Window to The Unbanked: The Potential of Mobile Money as a Means of Saving in Uganda

Allison Ryder

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WINDOW TO THE UNBANKED
THE POTENTIAL OF MOBILE
MONEY AS A MEANS OF SAVING IN
UGANDA

SCHOOL FOR INTERNATIONAL
TRAINING: UGANDA DEVELOPMENT
STUDIES PROGRAM, SPRING 2014

ACADEMIC DIRECTOR: CHARLOTTE
MAFUMBO

BANK OF UGANDA

BY ALLISON RYDER
ADvised by MICHAEL ROTHE
I would like to dedicate this study to both the economically vulnerable people in the rural communities of Uganda and to those who do not have access to formal financial systems. I hope this study will provide a new outlook on the current savings culture in the rural areas and the platform mobile money serves a means of saving and improving the lives of the poor.
ACKNOWLEDGMENTS

I would like to thank the Bank of Uganda, specifically the Financial Markets Division for allowing me to participate in a month long internship in their Department. Thank you Godfrey Yiga Massaja, Stephen Mulema, Daphine, Evace, Sarah and to all of those not mentioned here. Thank you for all of your wisdom, assistance and continuous support.

In addition, I would like to thank Michael Rothe, of GIZ Uganda¹, who served as my advisor throughout this study and who never failed to check in on me. You are a true mentor and I am grateful for your time and continual devotion to my work.

Lastly, I would like to thank Nicholas Ocen, his family, and the community of Laroo for assisting me with my field work and for welcoming me into their home.

¹ The Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) is a German development agency, which implements projects on behalf of the German Ministry for Economic Cooperation and Development
ABSTRACT

The meaning of poverty is more than just merely the shortage of money. It is the lack of access to the instruments and means through which the poor could improve their lives. Many people lack appropriate means to manage their finances, which limits their economic potential and renders them vulnerable to exogenous shocks. Increasing financial inclusion to those without access contributes to poverty reduction by providing people with means to manage their finances. This study was conducted through a month long internship at the Bank of Uganda following with a short trip to Gulu, northern Uganda. The objective of this study is to examine the opportunity mobile money presents as a platform for saving. To lay the foundation for this analysis, the transformative power of savings as well as the current shortcomings of formal savings mechanisms will be discussed.

The methodology of this study consisted of a compiling of expert (including Bank of Uganda official as well as private sector players) and informal interviews, participation in a senior-level expert workshop, focus group discussions with members of rural communities
in Northern Uganda, and the distribution of a questionnaire to those communities. Each research method contributed to the information collected and provided room for analysis on each topic of the study. The methods were chosen for specific reasons, and although there were obstacles along the way, the varieties of methods used were able to fill in the gaps or misunderstandings throughout the others. The data was analyzed through a serious of narrative, documentary, and participatory analysis.

The findings of this study prove that mobile money serves as a potential platform for a savings product. In order to appeal to the rural community, the greater regulation must be implemented in addition to the removal of withdrawal fees, greater transparency, and wider access to mobile money agents.

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ABBREVIATIONS
AFI - Alliance for Financial Inclusion
Airtel - Air Telecommunications
ATM - Automated Teller Machine
BOU - Bank of Uganda
CGAP - Consultive Group to Assist the Poor
FIP - Financial Inclusion Project
GDP - Gross Domestic Product
GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit
IFC - International Finance Corporation
MDI - Micro Deposit Taking Institution
MFI - Microfinance Institutions
MNO - Mobile Network Operator
MTN - Mobile Telecommunications Network
SACCO - Savings and Credit Cooperatives
UGX - Uganda Shilling
USD - United States Dollar
VSLA - Village Savings and Loans Associations
The meaning of poverty is more than just merely the shortage of money. It is the lack of access to the instruments and means through which the poor could improve their lives. Robert Chambers, an awarded scholar and development practitioner, highlights the necessity for a bottom-up approach to understanding the definition of poverty. He stresses the need for the people themselves to define the real meaning of poverty rather than listening to scholars to tell the powerless their own status. Whether poor or not, however, billions of people across the world lack the proper access to appropriate financial services. According to the World Bank’s Global Financial Inclusion Database, approximately 2.5 billion people do not have access to financial institutions (Beck & Maimbo, 2013). In many developing countries, more than half of households lack a financial account with a financial institution (Donovan, 2012, p. 2). In Uganda, only 34% of the poor population lives within a 5 kilometer radius to a financial access point (Penicaud & Katakam, 2013). This exclusion from the formal financial system serves as one of the main barriers to a world free of poverty. One of the major reasons for low access to formal financial services is the high transaction costs inherent in the provision of financial services to low income individuals. The World Bank estimates the cost of a traditional ‘brick and mortar’ branch to be USD 200,000, worldwide. As a result, the expansion of the branch network into rural areas and the provision of financial services for low value transactions often do not present a viable business proposition. In addition, the majority of the poor population lacks the ability to track financial records and hence is not attractive to the banks. Furthermore, formal financial
institutions in Uganda are centered in the urban areas, leaving large segments of the rural population without access.

This study seeks to analyze the potential “mobile money” presents as a platform for saving. To lay the foundation for this analysis, I will, in the first section of this study, identify the importance of savings and the transformative capability saving has on the poor. To shed light on the specific context in Uganda, I will, in the second section, examine the shortcomings with the offer of formal savings products for poorer Ugandans, especially in the rural areas. The third section will then discuss the opportunity mobile money presents as a platform for savings products and includes the current ways Ugandans are using mobile money as a means for saving. The final section consolidates the policy lessons and guidelines to date, asking what types of regulatory environments have led to the growth of mobile money and provides recommendations with regards to saving money in Uganda. It then highlights new questions emerging as well as new opportunities for greater economic growth and development. The conclusion returns to the theme of how best to harness the potential for using mobile money as a means of saving and financial inclusion.

