Authority
PoA	proof of address
PSP	payment service provider
P2P	peer-to-peer
RSP	remittance service provider
SACCO	savings and credit cooperative
SDG	Sustainable Development Goal
UN DESA	United Nations Department of Economic and Social Affairs
UNCDF	United Nations Capital Development Fund
UNHCR	United Nations High Commissioner for Refugees
UNIS	Uganda National Interbank Settlement
VSLA	village savings and loans associations

Executive summary

This research is part of a series of country diagnostics in selected African countries, in implementation of the [Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa \(PRIME Africa\)](#) initiative. The diagnostic series can be downloaded on the [RemitSCOPE](#) web portal.

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 were forcibly displaced persons (FDPs), mainly from South Sudan and the Democratic Republic of the Congo. Most FDPs are beneficiaries of international remittances (UN DESA, 2019; UNHCR, 2020; Uganda Refugee Response Portal, 2020; GIZ, 2020).
- The majority of the Ugandan diaspora (estimated at approximately 875,000 persons as at 2019) reside in other East African countries (mainly Kenya and South Sudan). The Middle East is also becoming a key destination for low-skilled labour migrants (UN DESA, 2019; GIZ, 2020).
- Uganda is also a net receiver of remittances. The Bank of Uganda (BoU) has reported that remittance inflows to Uganda amounted to US\$1.2 billion in 2020. This was US\$200 million less than in 2019, with the reduction being attributed to the COVID-19 pandemic. Remittances in Uganda account for 4 per cent of the country's gross domestic product (GDP) (2019) (World Bank, 2020; Afrobarometer, 2019).
- According to the BoU, nearly a third of remittances came from Europe in 2018, led by the United Kingdom, while nearly a quarter came from the Middle East, led by the United Arab Emirates. The largest amounts in volume terms from the European Union came from Sweden and Germany, although these flows were relatively small (estimated at US\$13 million and US\$8 million, respectively). The largest outbound remittance markets are Kenya (US\$191 million) and the Democratic Republic of the Congo (US\$190 million) (World Bank, 2019).
- The BoU's annual Personal Transfer Survey sheds light on the profiles of remittance senders and recipients, the channels used to send money and the use made of remittances. Remittances in Uganda are predominantly an urban phenomenon, with much of the inflow going to the central region and Kampala.
- Non-bank financial providers were significantly impacted by the consequences of the COVID-19 pandemic. The most recent data and stakeholder feedback indicate that there has been less of a negative impact on cross-border remittances than previously predicted.
- The BoU's figures on annual remittance volumes are primarily calculated by extrapolating the results of the annual Personal Transfer Survey, which also provides an additional layer of insight into these flows.



Financial environment

- The BoU has been upgrading and developing its digital payments ecosystem with the introduction of an automated clearing house in 2018 that facilitates cross-border remittance payments and integration into the East African Payment System (EAPS). Electricity and ICT infrastructure challenges in rural areas limit digital financial inclusion across the country.
- 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, chiefly through bilateral agreements. The BoU has plans to facilitate improved interoperability (BoU, 2020; AFI, 2018).
- The formal financial sector in Uganda is made up of 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 per cent of the population lives within five kilometres of a financial services access point. This is a good level of access for a predominantly rural country (BoU, 2017).
- Mobile money and the existing blend of formal and semi-formal financial services have driven up Uganda's financial inclusion rate to 78 per cent, the second highest in East Africa after Kenya (83 per cent). This means that there are ample opportunities to send and receive remittances through digital channels. Men are more likely to use formal services than women, with a 9 per cent gender gap in the use of such services being noted (FSD Uganda, 2018; BoU, 2020).
- Uganda has a well-developed mobile money market, with seven operators; the two largest players are MTN and Airtel. Over 17 million active customers in Uganda are being served through a wide network of agents. However, there is a digital divide: in 2018, surveys indicate that half of rural adults used only cash, compared to a quarter of people in urban areas; the former group's level of access to mobile-based remittances and mobile-based financial services is therefore more limited.
- Even though there are seven mobile money providers (MMPs) in Uganda, MTN and Airtel together have an 80 per cent market share, making it an oligopolistic environment. MTN and Airtel are the only two MMPs that offer cross-border remittance services.
- Third-party providers enhance the basic products offered by mobile network operators (MNOs), embedding payments in a variety of use cases in the market. Uganda has an active financial technology (fintech) environment, with Financial Sector Deepening Uganda (FSD Uganda) reporting the existence of 71 fintech and 16 innovation hubs, many of which are riding the success of mobile money.
- In 2018, Uganda introduced a controversial 1 per cent mobile money tax, which added a cost layer to mobile wallets in the remittance value chain. It took 18 months for mobile money transaction volumes to return to pre-tax levels.
- Uganda's National Financial Inclusion Strategy 2017–2022 outlines a framework for increasing access to and the usage of quality financial services by all Ugandans, but it makes 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. By 2020, two thirds of the population had registered for a national identity card (NIC), and 34 per cent had received their cards (GSMA, 2019; *The Independent*, 2020).

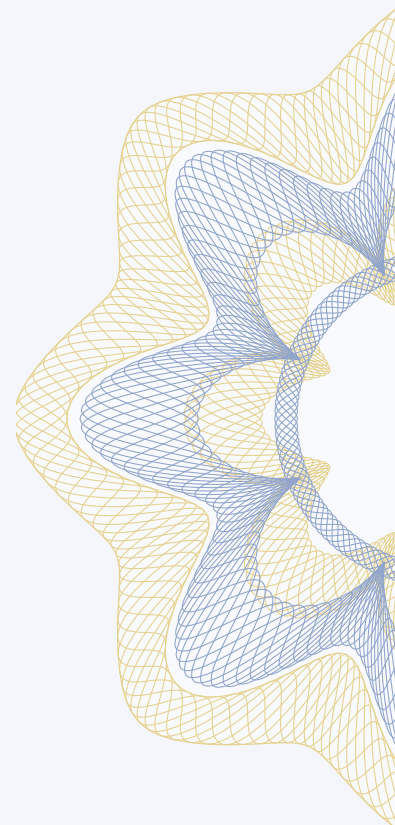
- Uganda is in the process of implementing an electronic know-your-customer (e-KYC) project based on the new digital identity cards, which will allow all supervised financial institutions to authenticate and verify customers through a real-time platform. This platform should reduce costs for financial service providers (FSPs) (including remittance businesses), improve safety and increase access (BoU, 2020; UNCDF, 2018).
- According to BoU (2020), the financial sector has remained resilient in the face of the economic disruption caused by the COVID-19 pandemic. Most supervised financial institutions have maintained adequate capital and liquidity buffers to absorb the shock. Increased usage of digital channels across various use cases has been observed, including cross-border remittances.

Market structure

- In Uganda, given the recent passage of the National Payment Systems Act and the fact that the Foreign Exchange Regulations (2006) are currently under review, it is clear that the status quo is subject to change in the coming years. The National Payments System Act should result in a clearer market for digital financial service providers (FSPs) and payment service providers (PSPs) and is expected to result in increased competition and greater consumer protection.
- Licences are issued on the basis of established categories, but the remittance activities that are permissible are the same across all categories (Republic of Uganda, 2006).
- Guidelines for remittance service providers (RSPs) are generally clear and relatively flexible; however, wait times for approvals can be long, and network expansion is limited by the fact that annual fees are charged per branch. There are guidelines in place for only one remittance business category (Class B), while licensing standards for MMPs and agency banking have not been defined (UMRA, 2016).
- Uganda has passed conducive data privacy and financial consumer protection laws; however, high-profile mobile money fraud cases threaten to undermine trust in digital financial services and digital remittances.
- Uganda has made significant progress in strengthening its anti-money laundering/combating the financing of terrorism (AML/CFT) framework pursuant to recommendations made by the Financial Action Task Force (FATF) after it was placed on what is known as the grey list, but the effectiveness of these changes is as yet undetermined. Being on the FATF grey list can impact cross-border remittances, as correspondent banks tend to de-risk and require closer scrutiny of transactions, which increases the costs involved (Bowmans, 2019; ESAAMLG, 2020).
- Uganda's Financial Institutions Anti-Money-Laundering Act and Anti-Money-Laundering Regulations set out general rules for simplified risk-based customer due diligence (CDD) (ESAAMLG, 2016; GSMA, 2019).
- Improved CDD with RSPs enhances remittance access opportunities for low-income rural households, and particularly for women, thereby contributing to financial inclusion and sustainable development. It also reduces the cost base for RSPs. Remote onboarding is in the pipeline, and proof of address (PoA) is still a requirement. Ongoing e-KYC efforts may ease this burden (FSD Uganda, 2018; Cenfri, 2020).

Remittance market structure

- The formal market for remittances sent to and from Uganda is a busy one, and has many different operators. This reflects the different internal and international migration patterns characterizing the country, which include an intercontinental diaspora of Ugandans who are now in the Middle East, United Kingdom, United States and the European Union (EU), inter-regional flows and the large number of FDPs from South Sudan and the Democratic Republic of the Congo who are now in Uganda.
- In Uganda, mobile money is the most common way to receive international remittances; in 2018, 30 per cent of households used mobile wallets to receive an estimated US\$196 million. Nearly a fifth of remittances are deposited into a bank account, which, considering that only an estimated 11 per cent of adults in Uganda have a bank account, indicates that remittance beneficiaries tend to be more banked (BoU, 2018; FSD Uganda, 2018).
- The 2018 BoU survey indicates that nearly a third of beneficiaries receive cash from an international money transfer operator (IMTO). There are 1,043 IMTOs across Uganda, which is fewer than in a number of peer countries, and there are potentially many people who have to travel long distances to reach a money transfer operator (MTO). According to the BoU, international remittances are, however, a predominantly urban phenomenon, which would suggest that the urban divide in terms of access may not be such a pressing as it would otherwise be.
- The 2018 BoU survey results indicate that, in value terms, 10 per cent of remittances are sent via informal channels, but 27 per cent of the respondents reported using informal channels. For remittances sent to neighbouring countries, the prevalence of informal channels would appear to be much greater. Unlicensed foreign exchange bureaus, *hawala*, friends, family members, traders and unregistered mobile money agents are the main channels.
- The United Nations Capital Development Fund (UNCDF, 2018) conducted an assessment of affordable and accessible remittances to FDPs in Uganda, which identified the additional challenges faced by FDPs in accessing remittances to include their remote location, a lack of liquidity on the part of agents, difficulties in providing the proper identification documents, discrimination and additional costs.
- The average cost of sending remittances to Uganda is 11 per cent of the send amount; however, this figure is skewed by the high cost of services from the United Republic of Tanzania. The average cost for sending money is 7.1 per cent of the remittance amount when it comes from the United Kingdom, 8.9 per cent from Kenya, 6.5 per cent from Rwanda and 6.1 per cent from Sweden. Margins on the foreign exchange rate make up a significant proportion of the total cost to consumers (World Bank, 2020).
- There is a significant variation in pricing across different corridors and channels; however, overall, internet services are the most competitive in terms of the fees that they charge, while people who rely solely on agents pay the highest fees (World Bank, 2020).
- With its well-developed mobile money market, Uganda is one of the most globally integrated countries in terms of cross-border mobile money services. Within sub-Saharan Africa, incoming remittances from four countries and outgoing remittances to six countries can be sent as wallet-to-wallet transactions. The cost of using these services seems to have come down between Q2 and Q4 2020, and they are competitively priced (approximately 4 per cent of the send amount) in some corridors (World Bank, 2020).



- The level of cost transparency, especially in the case of remote transactions such as mobile-to-mobile cross-border remittances, is low. Customers are therefore unable to make informed choices based on advance knowledge of all the costs involved.
- International aggregators play an important role as hubs that facilitate interoperability between different payment channels (including, in particular, mobile wallets) across multiple countries. They charge a fee per transaction and generally require partners to prefund their accounts.
- Multiple factors contribute to high remittance costs in Uganda; understanding these cost drivers will permit the establishment of suitable measures to reduce costs (Cenfri, 2020).
- The PRIME Africa programme activities will be focused on three inbound remittance markets for flows from the European Union and within Africa: Sweden, Kenya and Rwanda.

Financial services for remittance users

- FSPs in Uganda are increasingly offering products tailored to members of the diaspora, particularly savings and current accounts, although use cases are limited (KATS, 2019; Connecting Africa, 2019).
- There is a consensus around the demand for targeted remittance-linked financial solutions, but good product fits 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, greater attention could be directed towards thematic areas relating to remittance cost reduction and towards serving FDPs.

The PRIME Africa initiative

IFAD is implementing the **Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa) initiative**, co-financed by the European Union and aimed at maximizing the impact of remittances for millions of families in selected African countries, which contributes to fostering local economic opportunities in migrants' countries of origin (figure 1).

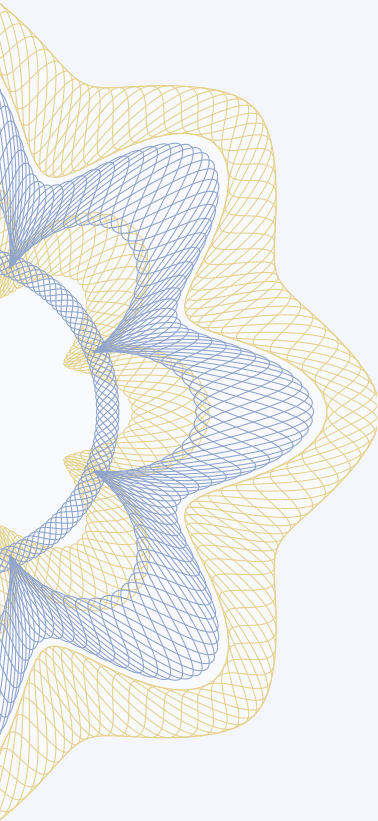
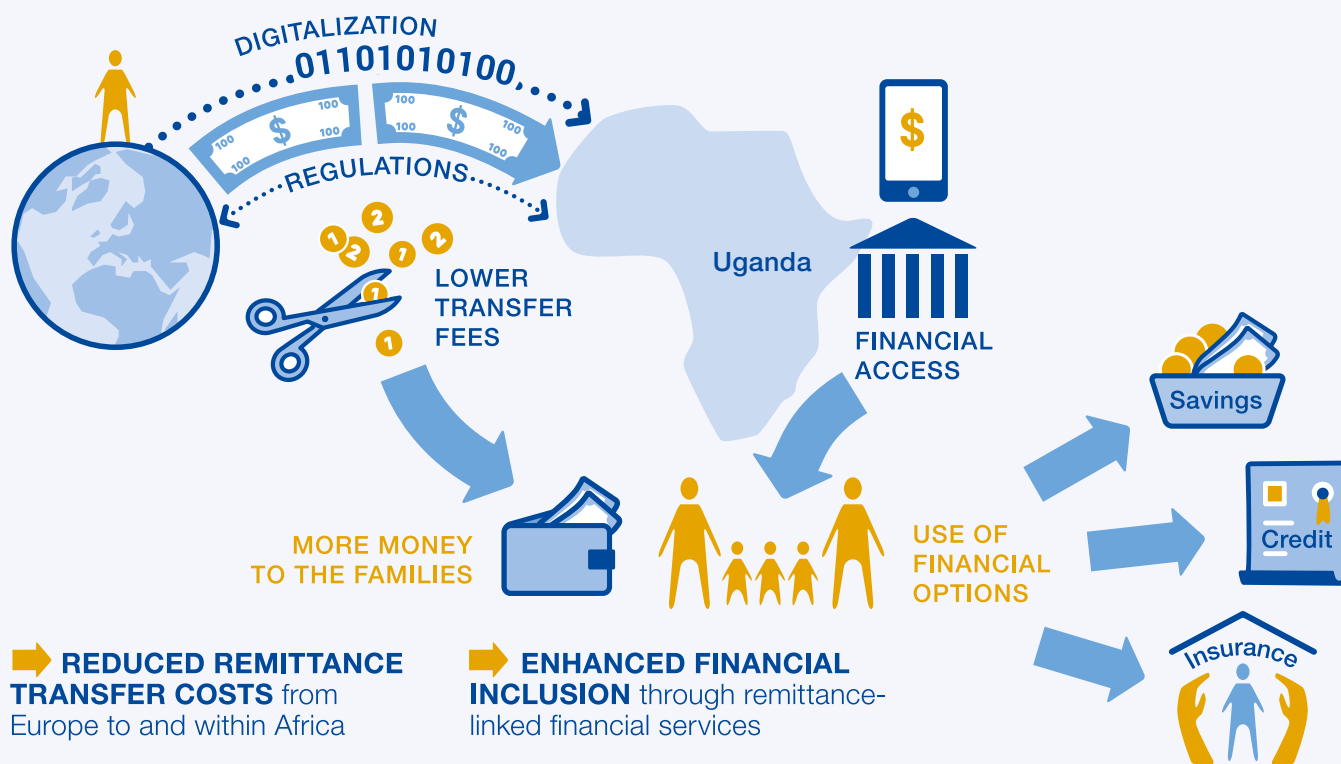


Figure 1. PRIME Africa activities in Uganda

GOALS

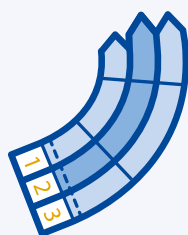


ACTIVITIES



● **Address the data gap**

Strategic market data allow for further market depth and width, and targeted capacity-building to key stakeholders for remittance data creation and use.



● **Increase market competition**

Expand access to remittances through close cooperation with public and private sectors, and additionally reduce significantly direct and indirect costs, and spur market competition.



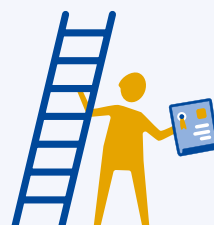
● **Support an enabling environment**

Coherent national regulatory frameworks in both sending and receiving countries can foster competition in remittance corridors and enable safe, cheap and fast transfers.



● **Finance and promote business models linking remittances and financial services**

Co-finance and promote innovative, replicable and scalable business models and technologies that link remittances to financial services, towards greater financial inclusion.



● **Finance scalable innovations and related capacity**

Collaboration mechanisms in place among central banks, regulatory bodies, the private sector and diaspora communities in sending and receiving countries; and strengthened capacity to adapt and scale up best practices within an operational framework that allows cooperation among partners.

Objectives

This Uganda country diagnostic was prepared in accordance with the PRIME Africa goals, including:

- A. To reduce the cost of remittance transfers to Uganda, in achievement of target 10.c of the Sustainable Development Goal (SDG) and the Global Compact for Safe, Orderly and Regular Migration;
- B. To reduce the use of informal channels for sending remittances to Uganda; and
- C. To enhance financial inclusion through remittance-linked financial services.

This diagnostic provides an assessment of Uganda’s remittance market, with special reference to factors related to the COVID-19 pandemic, based on a market-oriented approach. It provides a supply-side analysis and a review of three key inbound corridors.

The diagnostic is a “working document” that will be updated and amended as additional information is collected and assessed.

The findings and recommendations set forth in this diagnostic feed the Roadmap for a prioritized approach to interventions leading to the achievement of PRIME Africa’s objectives. It is envisaged that funding will be made available to the public and private sectors for its implementation.

Methodology

Inputs for this diagnostic have been compiled from:

- A. primary sources, such as interviews with key stakeholders, including regulators, associations, remittance service providers (money transfer operators, banks, mobile network operators (MNOs), aggregators and fintech start-ups offering cross-border remittance services), and mystery shopping exercises conducted to gather data related to service providers, pricing and products; and
- B. secondary sources, such as desk research for the review of recent authoritative reference materials.

Data collection was conducted between October 2020 and December 2020. Subsequently, two virtual National Remittance Stakeholder Network (NRSN) meetings were held in Q1 and Q2 2021.

PRIORITY POLICY ACTIONS

- A. Review the BoU's current remittance data collection framework. Options improving data collection should be assessed so that inflow and outflow data are based on actual remittance transfer data (e.g. through a common remittance transaction data portal) and data are published at a disaggregated level.
- B. Continue the commitment to improving the digital payment infrastructure, especially for rural areas, and increasing interoperability at the national level and within the East African Community.
- C. Continue efforts to expedite the issuance of national identification numbers (NINs) and national identity cards (NICs) and the development of the e-KYC authentication platform. Steps should be taken to ensure that the platform is open to non-bank providers (under well-defined frameworks), to allow for the remote onboarding of customers, to shorten issuance times for FDPs' alien cards and to develop remote authentication solutions.
- D. Draft regulations and provide timelines for the new National Payments Act. The BoU should provide a well-structured regulatory framework that will allow PSPs to operate independently from IMTOs and banks to drive down costs. Steps should be taken to ensure that the revised guidelines do not stifle innovation by setting proportional corporate capital costs and to consider taking a test-and-learn approach to innovation.
- E. Achieve greater clarity around remittance regulations with regard to licensing requirements for different institutions (savings and credit cooperatives [SACCOs], microfinance institutions [MFIs], etc.). Steps should be taken to ensure that the focus is shifted from licensing a given type of institution to the instrument of licensing itself whereby licensing fees are aligned to desired policy outcomes and that licensing wait times are reduced.