BACKGROUND

According to the FinScope Report Findings in Uganda, one in every five adults, about 8.3% of total population had a formal account of some nature in formal banks or non-banking formal institutions in 2013. The barriers that limit the access to these institutions consist of income/employment related reasoning, the high fees associated with the institutions, with the estimated cost of a traditional ‘brick and mortar’ branch to be
USD 200,000, and the lack of financial literacy knowledge, and the supply of and access to banks. On the demand side, the barriers that limit the access to these institutions consist of income/employment related reasoning, and the lack of financial literacy knowledge. A new phenomenon has caught the attention of those working towards financial inclusion. The innovation of mobile money has presented a new opportunity to greater access to formal financial services and is argued to lead a significant growth in the traditional banking sector through its ability to drastically reduce transaction costs.

WHAT IS MOBILE MONEY?

THE TERM “MOBILE MONEY” DEFINED BY THE BANK OF UGANDA, IS “E-MONEY AVAILABLE TO A USER TO CONDUCT TRANSACTIONS THROUGH A MOBILE PHONE.”

MNOS, MOBILE NETWORK OPERATORS, AND MOBILE MONEY SERVICE PROVIDERS, WHO OPERATE THROUGH PARTNERING WITH LICENSED INSTITUTIONS USING THE MNOS NETWORKS OFFER MOBILE MONEY SERVICES.

The emerging innovation of mobile money has had a tremendous impact on the expansion of

In Uganda alone, mobile phone subscription has increased from 2 million in 2006 to over 16 million in 2012 (World Bank 2012).

formal financial services. This phenomenon would not be possible without the rise of mobile technology. According to the World Bank, the total number of African mobile

Source: FITS study of households in Uganda, February-March 2012 and n=3,000. For detailed bases see Appendix A.
subscribers has risen 30-fold from 16 million in 2000 to more than 288 million in 2010 (Beck & Maimbo, p. 50). Appendix 1.0 displays a map of the current percentage of Ugandas who own mobile phones. Currently there are seven mobile money operators regulated by the Bank of Uganda. These include MTN, Airtel, Orange, UTL, MCash, and EzeeMoney. MTN, the leading mobile communication network in Uganda, introduced mobile money in 2009. Within one year of introducing mobile money, over two million people registered for MTN accounts (MTN 2014). At the end of 2013, MTN calculated over 14 million accounts and a 53% market share in telecom in Uganda. MTN is currently the number one tax payer in Uganda and continues to dominate the market with having approximately 30,000 mobile money agents, although the majority of these agents are located in the city-centers rather than the rural villages (Bank of Uganda 2013). This is because MTN has a profit-driven business model. The services offered have increased from simply the transfer of money to a variety of additional services including storing/saving money and withdrawing money.

The introduction of mobile money provides the opportunity for social impact through enabling customers to access services which can ultimately help them to better manage their daily lives and improve their livelihood. Scholars argue that mobile money represents an important commercial opportunity for achieving future revenue growth and transforming developing countries into middle-income nations (Penicaud, 2013). From a broad perspective, this is true. Digital services connect poor people to the formal financial sector, enabling them to become customers and supplies within the wider economy. Mobile money provides an outlet for transferring money between the rural and urban communities in a convenient and affordable way. The introduction of mobile money in Uganda has replaced the struggle to create more brick and mortar banks and has provided greater access to, simple and reliable financial systems.
FOR EXAMPLE, EVACE, A MIDDLE-AGED UGANDAN WOMAN RECEIVES A PHONE CALL FROM HER DAUGHTER IN BOARDING SCHOOL OVER FIFTY KILOMETERS AWAY. HER DAUGHTER INFORMS HER MOTHER THAT SHE IS VERY ILL AND MUST RECEIVE URGENT TREATMENT FROM A NEARBY HOSPITAL BUT DOES NOT HAVE THE FUNDS. BECAUSE THE HOSPITAL ONLY TREATS PATIENTS AFTER THEY HAVE MADE A PAYMENT, THE HOSPITAL REFUSES TO AID EVACE’S DAUGHTER. BECAUSE OF THE INNOVATION OF MOBILE MONEY, EVACE IS ABLE TO IMMEDIATELY WIRE HER DAUGHTER MONEY IN ORDER TO PAY FOR THE NECESSARY TREATMENT.

This scenario is one of millions in which mobile money has directly impacted those living in the rural community. While mobile money has served as a huge benefit to the rural community in providing an effective means of money transfer, the offer of services is still limited and mobile money has not yet achieved its widely acclaimed financial inclusion potential. The main disadvantage of mobile money is that it lacks a major component of financial inclusion; the component of savings.

LITERATURE REVIEW

In the past five years, the innovation of mobile money has produced a new phenomenon. The creation of mobile money was something scholars had never seen before. Because of this, the available literature on this topic is recent and accessible. Several studies have been recently conducted and journals written by the United Nations, World Bank, and Finescope that highlight the history of and explosion of mobile money and its impact on financial inclusion. The literature, however, is relatively sparse about the potential long-term impact mobile money can have on the poor if used properly as a means of saving. This may
be explained by the youthfulness of the innovation of mobile money. Nonetheless, it is important to identify the potential means of saving through this device.

This literature review draws on material on the formation of the savings culture in Uganda and the brief history on mobile money. It continues to show the gradual paradigm shift from a credit-based lens of financial inclusion and the idea of accessing credit through micro-finance institutions (MFIs) to the idea and importance of savings.

The financial sector in Uganda has been faulted as having one of the lowest savings to GDP ratio in Sub-Saharan Africa (Odongo, 2012). This has been largely due to the thought that there is an almost non-existent savings culture in Uganda. Because the low income population and people in rural areas are out of reach to traditional banking structures, they are unable to access formal savings products. Without access, the poor are typically financially illiterate and unaware of the potential impact the use of these financial services can have on the individual, family, and community and therefore choose to store their money in alternative ways. These include hiding money in the roofs of grass-thatched huts or under a mattress. There is little to no incentive to travel to reach the nearest bank because of the reputation these banks have in the community. According to a case study done by the United Nations Department of Finance for Women on VSLAs, the use of savings directly benefitted the participants at an individual level on many levels. This is because formal banks charge high minimum deposits and balance requirements that the poor cannot afford. As a result of the issue of financial inclusion and lack of financial literacy, the distribution of microloans has evolved. But, over the past decade, there has been a paradigm shift from the issuance of credit to the encouragement of savings.

In 2006, Muhammad Yunus, an Economics professor from Bangladesh, received the Nobel Peace Prize for his work with the Grameen Bank over the past thirty years (Collins,
2009). Grameen Bank brought the concept of “microfinance” or “microcredit” to light. Several scholars have deemed microfinance as “one of the most significant innovations of financial inclusion with its intent to lend small amounts of capital to poor borrowers in the developing world” (Ahlin & Jiang, 2005). Along with the rise of microfinance, however, came the hot debate over whether distributing credit to promote income-generating, self-employment activities can provide the solution to long-term development. Microfinance has the ability to either raise or lower long-run GDP. In most cases, it decreases inequality and poverty by providing opportunities for self-employment and income generation. Presenting savings opportunities as deferred payments reminds people why they are saving to begin with (Penicaud & Katakam, pg. 57). Conversely, several cases exist where those receiving the loans are unable to pay them back. This results in the build-up of credit and ends up leaving the borrower in an even deeper state of poverty and debt than before. One of the main goals for MFIs is to provide a means of collateralizing loans and providing low-cost capital rather than meeting the poor’s needs for a savings mechanism (Dichter and Harper, 2007). In the many instances where microcredit is successful, it is because of the “graduation rate”: the rate at which the self-employed build up enough wealth to start full-scale firms” (Ahlin and Jiang 1). When the borrower concludes with a joint high saving rate and normal returns, then microcredit has the ability to bring an economy from stagnation to full development. It is important to recognize the risk of exacerbating borrowers’ poverty and use this knowledge to embrace and strengthen the innovation of mobile money in order to implement the necessary steps for the introduction of a savings culture and lessen the focus on borrowing.

According to Thomas Dichter and Malcolm Harper in their book, What’s Wrong with Microfinance?, “Typically, in Africa, MFIs that offer saving services have many more savers
than borrowers” (59). Statistics have shown that the very poor “react more powerfully to financial services that build and protect assets than they do to the change to take on debt” (52). Because of the difficulty of repaying loans due to sickness, unpredictable weather conditions, theft, etc., the poor are frightened of getting into debt. This fear discourages the use of borrowing money and has led to an increase in the need and wants for a means of saving in the poor and rural areas of Uganda. The literature review has shown that while a lot has been written about microcredit, microfinance, financial inclusion, the absence of savings in microfinance and the rise of mobile money, more discussion is needed on the role mobile money can play in providing appropriate savings mechanisms for the poor in Africa.

JUSTIFICATION

According to the World Bank’s Global Financial Inclusion Database, approximately 2.5 billion people do not have access to financial institutions (Beck & Maimbo, 2013). Because of this, the majority of poor households mainly operate on an informal cash economy in order to meet their financial needs. Although cultures have relied on and used the exchange of goods, including physical assets, such as jewelry or livestock, or informal measures, such as money lenders, as a means of financial survival, these informal mechanisms tend to be insecure, unreliable, and expensive. When problems arise and there is an urgent need for money, these physical assets lack financial security (Bill and Melinda Gates Foundation, 2013).

As an undergraduate student of International Business and Finance in University, this researcher is passionate about international development and the reduction of poverty. The experience and internship opportunity at the Bank of Uganda have provided the
researcher the opportunity to gain a better understanding of how the Bank of Uganda functions and to identify the demand for, use of, and access to mobile money. Given recent development in approaches to and ideas of financial inclusion in the developing world today, and the rapid growth of mobile money services in Uganda, Uganda provides a great case study for using mobile money as a vehicle for financial inclusion. While many studies have been reported on the significance of using mobile money as means to transfer and receive money, there is little research on the potential social impact of the use of mobile money as a means of savings.

OBJECTIVES

THE OBJECTIVES OF THIS RESEARCH ARE TO:

1. Identify the importance of savings for poorer Ugandans and the transformative power of saving
2. Learn the current shortcomings of formal savings products for poorer Ugandans, especially in rural areas
3. Examine the current use of, demand for, and access to mobile money and the opportunity mobile money presents as a platform for savings products
4. Propose policy recommendations with regards to savings in mobile money in Uganda

RESEARCH METHODOLOGY

Research Approach
This study took place at the Bank of Uganda through a month long internship in the Financial Markets Division. A field trip to Gulu, a post-war zone in northern Uganda where people are just starting to build their economic lives again, followed the internship in order to gain a better understanding of the topic at a grassroots level and collect data and information directly from the rural community. Because of the short-term nature of the research, both qualitative and quantitative methods were used to collect the necessary data. The internship at the Bank of Uganda took place during the month of April, 2014 and consisted of a daily rotation through the different sectors of the Financial Markets Division, shadowing a number of employees, and observing the daily activities and responsibilities of each section.2

The methodological approach included both qualitative and quantitative methods because each contributes to another’s limitations. The quantitative data was drawn from the already existing data and statistics to show the important facts, while the qualitative research produced more text information about the study. Qualitative data generates more context information about the “real person” and puts a face to the numbers on paper (Flick, 2009). For example, in quantitative research, it is nearly impossible to identify participants and contact the respondents from statistical data. The qualitative methods aided in analyzing the data and helped draw conclusions to the way the results have been represented.

Data Collection Methods

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2 View Appendix 1
Each research method contributed to the information collected and provided room for analysis on each topic. The researcher approached the methods strategically and for specific reasons, and although there were obstacles along the way, the varieties of methods used were able to fill in the gaps or misunderstandings throughout the others.

EXPERT INTERVIEWS

Expert interviews were held with seven individuals, five of which were held at the Bank of Uganda during the internship period. These five expert interviews took place during the Bank’s operating hours and were chosen based upon the interviewee’s position and role at the Bank of Uganda. Michael Rothe, the advisor for this study, works for GIZ, the Deutsche Gesellschaft fur Internationale Zusammenarbeit, or the German Agency for International Cooperation. Michael introduced the researcher to the individuals both inside and outside of the Bank of Uganda, whom served as the subject for the expert interviews. A list of the interview names and locations can be viewed in Appendix 2. The interviews were scheduled with the best roles that represent the Bank of Uganda’s role in regulating mobile money and financial inclusion. Before each interview an optional consent form was provided with the terms and conditions of the study. The interviewees opted out of signing the consent form. Each interview a prepared standard list of questions was asked along with additional, more specific questions depending on the department. A selection of the standard questions includes can be viewed in Appendix 3.