- F. Have the Financial Intelligence Authority (FIA) pilot a change around PoA requirements, given that FATF has clarified that PoA is not a requirement.
 - G. Have the BoU give consideration to issuing specific guidelines on KYC requirements for persons who do not hold a NIN (including FDPs) and whose identity cannot be authenticated. These guidelines should be in alignment to the recent FATF guidelines on digital identity and identity proofing.
 - H. Improve transparency in remittance service cost comparisons for both account holders and non-account holders, as outlined in the Financial Consumer Protection Guidelines. This would include mandatory live pricing data as part of the licensing requirement for all digital services.
 - I. Promote joint efforts on the part of stakeholders to bring down prices, especially the prices embedded in foreign exchange margins and commissions paid on those margins.
 - J. Promote a well-orchestrated effort on the part of government representative offices, regulators, supervisors and institutions to build the Government of Uganda's reputation for compliance with a view to a reduction of de-risking trends and last-resort pricing.
 - K. Implement a risk-based approach that will allow RSPs to reduce compliance costs.
 - L. Leverage the National Remittance Stakeholder Network meetings to create a working group for the coordination, implementation and review of measures for improving Uganda's remittance landscape.
-

1. Migration and remittances

Figure 2. Map of Uganda



This section provides an overview of the migration patterns and other socio-economic activities that drive inbound and outbound remittances in Uganda and outlines sender/receiver profiles. It also examines informal flows and the accuracy, consistency and accessibility of remittance data.¹

Emigration and the Ugandan diaspora

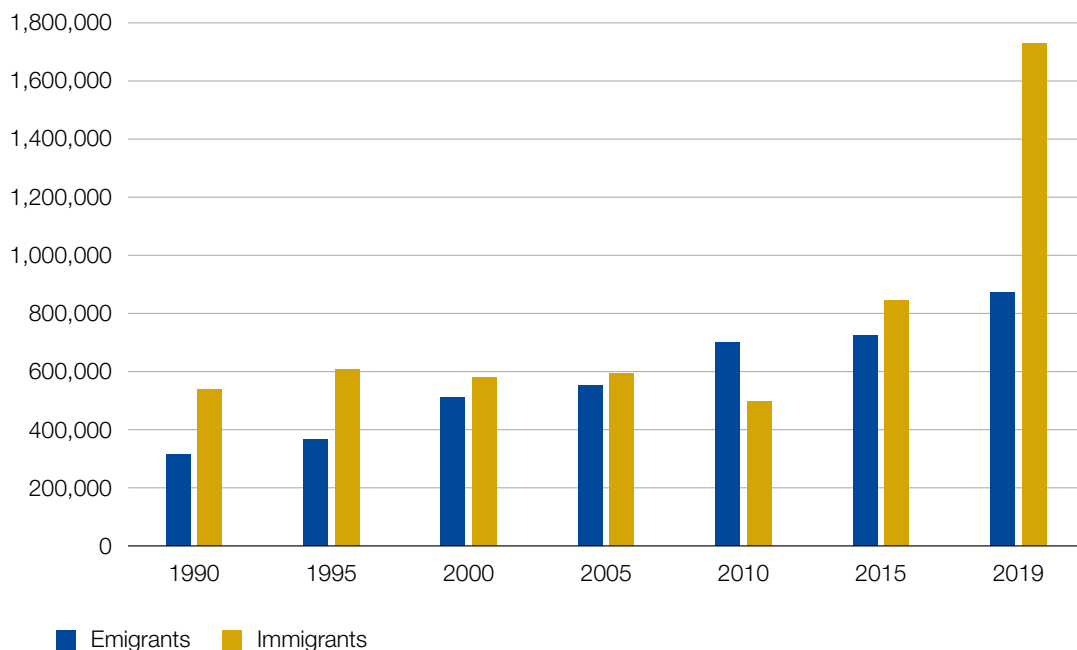
Uganda is a net receiver of immigrants, with over 1.7 million foreign nationals residing in the country as at 2019, of whom 1.4 million were forcibly displaced persons, mainly from South Sudan and the Democratic Republic of the Congo. Most FDPs are beneficiaries of international remittances.

Uganda is a net receiver of immigrants, with over 1.7 million foreign nationals residing in the country as at 2019.

- According to data from the Department of Economic and Social Affairs of the United Nations (UN DESA), members of the Ugandan diaspora totalled 735,000 persons in 2019, compared to 1.7 million foreign nationals residing in Uganda. Data does not include persons residing in the Middle East. The large spike in the number of immigrants reflected in the 2019 data (see graph below) is attributable to an influx of over 700,000 refugees from South Sudan in 2016 and 2017.
- Data compiled by the United Nations High Commissioner for Refugees (UNHCR) indicate that 80 per cent of the immigrants in Uganda are refugees. Data from UN DESA on migrant stocks include refugees and asylum seekers (figure 3). The largest expatriate communities located in Uganda are from South Sudan (63 per cent) and the Democratic Republic of the Congo (18 per cent); these two communities are also the largest refugee groups in the country. Non-refugee communities in Uganda are made up of persons from Sudan, Kenya and the United Republic of Tanzania. These communities are relatively small, making up an estimated 3.9 per cent, 2.1 per cent and 1.3 per cent of the immigrant population, respectively figure 4).
- Uganda hosts the largest refugee and asylum seeker population in Africa (1.43 million), followed by Sudan (1.09 million), Ethiopia (763,827) and the Democratic Republic of the Congo (522,924) (UNHCR, 2020). Through its Settlement Transformative Agenda, Uganda pursues a non-encampment policy on 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).

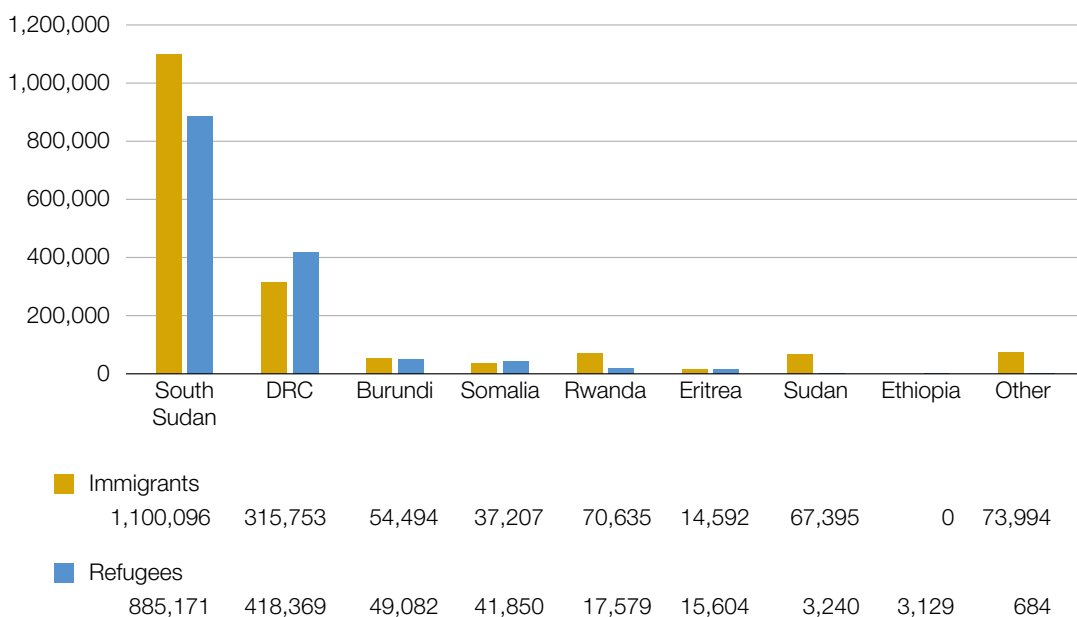
^{1/} Important note regarding the data: A number of different data sources have been used in the following section, and the data are not always consistent across the different sources. Data from the Ugandan Government have been used when available but have been supplemented by international databases where necessary.

Figure 3. Ugandan migrant stocks 1990–2019



Source: UN DESA (2019) and GIZ (2020) (data on emigrants are from 2019).

Figure 4. Ugandan immigrant stock (2019), and number of refugees (2020)



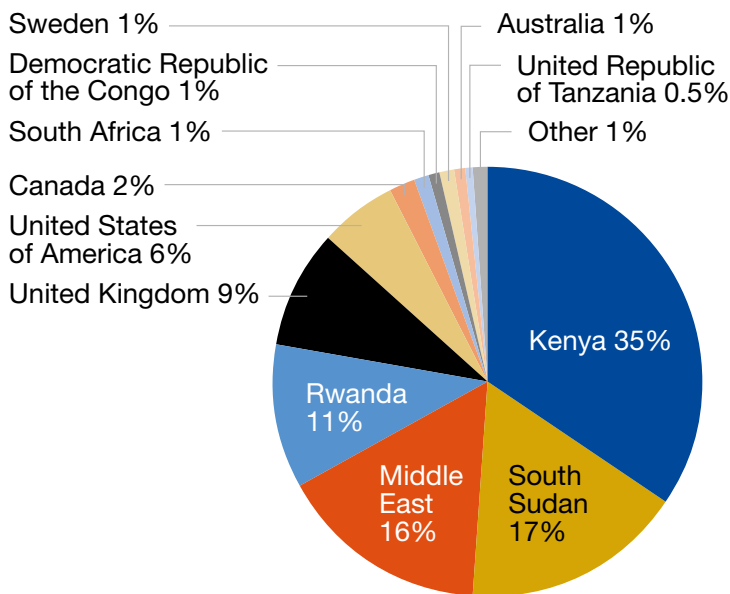
Source: UN DESA (2019) and Uganda Comprehensive Refugee Response Portal (2020).

Remittance flows into and out of Uganda

The majority of the members of the Ugandan diaspora (estimated at approximately 875,000 persons in 2019) reside in other East African countries (mainly Kenya and South Sudan), while 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 estimates compiled by UN DESA (2019) and the German Agency for International Cooperation (GIZ, 2020), there is an estimated 874,951 Ugandans residing outside the country (2 per cent of the domestic population).

Figure 5. Migrant stock by destination, 2019



Source: UN DESA (2019) and GIZ (2020).

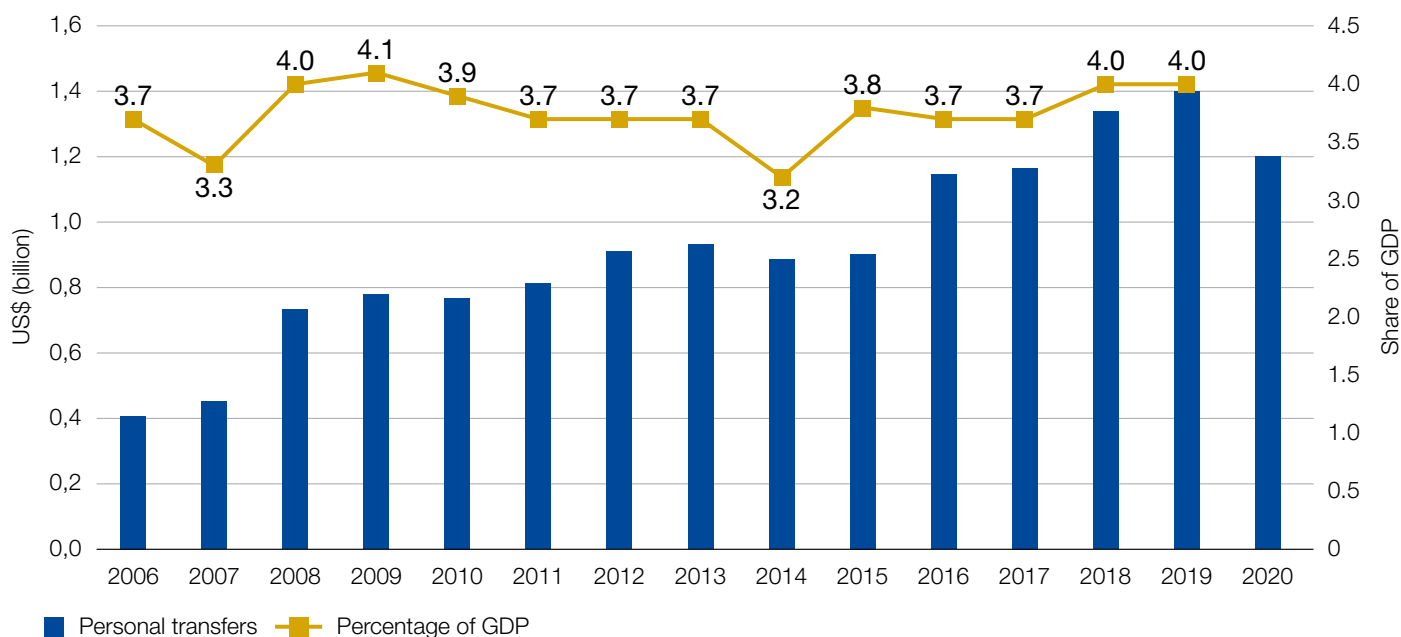
- According to UN DESA (2019), 64 per cent of the members of the Ugandan diaspora reside in other East African Community (EAC) Member States, including Kenya, South Sudan and Rwanda. There are 309,490 Ugandans residing in Kenya and 149,303 and 96,724 in South Sudan and Rwanda, respectively (UN DESA, 2019).
- Other top destinations are the United Kingdom, at 9 per cent (82,054); the United States, at 6 per cent (49,354); Canada, at 2 per cent (14,058); Sweden, at 1 per cent (5,051); and Germany, at 0.3 per cent (2,395) (UN DESA, 2019).
- The Uganda Association of External Recruitment Agencies reports that nearly 140,000 Ugandans are working in the Middle East (GIZ, 2020).

Remittances to Uganda accounted for 4 per cent of GDP in 2019. Remittance outflows in 2019 totalled US\$573 million.

- Uganda is a net receiver of remittances. The BoU reported that formal remittance inflows in 2020 amounted to US\$1.2 billion, down by US\$200 million from US\$1.4 billion level recorded in 2019 as a result of the COVID-19 pandemic (Daily Monitor, 2021). According to the BoU, US\$376.8 million of the 2018 remittances were in kind (28 per cent) and the other US\$961 million were cash remittances (72 per cent).
- Uganda is one of the few countries to have estimates of the level of remittances sent through informal channels and to include these flows in its national statistics. Of the cash remittances received in Uganda in 2018, 10.2 per cent (US\$98 million) came through informal channels, with most of this sum being conveyed through friends in Uganda. However, it should be noted that there may be deliberate efforts to minimize or conceal the scale of informal remittances; hence, even the best estimates may not paint a true picture.

- In 2019, the US\$1.4 billion in remittances accounted for 4 per cent of the country's GDP (BoU). According to an Afrobarometer survey (2019), 19 per cent of respondents had a family member living abroad, and 13 per cent stated that they depended on remittances for their upkeep.
- Remittance outflows from Uganda through formal channels are reported by the World Bank to have totalled US\$573 million in 2019. The BoU does not currently report remittance outflows or disaggregate the data by corridor (figure 6).

Figure 6. Uganda annual remittance values (US\$ billion)



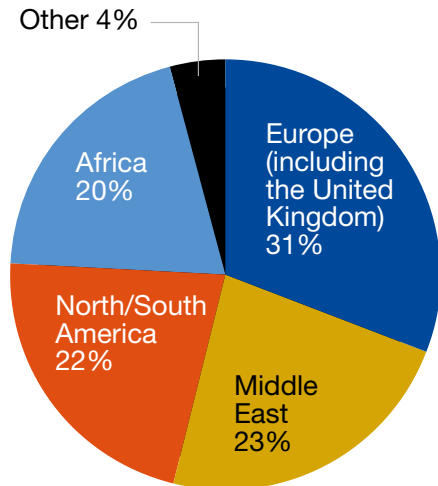
Source: BoU (2018), Daily Monitor (2021) and World Bank (2020).

According to the BoU, nearly a third of total remittances (US\$414 million) came from Europe in 2018, led by the United Kingdom, while nearly a quarter of annual volumes (US\$304.2 million) came from the Middle East, led by the United Arab Emirates. The largest amounts in volume terms from the European Union came from Sweden and Germany, although these flows were relatively small (estimated at US\$13 million and US\$8 million, respectively). The largest outbound remittance markets are Kenya (US\$191 million) and the Democratic Republic of the Congo (US\$190 million).

- From North and South America, remittances amounted to US\$302.6 million, with most of this sum coming from the United States. This region was followed by Africa (US\$263.5 million), with the major source country being South Sudan (BoU, 2018).
- The BoU does not have data on remittances from the European Union, although, according to the World Bank Bilateral Remittance Matrix for 2018, the most heavily used corridors from the European Union were from Sweden (US\$13.1 million) and Germany (US\$8.3 million) (figure 7).

Nearly a third of total remittances came from Europe in 2018, while nearly a quarter of annual volumes came from the Middle East

Figure 7. Uganda remittance inflows by region (2018)



Source: BoU (2018).

Remittances in Uganda are predominantly an urban phenomenon, with much of the inflow going to the central region and Kampala.

- The matrix also estimates that the largest outbound flows from Uganda were destined for Kenya (US\$191 million, or 33.3 per cent), the Democratic Republic of the Congo (US\$190 million, or 33.1 per cent), South Sudan (US\$54 million, or 9.4 per cent), and the United Republic of Tanzania (US\$31 million, or 5.4 per cent).
- No data are available on remittance inflows and outflows to and from FDPs in Uganda.

Informal remittance flows

Uganda is one of the few countries to have estimates of the level of remittances sent through informal channels and to include these flows in its national statistics. Of the cash remittances received in Uganda in 2018, 10.2 per cent (US\$98 million) came through informal channels, with most of this sum being conveyed through friends in Uganda.

- However, it should be noted that there may be deliberate efforts to minimize or conceal the scale of informal remittances; hence, even the best estimates may not paint a true picture.
- The BoU’s annual Personal Transfers Survey sheds more light on the profile of remittance senders and recipients, the channels used to send money and the use made of remittances.

Remittance data collection frameworks

- The BoU conducts an annual survey on remittances. Its Inward Personal Transfers Report 2018 provides deeper insights into remittance activity in Uganda, including information on the profile of recipients, the use of remittances and the channels used to send and receive them. The data used in the report were collected between April and May 2019.
- The survey sample was composed of 1,008 remittance-receiving/sending households across Uganda. Here are the main findings:
 - Even though Uganda is a predominantly rural country, as 75 per cent of the population lives in rural areas (Worldometer, 2020), 85 per cent of remittance-receiving households were in urban areas and 94 per cent of the cash received in 2018 went to households in urban areas. The central region accounted for the largest share, with 36.5 per cent of the total cash receipts, followed by Kampala, with 31.8 per cent; at 7.1 per cent, the eastern region received the smallest share. The BoU originally used a proportionally representative sample for its surveys but

found so few remittance recipients in rural areas that it has since then intentionally skewed the sample towards urban areas.

- The bulk of the cash received in 2018 (89.8 per cent, or US\$862.8 million) was remitted through formal channels.
- Most beneficiaries receive remittances once per year. About 60 per cent of recipient households are reported to have received personal transfers once during 2018, while 10.3 per cent received funds monthly during the same period. The highest levels of receipts were reported in the months of February, September and December.
- The bulk of the funds (69 per cent) were used for consumption-related expenses, such as general household expenditures, education and health care.
- The survey provides data on remittances provided in kind, in cash and via informal channels. Additional data are included on the main payout channels for the delivery of remittances. The data published in the survey are not disaggregated by corridor or region, so it is not clear how trends vary between regions or corridors.

In April 2020, the BoU predicted a significant decline in remittances for 2021 owing to the impact of the COVID-19 pandemic and revised its remittance inflow predictions downward from US\$1.2 billion to US\$244 million. Non-bank financial providers were significantly impacted. The most recent data and stakeholder feedback indicate that there has been less of a negative impact on cross-border remittances than previously predicted.

- Uganda's COVID-19 pandemic restrictions were initially among the strictest in the continent and included lockdowns, curfews and border closures. Its borders were re-opened in September 2020. Financial service providers, including banks, microfinance deposit-taking institutions (MDIs), money transfer operators and microfinance institutions (MFIs), were allowed to remain open within prescribed safety guidelines. However, there were temporary closures of several locations in response to the COVID-19 pandemic, and 12 per cent of foreign exchange bureaus remained temporarily closed in August 2020 (BoU, 2019).
- In April 2020, when the pandemic hit, the BoU revised its projections on remittance inflows for the following years from US\$1.153 billion to US\$955.6 million for the 2019/2020 fiscal year and from US\$1.193 billion to US\$238.8 million for the 2020/2021 fiscal year.
- Socio-economic impact. Real GDP growth fell to 2.9 per cent in the 2020 fiscal year from its 2019 fiscal year level of 6.8 per cent, as major trading partners found themselves faced with a recession, travel restrictions hurt the tourism industry and the sharp decline in world oil prices curbed foreign direct investment inflows. At the same time, job losses and reductions in the number of Ugandans living abroad led to reductions in both inflows and outflows of remittances. Partial and full closures of businesses, both large and small, had a disproportionate impact on low- and middle-income earners, heightening the vulnerability of people who were already poor and creating a newly poor segment of the population estimated at between 1.1 million and 3.2 million people. The presence of 1.4 million refugees in Uganda – the largest refugee host country in Africa and the third largest in the world – has also added to the enormous pressure on essential service delivery systems during this crisis period.
- Impact on non-bank FSPs: SACCOs, village savings and loans associations (VSLAs) and MFIs, which together form the backbone of Uganda's agricultural finance ecosystem, were hurt the most by the pandemic and faced liquidity challenges as a result of reduced cash flows and an accumulation of bad debts. Survey respondents

associated with SACCOs and MFIs all noted that lines of agricultural credit had declined "significantly" (between 30 per cent and 50 per cent) or "severely" (more than 80 per cent) since March 2020. As a result, small and medium-sized enterprises (SMEs) and smallholders – the largest client base for local-level financial institutions – experienced the greatest reduction in access to capital (World Bank, 2020)]. Commercial banks, which prior to March 2020 provided 93 per cent of formal loans by volume in the sector, have continued to lend but at a slightly lower rate and are primarily targeting existing customers with low-risk profiles.

- The BoU expects the direct impacts of the COVID-19 pandemic on Uganda to include a decline in inward flows of remittances, foreign direct investment and official development assistance. Expected longer-term indirect effects include higher morbidity and mortality rates, the disruption of supply chains, a contraction of domestic demand owing to a loss or decline in income and increased government expenditure on the COVID-19 pandemic management (BoU, 2020).

The BoU's figures on annual remittance volumes are primarily calculated by extrapolating the results of the annual Personal Transfer Survey, providing an additional layer of insight into these flows.

- Stakeholder interviews suggest that the BoU consider the annual Personal Transfer Survey to be more accurate than the figures reported by financial institutions. Data are disaggregated by region, by cash and in kind remittances and the proportion sent through informal channels.
- The BoU also collects data from licensed MTOs, banks, MMPs and fintechs but feels that those data do not accurately reflect the real remittance value (including trade payments). The BoU has conducted awareness campaigns and training exercises in an effort to improve the quality of the data, but it still considers the survey data to be more accurate.
- Licensed RSPs produce extensive reports within five working days that cover: (i) monetary remittance (sent/received) weekly returns using designated forms and processes; (ii) monetary remittance (sent/received) monthly returns using the designated forms and processes outlined in the regulations; (iii) a summary of monthly transactions (monetary remittances) using the designated forms; and (iv) the submission of audited accounts within three months after the end of the fiscal year.
 - Additional reporting guidelines exist for foreign exchange bureaus (e.g. daily returns on exchange rates, foreign exchange inflows and outflows, etc.).
 - The BoU sends out circulars to inform service providers of amendments to these schedules and any other useful information.
 - Interim remittance inflows reported by the BoU are generated from MTO reports. Once the annual Personal Transfer Survey is completed, figures are adjusted to reflect the survey findings (Stakeholder Interviews, 2020).
- The Uganda Communications Commission provides mobile network-related data. Market performance reports provide detailed data on mobile money subscriptions, broadband usage and phone ownership. The reports include an active link to the Kompare price comparison website.

PRIORITY POLICY ACTIONS

1. Review the BoU's remittance data collection methodology and assess alternatives for improving data collection so that inflow and outflow data are based on real data rather than on extrapolations of annual survey data. Assess the desirability of a common data portal that collects remittance data from the financial institutions that process the transactions.
 2. Having the BoU publish remittance outflow data, data by corridor and market share data on operators would also provide insights.
 3. The annual Personal Transfers Survey is commendable and provides useful information for stakeholders seeking to understand remittance recipient behaviour and sender profiles. The scope of this impact can be extended by including:
 - More detailed analyses of how remittance behaviours and preferences change from one sending region (and the largest corridors) to another.
 - Review Uganda's Personal Transfer Survey against the recent remittance survey conducted in Nigeria by the African Institute of Remittances (AIR) as a means of working towards developing a template that could help to achieve some degree of standardization across the continent in remittance surveys.
 - Promote a greater focus on informal remittances through qualitative surveys and analyses of anomalies in trade statistics.
 - Revisit the sampling frame and ensure that an urban bias is maintained with regard to remittances.
 4. Address access for BoU and PSPs to ad hoc country data and insights and provide secure and controlled access to interfaces (RemitScope and others) where they can access or make requests for non-confidential data and insights.
 5. In 2020, the BoU published an initial analysis on the impact of the COVID-19 pandemic on the economy and on financial behaviour. As a follow up publication, in June 2021, BoU released the *State of the Economy Report*.
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2. Financial environment

Uganda's National Payments System infrastructure

The BoU has been upgrading and developing the digital payments ecosystem with the introduction of an automated clearing house in 2018 that facilitates the payment of international remittances and integration into the East African 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, which is responsible for ensuring the overall effectiveness and integrity of the payment system. The BoU worked to secure passage of the National Payment Systems Act 2020.
- In 2018, the BoU launched the Automated Clearing House to speed up the movement of transactions through the banking sector. The clearing house is an automated system for clearing cheques and electronic funds transfer (EFT) transactions. The system processes both debit and credit EFTs and cheques in five currencies (Uganda shilling, United States dollar, euro, British pound sterling and Kenya shilling). All banks participate 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 the safe, secure and real-time transmission of high-value funds between accounts in different financial institutions. UNIS system participation is open to banks and non-banks. Currently there are 27 registered UNIS system participants.
- The real-time gross settlement system (RTGS) also supports the East African Payment System and the Regional Payments and Settlement Systems (REPSS). The EAPS facilitates transactions across the East African Community (EAC) and allows transfers in the various EAC currencies.
 - The EAPS is currently operational between Kenya, Uganda and the United Republic of Tanzania, as it links up the Kenya Electronic Payment and Settlement System (KEPSS), the United Republic of Tanzania Interbank Settlement System and UNIS.
 - The volumes that the EAPS is handling are lower than expected; this is mainly due to the lack of sufficient awareness of this option on the part of the targeted high-volume trade flow users and to the cost of using the platform.
 - The EAPS has the potential to be used to directly facilitate regional cross-border remittances, as the structure of the EAPS is sound and could be scaled up. This would require direct participation by institutions in the region in hard currency operations.
- The REPSS supports the transfer of value across the Common Market for Eastern and Southern Africa (COMESA). Settlements are currently made in US\$ and EUR.
 - In its current form, the REPSS is more appropriate for trade transactions in which the speed of settlement is not a factor rather than for remittances.

Electricity and ICT infrastructure challenges in rural areas

Other infrastructure gaps exist in the digital financial ecosystem. Electricity supply bottlenecks are a problem. While access to electricity has been growing, it is insufficient in rural areas (40 per cent of the rural population has access to electrical power versus 60 per cent of the population in urban areas (World Bank, 2020), and three quarters of Ugandans live in rural areas (Worldometer, 2020).

The digital infrastructure (internet and overall telecom connectivity) is largely based in urban areas, which limits digital financial inclusion in rural areas (BoU, 2020).

Insufficient access to electricity is one of the primary causes of the huge disparities in urban–rural internet use and mobile phone penetration rates in Uganda (Gillwald, Mothobi, Ndiwalana and Tusubira, 2019). While 80 per cent of Ugandans have access to a mobile phone, only 16 per cent have smartphones.

Payments interoperability

Interoperability between the different payment channels makes it easier for remittance service providers to reach beneficiaries. Although the payments landscape is largely fragmented, Uganda has achieved interoperability at various levels, chiefly through bilateral agreements. The BoU has plans to facilitate improved interoperability.

- Interoperability is considered a key driver of account activity. It offers customers convenience and lowers access barriers to financial services, especially for 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 payments ecosystem, reduces the need for beneficiaries to cash out and assume the associated costs.
- In Uganda, interoperability across networks is not yet seamless, and currently existing at the following levels:
 - In the case of mobile money-to-mobile money operations, the 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 prefunding model for settlement, which has cost implications. Application programming interface (API) integration also runs in parallel but may have been dealt a huge blow by the suspension of Pegasus services following a fraud incident in December 2020.
 - Mobile money-to-bank and bank-to-wallet transactions were being facilitated by third-party provider Pegasus under a bilateral model. However, in October 2020, Pegasus suffered a cyberattack that led to the loss of an estimated US\$2.7 million in funds from three FSPs: Stanbic Uganda Bank, MTN and Airtel (New Vision, 2020). These transactions are now being processed bilaterally.
 - Interswitch, a private payment aggregator, currently plays a key role in interoperability in Uganda. It has enrolled 19 supervised financial institutions and three MNOs to provide interoperable switching services for ATM transactions, points of sale, bill payments and agent banking (BoU, 2020).
 - For ATM card transactions, Interswitch (Verve and UnionPay), Europay, Mastercard and Visa (EMV) cards can be used in similar integrated ATMs and points of sale locally and abroad.

- The shared agency banking network enables interoperability among 19 out of 25 banks in Uganda. This is the first model of its kind in sub-Saharan Africa.
- The BoU has acknowledged that it has plans to facilitate interoperability and include other non-bank participants. It is considering leveraging existing regional payments systems (such as the Kenya Electronic Payment and Settlement System or the Regional Payments and Settlement System) as opposed to setting up a new switch. The timelines and structure of this venture are currently unclear.

Financial service providers and distribution network

The formal financial sector in Uganda is made up of both banks and a variety of non-bank financial institutions. Each caters to different segments of society and provides tailored financial services (table 1).

The BoU reports that 71 per cent of the population lives within five kilometres of a financial services access point. This is a good level of access for a predominantly rural country (BoU, 2017).

Table 1. Banks, credit-only institutions and microfinance deposit-taking institutions (MDIs) and non-bank financial institutions in Uganda

	Banks, credit-only institutions and microfinance deposit-taking institutions (MDIs)		
	Tier I commercial banks	Tier II credit institutions	Tier III MDIs
Number of licensed entities	25 (BoU, 2020b) 839 ATMs	5 (BoU, 2020a)	4 (BoU, 2020a)
Branches/outlets	549 branches and 7,479 agency banking locations (51% active) (Statistica, 2019)	236	80 branches
Users/customers	–	–	2% of Ugandan adults are active or registered users of MDIs/ MFIs (Finclusion, 2016)
Pay in/out international remittances	Yes	Speedie international money transfer is offered at PostBank	Yes
Services	Offer core banking services to their customers plus internet banking services offered by major banks. Stanbic Bank, Absa Uganda and Equity Bank offer an app for customers	Customers can set up savings accounts, deposit money and obtain loans	Customers can set up savings accounts and deposit money

Non-bank financial institutions								
	Mobile money providers	Insurance companies	Tier IV microfinance institutions (MFIs)			Monetary remittance businesses	Foreign exchange bureaus	Posta Uganda
			SACCOs	MFIs	VSLAs			
Number of licensed entities	7 MNOs (GMSA, 2020)	31 licensed insurance companies (IRA, 2021)	1,749 registered SACCOs (World Bank, 2017)	70	30,780 VSLAs (Care, 2017)	78 monetary remittance offices (BoU, 2020a)	212 licensed foreign exchange bureaus (BoU, 2020a)	Posta Uganda received its licence from the BoU in January, 2021
Branches/outlets	376,111 (BoU, September 2020c) – 35% active (anecdotal)	1,371 licensed insurance agents/agencies (IRA, 2021)		265 branches		1,043 (Western Union and MoneyGram agents), including 221 Ugandan-licensed monetary remittance business outlets (BoU, 2020a)	302 outlets (BoU, 2020a)	300 post offices and 152 outlets for remittances
Users/customers	19.3 million active users for mobile payments (BoU, September 2020c)	200,000 people are formally insured (FSD Uganda, 2018)	Serving around 1 million clients (2020)	2% of Ugandan adults are active or registered users of MDIs/MFIs (Finclusion, 2016)	860,060 members (Care, 2017)	13% of households dependent on remittances (Afrobarometer, 2019)	–	–
Pay in/out international remittances	Only, if the money has been received into a mobile wallet and/or sent via a mobile wallet	No	No	No	No	Yes	Yes	Coming soon – licensed Jan. 2021
Services	Deposits; P2P, P2B and B2P, P2G and G2P transfers; cross-border remittances; airtime purchase; withdrawals	21 non-life insurance firms, 9 life insurance firms, 2 microinsurance organizations (IRA, 2021)	Formal, member-driven cooperative through which members collectively save their money and obtain loans at reasonable interest rates	Provision of small, short-term loans for low-income individuals and enterprises	Self-managed savings groups that utilize members' savings for small intra-group, low-interest loans and allow members to obtain emergency insurance		Foreign exchange and outbound/inbound domestic and international money transfer services	Cross-border transfers, mobile money agents, utility bill payments

Note: P2P = peer-to-peer; P2B = peer-to-bank; B2P = bank-to-peer; P2G = peer-to-government; G2P = government-to-peer.

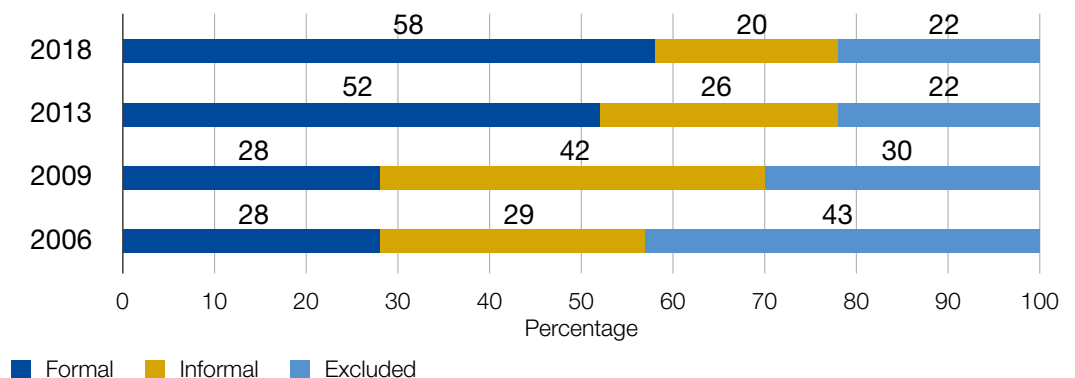
Financial inclusion

In light of the high financial inclusion rate, that there are ample opportunities to send and receive remittances through digital channels. Men are more likely to use formal services than women, with a 9 per cent gender gap in the use of such services being noted.

- Financial inclusion indicators provide insight into the extent to which Ugandans can access digital remittance services (e.g. services using mobile wallets, a bank account or bank card). The indicators also provide insights into current financial practices and help identify areas where remittances could be an additional use case or conduit to help drive and deepen financial inclusion.
- The most recent FinScope survey was conducted in 2018 and used a sample of 3,000 people. The survey results indicate that 78 per cent of Ugandan adults (14.4 million people) have access to formal and informal financial services, while 22 per cent (4.2 million) are excluded from the financial services market (figure 8). The survey also shows that:
 - Nearly 60 per cent of people have an account or wallet at a formal financial institution, including 56 per cent who use MMPs, 11 per cent who use commercial banks and MDIs, and 5 per cent who are members of SACCOs. This indicates that mobile money wallets have driven financial inclusion in Uganda.
 - Overall, 20 per cent of the population use only semi-formal (informal) services. This service segment includes savings groups/VSLAs (37 per cent), outlets that supply goods and services on credit (25 per cent), rotational savings and credit associations (12 per cent) and informal moneylenders (2 per cent). It should be noted that these access strands exclude category overlaps and that a significant number of formal account holders still primarily use semi-formal services.
 - Both formal and informal forms of financial inclusion are more pronounced among the urban population: 86 per cent of urban dwellers are included in the financial services market compared to 75 per cent of persons residing in rural areas.
 - The gender gap in financial inclusion is reflected in the fact that the male inclusion rate is 9 percentage points higher than the female inclusion rate; 63 per cent of males and 54 per cent of females are served by the formal financial market (FinScope, 2018), and females (57 per cent) are more likely than males (54 per cent) to use informal services.
 - The urban/rural and gender gaps in financial inclusion that are reflected in the survey need to be addressed.

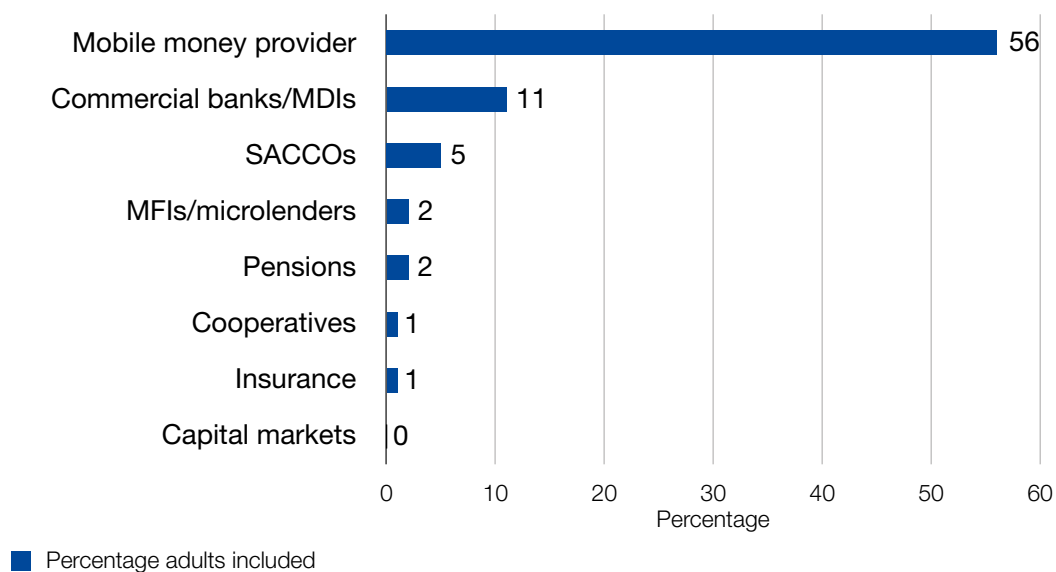
Mobile money and the existing blend of formal and semi-formal financial services have driven up Uganda’s financial inclusion rate to 78 per cent, the second highest in East Africa after Kenya (83 per cent).

Figure 8. Uganda financial inclusion levels 2006–2018



Source: FinScope (2018).

Figure 9. Uptake of formal financial services per service provider



Source: FinScope (2018).

Mobile money usage and growth

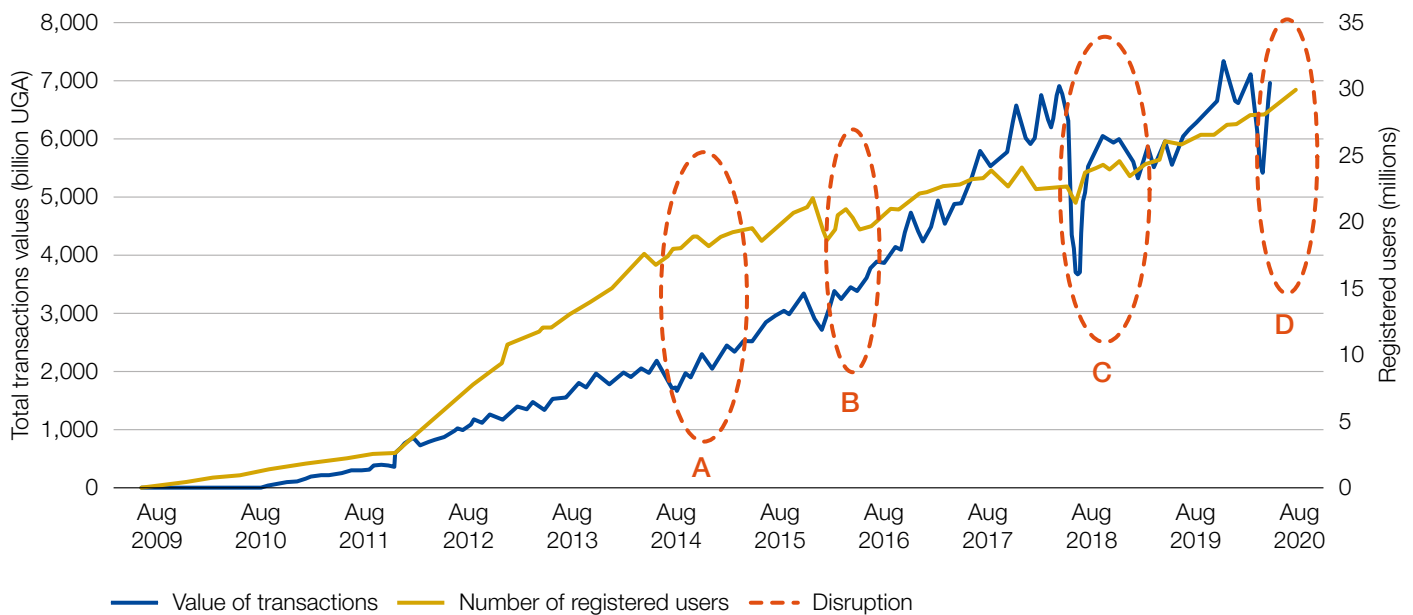
Uganda has a well-developed mobile money market, with seven operators, the two largest being MTN and Airtel. In 2018, surveys indicated that half of rural adults only used cash, compared to a quarter of people in urban areas; the former group's level of access to mobile-based remittances and financial services is therefore more limited.

- In September 2020, there were 30.3 million registered mobile money customers, of whom 19.3 million were active users (64 per cent) (BoU, 2020).
- There are seven MMPs: MTN, Airtel, Uganda Telecom (M-sente), Africell, M-Cash, EzeeMoney and Micropay. This market is a duopoly, as MTN has a market share of 45 per cent (7.4 million active users) and Airtel's share is 34 per cent (5.6 million active users); the other players account for a 24 per cent market share (stakeholder interviews and BoU, 2019 and 2020).
- By September 2020, the total number of mobile money agent points across the country stood at 376,111, which is an impressive increase, given that there were only 105,000 mobile money agents in September 2015 (BoU, 2020).
- Thus, in 2018, there were 250 times as many mobile money agents as the total 1,534 access points offered by the country's 695 supervised financial institutions and 839 ATMs (BoU, 2020). However, stakeholder interviews suggest that only a third of these agents are active. Liquidity is also an important factor for the payouts of international remittances, which are typically larger than domestic peer-to-peer payments.

There are over 17 million active customers in Uganda being served through a wide network of agents despite the digital divide between rural and urban areas.

- Uganda has a well-developed mobile money 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 most frequently used mobile money service is P2P transactions; the use of mobile money for buying goods and services, for paying bills and for other sorts of transactions is still in its early stages.
- Despite the significant increase in mobile money, the most recent FinScope survey indicates that 43 per cent of adults still only use cash; in rural areas, this increases to 47 per cent of women and 49 per cent of all adults, compared to 24 per cent of urban adults (FinScope, 2018). This suggests that there is still work to be done in improving the use cases for digital payments and digital financial literacy.

Figure 10. Disruptions in Uganda’s mobile money services from 2009 to 2020






Source: Bank of Uganda (2020).

- The above graph depicts trends in mobile money usage in Uganda over recent years. The graph also tracks four major disruptions in mobile money use and their impact on the market:
 - **A.** Three-day system upgrade in 2014;
 - **B.** 2016 nationwide shutdown (including mobile money) on the occasion of presidential elections;
 - **C.** Introduction of mobile money taxation; and
 - **D.** The COVID-19 pandemic.

There are seven MMPs in Uganda but MTN and Airtel have an 80 per cent market share, making it an oligopolistic environment. MTN and Airtel are the only two MMPs to offer cross-border remittance services.

Table 2. Mobile money providers in Uganda

	MTN Money	Airtel Money	M-sente
			
Year launched	2010	2012	2017
Active accounts	7.4 million	5.6 million	600,000
Market share	45 per cent	34 per cent	3.6 per cent
First and second generations	<ul style="list-style-type: none"> – P2P, utility and bill payments, merchants, digital savings and loans – Bank-to-wallet and wallet-to-bank mobile app 	<ul style="list-style-type: none"> – P2P, utility and bill payments, merchants (app-based with QR code) – Bank-to-wallet and wallet-to-bank, school fee payments 	<ul style="list-style-type: none"> – P2P, bill payments, airtime purchase, merchant services, bulk payments, push and pull, school fee payments
Cross-border remittances	<ul style="list-style-type: none"> – MTN Homeland for receiving remittances sent from the European Union and the United Kingdom to Africa (intra-Africa send options are not offered). – MTN also offers outbound payments from Uganda to the other EAC countries (United Republic of Tanzania, Kenya, Burundi and Rwanda). It also partners with World Remit, Western Union and MoneyGram for inbound and outbound remittances to 17 countries in the Middle East and North Africa. 	<ul style="list-style-type: none"> – International money transfers: Inbound from 12 countries (Rwanda, the United Republic of Tanzania, Malawi, South Africa, Zambia, Kenya, United Kingdom, United States, United Arab Emirates, Qatar, Oman and Saudi Arabia) with no fees. – Outbound to 10 countries (Rwanda, Zambia, the United Republic of Tanzania, Kenya, Malawi, Burundi, Zimbabwe, Ethiopia and Botswana), with charges from UGX 900 (US\$0.24) to UGX 58,000 (US\$16). 	Not provided

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 the existence of 71 fintech and 16 innovation hubs, many of which are riding the success of the introduction of mobile money.

Table 3. PSPs and fintechs operating in Uganda

	Interswitch is a Nigerian-owned aggregator that currently works with 19 out of 25 banks and three mobile money networks. The Interswitch network links participating institutions and enables their customers to access shared ATMs, points of sale and bill payment services and connects to the agency banking network through the Agent Banking Company (ABC), which is owned by the Uganda Bankers Association (BoU, 2020).
	Pegasus is a third-party payments provider that aggregates bulk payments, merchant services and bill payments between mobile providers and banks in Uganda. In October 2020, Pegasus experienced a cyberattack that affected bank-to-wallet transfers and led to the loss of US\$2.7 million. Their services have been suspended for security reasons (The Independent, October 2020).
	Cellulant launched Tingg , an all-in-one, multi-functional consumer super-app that integrates cross-border payments, e-commerce transactions and financial services into a single platform. It is available in Nigeria, Kenya, Ghana, Uganda, the United Republic of Tanzania, Mozambique, Zambia and Botswana as a mobile app, unstructured supplementary services data short-code service or web-based application.