While the information gathered from these interviews provided the study with a supplemental amount of data and insight, there were some obstacles encountered. The
majority of the employees that were interviewed from the Bank of Uganda grew up in the central area of Kampala, traveled abroad for their education, and then returned to Uganda for work. These employees have had minimal experience in the rural communities and have a little understanding and preconceived notions of the savings culture in these areas. The responses gathered focused mostly on the BoU and the role the BoU plays in regulating MNOs rather than how the BoU impacts development at more of a grassroots level. In order to gather information directly from the managers of mobile money at top companies such as MTN, Airtel, and Orange, and additionally hear from bank managers at the various banks in Uganda, the researcher attended a conference during my internship period as a representative of the Bank of Uganda along with fellow co-workers and subordinates.

WORKSHOP PARTICIPATION

Workshops serve as a vital method to obtaining research. They provide a space for organizations to get updated on information about key issues and for experts to come together to brainstorm and discuss ways in which to improve their services and quality of work (Flick, 2009). As a research method, attending the expert-level workshop brought together delegates from the MNOs and commercial banks to discuss about mobile money’s impact on financial inclusion. It allowed these delegates to interact with each other and share similar experiences, challenges and perspectives on this topic.

The workshop attended was held by MicroSave and sponsored by the Bill and Melinda Gates Foundation and was titled, “Accelerating Mobile Money Agents in the Rural Areas of Uganda. The workshop focused on the importance of thorough training and monitoring of mobile money agents and the current lack of customer service, especially in
the rural areas. Attending this workshop provided a broader understanding of the current training and monitoring being provided to agents. The chair expressed the pressing need for additional customer service. The relationship customers have with their agents regards to the trust clients have saving money in an e-wallet. A benefit of attending the workshop was the ample amount of free time for open discussion. During the breaks, there were informal discussions with the manager of the Financial Services for the Poor division of the Bill and Melinda Gates Foundation along with the program manager of the IFC in Uganda. These people provided supplemental information to the study and provided a more informal means of collecting information and data without scheduling a formal interview.

Throughout the workshop, the members participated in a serious of brainstorming activities and panel discussions that allowed me to actively engage in other research methods. The participants were divided into groups and together brainstormed sustainable ways to provide the training and mentoring necessary for mobile money agents in rural areas. From both observing and participating in the discussions, information was gathered about mobile money and what the organizations involved are currently doing in order to improve the regulation of mobile money while continuing to sustain the growth of mobile financial services and financial inclusion for the rural areas.

The main obstacle faced while participating in the MicroSave workshop was the bias towards the information received from the other participants and chair of the workshop. The workshop was run by MicroSave, an organization that is funded by the Bill and Melinda Gates Foundation. Similarly, this foundation funds the large MNOs in Uganda and is the lead of the mobile money initiatives in Uganda. Because of the large presence of this fund in this field of research, there was a bias towards the information that is given. Because of this
bias, a different company’s viewpoint on the use of mobile finance was examined.

INFORMAL DISCUSSIONS

The majority of the qualitative data resulted from informal interviewing. This type of interviewing is a casual conversation among acquaintances. The goal of this technique is to create a natural environment and to be as observant and objective as possible (DeWalt). This data collection method provides an opportunity to discuss the topic of study in an informal way and have a natural, ongoing conversation about it rather than specific answers to certain questions. Several informal interviews took place during the workshop and during lunch breaks while at the Bank of Uganda. A list of the people who were interviewed can be viewed in Appendix 4.

While the informal interviews opened a basis for less formal conversations and greater interaction, the lack of formal context and therefore unstructured questions created inconsistencies in questions asked.

FOCUS GROUP DISCUSSIONS

The primary data collected, while in Gulu, resulted from two focus group discussions each of which consisted of six people. Focus group participants were secured by a translator and guide whose family is a prominent family in the Laroo community. The first focus group consisted of six men all between the ages of 20-30 and categorized under the “youth” age group. In order to better understand the current savings culture in Laroo, these focus groups were separated by gender to encourage the women to feel at free to speak freely without being inhibited by the men. The second focus group consisted of six elderly women in the community. The selection was biased because of the unavailability of obtaining young women to participate in the focus group discussion due to other activities.
However, the young women were spoken to on an individual basis throughout the day in the form of informal discussion and participatory observation. The main topic of the focus group discussions revolved around the savings culture of the community, the perceptions of formal banking, and the current challenges limiting the use of mobile money as a means of saving. A list of the discussion topics can be viewed in Appendix 5.¹

Some of the challenges encountered from using focus group discussions as a research method were mainly language barriers and the assertion of dominance. While the translator was able to directly translate the questions, it was difficult at times to keep a flowing conversation and catch a direct response with the needed translation. Another challenge was the unequal distribution of responses. Once one respondent began sharing their views, they did not provide space for others to voice their opinions. Despite these minor challenges, the focus groups provided a safe space for open discussion about the topic of this study.

SURVEY DISTRIBUTION

Surveys provide a platform for statistical inference about a population being studied. A questionnaire was distributed for this study among ten mobile money agents and 30 members of the Laroo community. The survey template can be viewed in Appendix 6. The sampled population was chosen at random and to those willing or available to complete the questionnaire. This questionnaire was created and then discussed with the translator prior to distribution in order to confirm the translation and wording of the questions being asked. The purpose of the survey was to identify the financial transactions that participants encounter daily and consider important, the current use of mobile money, and the perception the community has of formal financial systems. The survey was also used to

¹ View Appendix 5
identify the gender and age groups of mobile money users.

A challenge of using the questionnaire as a research method was accessing the illiterate population. Several people in the Laroo community are illiterate and therefore do not know how to write. Because they fear of being ashamed in front of their friends and neighbors, they choose to opt out of the survey instead of asking the translator to fill in their responses for them. However, many of the respondents were friendly and open to having the translator read and record their responses for them.

Data Collection and Analysis Methods

In order to interpret the data collected and analyze the findings, narrative analysis, documentary review, survey analysis, observation analysis, and additional PRA methods were applied.