PayWay Uganda is a third-party provider of utility payment services, airtime purchases, data top-ups and car lease payment services via mobile money and cards, either online at a kiosk or at a point of sale. The service also offers PayWay wallets and has an agnostic mobile wallet offering (Tangerine, Smile, MTN, Uganda Telecom, Roke Telecom, Airtel, Vodafone, Africell).



Yo! Payments (formerly Yo! Uganda) is a mobile payments aggregator that facilitates business-to-consumer (B2C), business-to-business (B2B) and consumer-to-business (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 digitalized for B2B and B2C payments (e.g. to farmers) using a bulk payment facility.



Xente is a cards and payments platform focused on streamlining and modernizing 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 permits limits to be set on how, when and where money is spent. Mobile money, airtime and data can also be sent to and received from multiple service providers.

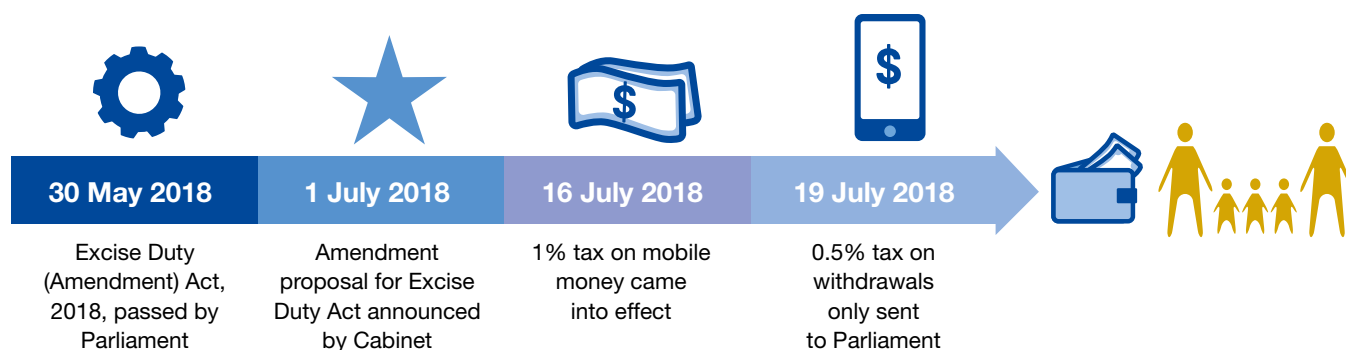


Ensibuuko is a Uganda-based fintech that provides a platform which is uniquely designed to help SACCOs and loan companies go paperless and become more efficient by digitalizing how they manage customer data and transactions. This fintech also offers savings group platforms, mobile money integration and crop insurance products.

In 2018, Uganda introduced a controversial 1 per cent mobile money tax, which added a cost layer to mobile wallets in the remittances value chain. It took 18 months for mobile money transaction volumes to return to the levels seen before the introduction of the tax.

- A controversial 1 per cent tax on all mobile money transactions and a daily levy on social media usage came into effect in July 2018. This tax has since been reduced to 0.5 per cent for cash withdrawals.
- MNOs in particular, are advocating for a review of this policy given its potentially catastrophic effects on mobile money uptake and usage, which would disproportionately dissuade low-income consumers. Digital G2P payments are affected just as much as P2P payments.
- There are other pre-existing mobile money taxes payable by consumers in Uganda. In 2014, an excise duty of 10 per cent had been placed on mobile money fees. This was subsequently increased to 15 per cent in 2018. Unlike the mobile money transaction taxes, the amended excise duties also apply to agency banking service fees (GSMA, 2020).
- GSMA (2020) has studied the impact of the mobile money tax on the market and has 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 analysts argue that taxing mobile money users, mobile money disproportionately hurts the poor and is therefore regressive. They contend 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.
- A case study is being conducted on the impact of taxation as part of the DigiTax research programme being implemented by the International Centre for Tax and Development within the context of the ongoing debate on how best to raise tax revenues in the digital economy.

Figure 11. Amendments in the mobile money tax in Uganda



Source: UNCDF (2018).

Table 4. Average cash-out fees for US\$50 equivalent

	Average cash-out fee for US\$50 equivalent (% of the send amount), Q2 2020
Kenya	1.4
Senegal	3.1
United Republic of Tanzania	3.1
Uganda	2.1
Zimbabwe	3.5

Source: Mystery shopping (Q2 2020).

Uganda's National Financial Inclusion Strategy 2017–2022 outlines a framework for increasing access to and usage of quality financial services by all Ugandans, but it makes no mention of the role of cross-border remittances as a driver of financial inclusion.

- The National Financial Inclusion Strategy 2017–2022 articulates a vision for Uganda in which all Ugandans have access to and use a broad range of high-quality, 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; and
 5. Empower and protect individuals with enhanced financial capability.
- The Strategy highlights usage drivers such as emergency savings, formal savings, insurance and stored value accounts but is silent on the role of remittances as a priority usage type and as a driver of financial inclusion, especially among the underserved, such as FDPs. It draws attention to the fact that weak competition in financial services has led to high prices and insufficient customer experience. Mobile money prices are high, especially for cashing out; in the case of remittances, this can be an additional hidden cost of using the service.
- The BoU runs communication campaigns and financial education seminars around the country.
- The National Agriculture Finance Strategy highlights remittances as a 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 began to permit agency banking in 2017, and the Uganda Banker’s Association (UBA) has launched an innovative, interoperable shared agency banking network model. Agents can carry out deposits, withdrawals, bill payments, first-level account openings for member banks and balance inquiries, and can provide mini statements and remit school fee payments (MSC, 2020).
- According to the BoU, agents are permitted to cash-in/cash-out, but others are only permitted to perform cash-in functions. This also applies to international remittance transactions. Agents are required to have a brick-and-mortar location. See annex 1 for more details.

Figure 12. Main National Financial Inclusion Strategy targets for achievement by 2022

Access

Access points per 100,000 adults to be increased from 548 to 615

Growth of formal financial institutions

2013 **20%**
2022 **50%**

Increase credit bureau coverage

2013 **6%**
2022 **40%**

Reduce financial exclusion

2013 **15%**
2022 **5%**

Grow active users of stored value accounts

2013 **31%**
2022 **60%**



Usage

Increase emergency savings

2013 **41%**
2022 **60%**

Increase formal savings

2013 **19%**
2022 **50%**

Increase formal insurance

2013 **2%**
2022 **7%**

Quality

Increase percentage of women who feel they understand what financial services are available to them



52% of adults were included in formal financial institutions in 2013

Source: National Financial Inclusion Framework 2017–2022.

Know-your-customer requirements

- In 2015, the Registration of Persons Act established the National Identification and Registration Authority (NIRA) and placed civil registration and national identification services under its authority. NIRA oversees all foundational identity infrastructure and services in Uganda, including the issuance of national identity cards (NICs) and national identification numbers (NINs) to all citizens. To support the rollout of these services, NIRA undertook a successful national campaign called My Country, My Identity.
- When registering for NIC, fingerprints and a high-quality facial photo must be submitted. These biometric data are 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 using a biometric scanner.

- In March 2020, NIRA said that 29.3 million Ugandans had registered for NICs. NIRA has managed to issue only 15.2 million of those cards, leaving 14 million still waiting for their identification cards. Registration is ongoing. According to a 2019 GSMA case study on Uganda's digital identity profile, "Uganda has rapidly built an evolving set of identity solutions across the country, and has recognized the importance of these components to effective public service delivery ... the country's efforts to mobilize 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."
- Members of the diaspora can apply for an NIN from abroad through their embassies; there are currently eight embassies that can issue NINs.
- Challenges encountered during the roll-out have included:
 1. Low birth registration rates (only 30 per cent of births were registered as at 2011. However, according to UNICEF, the campaign had helped to raise the birth registration rate to 60 per cent by 2016 [GSMA, 2019].)
 2. The lack of integrated civil registration records.
 3. Complaints about NIRA delays in issuing NICs have been increasing (*The Independent*, 2020).
 4. Problems with obtaining and/or replacing NICs despite the fact that the cards are a stringent condition for all kinds of KYC systems. In order to claim a replacement NIC after theft or loss, people must travel to NIRA's office in Kampala to submit their details and a police report. This procedure reportedly involves a 60-day waiting period, and its centralized nature presents difficulties for people who live far from the capital city.

Uganda has built a rapidly evolving set of identity solutions across the country since 2014. By 2020, two thirds of the population had registered for a national identity card, and 34 per cent had received their cards.



Uganda is in the process of implementing an e-KYC project based on the new digital ID card that will allow all supervised financial institutions to authenticate and verify customers' identities using a real-time platform. This platform should reduce KYC costs for FSPs (including remittance businesses), improve safety and increase access.

- In order to facilitate NIC verification by supervised financial institutions, in 2020 the BoU, NIRA, the National Information Technology Authority (NITA), the Uganda Bankers Association (UBA) and Financial Sector Deepening Uganda (FSD Uganda) embarked on the implementation of an e-KYC project.
- The project is expected to ease structural challenges that drive up the cost of financial services and to 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 identity of customers. As at 30 June 2020, development work was in progress (BoU, 2020).

- FSPs will have access to a joint system for verifying whether or not a customer's identification is authentic and correct. This makes the KYC checks easier, less risky and less cumbersome. The BoU believes the system will offer a secure, multi-factor digital authentication function that will eventually be available to all companies in the financial services sector.
- At this stage, it is not yet clear whether the system will also have an API for biometric information or whether it will allow for the triangulation of biometric information because the NIN will continue to be the main KYC document and banks will be required to have access to the registry for e-KYC verification. This initiative is currently in the testing phase and should significantly reduce compliance costs for financial and PSPs.
- Biometric infrastructure and ecosystems are not yet in place, and scanners will be required for biometric authentication and verification.

FDPs' access to formal services

- Asylum seekers and refugees are issued alien cards upon registration, but the process remains problematic for FDPs.
 - FDPs are issued temporary documents while waiting for their alien cards, which take a long time to process. FSPs can supply very limited services or, in some cases, no services at all during this waiting period.
 - Alien cards are easily replicated.
 - Even after persons receive their alien cards, they are subject to strict anti-money laundering controls because alien cards cannot be authenticated and incidents involving fraudulent documents are prevalent.
 - Additionally, some FDPs come from AML/CFT-sanctioned countries such as South Sudan and the Democratic Republic of the Congo, and FSPs carry out additional due diligence, which sometimes prevents some FDPs from receiving financial services (UNCDF, 2018).
- FSPs are developing clear-cut procedures regarding the use of alien cards or what are known as waiting cards to ease access to financial services for FDPs. DTB and La-Cedri store customers verify documents for future e-KYC, while Equity has developed a banking strategy for FDPs and is building a framework that will allow it to accept alien cards as sufficient documentation for opening an account (UNCDF, 2018).

The COVID-19 pandemic

According to the BoU, the financial sector has remained resilient in the face of the economic disruption caused by the COVID-19 pandemic. Most supervised financial institutions have maintained adequate capital and liquidity buffers to absorb the shock. Increased usage of digital channels across various use cases, including cross-border remittances, has been observed.

- To support the uptake of digital transactions during lockdowns, banks and MNOs waived transaction fees for peer-to-peer transactions below UGX 30,000 (US\$8) from March to June 2020; this included all bank-to-wallet and wallet-to-bank fees, mobile money-based merchant transactions 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.

- In March 2020, the BoU issued a 12-month extension of a moratorium on loan repayments to commercial banks, MFIs and credit institutions supervised and licensed by the BoU. This applies to both business and individual borrowers adversely impacted by the movement restrictions implemented to help curb the pandemic (BoU, 2020).
- **Deposits:** On average, the volume and value of deposits were lower in the six months following the official declaration of the first COVID-19 case in Uganda than in the preceding six months. This is attributed to lost or lower earnings in, for example, the informal and tourism sectors during the national lockdown from March to June 2020.
- **Withdrawals:** These also decreased in the six months following the official declaration of a COVID-19 case in Uganda compared to the preceding six months. This was attributed to a greater preference for savings on the part of customers given the prevailing uncertainty. Another possibility is that customers may have decided to take advantage of the mobile money fee waivers, resulting in lower cash-outs than before.
- **Transaction volume and value:** These metrics increased in the six months following the official declaration of a COVID-19 case in Uganda compared to the preceding six months. The higher out-turn of P2P transactions in terms of both volume and value was expected, since the national lockdown and social distancing guidelines made other remittance channels relatively inaccessible (BoU, 2020).

According to the BoU, the financial sector has remained resilient in the face of the economic disruption caused by the COVID-19 pandemic.

Table 5. Comparison of P2P volumes and values before and after the outbreak of the COVID-19 pandemic

P2P transactions		12 months before (March 2019- February 2020)	6 months before (September 2019- February 2020)	6 months after (March 2020- August 2020)	January 2020- August 2020
Volume (millions)	Sum	11,960	67,324	103,595	126,238
	Average	9,997	11,221	17,266	15,780
Transaction value (billions of Uganda shillings)	Sum	8,427,502	4,676,810	7,068,241	8,649,434
	Average	702,292	779,468	1,1178,640	1,081,179

Source: BoU, 2020.

PRIORITY POLICY ACTIONS

1. **Interoperability** – The BoU should consider improving interoperability between the different payment channels and institutions in Uganda in order to provide a cheaper and more seamless ecosystem and should explore different options and methods for this purpose (e.g. a common ISO digital value-bearing instrument).
2. **Regional retail payment platform** – The BoU should review the existing EAPS business model to see whether it has the capacity to achieve the scale required to evolve its functionality into a regional retail payment system. This would require direct participation by institutions regionally in hard currency operations. An analysis of current known settlement systems should also be undertaken.

3. **Mobile money taxation and taxation of the digital economy** – The mobile money and digital tax policy should continue to be reviewed through stakeholder consultations. Efforts should also be continued to review the impact on the market, including in terms of remittances and remittance pricing, potentially in partnership with the DigiTax programme of the International Centre for Tax and Development.
 4. **Biometric identification and national identification number (NIN)** – The roll-out of NINs and issuance of NICs should continue. The NIRA should strive to improve efficiencies in turnaround times for the issuance of cards and address the challenges associated with the replacement of lost or stolen NICs.
 5. **e-KYC** – Arrangements for access to KYC data with NIRA authentication, which is in progress for BoU-licensed banks, 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.
 6. **FDP alien cards** – The turnaround times for FDPs' alien cards and solutions for remote authentication should be reviewed.
 7. **Distribution networks** – The distribution networks for accessing remittances and other financial services are evenly spread out across the country but quality and performance factors should be assessed. For example, the Agent Banking Company (ABC) could assess the factors contributing to the declining number and activity rates of agency banking providers at a time when the number of MMPs is increasing and could look into opportunities for improving liquidity management.
 8. **Financial inclusion strategy** – International remittances should be explicitly incorporated into the National Financial Inclusion Strategy. International remittance senders and recipients have their own set of needs in terms of consumer protection, access, financial products, financial services and financial education. These remittances can be used as a conduit to drive and deepen financial inclusion.
 9. **Financial education** – There is a need for stakeholders, especially regulatory authorities and financial service providers, to undertake financial literacy activities aimed at popularizing the safe use of digital financial services and digital remittance services. Financial education initiatives specifically targeting prospective migrants, migrants, remittance beneficiaries and returnees could also be undertaken.
-

3. Regulatory environment

This section presents and 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 are in line with PRIME Africa goals. It also focuses on regulatory gaps and their impact on the market.

In Uganda, given the recent passage of the National Payment Systems Act and the ongoing review of the Foreign Exchange Regulations of 2006, the status quo is subject to change in the coming years. The National Payments System Act should result in a clearer market for digital FSPs and PSPs and is expected to result in increased competition and greater consumer protection.

The BoU is autonomous and has oversight authority for the regulation and supervision of financial institutions.

National Payments Systems Act of 2020

- The **National Payments Systems Act of 2020** is a key piece of recently gazetted (September 2020) regulatory legislation. Key provisions of this law include:
 - Regulatory oversight of payment systems and service providers, issuers of payment instruments and issuers of electronic money. All these activities will now require licences issued by the BoU, with the exception of payment systems operated by the BoU itself. This is a key provision, as it clarifies which categories of service providers can issue e-money and provides for a licensing framework.
 - Establishment of financial service entities. MMPs will be required to set up payment entities that are separate from their parent company and that will be regulated exclusively by the BoU. In practice, most of the MNOs have already established these financial service entities (GSMA, 2020).
 - Regulatory powers. The new Act gives the BoU the power to introduce regulations on liquidity, fair competition, CDD, anti-money laundering measures and transaction limits.
 - Introduction of a regulatory sandbox. The Act includes a sandbox provision under which a person may obtain limited access to a payment system or ecosystem to test innovative financial products or services without obtaining a licence.
 - Companies with previous approval to operate payment services will have six months to become licensed.
- The new Act and forthcoming regulations should create a clearer regulatory environment for digital financial services and PSPs (including digital remittance businesses and payout partners) and result in increased competition and greater 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 of 2004, the Foreign Exchange (Forex Bureaux and Money Remittance) Regulations have been undergoing review since April 2019.
- The Bank of Uganda has proposed several amendments to the Regulations in order to:
 - Strengthen provisions in the existing law that are considered inadequate for the effective execution of the BoU’s mandate regarding supervision of foreign exchange bureaus and money remitters;
 - Increase capital requirements and enhance due diligence for applicants;
 - Introduce regulatory provisions concerning new business trends and technological developments that were not provided for;
 - Ensure effective implementation of newer national laws such as the Anti-Money Laundering Act of 2013;
 - Adopt international best practices with regard to the supervision and regulation of foreign exchange bureaus and money remitters; and
 - Harmonize the regulatory regime with the East African Monetary Union Convergence Criteria as agreed with the EAC Partner States.
- These regulatory actions must 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.
- The BoU issued Guidelines for the Licensing and Operation of Forex Bureaux and Money Remittance Companies in 2018 for application in the interim period while awaiting enactment of the amended bill into law.

Licensing frameworks

Licences are issued on the basis of established categories, but the remittance activities that are permissible are the same across all.

- Remittance activities are governed by the BoU’s Foreign Exchange (Forex Bureaux and Money Remittance) Regulations of 2006, and the BoU has market oversight authority. Bank and non-bank entities are permitted to offer remittance services but must hold or be eligible to obtain a foreign exchange licence in order to do so.
- The Guidelines for the Licensing and Operation of Forex Bureaux and Money Remittance Companies of 2018 outline the application requirements, procedures, timelines and subsequent renewal and reporting frameworks. The licensing categories are as follows:
 - Class A – International Money Transfer Agency Licence
 - Class B – Forex Bureaux and Money Remittance Licence
 - Class C – Direct Entrants Licence
 - Class D – Sub-Agency Licence

The BoU only publishes the list of Class B licensees.

Table 6. Licensing categories

Banks, credit-only institutions and deposit-taking microfinance banks	Class A International Money Transfer Agency Licence	Class B Forex Bureaux and Money Remittance Licence	Class C Direct Entrants Licence	Class D Sub-Agency Licence
Permit to carry out foreign exchange transactions and inbound/ outbound (IB/ OB) money remittances; an additional licence is not needed.	Permit to carry out IB/OB remittance transactions through commission-based agents (mainly commercial banks in the designated countries).	Permit to conduct money remittance transactions; foreign exchange bureaux need a money transfer licence in order to offer IB/ OB remittances.	Permit for local entities in Uganda, including digital providers such as BT Payments Services, to offer IB/OB remittance services.	Permit for institutions regulated exclusively by the BoU. They may offer remittance services under a bank, microfinance bank, IMTO agent, direct entrant, etc. because they are not eligible for direct licensing. Some do go on to obtain a Direct Entrants Licence.
Ecobank has its own remittance product: Rapid Transfer. The UBA has Africash, and PostBank has Speedie. All the banks (DTB Uganda, KCB Bank Uganda, Ecobank, etc.) offer SWIFT services and are partners with IMTOs.	Western Union, MoneyGram, World Remit, UniMoni, Xpress Money, etc. Only WorldRemit has applied and received a letter of intent to issue a licence.	Foreign exchange bureaux have to be in operation for two years before applying for an MTO licence. Posta Uganda has just received its licence (2021).	MTN Uganda, BT Payments Services and other local MTOs and fintechs.	Rural community banks, foreign exchange bureaux etc.

Guidelines for remittance service providers are generally clear and relatively flexible; however, wait times for approvals can be long, and network expansion is limited by the fact that annual fees are charged per branch. There are guidelines in place for only one remittance business category (Class B); licensing standards for MMPs and agency banking have not been defined.

- Banks and deposit-taking MFIs only require approvals from the BoU to offer their own remittance products or to become agents of IMTOs.
- International, regional and local MTOs 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 also only require an approval from the BoU. This is expected to change, however, with the enactment of the National Payments System 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 licensed entities, but agents are prohibited from conducting “foreign exchange transactions”.
- MTOs applying for licences are required to pay a security deposit of UGXs 50 million (US\$13,500), a non-refundable application fee of UGX 1 million (US\$270), have minimum unimpaired paid-up share capital of not less than UGX 50 million (US\$13,500) and pay annual licence fees of UGX 2 million (US\$542) per branch.
- The BoU gives a lead time of 21 days for feedback on approval once all required documentation has been submitted; however, stakeholders who were interviewed indicated that there were extremely lengthy wait times of up to six months or more. For example, for Uganda Post (now Posta Uganda), the money remittance licence took more than 12 months.

Notable differences between Uganda and Kenya in terms of their remittance licensing frameworks include:

- In Uganda, IMTOs such as Western Union, MoneyGram, WorldRemit have to be licensed and are required to submit a recommendation from the regulatory authority in their home country; this is not the case in Kenya.
- In Uganda, foreign exchange service providers are permitted to offer services directly, whereas, in Kenya, they are mostly sub-agents of MTOs or banks. If they acquire the status of MTOs, they must change their name so that they are designated as a money transfer company even when they are offering foreign exchange services as a secondary business.
- The BoU also approves sub-agents recruited by MTOs/banks.
- In Kenya, MNOs are licensed directly as MTOs.

Microfinance Institutions Act of 2016

- In May 2016, the Tier 4 Microfinance Institutions and Money Lenders Act was passed by Parliament. It consists of a range of semi-formal and informal financial institutions, including SACCOs), credit-only microfinance non-governmental organizations, private businesses and individuals engaged in financial services (including money lenders) and other community-based and informal financial groups, such as VSLAs.
- A key provision of the Act is the establishment of the Uganda Microfinance Regulatory Authority (UMRA), which has the mandate to license, regulate and supervise all Tier 4 financial institutions. UMRA is an autonomous government agency (UMRA, 2016).
- At present, Tier 4 institutions are not able to pay out international remittances and are not able to access the shared agency banking network (managed by the Agent Banking Company [ABC]).

Uganda has passed conducive data privacy and financial consumer protection laws; however, high-profile mobile money fraud cases threaten to undermine trust in digital financial services and digital remittances.

- Uganda's Data Protection and Privacy Act of 2019. Under this law, a data processor or controller based in Uganda may process or store personal data outside Uganda if the country in which the data are processed or stored has adequate measures in place to afford protection for personal data that is at least equivalent to the protection provided for by the Act or if the data subjects have consented to having their data stored externally.
- Financial Consumer Protection Guidelines of 2011. These guidelines apply to all BoU-supervised financial institutions: commercial banks, credit institutions and MDIs and their agents. The guidelines are built on three principles: fairness, reliability and transparency.
- They seek to: (a) promote fair and equitable financial service practices by setting minimum standards for financial service providers in their dealings with consumers; (b) increase transparency with a view to informing and empowering 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 is some concern in Uganda that consumer protection has not kept pace with changes in technology. The new Payments Systems Act and forthcoming regulations for PSPs aim to improve data privacy and consumer protection for digital FSPs. This should help increase trust in these services and therefore the use of digital financial services and digital remittances.
- Delays and challenges in finalizing regulatory changes regarding e-payments and fintech players are a cause of concern in relation to cybersecurity and money laundering.

Mobile money fraud 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. With losses estimated at US\$2.7 million, the fraud was committed using around 2,000 mobile SIM cards.
- Fraud on this scale has been reported before in Uganda, with six MTN employees prosecuted in 2015 for internal fraud amounting to UGX 10 billion (CGAP, 2015). At the agent level, it was reported in 2016 that 53 per cent of mobile money agents had experienced fraud in the last year; this was the highest rate 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.

Compliance

Uganda has made significant progress in strengthening its AML/CFT framework in line with recommendations made by FATF after the country was placed on the grey list, but the effectiveness of these changes is as yet to be determined. Being on the FATF grey list can impact cross-border remittances, as correspondent banks tend to de-risk and require closer scrutiny of transactions, which increases the costs involved.

- The Financial Intelligence Authority (FIA) was established by the Anti-Money Laundering Act of 2013 to combat money laundering and to counter terrorism financing and proliferation. It has facilitated a transition from manual reporting systems to the goAML electronic system for 24 banks and MMPs in Uganda.
- Uganda has a fully liberalized 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 US\$10,000 and above, or the equivalent in any other currency, are subject to reporting obligations by the financial institution concerned for purposes of anti-money laundering compliance (Bowmans, 2019).

- Uganda has been placed on the grey list (Jurisdictions Under Increased Monitoring) by FATF owing to strategic deficiencies in its regimes for countering 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 FATF to develop action plans that will address their AML/CFT shortcomings.
- The countries on the grey list are subject to increased monitoring by FATF, which either assesses them directly or uses FATF-style regional bodies to report on the progress they are making towards their AML/CFT goals. While grey-list classification is not as negative as being on the blacklist, countries on the grey list may still face economic sanctions from institutions such as the International Monetary Fund (IMF) and the World Bank, and their trade performance may be adversely affected. For example, many correspondent banks may de-risk entirely or require higher degrees of scrutiny that may even reach the level of per-transaction due diligence, which adds costs and poses challenges for the settlement of cross-border payments.
- In February 2020, Uganda made a high-level political commitment to work with FATF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to strengthen the effectiveness of its AML/CFT regime. The key actions involved in that commitment include the adoption of a national AML/CFT strategy, implementation of risk based supervision of financial institutions and the institution of policies for the recovery of the proceeds of crime.
- According to the latest FATF report, Uganda is very close to being compliant in a technical sense (ESAAMLG, 2020), but its effectiveness ratings are still poor, as it was not rated as being highly effective or substantially effective for any of the effectiveness and technical compliance rating categories. The e-KYC project that provides access to remote and real-time authentication of customer identities for BoU-supervised institutions will help address existing challenges.

Within the framework of the Anti-Money Laundering Act and its regulations, Uganda has general rules that provide for simplified risk-based CDD.

Identification systems 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 supervision.
- By law, all SIM cards in Uganda must be registered against an individual's NIN. 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 2 per cent less likely than men to have an NIC, they are 10 per cent less likely to use their NIC to register a mobile SIM in their own name (GSMA, 2019).
- There are no lower-risk/basic (banking or mobile money) accounts in Uganda.

Risk-based approach to consumer due diligence

- The FATF promotes a risk-based approach to CDD for MTOs to foster financial inclusion and make sure formal services are accessible, especially to low-income, rural and undocumented persons (FATF, 2016). The Anti-Money Laundering Act of 2013 requires that a risk-based approach be taken to CDD, and this regulation is the anti-money laundering framework for money transfer businesses. However, there is no explicit mention of a risk-based approach to CDD in the Money Remittance Guidelines (2018).
- There are general rules for providing simplified risk-based CDD in the Anti-Money Laundering Regulations (2015), but no CDD tiers are set up in any law or regulation. All financial institutions must undertake regular risk assessments. For banking agents, the principal bank sets the limits for AML/CFT purposes and notifies the central bank (CGAP, 2019).
- The Anti-Money Laundering Act requires that reporting entities apply CDD on a risk-sensitive basis and, for higher-risk categories of customers, in particular, reporting entities are to perform enhanced due diligence (see paragraph 6 (e) of the Act). The authorities indicate that this information must be incorporated into financial entities' AML/CFT risk management policies. However, this is not backed up by any statutory obligation provided for by law. Reporting entities are also required to have appropriate risk management systems to determine whether a customer is a politically exposed person (ESAAMLG, 2016). The report suggests that the application of this approach among market participants is quite limited, however.

Complementary regulation

Improved CDD with RSPs enhances remittance access opportunities for low-income rural households, and particularly for women, thereby contributing to financial inclusion and sustainable development. It also reduces the cost base for RSPs. Remote onboarding is in the pipeline and proof of address (PoA) is still a requirement. Ongoing e-KYC efforts may ease this burden.

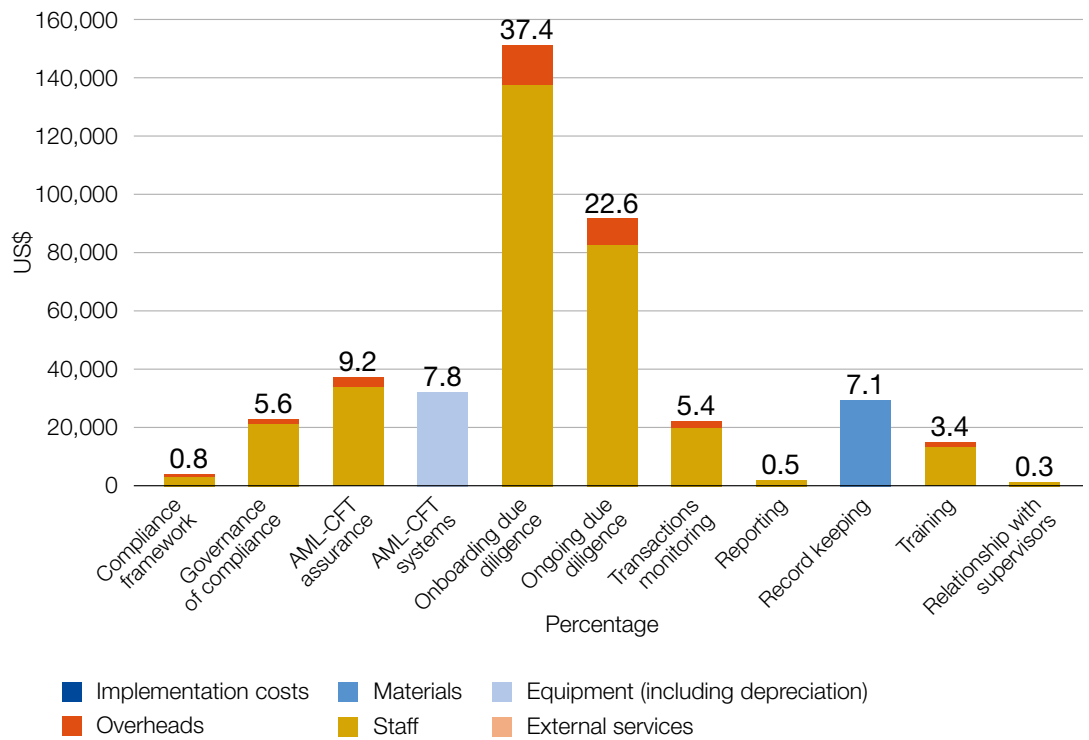
Remote onboarding

- 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 due diligence can entail a lower risk, and the FATF policy submissions under consideration are that face-to-face onboarding or verification can entail a higher risk than digital methods and that remote onboarding should be the norm.
- With respect to agent-based and remote CDD in Uganda, for agent account openings, MFS Africa 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 are subject to central bank review. There is currently no digital remote onboarding capability because no e-KYC platform is in place.

Proof of address (PoA)

- Despite the FATF clarification that PoA is not a requirement, it is still required in Uganda, even after the establishment of the NIN.
- Nationwide, only 14 per cent of adults (2.6 million) have the documentation to prove both their identity and their residential address. Male adults are more likely than female adults to have this proof (17 per cent [1.5 million] versus 11 per cent [1.1 million], respectively).
- Additionally, urban adults are significantly more likely than rural adults to have both proof of identity and residential address (22 per cent [1 million] versus 11 per cent [1.6 million], respectively) (FinScope, 2018).
- Requests for additional documentation may stem from the current inability of FSPs to query the National Identification Register for authentication purposes. Ongoing e-KYC efforts are expected to lighten this identification burden.

Figure 13. Baseline-case model for the annual cost of AML/CFT activities based on RSPs



Source: Centre for Financial Regulation and Inclusion (Cenfri, 2020).

PRIORITY POLICY ACTIONS

1. **Data:** The BoU only publishes the list of Class B licensees. The lists of all licensees should be published in order to bring more transparency to the remittance market.
 2. **New National Payments Act:**
 - Steps should be taken to ensure that the revised guidelines do not stifle innovation by imposing excessively high capital requirements, especially if these requirements are to be set per licence category.
 - The National Payments System could move towards closer alignment with the Bank for International Settlements (BIS) Principles for Financial Market Infrastructures (PFMI) regarding the inclusion of mobile money 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.
 3. **Remittance regulations:**
 - It should be made clear in the guidelines and regulations whether IMTOs operating in Uganda have to get a Class A licence if they are partnering with licensed entities.
 - The remittance regulations should be reviewed to ensure that Tier 4 licence holders, including SACCOs and MFIs, that meet certain criteria can cash-in/cash-out remittances.
 - Waiting times for licensing are long, and this hinders competition in the market.
 - Licensing fees are particularly high, especially because they are charged per branch, and this may curb network expansion. The BoU suggests a shift to licensing fees based on annual turnover.
 4. **Identification and CDD:**
 - FIA should pilot a change around PoA requirements, given that FATF has clarified that PoA is not a requirement.
 - Laws and regulations for KYC practices do not explicitly set out the requirements for onboarding FDPs, and this creates both a barrier and a lack of clarity among FDPs and service providers. Beyond the alien card, the BoU should issue guidelines on KYC requirements for non-holders of NINs whose identification cannot be authenticated. This would standardize access to financial services for persons such as FDPs. The FATF guidance on digital identity states that digital methods can entail a lower risk, and the FATF policy submissions under consideration are that face-to-face onboarding or verification can entail a higher risk than digital methods and that remote onboarding should be the norm.
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4. Remittance market structure: inbound and outbound

This section analyses Uganda’s remittance market structure in three key segments. It also assesses the structure of and competition in the main send and receive markets, pricing, key cost drivers and the access options available to remittance users.

The formal market for remittances sent to and from Uganda is a busy one and has many different operators. This reflects the different internal and international migration patterns characterizing the country, which include an intercontinental diaspora of Ugandans who are now in the Middle East, the United Kingdom, the United States and the European Union, inter-regional flows and a large number of FDPs from South Sudan and the Democratic Republic of the Congo.

Figure 15 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 remittance value chain.

Figure 14. Operators in the remittance value chain

North America and Europe (inbound)	Intra-Africa (inbound and outbound)	Middle East (inbound)
<ul style="list-style-type: none"> – Traditional IMTOs including Western Union, MoneyGram, Ria – Online and app-based IMTOs including WorldRemit, SendWave, SimbaPay etc. – Banks via SWIFT 	<ul style="list-style-type: none"> – Informal through buses and traders (neighbouring) – Informal: <i>hawala</i> – MNOs: Airtel and MTN – Ugandan-registered money remittance businesses, including Dahabshiil, Kaah Express, Amal Express and foreign exchange bureaus (78 licensed) 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 	<ul style="list-style-type: none"> – Regional IMTOs including Dahabshiil, Transfast, Juba Express, Kaah Express, Amal Express – Informal: <i>hawala</i>
		

Remittance value chain

Nearly a fifth of remittances are deposited into a bank account, which, considering that only an estimated 11 per cent of adults in Uganda 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 and on consumer behaviour patterns. The BoU does not currently publish information about how this market structure varies across different regions or corridors (request pending with BoU).
- The survey shows that 30 per cent of households used mobile wallets to receive money. MTN and Airtel have the largest mobile money market share in Uganda. Since 2018, the use of mobile money has been growing across Uganda, so it is likely that the proportion of funds received in this way is now higher.
- There is a network of 376,000 mobile money agents in Uganda (BoU, 2020). Given the important role of mobile money as a pay-out method, it is important for agents to have the liquidity to cash out international remittances, for consumers to have protection, especially at agent locations, and for the downstream digital payments ecosystem for mobile money to be developed to the point where people do not need to cash out their remittances (and incur additional costs).
- The survey indicates that only 2 per cent of households receive money via a local MTO (mainly foreign exchange bureaus) and that 19 per cent receive money into a bank account. This can be money sent via an IMTO into a bank account or money sent from one bank account to another. This percentage is higher than the percentage of people with a bank account in Uganda (11 per cent of adults) (FinScope 2018).

Table 7. Percentage of households reporting channels used to receive inbound transactions and value of inbound transactions per channel

Category	Channel	% of recipient households reporting use of each channel		Value of transactions (percentage share)	
		2017	2018	2017	2018
Formal	IMTO	37.8	28.1	42.7	14.4
	Bank account	14.4	18.7	26.9	25.3
	Local MTO	6.9	2.3	7.8	3.8
	Mobile money	27.3	29.9	14.4	20.4
	Post office	0	0.1	0	0
	Sub-total: formal channels	86.4	79.1	91.8	89.8
Informal	Friends in Uganda	9.6	12.7	3.0	6.9
	Friends abroad	5.0	4.8	2.1	1.8
	Traders	2.1	2.8	2.2	1.5
	Self	6.1	6.6	0.8	1.0
	Sub-total: informal channels	22.8	26.9	8.2	10.2

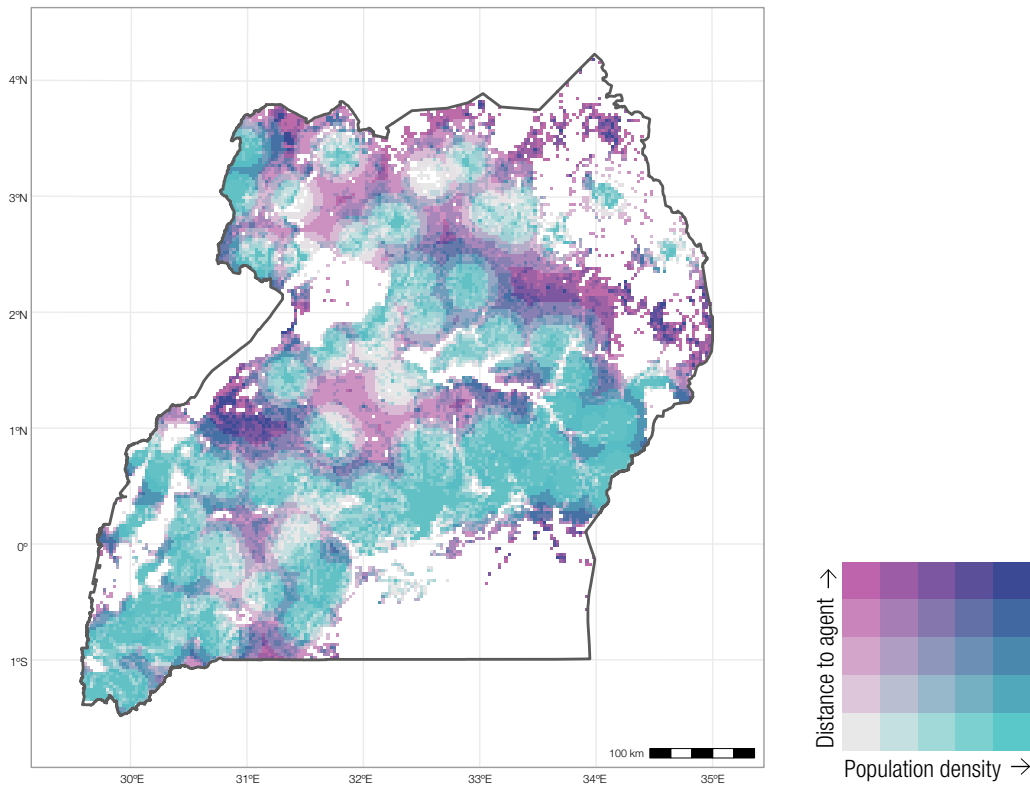
Source: BoU Personal Transfer Survey (2018).

The 2018 BoU survey indicates that nearly a third of beneficiaries receive cash via an IMTO agent.

There are 1,043 IMTO agents across Uganda, which is fewer than in a number of peer countries, and there are potentially many people who have to travel long distances to reach an MTO agent. According to the BoU, international remittances are, however, a predominantly urban phenomenon, which would suggest that the urban divide in terms of access may not be such a pressing problem as it might otherwise be.

- An estimated 28 per cent 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 foreign exchange bureaus). There is no exclusivity between MTOs and agents in Uganda, and agents can therefore perform pay outs 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 its 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 100,000 population is low (two locations per 100,000 people versus seven in Kenya) and rural Uganda is not well served. Figure 15 (WDL, 2020) indicates that there are rural areas where there are over 3,000 people per square kilometre who have to travel more than 40 km to a remittance pick-up location (not including mobile money agents). This lack of access in rural areas underscores the need for larger distribution networks a range of different types of businesses that can cash out.
- Nevertheless, according to the BoU survey (2018), 85 per cent of remittances in Uganda are received in urban areas, where access to agents is greater. Foreign exchange bureaus are concentrated in Kampala and Entebbe (93 per cent). Of the total 231 money collection points, only 15 (or 7 per cent) are located outside the two main cities (those agents are in Gulu, Arua, Mbarara, Fort Portal and Jinja).
- Access is key for remittance senders and recipients: 46.4 per cent of recipients cited access as a key determinant of channel choice (BoU, 2018).
- A recent study by UNCDF (2018) on FDPs found that proximity to agents with the necessary liquidity to pay out remittances was a problem in the more rural refugee settlements (such as BidiBidi). (UNCDF, 2018).

Figure 15. Bivariate map showing areas of Uganda served and underserved by physical MTO agents



Source: WDL data scraping (Q2 2020).

- The BoU reports that 10.2 per cent of inbound remittances are sent via informal channels, but that 27 per cent of the respondents said that they received money through informal channels. This would suggest that informal remittances are comparatively low in value.
- In some neighbouring corridors, the proportion sent through informal channels may be significantly higher. A segment of Ugandans in the diaspora send remittances through friends and family, while others who are located close to the border use buses to send remittances to more rural and remote areas where formal services are unavailable. Still, others send money through traders and shopping outlets. A high level of informality characterizes the Kenya-to-Uganda and Rwanda-to-Kenya corridors.
- Unlicensed foreign exchange bureaus are increasingly sending informal remittances through other foreign exchange bureaus and traders in key destinations as a way of balancing their foreign exchange stocks. Foreign exchange bureaus have been especially proactive in marketing their services in the context of the COVID-19 pandemic and, as foreign exchange transactions have declined, some of these bureaus have focused on cross-border transactions. The BoU is aware of these activities and conducts campaigns to raise awareness about the risks of using informal operators. According to the Centre for Financial Regulation and Inclusion (Cenfri 2018), however, some informal services do not charge any fee, 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 in an effort to curb this practice. However, the practice keeps evolving and has proven difficult to eradicate. Informal transactions are now sent through personal M-Pesa wallets. Senders pay in Uganda shillings and recipients can cash out in Kenya. Stakeholder consultations suggest that the reverse – informal mobile money transfers from personal MTN or Airtel wallets in Kenya to Uganda – is not as prevalent. This is most likely due to the practice of switching off MTN personal lines after one month when the persons concerned are abroad and the notoriety of M-Pesa and its association with P2P transfers for Kenyans.
- FDPs (especially Somali and South Sudanese FDPs) use *hawalas* that operate from mobile money shops, grocery stores, etc. and that are usually unregistered, relatively anonymous, fast and inexpensive. However, one drawback is that they often have little liquidity, and it therefore takes longer for recipients to access their funds.

UNCDF (2018) conducted an assessment of affordable and accessible remittances to FDPs in Uganda which indicates that the additional challenges faced by FDPs in accessing remittances include their remote location, a lack of liquidity on the part of agents, difficulties in providing the proper identification documents, discrimination and additional costs.

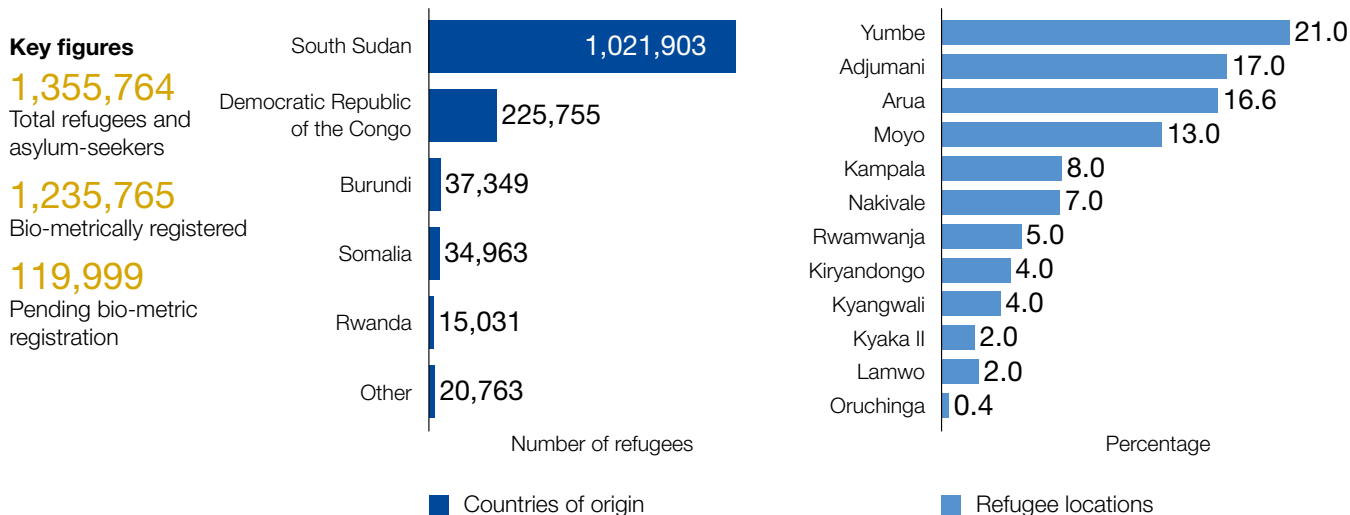
- In 2018 UNCDF conducted a comprehensive study on the challenges and barriers that FDPs in Uganda face in accessing remittances.
- The study indicates that remittances to FDPs mostly come from family and friends in Europe, the United States and home countries. Remittances are a main source of income for new arrivals but may be received less frequently by FDPs who have been in the settlements longer. Although remittances are mainly used to meet consumption needs, many FDPs do receive money that they use for business or trade purposes. Remittance channels are chosen by the sender rather than the recipient.
- Many FDPs receive money through formal remittance services, but a significant proportion continue to use informal agents. Informal providers such as *hawalas* are more accessible to FDPs as they can be found in the refugee settlements themselves, while most formal providers are located in the nearest town. Many mobile money agents offer M-Pesa in Uganda, even though it is not 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 commonly receive remittances via mobile money, despite very expensive cash-out fees, as the alternative is travelling for over an hour to the nearest MTO agent. FDPs often incur travel costs (approximately US\$10) to meet providers and/or must pay intermediary facilitators.
- Access point acceptance of FDPs' identification documents. Acquisition of government-issued identification is a lengthy process for refugees, and FDPs must often present additional documents to certify the legitimacy of their refugee identification card.