Narrative Analysis

Research scholars recommend the use of audio recordings during interviews in order to provide full attention to the speaker rather than taking notes (Devereax & Hoddinott, 1993). In accordance with this recommendation, with the consent of the interviewee, the interview was audio recorded. After the interview, a narrative analysis was performed by interpreting the notes taken and transcribing each audio recording. Conclusions were then drawn by the information provided.

Documentary Reviews

The data provided by the Bank of Uganda was analyzed through documentary reviews. Graphs were made from the available data through Microsoft Excel. This
secondary data provided extensive data from each MNO all in one document rather than having to obtain the numbers from the source itself.

Because the innovation of mobile money is so recent, there is little information that has been collected by the Bank of Uganda and therefore the spreadsheets only include minimal information given by the MNOs. For example, the data is available on the number of people who are using mobile money, but many of those people have multiple accounts that are not accounted for being the same person. In addition, the status of activity on the use of mobile money accounts is not tracked or accounted for. Because of this, some of the data is skewed or inaccurate.

SURVEY ANALYSIS

The ranking technique was used to analyze the survey results. For example, the majority of the respondents selected the transfer of money as their main use of mobile money. The second most popular answer was the payment of bills, and the third was storing money. By counting the number of selected choices, the results were ranked from most popular to least popular. In addition, data display techniques, such as line graphs and charts were used to make findings easy and clear to understand and to provide extensive and comprehensive information in an effective way.

PARTICIPATORY ANALYSIS

While in Gulu, participatory action-reflection research was used to draw conclusions from observations and the data collected. Through this form of analysis, the researcher lived with, cooked with, and practiced the local customs through everyday life for a short period. Conclusions were drawn on the key observations from experiencing the city center and rural area lifestyles first-hand. This approach aided in reflecting on what the locals do and how
they learn and observe the environment of the rural area. In addition, by using mobile money the researcher was able to analyze personal challenges and benefits of using the subject of the study. The last part of the participatory research involved analyzing the mobile money agents, by going shop to shop and observing the daily interactions between mobile money agents and their customers. The benefit of this analysis method is that participatory observation provides insights into events or activities that would not have been understood if the researcher remained an outsider (Devereux & Hoddinott, 1993).

From the application and analysis of these research methods, the researcher was able to collect both primary data and use existing data to argue that the continual growth of mobile money has the ability to foster a savings culture and address financial exclusion.

ETHICS STATEMENT

As the researcher of this study, and an intern at the Bank of Uganda, I am aware that I am in a position of responsibility and trust. I am knowledgeable of the required ethics provided to the Bank of Uganda itself. Therefore, confidentiality and respect will be upheld and when necessary, a consent form will be provided. The consent form can be viewed in Appendix 8. I will observe the highest ethical standards and maintain integrity at all times regarding data gathering. Throughout the process of data collection, I had access to the Bank of Uganda’s most updated data. I paid attention to the ethical environments of each additional institution outside of the Bank of Uganda and only did research with the ones that I was given permission to. While in Gulu, I explained to the community the scope of my

5 View Appendix 7
study and the purpose of my research. The members of the community were fully aware of what I was doing there and understood that they were not being exploited by participating. I was not dealing with any vulnerable peoples, but I was working in a vulnerable community previously affected by war. I was aware that when working with a vulnerable community comes certain unexpected impacts and respected this past history when asking questions and discussing challenges.

FINDINGS AND DISCUSSION

THE POWER OF SAVING

In this section, the importance of savings for the poorer Ugandan population is discussed. The analysis focuses on the transformative power of saving.

The results from the 2013 FinScope survey reveal that 68% of the adult Ugandan population was saving, both formally and informally, in 2013 indicating an increase from the 54 percent in 2009 and 42 percent in 2006 (EPRC, 2013, p. 22). Along with the increase in savings, comes the improvement of one’s everyday life. Saving not only has the power to transform the life of an individual, but also that of the greater community has contributed to the development of the nation as a whole. According to the IMFs Poverty Eradication Strategy, economic growth is driven by the accumulation of human and physical capital. In order to increase both human and physical capital to provide economic growth, the increase in a savings culture in the low-income and rural regions of Uganda is necessary.

“FOR EVERY 10 NEW PHONES AMONGST 100 PEOPLE IN A DEVELOPING MARKET, THEIR COUNTRY’S GDP GROWS BY 0.8%” -- MTN UGANDA
According to a case study done by the United Nations Department of Finance for Women on VSLAs, the use of savings directly benefitted the participants at an individual level on many levels. The respondents identified that the increase of savings provided a more stable income and increased their productivity. In addition, the more money the groups were able to save, the higher self-confidence and self-reliance the individuals had. As a result, 100 percent of the respondents stated that the use of saving had a positive effect on their overall quality of life. In correlation to the study, the answers provided by the focus group discussions held with the local men and women in the rural village Laroo in Gulu, Uganda provided similar results. The community concluded that the main benefits that result from saving are financial literacy, self-confidence, and the overall quality of life.

**FINANCIAL LITERACY** results from the ability to save. One of the largest barriers to financial inclusion today is the lack of financial literacy among low income and rural populations. Not only are the majority of the rural populations financially illiterate, but they are illiterate overall. Uganda’s current literacy rate is 73% among the adult population (UNICEF, 2012). Because these populations are financially illiterate, they are unaware of the available resources and the ways in which they can use and live in financial stability. The placement of mobile money agents and bank branches are mainly in the city centers of the populated districts of Uganda. This placement secludes the rural area from these institutions and creates a perception that these services are only for those with large incomes and who live in town. The lack of financial literacy creates preconceived notions about banks and formal financial institutions, creating a barrier to entry. The majority of the surveyed population stated that the banks were “cheaters” who took away people’s money and assets. The results of the survey concluded that 27% of the respondents did not trust banks because
of stories they had been told from either their family members or members of their community. The financially illiterate do not understand the meaning of the fees that are placed on those who have bank accounts and therefore think that the banks are stealing their money and chopping their assets.

With the knowledge of saving and increase in saving, however, individuals are able to become more financially literate and better understand the correct usage of formal financial institutions. When individuals work with increased amounts of capital, they become more knowledgeable about investment opportunities and the importance of saving. Furthermore, direct deposits via mobile technology encourage saving rather than spending and give women and young adults more financial authority within the family (Bill and Melinda Gates Foundation, 2013). The powerful book, Portfolios of the Poor, shows that in the minds of the poor, savings and credit are often interchangeable. The poor use credit in times of large expenditures because they lack the appropriate knowledge and instruments to save. For example, at the time of school fee payments, instead of paying these dues with saved income, loans are taken out for the payment and then repaid along with collected interest over a long period of time. Although, when the proper instruments are accessible, savings led approaches allow people to enter the formal financial sector as savers rather than borrowers.

SELF-CONFIDENCE creates the generation of new ideas and an entrepreneurial mindset among individuals. When people are poor and struggling for money, they feel dependent on uncontrollable factors such as the weather or on their other faraway relatives to send them money. Families that have a low to zero income lack the self-confidence or knowledge to save and invest properly. An elder man in Laroo explained the numerous
times he has witnessed his neighbors spend their money incorrectly or invest in something that they are unable to keep up with or pay back a loan for. He gives the example of a man who has a bountiful yield and a sudden increase in cash. Because the man is unaware of the power of savings, he spends all of his money at once in order to look more powerful and show off to his community. He buys a car with the money he now holds. While the purchase of a car may be useful and beneficial for the short term, the man quickly realizes he does not hold enough funds to keep up with the car maintenance or even pay for fuel. Although the quick spending of his money may have given him a short self-confidence boost, if he had instead chosen to save his money, he would be able to better invest his money in something more sustainable with longer returns and save the embarrassment of having an immobile car set aside to rot away. While in the field, the interviewed individuals confirmed their decrease in stress when they were able to save more money. There is less worry about drought and the crop yields during the rainy and harvest seasons when there is money held aside to cover for the unexpected. The decrease in stress provides more self-confidence and empowers individuals to take more appropriate risks with a cushion to fall back on and reduces the risk to vulnerable situations.

*THE OVERALL QUALITY OF LIFE* of the interviewed rural population significantly increased as a result of their ability to save cash or assets when given the opportunity. Along with the reduction of poverty, come several benefits in coordination with the quality of life. As stated in CGAP’s “Financial Inclusion and Development Report”, “savings help households manage cash flow spikes, smooth consumption, as well as build working capital. Access to formal savings options can boost household welfare” (Cull & Holle, 2014). In addition to increased welfare, three of the top determinants of quality of life
include the access to the basic needs of life, food, education, and health (Economist, Quality of Life Index). Without access to these main necessities, humans fall under the category of impoverished and underdeveloped. One way to fulfill these basic needs is to use a means of saving in order to be prepared for the worst.

When families put money aside for emergencies, such as food shortages, their families have less of a struggle in times of hunger, preventing starvation. Mothers are able to provide additional and more plentiful meals for themselves and their children. Similarly, families are able to consistently pay school fees rather than pulling their children out of school when the funds are not available. This increases education and literacy rates and helps kids stay in school. Lastly, when a member of the family becomes sick, for example, with malaria, instead of keeping the family member at home, because of the shortage of money to pay for medicine, the family is able to provide their relative with adequate healthcare and prevent further illness or even death.

“GREATER OUTREACH OF SAVINGS SERVICES NOT ONLY REDUCES THE COST OF FUNDS FOR A FINANCIAL INSTITUTION, BUT EXPERIENCE HAS SHOWN THAT THESE SMALL SAVINGS ARE FAR MORE STABLE IN TIMES OF CRISIS BRINGING GREATER STABILITY TO THE FINANCIAL INSTITUTION AND THE FINANCIAL SECTOR OVERALL.” – CARE, USA

According to the M-PESA study done at MIT University, the use of mobile money improves the investment in, and allocation of, human capital as well as physical capital. It is stated that, “households may be more likely to send members to high-paying jobs in distant locations, either on a permanent or temporary basis, and to invest in skills that are likely to earn a return in such places...” (Jack & Sloan, 2011, p. 8). Capacity building increases the
knowledge and the overall skillset of a nation as a whole. In order to bring a nation out of poverty and develop it, the proper skills need to be obtained. Introducing formal financial institutions to the poor generates capacity building at the grassroots level. Something that Uganda currently lacks is the ability to build the capacity of its citizens, especially the poor. The people in the villages hold huge deposits and the banks know it, but are unable to reach the rural populations. SmartMoney states, we are the world’s biggest vacuum cleaner, transferring the deposits out of the villages and putting the money into the bank” (Michael Spencer, CEO). When granted access to means of saving and formal financial institutions, the poor population is able to gain the skillset Uganda needs in order to develop as a nation.

FINANCIAL PLATFORMS

In this section, the current shortcomings of financial products will be identified along with the positives and negatives of the current forms of saving products that are offered for the poorer Ugandans especially in the rural areas.

Several argue that poor people need financial services more than any other group. Currently, these households manage their own financial services through a collection of relationships and transactions with others through a portfolio of informal, semiformal, and formal practices (Collins & Morduch, 2009).

Financial Institutions

![Financial Institutions Chart]

Note: The majority of the 4.2 million adult populations using formal financial means of saving are located in the central area of Uganda and not rural areas.
**INFORMAL MEANS OF SAVING**

According to the Finescope study, Ugandans are twice more likely to save exclusively with informal institutions than with formal institutions (EPRC, p.22). The two most important aspects the rural community considers when given the opportunity to save are storing money safely and securely (SmartMoney, 2014). Saving or storing money in a secret place is the most common form of informal saving. This includes storing money under a mattress, underground in a dug up hole, or on the human body, typically under women’s clothes. These forms of saving are risky and dangerous. Families complain and express their concern about houses burning down and women being attacked resulting in the loss of all of their current assets and savings. In addition, storing money as assets, including land or livestock is another informal means of saving. Issues arise when land is taken away or famine occurs, killing the livestock and turning a “wealthy” family into a poor one. The use of informal savings is usually due to low financial literacy, limited access to financial institutions, or low earning capacities (EPRC, p.27).