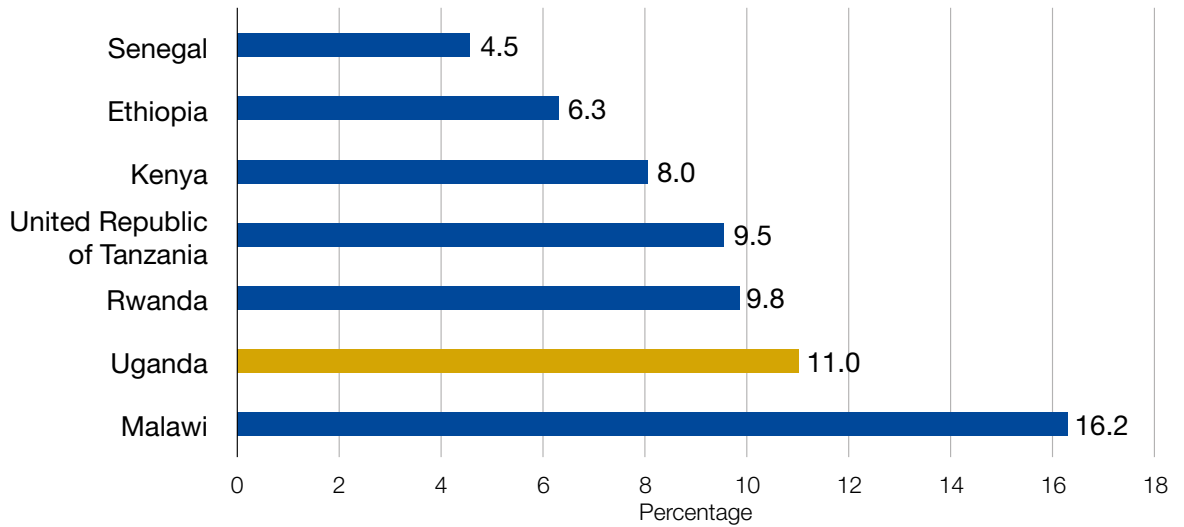
- Agent liquidity. As most FDPs cash out mobile money, agents that serve the Nakivale and Bidi settlements quickly exhaust their cash reserves and FDPs have to wait for two to three days to withdraw all their money.
- Network availability. Connection issues can delay the receipt of funds but are also a tactic used by bank staff – in addition to issues around misspelled names or requests for larger denominations – to elicit bribes from FDPs.

Figure 16. FDPs by country of origin and refugee settlement across Uganda



- At 11 per cent (Q4 2020), the average cost of sending US\$200 to Uganda is the highest after Malawi and higher than any of the other three East African countries (Rwanda, the United Republic of Tanzania and Kenya). It is also marginally higher than the average cost in sub-Saharan Africa of 8.47 per cent (RPW, Q3 2020) and far above the SDG 10.c recommended price.
- The average fee for sending remittances from the United Republic of Tanzania to Uganda is high because a few banks charge exorbitant fees that distort the data.

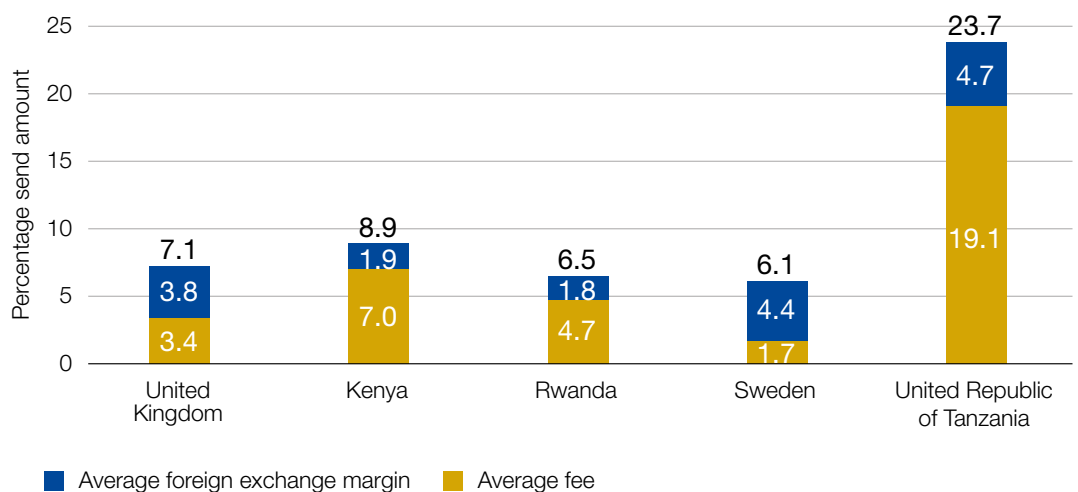
Figure 17. Average total cost to send US\$200 to African countries



Source: RPW (Q4 2020), World Bank.

- The average cost of sending the equivalent of US\$200 from Sweden is 6.1 per cent of the send amount; the cost of sending that sum from Rwanda to Uganda is 6.5 per cent of the send amount.
- It should be noted that average costs can be misleading and may not necessarily reflect the amount people are actually paying to send money home.
- Furthermore, while the equivalent of US\$200 is representative of the average transaction size of remittances from the European Union, the United Kingdom and the United States to Uganda, this is a high price point for intraregional remittances, where stakeholders report that 90 per cent of transactions are under US\$120.

Figure 18. Average total cost of sending US\$200 to Uganda

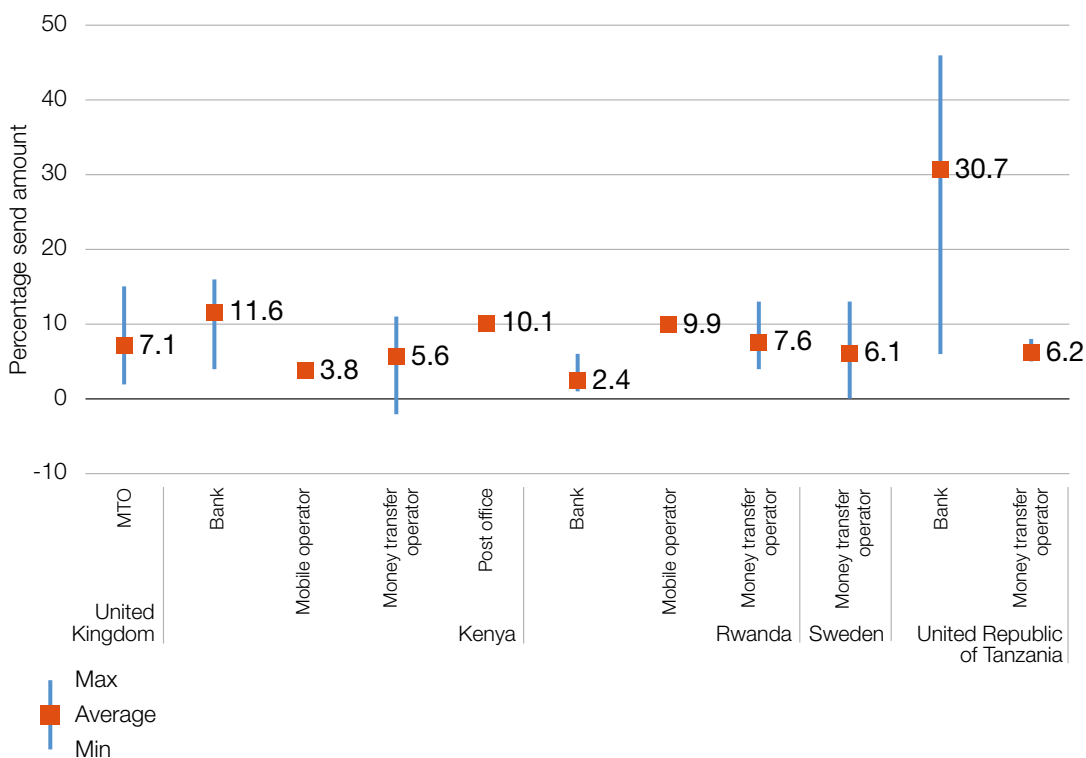


Source: RPW (Q3 2020), World Bank, and mystery shopping.

- Pricing data were collected through mystery shopping of 63 different services from five send countries to Uganda in Q4 2020.
- An analysis of pricing data shows that there are significant variations in pricing across different corridors and types of service providers. The spread in prices between similar services is also relatively large.

- The average cost of sending money (fee + foreign exchange margin) through an MTO is roughly the same across the five corridors (between 5.6 per cent from Kenya to 7.6 per cent of the send amount from Rwanda).
- The average cost of bank-led services is relatively higher for remittances sent from Kenya and the United Republic of Tanzania but is competitively priced for remittances from Rwanda thanks to the low fees charged by KCB and EcoBank.
- Online services are generally competitively priced, and a negative exchange rate was even encountered on the day that mystery shopping on ChipperCash was performed.
- The use of agents is, on average, more expensive across all corridors, at an average cost of around 9 per cent of the send amount. The cost of sending mobile money across the border between Kenya and Rwanda seems to vary significantly.

Figure 19. The average cost of sending US\$200 equivalent to Uganda using different types of RSPs, Q4 2020



- As at August 2020, it was possible to send money to a mobile wallet in Uganda directly from mobile wallets in Kenya, Rwanda, the United Republic of Tanzania and Zambia. From Uganda, it was possible to send money from a mobile wallet to a mobile wallet in Burundi, Kenya, the United Republic of Tanzania, Malawi, Rwanda and Zambia.
- With the data that are currently available, it is not possible to determine the volume of cross-border remittances being sent directly from one mobile wallet to another.
- Operators in the region report average transaction sizes of US\$60–US\$100. The use of the US\$200 price point will therefore distort the results, as prices may be proportionally much higher for smaller transaction amounts.
- The cost of sending money via MTN to Rwanda (Airtel and MTN) is relatively high, at 9.9 per cent of the send amount, whereas the total cost of sending money from Kenya to Uganda is around 4 per cent of the send amount. According to mystery shopping results in Q2 2020, the cost of sending money from Kenya to Uganda was 9.3 per cent of the send amount for remittances equivalent to US\$50 and 8.4 per cent for sending

the equivalent of US\$200. Therefore, Q4 2020 data suggest that total costs declined in that six-month period.

- Cashing-out fees represent additional costs for mobile money transactions. A mystery shopping exercise in Q2 2020 found that an agent was charging an additional cash-out fee of from 2 per cent to 2.3 per cent. Anecdotally, it has also been reported that, in rural areas, agents may also levy an additional cash-out fee for over-the-counter transactions which is often accepted by the recipients at the time but ultimately makes the service more expensive and less desirable.
- The high fees for remittances sent from Rwanda may be a result of a disregard for the cross-border market, as the MNOs focus on the domestic market. Considering the number of Ugandans in Rwanda, traffic on the Rwanda-to-Uganda corridor has not been as high as expected.

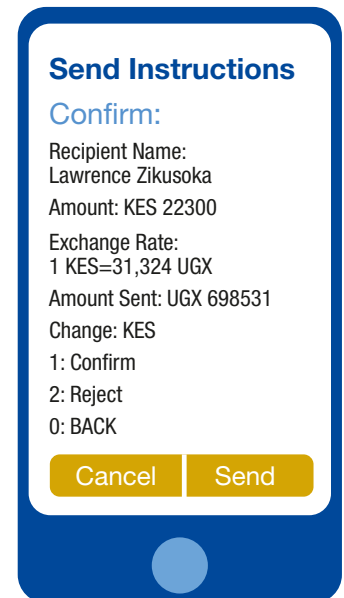
Table 8. Remittance transaction costs through selected RSPs

Rwanda	Kenya	Uganda
MTN to M-Pesa: 5.1 per cent of the send amount with a 3.4 per cent foreign exchange margin.	M-Pesa cross-border services for sending KES 18,000 to Uganda cost 3.7 per cent of the send amount in the cases of MTN and UTL and 4.2 of the send amount in the case of Airtel, where over 3 per cent of that sum is the foreign exchange margin.	MTN to Airtel and MTN to MTN: 9.9 per cent of the send amount for UGX 150,000 (6.6 per cent corresponds to the foreign exchange margin).

Source: RPW (Q4 2020), World Bank and mystery shopping.

The level of cost transparency, especially in the case of remote transactions such as mobile-to-mobile cross-border remittances, is low. Customers are therefore unable to make informed choices based on advance knowledge of all the costs involved.

- Understanding which services are available in the region for cross-border remittances from one mobile wallet to another is not straightforward, and comparing costs is even more difficult.
- There is little transparency in terms of services and costs. The usual practice is to use a local mobile wallet and a recipient telephone number to check prices, and comparing prices across service providers is therefore challenging.
- This is not in line with the Financial Consumer Protection Guidelines. Furthermore, a mystery shopping exercise revealed the fact that additional fees may be levied when an actual transaction is made that are not made known upfront. In that exercise, the recipient received UGX 20 less than stated (December 2020). Also, the amount of the fee is not provided in advance.
- Remittance fees, foreign exchange margins and cash-out fees make comparing and understanding the real cost of using mobile money services challenging for the consumer, and this is likely to be driving the use of informal channels. Cash-out fees in Uganda average 2.1 per cent of the send amount.



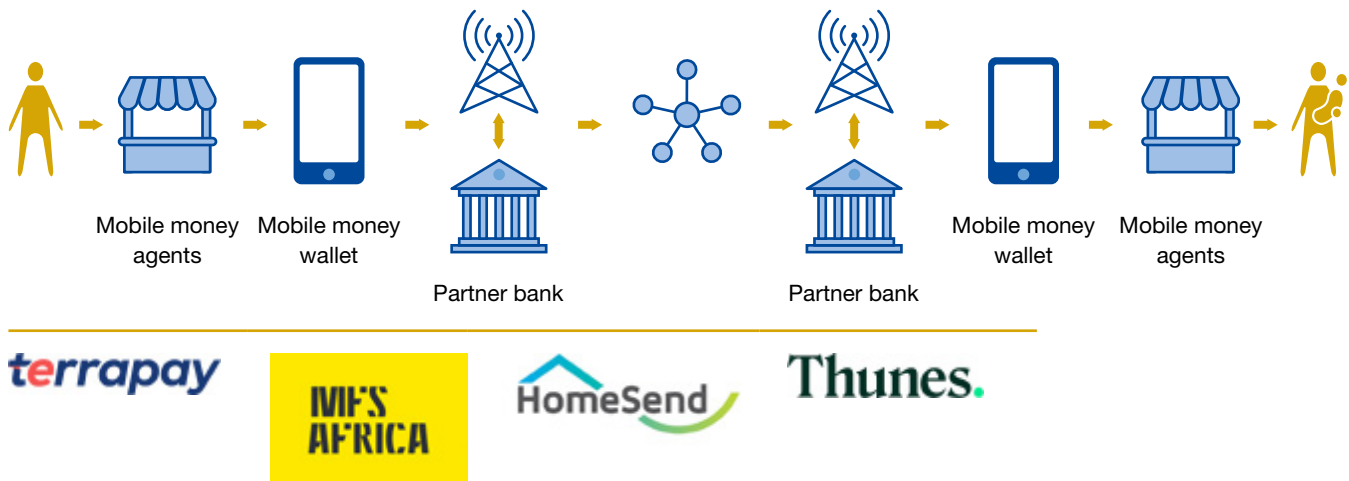
International aggregators

- Play an important role in connecting RSPs to pay-out networks across multiple countries.
- Facilitate API integration across RSPs (MMPs, payment card issuers, banks, MTOs), thus extending their reach and expanding payment options and value-added services. These models typically depend on accounts being prefunded by RSPs.
- Typically charge a fee of approximately US\$0.05 /1.5 per cent or less per transaction.
- Are testing out interesting models for linking international remittances with other financial services and bill payment options.
- Play an important role in intraregional trade, which drives volumes.

Local aggregators

- Niche aggregators headquartered in Uganda are also emerging that are offering remittance services, airtime top-up and bill payment services. They include Paytota and International Airtime Top-Up Ltd. Local aggregators strive to offer more competitive rates than regional and international players.

Figure 20. The mobile money value chain from remittance senders to receivers



Multiple factors contribute to high remittance costs in Uganda; understanding these cost drivers will permit the establishment of suitable measures to reduce costs. The tables in this section outline the different cost contributors by industry and present potential solutions.

Table 9. Cost drivers by industry and proposed solutions to lower fees

Cost driver	About	Cost implication for the RSP	Proposals
Compliance and reporting	RSPs are required to comply with local AML/CFT frameworks. Cenfri (2020) created baseline scenarios on the cost of compliance for RSPs. The failure of RSPs to take a risk-based approach and the absence, thus far, of e-KYC means that compliance costs will remain higher than in other countries for the time being.	High	<ul style="list-style-type: none"> – More effective RSP risk assessment procedures and models will permit more proportionate and cost-effective risk mitigation. – Digitalization of onboarding processes, transactions, document management and operational logistics are key to a broader digital footprint. The planned e-KYC database will assist in reducing KYC and compliance costs. – More effective risk-based supervision will pave the way for more effective risk management by RSPs, more proportionate retail responses, lower correspondent-bank due diligence costs and more competitive correspondent corridors. The introduction of improved supervision technology in the BoU will improve its oversight of the market.
Administration (e.g. annual licensing per branch)	Various costs are associated with licensing and operations, such as renewals and the addition of new outlets. For example, licensed money remittance businesses must pay a security deposit of US\$13,500, a non-refundable application fee of US\$270, have a minimum level of unimpaired paid-up share capital of not less than US\$13,500 and pay annual licence fees of US\$542 per branch. High costs drive some agents to operate illegally without licences.	Moderate	<ul style="list-style-type: none"> – Well-defined selection criteria and licensing by MTO turnover rather than per branch opened would be beneficial. The BoU is considering changing the licensing payments structure so that it is based on turnover as opposed to blanket charges.
Agent commissions	MTOs are paying a fee of between 8 per cent and 20 per cent plus a foreign exchange margin to both sending and receiving agents but pay less than US\$1.5–US\$0.5, depending on the volume, for using mobile wallets. This is fairly standard across the different countries. Due to the oligopolistic situation with MMPs and these operators' large market share in remittance processing, overall remittance prices remain high.	High	<ul style="list-style-type: none"> – Market competition can be fostered by increasing non-traditional access points for the first and third miles of remittance transfers (e.g. agency banking, MNOs, SACCOs, retail chains, etc.)

Cost driver	About	Cost implication for the RSP	Proposals
Partnerships with banks	Bank fees, cash handling fees and additional compliance costs that are passed on by the banks. Providers facing de-risking increase compliance, with significant cost implications. Being on the FATF grey list also results in higher compliance and other costs.	Moderate	<ul style="list-style-type: none"> – Correspondent bank relationships and the need for providers such as MNOs and fintechs to partner with commercial banks adds another layer of costs due to administrative and compliance expenses. Direct licensing can address this situation. Remittance transactions carried out and settled in local currencies would also address this problem to a large extent.
Volatility in exchange rates	Uganda has a history of exchange rate volatility which has led to increased foreign exchange margins as operators factor in this perceived risk (see annex 2 for further details on the exchange rate).	High	<ul style="list-style-type: none"> – Commitments by IMTOs to eliminate foreign exchange spreads and use mid-market exchange rates could address this situation.
Tradability of local currencies	MNOs, MTOs and fintechs face prefunding challenges because they run the risk of being unable to get funds out. Risks are higher for countries with exchange controls.	High	<ul style="list-style-type: none"> – Regional foreign exchange hubs and markets (concept note). – Direct regional clearing through a shared switch system attached to the regional RTGS system. – Digital value bearer instruments in jurisdiction currencies via mobile money and national switches.
Prefunding accounts and float and rebalancing agents	Cross-border remittance businesses require a high level of liquidity. MTOs prefund aggregators and pay-out partners, which ties up capital. Agents also require float liquidity and need to rebalance when it runs out; this requires capital and careful management.	Moderate	<ul style="list-style-type: none"> – Regional foreign exchange hubs and markets.
Integration through aggregator APIs	International aggregators charge a fee of about US\$0.25 per transaction. They also offer foreign exchange rates with a small margin of <1 per cent for mobile money in intra-African corridors mobile money (Thunes) or 1.5 per cent or less per transaction in East Africa (MFS Africa).	Low	<ul style="list-style-type: none"> – There are currently four major aggregators and a number of domestic ones, which increases competition in the market. – Some respondents felt that if interoperability was well structured in Africa, these costs would be avoided.
Lack of competition	Very limited pricing transparency in the market makes it difficult for consumers to compare the price of services (fee + foreign exchange margin). Furthermore, the monopolistic and oligopolistic behaviour of some of the mobile money MMPs may be keeping costs high as a consequence of limited competition.	Moderate	<ul style="list-style-type: none"> – New innovative digital models operating independently of IMTOs and banks are driving costs down but require well-structured regulatory frameworks.
Taxation	Mobile money transactions are taxed in Uganda, and the cost is borne by the user. This increases the cost of remittances processed via M3M/MNOs.	Low	<ul style="list-style-type: none"> – As these levies are applied on all mobile money cash-outs, targeting higher tiers could ease the burden for lower amounts.

PRIME Africa corridor analysis

The PRIME Africa programme activities will be focused on three inbound remittance markets for flows from the European Union and within Africa: Sweden, Kenya and Rwanda.