**SEMI-FORMAL MEANS OF SAVING**

One of the main semi-formal means of saving includes VSLAs, or village saving and loans associations. VSLAs are among the financial intermediaries in the financial sector. These small, local savings groups are one of the most common and successful forms of saving for those in extreme poverty in rural locations. VSLAs typically consist of no less than 10 members of a community (usually women) who come together and contribute a small sum of money every week. The goal of these savings groups is to form a group who is able to pool their savings in order to create a source of lending funds for future needs. Village banking provides for poor to accumulate and manage their assets. It creates a space for
members to save in amounts that are typically too small to ever be provided or attractive by the formal sector. The members are able to save and borrow and invest in new assets or provide funds for emergencies such as health requirements, school fees, or sudden death.

An important component of VSLAs is the relationship the members form as a group and the skills they earn from the ability to make group decisions and managing their funds.

Typically, one member is in charge of holding the funds and serves as the treasurer of the group. After speaking with the Treasurer of the main VSLA in Laroo, it was clear that VSLAs still face many challenges managing and storing their funds. One of the challenges VSLAs face is the risk of storing all of the collected funds in one safe box in the hands of a one woman. Some groups divide the money among the members of the group to hold, but still the women hold a risk of being robbed or having their husbands steal from them. VSLAs can fail if the members do not actively contribute their weekly saving amount. When members do not contribute, there is an insufficient amount of capital for members to purchase investments. Because of this, the members must rely on each other in order to create beneficial results from their small contributions. Lastly, VSLAs serve as beneficial tools for the adoption of saving habits and financial skills.

However, many of the women do not know how to properly spend or invest the money that they save because of the lack of financial literacy, resulting in the loss of all of the

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<th>Relative % of pop (10k)</th>
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<tr>
<td>Total</td>
<td>18,797</td>
<td>41.4</td>
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</tr>
</tbody>
</table>

(FSPMAPS 2013)
accumulated money. Despite these disadvantages, at times, VSLAs are more beneficial for those in extreme poverty who do not have access to electricity, cannot afford to buy and manage a mobile device, or do not have access to mobile money agents. Several of the elder women in Laroo do not own mobile devices but serve as active members in their local VSLA. Village savings groups serve as a potential link to the formal financial sector.

**FORMAL INSTITUTIONS**

Ugandan’s savings decisions are motivated by profit and by ensuring safety of their money. Studies show that the formally employed are more likely to save with formal institutions in comparison to the self-employed. For several jobs in urban areas, it is a requirement for the employees to have a bank account for the payment of their salaries. Similarly, those interested in the banking services provided, such as taking out large loans for investments, are the urban population. The respondents of the rural community noted the following entry barriers to having a formal bank account: no/insufficient income, having preconceived notions, and the far distance to a formal institution.

In general, formal banks require a minimum deposit fee in order to establish a fixed account. This minimum fee varies, but can be anywhere from 5,000 UGX (approximately 2 USD) to 50,000 UGX, or 20 USD. One of the youth in the Laroo community explains that the youth (ages 18-25) do not have jobs and earn almost no money. Because of this, the fee to open an account is unattractive when there is no money to put into the account at the moment anyway. Also, several of the respondents shared their preconceived notions of banks or formal financial systems. Because many people in the villages fear banks, they tend to stay as far away as possible, which is not difficult when the closest ATM, not even a full-service
bank, to Laroo is over 5 kilometers away next to the University of Gulu. In order to attract the poor, rural population to formal institutions, the expansion of financial literacy and introduction of a savings culture is necessary. This can be done through the innovation of mobile money.

**MOBILE MONEY**

In this section, the demand for, use of, and access to mobile money services will be identified. The analysis consists of the opportunity mobile money presents as a platform for savings.

As stated in The Atlantic Monthly Magazine, “Mobile money exploded in Africa because the continent’s cash economy was ripe for disruption. Even as the number of city...
dwellers wishing to send money to rural relatives surged, the prevailing technology was still pressing an envelope of cash into the hands of a bus driver or trusted friend headed home” (Africa’s Tech Edge by Dayo Olopade). With the penetration of mobile money as a means of financial inclusion and as a direction towards access to formal financial institutions, the number of transactions has tripled four times over the past four years (Bank of Uganda, 2012). This data can be viewed in Appendix 9. Over the past four years the growth of the number of bank accounts is about one million while the number of registered mobile money customers has grown over 14 million since 2009 (FineScope, 2013). Although the number of transactions has exploded, they mainly consist of money transfers used for remittances, school fees, and bills. Traditional mobile money services do not offer user friendly means when it comes to savings and as a result of this, there is a pressing need for the development of mobile savings solutions. I had the opportunity to travel to Gulu in northern Uganda to collect primary data about the current demand for, use of, and access to mobile money services and the platform mobile money serves as a means of saving. The results of my findings are below.

**FINDINGS:**

**DO YOU USE MOBILE MONEY? IF SO, WHAT DO YOU USE IT FOR?**

According to MTNs data collection, the highest numbers of remote mobile payments are used for the following: prepaid airtime, school fees, domestic fund transfers, electricity, cable, and water levies, agricultural trade, and healthcare (MTN 2013). While in Gulu, the majority of the survey respondents stated their main use is money transfers through sending or receiving money.
They receive remittances from relatives abroad or in city-centers via mobile money and in addition transfer money in order to pay school fees. An interesting finding of the primary research is that more and more people are using mobile money as a storage device because it is free to store money on the mobile device and their accounts are not charged on a monthly basis. While currently most services available on the mobile money platform are money transfer/payment services, people actually use it for storage, or as a saving mechanism. In other words, even in the absence of designated savings products, mobile money is used for saving which is a great indication of the potential.

One of the biggest barriers to storing money on their mobile devices is the high costs associated with cash withdrawal. While it is free to store money on a mobile device, it is extremely costly to withdraw money from the account compared to the fee associated with transferring money. The treasurer of the VSLA expressed a passionate interest for the possibility of storing weekly funds on one mobile account rather than carrying around a cashbox to and from meetings. Mobile money has the potential to make VSLAs more secure and efficient. But, when the women need to withdraw cash for loans, the fees create an additional cost the members are not willing or are interested in paying and therefore a barrier to using mobile money as a savings mechanism. In order to promote the use of mobile money for everyday transactions, and compete with mobile money’s “number one competitor, cash,” a threshold must be negotiated or identified at a level that individuals are willing to spend for transactions in place of cash. Studies show that the threshold for transactions is zero. Unless the transfer and withdrawal fee becomes free, cash will always dominate (SmartMoney, 2014).