- **KENYA to UGANDA:** The World Bank's Bilateral Matrix estimates that Kenya is the largest sending market for Uganda, with inflows at US\$423 million in 2018 accounting for 32 per cent of Uganda's total inflows. These data are not consistent with the data reported by the BoU (2018) by region on formal flows, however. Nevertheless, according to the 2019 FinAccess Survey 2019 in Kenya, 24 per cent of households in Kenya sent money to Uganda, making it the most common receiving market for remittances from Kenya. These data do not distinguish between formal and informal flows.
- **RWANDA to UGANDA:** The World Bank estimates that inflows to Uganda from Rwanda totalled US\$125 million in 2018, accounting for 9 per cent of Uganda's total inflows. There are an estimated 96,000 Ugandans residing in Rwanda.
- **SWEDEN to UGANDA:** Most remittances to Uganda from the European Union come from Sweden (an estimated US\$13 million in 2018).

Table 10. Remittances sent by Ugandans abroad

	Ugandan migrant stock by country (UN DESA, 2019)	Remittances received (USD millions) (World Bank Bilateral Remittance Matrix, 2018)
Kenya	309,490	422.8
United Kingdom	82,054	201
South Sudan	149,303 and 857,268 FDPs	165.8
United States	49,354	152.4
Rwanda	96,724	124.8
Canada	14,068	40.0
United Republic of Tanzania	4,355	23.2
South Africa	8,488	14.2
Sweden	5,051	13.1
Australia	4,401	11.2
Germany	2,396	8.3
Democratic Republic of the Congo	6,019	7.5

Corridor analysis: Kenya to Uganda

- Kenya is home to the largest Ugandan diaspora community, numbering over 300,000 migrants. The volume of remittances sent home from Kenya to Uganda is estimated to be between US\$77 million (2017) and US\$442 million (2018). Although there is some uncertainty about the actual numbers, the Kenya corridor is one of the largest intra-African remittance corridors to Uganda. The FinAccess survey in Kenya indicates that 24 per cent of remittances from Kenya are sent to Uganda and that 9 per cent of Kenyan remittances come from Uganda.
- The corridor is well served by a significant number of formal and informal operators, including banks, MTOs, MNOs and the post office. The choice of formal money transfer services in Kenya seems to fall into four quadrants (see below): IMTOs and banks (which are often partnered), mobile money services, fintech and digital services, and the smaller regional MTOs.
- The average cost of sending money via all these operators is 8.9 per cent of the send amount (assuming a send amount of US\$200), which is higher than the regional and global averages. However, the figures are sometimes skewed by the number of banks in the sample because there is such a wide variation in their fees.
 - Mobile to mobile: Cross-border transfers are offered by M-Pesa to both MTN and Airtel in Uganda. In the mystery shopping exercise, the M-Pesa service did not completely disclose its fees ahead of the transaction. Following a reduction from 9 per cent in July 2020, the average cost of 3.8 per cent of the send amount is considered highly competitive. It will be interesting to see whether this price reduction drives an upswing in usage.
 - Some regional banks: UBA's Africash and the EcoBank Rapid Transfer Service also offer competitive services in this corridor. Equity Bank is interested in developing its regional offering further, and Cooperative Bank Kenya is offering CoopRemit in partnership with Thunes.
 - Regional MTOs: These includes the services offered by Dahabshiiil, Flex, Amal Express, Bakaal, Tawakal and others.
- There are also many informal channels for sending money from Kenya to Uganda:
 - Unlicensed M-Pesa agents and individual users in Uganda both commonly facilitate cross-border transfers, and this plays a critical role in driving informal preferences. Ugandans in Kenya build a relationship with an agent in Uganda near their family so that they can send money home. These services are not always cheaper but are often thought to be. The lack of transparency around formal pricing is a contributing factor to this situation.
 - Unlicensed foreign exchange bureaus offer cross-border transfers on a net-off basis with other foreign exchange bureaus or traders abroad.
 - Traders and buses also serve as informal channels.

IMTOs and banks

- At bank branches and with trusted IMTO names.
- Some have accounts and use account-to-account services.

Mobile-to-mobile

- Still relatively in its infancy but becoming better known and gaining traction.
- Pricing is not a significant incentive, but convenience is.

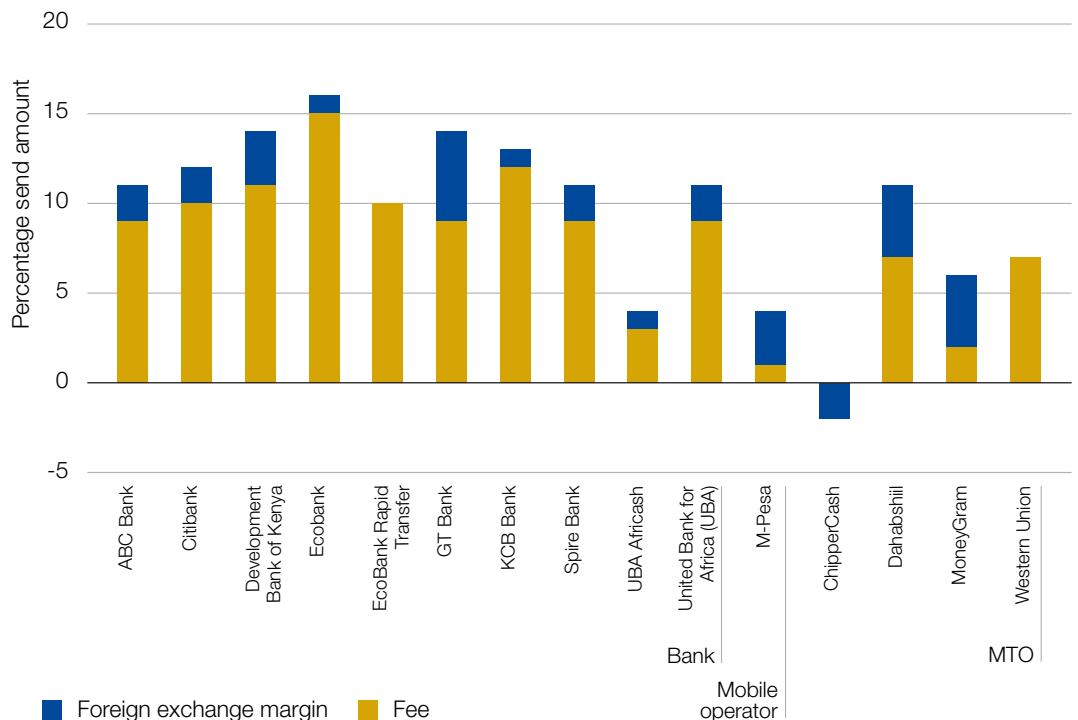
Fintech and digital IMTOs

- Digitalized consumers
- More tech-savvy and price-responsive

Regional MTOs

- Smaller MTOs
- Price-sensitive, with low pricing and narrow margins
- Cash-based agent services
- Tied in with regional trade

Figure 21. The average total cost of sending US\$200 equivalent by service provider from Kenya to Uganda, Q4 2020



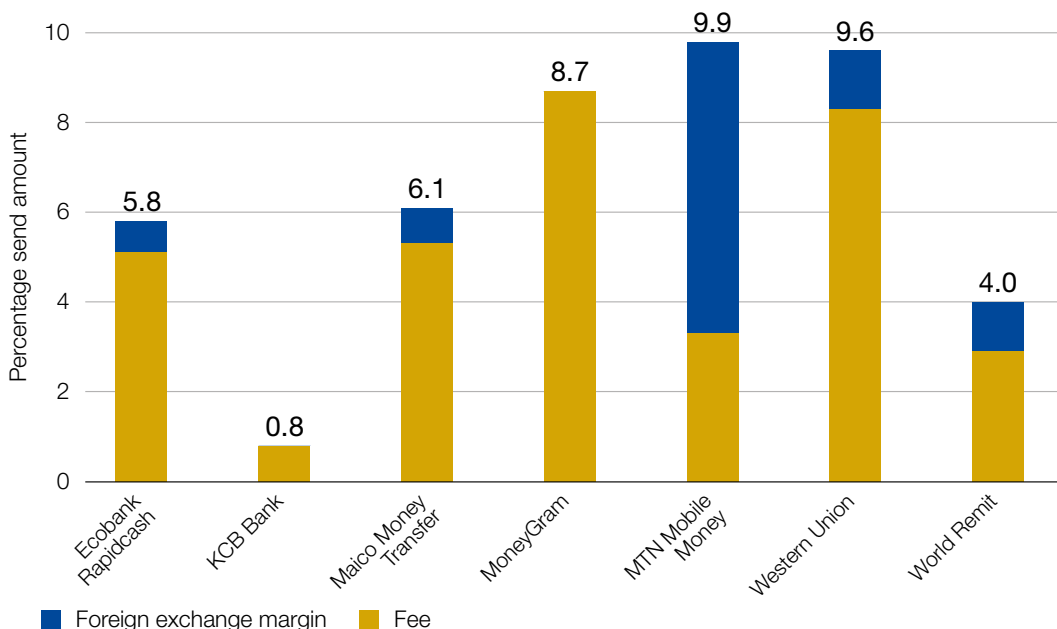
Source: RPW and mystery shopping (Q4 2020).

Corridor analysis: Rwanda to Uganda

- Rwanda is home to the third-largest Ugandan diaspora community, with over 100,000 Ugandans residing there (13 per cent of the Ugandan diaspora). Little information is available 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; negotiations to reopen them are ongoing.
- It is estimated that US\$125 million (World Bank, 2018) is sent in remittances from Rwanda to Uganda, which is 10.1 per cent of total inflows to Uganda.
- The average cost of sending money from Rwanda to Uganda in Q4 2020 was 6.5 per cent of the send amount (when sending the equivalent of US\$200). Prices for sending money from Rwanda are also fairly competitive at 4.8 per cent of the send amount when senders go through agents, 3.8 per cent online and 10.7 per cent through mobile devices (not including cashing-out fees).

- The remittance market is apparently well served by digital and other IMTOs, regional banks and cross-border mobile money services, while fees, compared to other intra-African corridors, are relatively low. Cross-border mobile money from Rwanda to Uganda was first offered by MTN in August 2015. It is apparent from the World Bank data that the uptake and volumes of this service have been lower than expected. The total cost of using MTN to send money to Airtel/MTN in Uganda is 9.9 per cent of the send amount. This figure includes a large foreign exchange margin which may be dampening the uptake of this service. Airtel Tigo is not currently offering cross-border mobile money service. According to the Airtel Rwanda website, money can be sent only to the Democratic Republic of the Congo and the United Republic of Tanzania.
- Anecdotal evidence suggests that informal remittance services, especially bus services and traders, have historically been heavily used between Rwanda and Uganda.
- Foreign exchange bureaus that are not licensed for money transfers but that maintain informal relationships with other foreign exchange bureaus in Uganda tend to net off and then settle their accounts on an occasional basis.

Figure 22. The average total cost of sending US\$200 equivalent by service provider from Rwanda to Uganda, Q4 2020

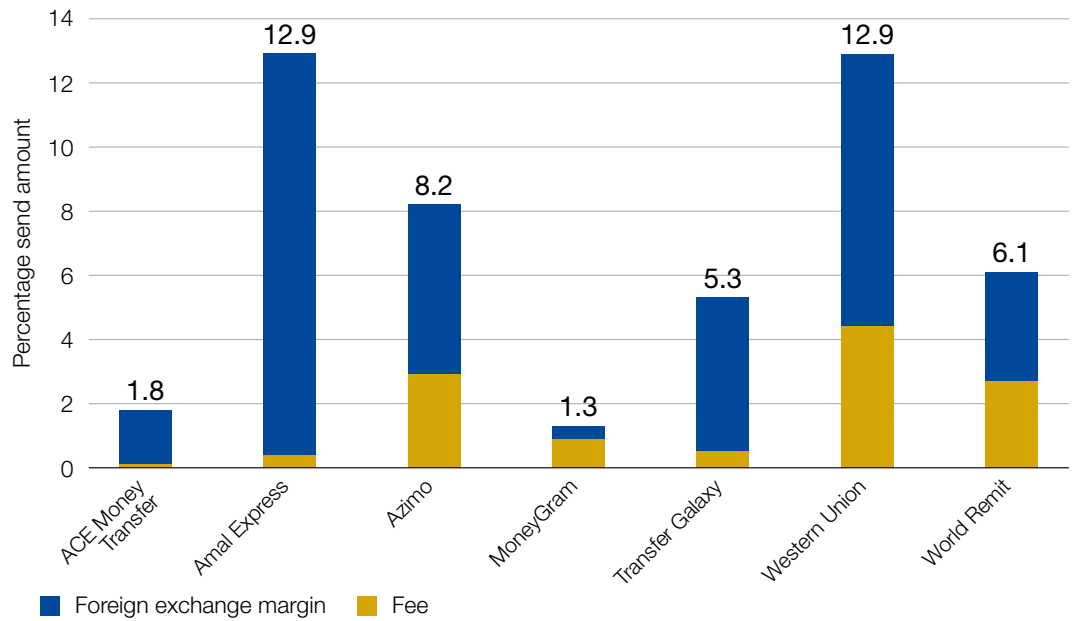


Source: RPW and mystery shopping (Q4 2020).

Corridor analysis: Sweden to Uganda

- Sweden has the largest Ugandan diaspora community in the European Union, although it is quite small (5,000 people in 2018).
- The World Bank estimates that US\$13.1 million was sent from Sweden to Uganda in 2018, which was 1 per cent of the total remittances received in Uganda.
- 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 offering service from Sweden (2019–2020).
- Members of the diaspora appear to be fairly well organized and connected through Facebook and aware of events in Uganda.

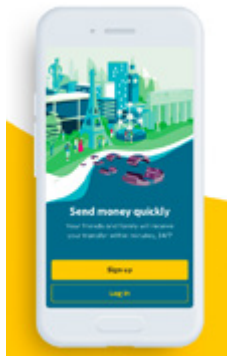
Figure 23. The average total cost of sending US\$200 equivalent by service provider from Sweden to Uganda, Q4 2020



Source: RPW and mystery shopping (Q4 2020).

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, which targets Ugandans in Europe and the United Kingdom who want to send money back home to MTN recipients in Africa with an MTN Mobile Money account.



First mile

Registration: The requirements are a valid mobile number, e-mail address, personal details, identification and PoA. The latter must be issued or certified by the corresponding authorities in the country of residence. The account is verified upon provision of all required documents and is then activated.

Sending: Senders must be resident in the United Kingdom or Europe. In order to send a remittance, they must enter the destination country and the recipient’s mobile number. The transfer can be funded only by a debit or credit card (Visa, Maestro Visa, Visa Debit, Visa Electron, and Mastercard). Transaction notifications are sent via e-mail to the sender.

Destinations: Services reach 22 million mobile wallets and remittances can be sent to Cameroon, the Republic of the Congo, Ghana, Guinea-Conakry, Rwanda, Uganda and Zambia.

Pricing: All transfers cost EUR 4 regardless of the amount sent. The maximum amount that can be sent is EUR 1,000. The foreign exchange rate is set between the mid-market rate and bank rates, and the foreign exchange margin is indicated.

Third mile

Recipients receive an SMS notification when funds are sent to their MTN mobile wallets and can cash out at any agent or maintain the funds in their wallet as an e-value for later use.

PRIORITY POLICY ACTIONS

1. Promote a well-orchestrated effort on the part of government representative offices, regulators, supervisors and institutions to build the Government of Uganda's reputation for compliance with a view to a reduction of de-risking trends and last-resort pricing.
 2. Promote joint efforts on the part of stakeholders to bring down prices, especially around foreign exchange margins and commissions paid on those margins.
 3. Continue the ongoing review of taxation in order to reach a mutually beneficial balance for the government and the people; for example, remittances above a defined threshold could be subject to tax while ensuring that lower-value remittances meant for family upkeep are not unduly taxed.
 4. Promote greater transparency in the market to permit cost comparisons as outlined in the Financial Consumer Protection Guidelines; as part of this effort, the provision of live pricing data should be made mandatory as one of the licensing requirements for all digital services.
 5. Develop more effective RSP risk assessment procedures and models with a view to more proportionate and cost-effective risk mitigation.
 6. In the mid- to long term, provide incentives for FSPs to develop suitable products for cross-border trade, especially with the start-up of ACFTA, of which Uganda is a member. Trade flows routed through remittance channels skew the picture and could be a driver of high costs and stringent KYC. Remittance volumes are likely to decline but will reflect genuine personal transfers.
 7. Support digital service providers in developing business cases that make it possible to pass on gains from remote operations to customers.
 8. Address established irregular informal services such as M-Pesa, unlicensed foreign exchange bureaus and traders carrying out cross-border remittances either in person or virtually through awareness-raising efforts in support of formality in those cases where the entities meet eligibility requirements.
 9. Increase digital financial literacy in rural areas. Good mobile connectivity is required across the country, especially in rural areas and in refugee camps, and mobile agents need to be able to maintain liquidity in order to support the use of mobile money for international remittances.
 10. Promote the implementation of a survey or mapping study to contribute to a better understanding of the profile of Ugandans in Rwanda. Outline the money transfer products/services being offered and used and, more broadly, their access and need for financial services.
-

5. Financial services for remittance users

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, along with emerging innovations and trends.

FSPs in Uganda are increasingly offering products tailored to members of the diaspora, particularly savings and current accounts; use cases are, however, limited.

Table 11. Remittance-linked financial services

Product type and segment focus	FSPs' offerings	Key features	Requirements
Diaspora savings and current accounts (sender-focused)	Centenary, PostBank, Equity Bank, Orient, NCBA, Housing Finance Stanbic, UBA, KCB Uganda, ABC Capital	Interest earnings are between 3 per cent and 5 per cent per annum; remote access through ATMs, points of sale and the internet – Equity Bank offers a foreign exchange account – Housing Finance Uganda offers diaspora mortgage financing	Low: ID, photo, referral by a bank customer Moderate: Centenary requires proof of residence and referral by a bank customer or foreign attorney
Pension and social security funds (sender-focused)	NSSF Diaspora Connect	Web-based access, funds transferred through Visa, Mastercard or American Express, 3 per cent charge, foreign currencies converted to Uganda shillings	Existing NSSF account
Uganda Diaspora Investment Club (sender-focused)	DFCU	Investment opportunities, savings, access to affordable credit, remittances	Standard account opening and club membership
Bill payment (sender/recipient-focused)	Western Union, MoneyGram	Cross-border online bill payments for registered organizations (limited for Africa and volumes are low)	Same as money transfer
Life and health insurance (recipient- focused)	Various	Health insurance products linked to remittance usage for key EAC corridors	Same as money transfer

Emerging innovations in remittances

There is consensus on the demand for targeted remittance-linked financial solutions, but good product fits and sustainable business models are lacking.

- Remittance-linked products require the use of bank accounts or mobile money to function effectively; cash-based transfers do not support them.
- Diaspora accounts do not offer attractive rates for cross-border transfers, but diaspora account holders can still use other providers for remittances. Only Equity offers a foreign exchange account and international transfers.
- Beyond diaspora accounts, there are opportunities to offer pensions, life insurance and health insurance for the sender and his/her family and agricultural insurance for beneficiaries by leveraging solutions already existing in the market.

- aYo Uganda provides an MTN-linked hospital and life micro-insurance solution; its micro-insurance products include Send with Care and Recharge with Care.
- Mazima Retirement Plan (MRP) offers a retirement savings plan that is especially suited to people who are either self-employed or working in the informal sector. It mainly targets persons in their thirties and early forties. MRP invests in treasury bills and bonds to fund interest on savings.
- WeFarm Limited is 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 is an online shop for digital financial products where customers can compare, apply for and purchase loans, insurance and other financial products.
- The 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 is being pursued in order to support people in need; grocery vouchers have been trialled in southern Africa.
- Fintechs such as Eversend provide apps that include a suite of financial services, including payments, domestic transfers and remittances.
- Increasingly, partnerships between FSPs and MTOs enhance remittance accessibility, especially for FDPs. For example, KCB has partnered with Airtel, Dahabshiil has partnered with both MTN and Airtel, and WorldRemit, Western Union and MoneyGram have partnered with MTN. The ability to send and receive remittances on a mobile phone has, in particular, improved access, provided greater convenience and afforded cost savings for people who used to have to travel long distances to reach an MTO or bank branch.

PRIORITY POLICY ACTIONS

1. FSPs could expand opportunities for developing products tailored to members of the diaspora:
 - Savings and credit accounts to facilitate remittances for family support in the home country and other recurrent expenses can be designed to operate on the basis of standing instructions to be executed weekly, monthly, bimonthly, etc. and to provide suitable incentives for senders.
 - Pensions, life insurance and health insurance for members of the diaspora and/or their family members back home; crowdfunding to support persons in need in the country of origin; grocery vouchers.
 2. FSPs can develop use cases based on ways in which remittances are frequently used and facilitate direct payments to insurance providers, construction companies, schools, etc. While these products already exist in one form or another, their business models are not compelling.
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6. Stakeholders and coordination

The structure of remittance governance in Uganda

- Under the Bank of Uganda Act of 2000, the BoU is responsible for formulating and implementing monetary policy, ensuring financial stability, and regulating and supervising financial institutions (commercial banks, credit institutions, MDIs, foreign exchange bureaus and credit reference bureaus).
- Departments of the BoU tasked with oversight of cross-border payments include:
 - The Banking Supervision Department issues licences to eligible remittance service providers (IMTOs, MTOs, banks, foreign exchange bureaus, fintechs);
 - The National Payments System oversees the implementation of payment systems and the development of laws and guidelines;
 - The Statistics Department disseminates reports such as the Annual BoU Statistical Abstract, remittances reports, informal cross-border trade reports and statistical bulletin reports. The department also contributes to the debt sustainability analysis and risk analysis reports which are published by the Ministry of Finance, Planning and Economic Development.

As the appointed secretariat, the BoU is also responsible for coordinating the implementation of the National Financial Inclusion Strategy 2017–2022 in partnership with the Ministry of Finance, Planning and Economic Development, the Alliance for Financial Inclusion and FSD Uganda.

- **The Financial Intelligence Authority** is Uganda's national centre for receiving suspicious transactions reports (STRs), large cash transactions reports and reports on cross-border movements of cash and bearer negotiable instruments. It was established by the Anti-Money-Laundering Act of 2013 and is mandated to combat money laundering and to counter terrorism financing and proliferation (FIA, 2020a).
- **The Uganda Bankers Association** is an umbrella organization for licensed commercial banks supervised by the BoU. It has also opened up membership to eight non-bank supervised financial institutions (UBA, 2021).

Other relevant supporting entities:

- **Ministry of Finance, Planning and Economic Development:** The BoU informs the Ministry of capital expenditures and currency positions. The COVID-19 pandemic relief funds were approved by the ministry.
- **Uganda Communications Commission:** Operating as the communications sector (including telecom providers and the postal service) regulatory agency, the commission's mandate also covers the Rural Communications Development Fund.
- **The East and Southern Africa Anti-Money-Laundering Group (ESAAMLG):** Uganda is a member of this 18-member group, which works to combat money laundering by implementing the FATF Recommendations (FATF, 2021). In December 2020, Uganda assumed the presidency of ESAAMLG (FIA, 2020b).

A number of stakeholders are actively involved in Uganda's financial services ecosystem; however, greater attention could be directed towards thematic areas relating to remittance cost reduction and towards serving FDPs.

Table 12. Stakeholders in the Ugandan remittance ecosystem

Stakeholder	Thematic areas of focus
Uganda Bankers Association (UBA)	This highly active 35-member umbrella body for licensed commercial banks advises and builds Uganda's banking sector through 12 member committees. Partnerships: BoU, Agency Banking Association, UFRA
Uganda Forex and Remittance Association (UFRA)	UFRA focuses on 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 Programme	Launched in 2018, this programme supports policy harmonization and regional cooperation, capacity-building, protection and awareness raising. All foreign exchange bureaus and MTOs licensed and registered by BoU are members. Partnerships: The European Union, the United Nations Office on Drugs and Crime (UNODC), the International Organization for Migration (IOM) and the British Council
IFAD	Financing Facility for Remittances (FFR): Implements the PRIME Africa initiative, which is aimed at maximizing the impact of remittances for millions of families in Africa and helping to foster local economic opportunities in the migrants' countries of origin. Uganda is one of its focus countries. Global Forum on Remittances, Investment and Development (GFRID): The Forum works to facilitate the creation of partnerships and the exchange of best practices in maximizing the impact of remittances to the benefit of migrants' communities of origin. The most recent GFRD was held virtually in June 2021. IFAD has partnered with PostBank and Posta Uganda to leverage postal service touch points and products as a means of advancing financial inclusion. Partnerships: PostBank and Posta Uganda
FSD Uganda	Promoting greater access to financial services in Uganda by conducting research and supporting innovation and regulatory processes that shape the financial sector. Partnerships: BoU, UBA
UNCDF Uganda	Providing support to the Government of Uganda for the creation of a functional planning and financial system for sustainable and inclusive local development. Partnerships: Conducted a mapping study in partnership with UNHCR
GSMA	Mobile technology and studies on regulation, licensing and the impact of taxation on mobile money services and pricing. Partnerships: Mojaloop to pilot One Level network interoperability
FSD Africa	Supporting FSPs to supply refugees and asylum seekers with suitable financial service solutions. Partnerships: Cenfri
Cenfri	Generating pan-African cross-border remittance research and insights. Partnerships: IFAD, FSD Africa
UNHCR	Partnering with UNCDF to conduct a study on FDP usage of financial services. Partnerships: UNCDF

- Uganda has 16 active innovation hubs. These include the 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 and subject matter expertise on technology trends, knowledge and strategic innovation management.

PRIORITY POLICY ACTIONS

1. Include remittances in the FinScope study to supplement efforts by the BoU and provide a body of knowledge. In 2013, FinScope covered domestic and cross-border remittances but this was not the case in 2018.
2. Provide coordination for the high level of remittance activity in Uganda, liaise with the BoU, UBA and Remittance Association to form a working committee that brings together players, addresses remittance gaps and facilitates the identification of market opportunities.

7. Recommendations

Migration and remittances

- Review the BoU's remittance data collection methodology and assess alternatives for improving data collection so that inflow and outflow data are based on real data rather than on extrapolations of annual survey data. Assess the desirability of a common data portal that collects remittance data from the financial institutions that process the transactions.
- Having the BoU publish remittance outflow data, data by corridor and market share data on operators would also provide insights.
- The annual Inward Personal Transfers Survey is a commendable tool that provides useful information for stakeholders seeking to understand remittance recipient behaviour and sender profiles. The scope of this impact could be extended by including:
 - More detailed analyses of how remittance behaviours and preferences change from one sending region (and the largest corridors) to another.
 - Review Uganda's Inward Personal Transfer Survey against the recent remittance survey conducted in Nigeria by the Institute for African Remittances (AIR) as a means of working towards developing a template that could contribute to some degree of standardization in remittance surveys across the continent.
 - Promote a greater focus on informal remittances through qualitative surveys and analyses of anomalies in trade statistics.
 - Revisit the sampling frame and ensure that an urban bias is maintained with regard to remittances.
- Address the issue of access for the BoU and PSPs to ad hoc country data and insights and provide secure and controlled access to interfaces (RemitScope and others) where they can directly obtain, or make requests for non-confidential data and insights.
- In 2020, the BoU published an initial analysis of the impact of the COVID-19 pandemic on the economy and on financial behaviour. It is recommended that an analysis be carried out on the impact of the pandemic on remittances and changes in remittance-user behaviour and traits. Such an analysis could usefully inform future short- to medium-run product and channel development efforts.

Financial environment

- **Interoperability:** Have the BoU look at improving interoperability across the different payment channels and institutions in Uganda to provide a less expensive and more seamless ecosystem. Explore different options and methods (e.g. a common ISO digital value-bearing instrument).
- **Regional retail payment platform:** Have the BoU review the existing EAPS business model to see whether it has the capacity to achieve the scale required to evolve its functionality into a regional retail payment system. This would require direct participation by institutions regionally in hard currency operations. 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 its impact on the market, including in terms of remittances and remittance pricing, through stakeholder consultations, potentially in partnership with the DigiTax programme of the International Centre for Tax and Development.
- **Biometric identification and national identification numbers (NIN):** Continue to roll out NINs and the issuance of NICs. Have NIRA improve efficiencies in turnaround times for card issuance and address challenges relating to NIC replacements.
- **e-KYC:** Consider extending access to KYC data (with NIRA providing authentication), which is in progress for BoU-licensed banks, to 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 turnaround times for FDP 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, have ABC assess the factors contributing to the declining number and activity rates of agency banking providers at a time when the number of MMPs is increasing and explore opportunities for improving liquidity management.
- **Financial inclusion strategy:** International remittances should be explicitly incorporated into the National Financial Inclusion Strategy. International remittance senders and recipients have their own set of needs in terms of consumer protection, access, financial products, financial services and financial education. International remittances can be used as a conduit for driving and deepening financial inclusion.
- **Financial education:** There is a need for stakeholders, especially regulatory authorities and financial service providers, to undertake financial literacy activities aimed at popularizing the safe use of digital financial services and digital remittance services. This includes financial education initiatives specifically targeting prospective migrants, migrants, remittance beneficiaries and returnees.

Regulatory environment

- **Data:** The BoU only publishes the list of Class B licensees. The lists of all licensees should be published in order to bring more transparency to the remittances market.
- **New National Payments Act**
 - Steps should be taken to ensure that the revised guidelines do not stifle innovation by imposing excessively high capital requirements, especially if these requirements are to be set per licence category.
 - The National Payments System could move towards closer alignment with the Bank for International Settlement's (BIS) Principles for Financial Market Infrastructures (PFMI) with regard to the inclusion of mobile money 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**

- It should be made clear in the guidelines and regulations whether IMTOs operating in Uganda have to get a Class A licence if they are partnering with licensed entities.
- The remittance regulations should be reviewed to ensure that Tier 4 licence holders, including SACCOs and MFIs that meet certain criteria, can cash in/cash out remittances.
- Waiting times for licensing are long, and this hinders competition in the market.
- Licensing fees are particularly high, especially because they are charged per branch, and this may curb network expansion. The BoU suggests a shift to licensing fees based on annual turnover.

Identification and CDD

- FIA should pilot a change around PoA requirements, given that FATF has clarified that PoA is not a requirement.
- Laws and regulations for KYC practices do not explicitly set out the requirements for onboarding FDPs, and this creates both a barrier and a lack of clarity among FDPs and service providers. Beyond the alien card, the BoU should issue guidelines on KYC requirements for non-holders of NINs whose identification cannot be authenticated. This would standardize access to financial services for persons such as FDPs. The FATF guidance on digital identity states that digital methods can entail a lower risk, and the FATF policy submissions under consideration are that face-to-face onboarding or verification can entail a higher risk than digital methods and that remote onboarding should be the norm.

Remittance market structure: inbound and outbound

- Promote a well-orchestrated effort on the part of government representative offices, regulators, supervisors and institutions to build the Ugandan Government's reputation for compliance with a view to a reduction of de-risking trends and last-resort pricing.
- Promote joint efforts on the part of stakeholders to bring down prices, especially around foreign exchange margins and commissions paid on those margins.
- Continue the ongoing review of taxation in order to reach a mutually beneficial balance for the government and the people; for example, remittances above a defined threshold could be subject to tax while ensuring that lower-value remittances meant for family upkeep are not unduly taxed.
- Promote greater transparency in the market to permit cost comparisons as outlined in the Financial Consumer Protection Guidelines; as part of this effort, the provision of live pricing data should be made mandatory as one of the licensing requirements for all digital services.
- Develop more effective RSP risk assessment procedures and models with a view to more proportionate and cost-effective risk mitigation.
- In the mid- to long term, provide incentives for FSPs to develop suitable products for cross-border trade, especially with the advent of the ACFTA, of which Uganda is a member. Trade flows routed through remittance channels skew the picture and could be a driver of high costs and stringent KYC. Remittance volumes are likely to decline but will reflect genuine personal transfers.
- Support digital service providers in developing business cases that make it possible to pass on gains from remote operations to customers.

- Address established irregular informal services such as M-Pesa, unlicensed foreign exchange bureaus and traders carrying out cross-border remittances either in person or virtually through awareness-raising efforts in support of formality in those cases where the entities meet eligibility requirements.
- Increase digital financial literacy in rural areas. Good mobile connectivity is required across the country, especially in rural areas and in refugee camps, and mobile agents need to be able to maintain liquidity in order to support the use of mobile money for international remittances.
- Promote the implementation of a survey or mapping study to contribute to a better understanding of the profile of Ugandans in Rwanda and outline the money transfer products/services being offered and used and, more broadly, their access and need for financial services.

Financial services for remittance users

FSPs could expand opportunities for developing products tailored to members of the diaspora:

- Savings and credit accounts to facilitate remittances for family support in the home country and other recurrent expenses can be designed to operate on the basis of standing instructions to be executed weekly, monthly, bimonthly, etc. and to provide suitable incentives for senders.
- Pensions, life insurance and health insurance for members of the diaspora and/or their family members back home; crowdfunding to support persons in need in the country of origin; grocery vouchers.

FSPs can develop use cases based on ways in which remittances are frequently used and facilitate direct payments to insurance providers, construction companies, schools, etc. While these products already exist in one form or another, their business models are not compelling.

Stakeholders and coordination

- Include remittances in the FinScope study to supplement efforts by the BoU and provide a body of knowledge. In 2013, FinScope covered domestic and cross-border remittances but this was not the case in 2018.
- Provide coordination for the high level of remittance activity in Uganda, liaise with the BoU, UBA and Remittance Association to form a working committee that brings together players, addresses remittance gaps and facilitates the identification of market opportunities.

ANNEX 1

Interoperable shared agency banking network model

- **The BoU published agency banking regulations in 2017.** These regulations were considered to be late in coming, given that other countries were already offering established agency banking services by then. Only Tier 1 banks can offer agency banking services; Tier 3 MFIs are not allowed to do so.
- In 2018, the Uganda Bankers Association (UBA) pioneered the launch of a shared agency banking network and formed the Agent Banking Company (ABC), which is jointly owned by UBA and Eclectics International, a technology service provider. ABC provides agent network management services. The system is interoperable and permits member banks to use a central platform, one prefunded account and shared network management services through ABC (Agent 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 ABC; some banks have their own agents.
- This network’s benefits are:
 - It is convenient for customers, since they can be served in close proximity to their homes, businesses or places of work without having to find their “own” agent;
 - Agents work with one prefunded float account, terminal and agent management toolkit earn commissions from multiple providers;
 - Banks are able to offer a branchless banking option cost effectively and to benefit from agent network management services through ABC, which has a good understanding of the agent network.
- Agents can carry out deposits, withdrawals, utility bill payments, first-level account openings for member banks and balance enquiries and can provide mini-statements and remit school fee payments (MSC, 2020). According to the BoU, agents are also

permitted to cash in/cash out, whereas others are only permitted to perform cash-in functions. This also applies to international remittance transactions. Agents are required to have a brick-and-mortar location.

- The number of agents is declining and inactivity rates are high. In September 2019, the platform had 9,477 agents, which amounted to a 21 per cent year-on-year reduction, and, at 51 per cent, the number of inactive agents is comparatively high. While the latter could be attributed to adverse effects of the COVID-19 pandemic, which have been particularly felt by micro-, small and medium-sized enterprises, there is a need for ABC to determine whether there are any underlying factors, such as low agent profitability. Gaining an understanding of such factors would be especially useful because similar models are planned for other developing-country markets.

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

Table 13. Shared agency banking status

Member banks	18
Total agents	7,479
Active agents	3,832 (51%)
Average monthly transaction value	US\$600M

Source: Agency Banking Company (September 2020).

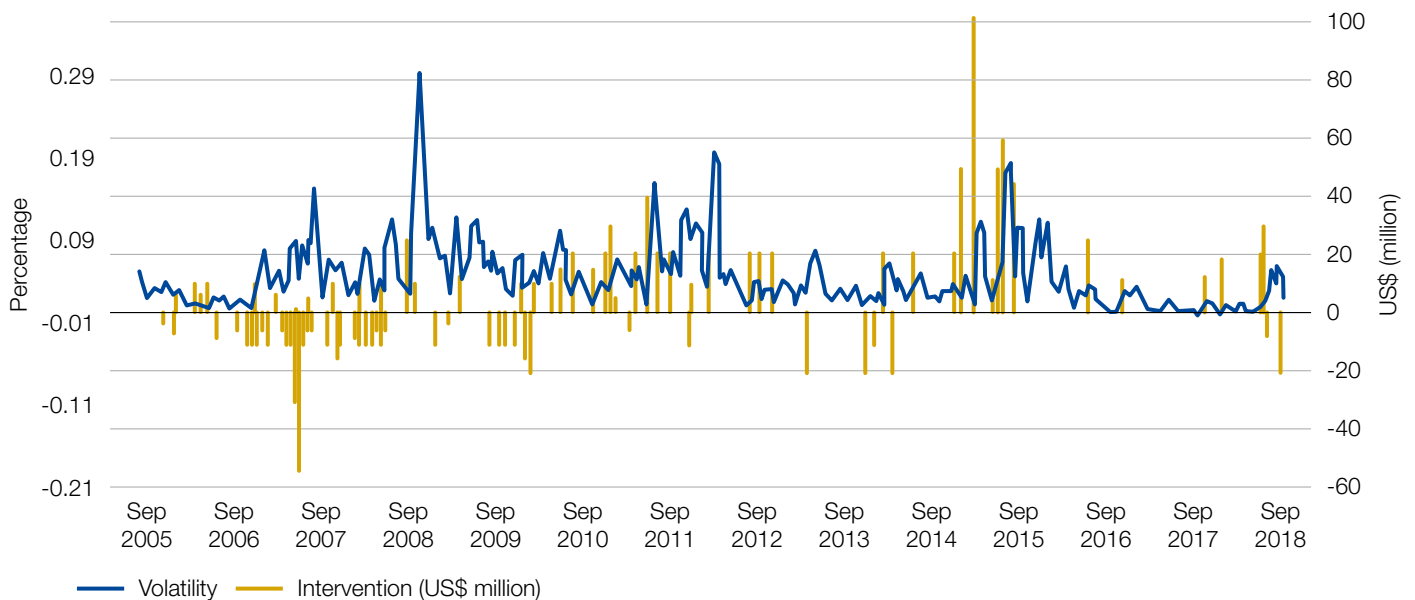


ANNEX 2

Uganda has a history of exchange rate volatility; while there has been increased stability over the last few years, the higher foreign exchange margins that were introduced to cushion this volatility still appear to be in place for some providers.

- Uganda has a history of exchange rate volatility. Its 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 the 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).
- The historical exchange rate volatility of the Uganda shilling is not excessive when compared to the currencies of peer countries; however, there have been a few incidents of excessive volatility that have been attributed to structural market deficiencies, segmentation driven by the limited number of active market players and a smaller volume of transactions skewed towards spot markets (IMF, 2018).
- It is likely that some cross-border remittance pricing models still factor this in when determining foreign exchange margins or have not changed them to reflect the current position; significantly large foreign exchange margins drive up the overall cost of sending remittances to Uganda.

Figure 24. Currency volatility indicators



Source: BoU (2019).

ANNEX 3

Profile of cross-border remittance providers and channels in Uganda

International money transfer operators

- IMTOs can obtain a Class A licence in Uganda or partner with licensed entities such as banks, microfinance deposit-taking institutions or local money transfer operators that serve as agents. Most IMTOs do not have a physical presence in Uganda.
- Agents earn commissions on fees and foreign exchange margins ranging between 8 per cent and 20 per cent of the total fees payable per transaction on a next-day net settlement basis. The pricing structures are banded.
- Senders and recipients do not have to hold accounts with any of the agents. IMTOs now include varying levels of digital (online, card and mobile money) channels for both sending and receiving.

Banks and MDIs

- Commercial banks and MDIs are governed by the Banking Act and do not require additional licensing to conduct inbound or outbound cross-border remittances.
- Ecobank (Rapid Transfer) and UBA (Afrimoney/Africash) are two banks in Uganda offering their 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 and fintech

- Digital MTOs use cashless channels to facilitate the sending and receiving of instant money transfers across borders. Online, mobile money, mobile app, card and account-based channels are available.
- Licensing: In Uganda, digital MTOs can be licensed in any of the established 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 are often formed by banks for the purpose of licensing MTOs, by remittance aggregators for transaction processing and by MTO agents for cashing out and sending remittances to Uganda.

Regional and local MTOs

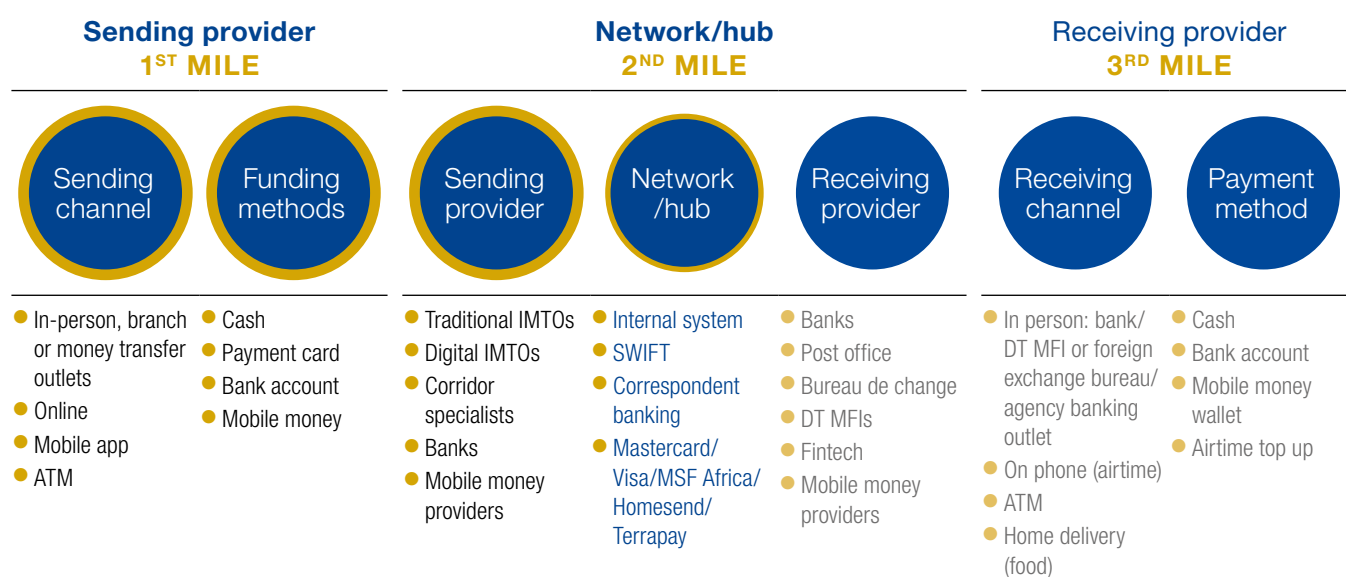
- MTOs are mainly non-bank providers licensed by the BoU directly for cross-border remittance services. They either offer their own remittance solutions or partner with IMTOs as agents.
- MTOs typically operate a brick-and-mortar model and may have several branches or service points. Foreign exchange bureaus with branches also operate under Class C licences.
- Posta Uganda is the sole provider in this category; it does not offer financial services but is qualified for this licence due its extensive network of branches nationwide.

Table 14. Profile of cross-border remittance providers and channels in Uganda

International money transfer operators (IMTOs)	Banks and MDIs	Digital MTOs and fintech	Regional and local MTOs
<ul style="list-style-type: none"> International MTOs can obtain a Class A licence in Uganda or partner with a licensed entity such as banks, MDIs and local MTOs as agents. Most IMTOs do not have a physical presence in Uganda. Agents earn commissions on fees and foreign exchange margins ranging from 8–20% of total fees payable per transaction on a next day net settlement basis. The pricing structures are banded. Senders and receivers do not have to hold accounts with any of the agents. IMTOs now include varying levels of digital channels – online, card and mobile money – for both sending and receiving. 	<ul style="list-style-type: none"> 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 their 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> MTOs are mainly non-bank providers licensed by BoU directly for cross-border remittance services. They either offer their own remittance solutions or partner with IMTOs as agents. MTOs typically operate a brick and mortar model and may have several branches or service points. Foreign exchange 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 is qualified for this licence due its extensive network of branches countrywide.
			

The formal remittances value chain involves sending providers and receiving providers with different options for processing the transaction.

Figure 25. Remittance service providers in Uganda



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About the authors



International Fund for Agricultural Development (IFAD)

IFAD is a specialized agency of the United Nations and an international financial institution, with the mandate to invest in rural people to eradicate poverty in low- and middle-income countries.



Financing Facility for Remittances (FFR)

IFAD's US\$65 million multi-donor Financing Facility for Remittances aims at maximizing the impact of remittances on development and promoting diaspora engagement in migrants' countries of origin.

For more information, visit: www.ifad.org | www.ifad.org/ffr | www.RemitSCOPE.org



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Headquartered in central London with a regional office in Sydney, DMAG is a leading payments consultancy engaged by both the public and private sector to deliver projects around the world. Since the company was founded in 2007, it has grown to 20 full-time staff, with a global network of research and support staff of a further 60 people. DMAG's core competencies include:

- Remittances and payment systems
- Financial inclusion and access
- Diaspora investment and diaspora related affairs

For more information, visit: www.developingmarkets.com

About the initiative



Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa)

PRIME Africa is a EUR 15 million initiative co-financed by the European Union and implemented by IFAD's FFR, aimed at improving the management of remittances and their use for development impact in selected African countries.






For more information, visit: www.ifad.org/prime-africa

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