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6 The data shown in the bar graph is representative of the primary data collected in Gulu. The sample of the community was not chosen at random and does not signify data for the country of Uganda, but is used to examine the use of mobile money in a small, rural community.
DO YOU TRUST MOBILE MONEY? WOULD YOU BECOME AN AGENT?

In order for mobile money to be used as a secure platform for savings, trust in the institution is a precondition for saving with this mechanism. According to the findings, almost 25% of the respondents said they did not trust holding their money in their phone because of theft or security issues. GSMA comments, “if people were comfortable keeping higher e-money balances it would likely increase the activity rate on mobile money transfers, as well as reduce the proportion of transfers that are converted back to cash…” (pg 57 GSMA). The level of trust using mobile money typically has to do more with the lack of knowledge given by the MNOs to their customers. In the rural areas, the respondents said that if they were more aware of mobile money services and the security facts associated with them, they would be more willing to use mobile money. Typically the trust users have towards mobile money is a result of the relationship the clients have with their agent. The mobile money agent plays a key role in building a strong and reliable relationship with their client in order for the client to feel comfortable making financial transactions with the agent. When interviewing the agents about their own security, respondents in the city-center commented on the high rate of user error and the security issues of having their money stolen during consumer transactions. The security issues in town involved the mobile money agents more than the customers. Additional risks the agents face include liquidity risk and operational risk. Two of the biggest complaints were the insufficient

“...THE SAVINGS SERVICE EXPERIENCE IS A LOGICAL EXTENSION OF THE PAYMENTS EXPERIENCE”

-- GSMA, 57
amounts of cash on hand to meet the demand for withdrawal from customers and poor network and IT complications within the mobile system. For the mobile money users in town, the vast majority preferred to take these risks because of the convenience of speed and ease of use compared to the alternative of waiting in the long bank lines, additional time, and the level of trust towards banks. While the majority of the sample stated that they did trust using mobile money as a storage device, 60% of the respondents selected “no” to the question asking if the respondent trusts banks. According to this primary data, the trust in storing money on mobile devices is almost double than that of banks.

**DO YOU HAVE ACCESS TO MOBILE MONEY?**

While the use of mobile money is more convenient in town, the use of mobile money in the rural areas is almost equal to the hassle of accessing a bank because of the lack of agents. Although many assume that mobile money agents are readily accessible even in the rural areas, there are no agents in Laroo. The owners of the small shops who sell airtime, the credit on mobile devices to make phone calls or send text messages, were asked why they were not mobile money agents and they explained the unaffordable registration fees and time it takes to become an agent. In addition, the perception of mobile money agents in the rural areas is that they are “rich” compared to the rest of the community. This creates a higher risk to become an agent because of the possibility of theft. Because of the absence of agents in the rural communities, users are unaware of the mobile money services offered.

According to *Financial Inclusion Insights*, “There is interest in using mobile money for saving and payments, [but] uncertainty about how to do so…” (InterMedia, 18). The lack of
awareness and access to these services is inhibiting the mobilization of mobile money as a savings device.

**WOULD YOU SAVE WITH AN INCENTIVE?**

In correlation with my personal findings, the GSMA Report states that, “several mobile money users choose to save, even though they do not earn interest, demonstrating the high customer demand for mobile savings either for securing against theft or saving for high-price purchases (Katakam, 2013, p. 57). Because the fees of most bank accounts in rural, emerging markets exceed any possible interest earnings for poor individuals, a no-fee, no-interest strategy of mobile money is appealing. The applicants who store money on their phones did so for longer periods of time, for up to two years. Currently, the MNO networks do not have a time limit to how long money can be stored in a customer’s e-wallet; however, they do have a limit to how much can be stored. The maximum varies, but averages to be approximately 50 million UGX. No amount larger than this can be transferred or stored at one period. This maximum does not affect the poor population, but impedes the use of savings for the higher-income users. Out of all of the respondents, 95% said that they would save more money on their phone if there was a small interest paid. The remaining 5% who answered “no” was the non-mobile money users. In order to compete with cash or other financial alternatives, and promote the more regular use and storage of mobile money, there must be an incentive to store money on a mobile device.

*PLATFORM:*

“I AM SAVING BECAUSE I WANT MY CHILDREN TO GET ADMITTED TO A GOOD ENGINEERING COLLEGE. USING MY MOBILE MONEY ACCOUNT IS A VERY EASY WAY FOR ME TO DO IT. I DON’T HAVE TO GO ANYWHERE, I CAN DO ALL OF MY SAVING FROM RIGHT HERE.”
As shown in the primary data gathered in Gulu, mobile money provides a means of saving if there is an incentive provided for the unbanked to save. If mobile money is used for more everyday transactions, then there will be more money stored in the e-wallet and more of an inclination to save the money gathered through the transactions. The high transfer fees of mobile money holds customers back from using this as a means of everyday use. A company that is currently adjusting to the demand of mobile money for more everyday usage is SmartMoney.

Uganda has spawned a variety of business models whose distinctions have yet to be appreciated. SmartMoney is a social enterprise and a pioneer financial services company that “aspires to be a leading provider of financial services to rural populations throughout the developing world” (SmartMoney, 2012). SmartMoney is a third party proprietor of mobile money technology that is available via all the mobile phone networks. This company provides free mobile money service for the rural people in order to encourage cost savings and improved security for its users. Offering a subsidized fee structure, in this specific case to farmers, overcomes to the most significant barrier to the adoption of existing mobile money services among the rural populations – lack of affordability. With zero withdrawal fees, the customers are able to access the money stored on their mobile devices without paying a fee, encouraging greater savings within the community, especially VSLAs.

In addition, this model provides free registration and training to all of the members in a community rather than charging a registration fee for agents. This allows all of mobile phone users to transfer and receive money without the requirement of visiting an agent. In replacement of agents, there are service centers located in the market centers, and meeting places in the rural areas with trained managers who are able to assist in storing and saving large amounts of money onto the mobile device. The removal of agents creates a new
terminology associated with the use of SmartMoney. Instead of using mobile money terms, the locals are applying the banking concept to the services available on their mobile phone. Taking a banking model and applying it to mobile money technology is a step towards financial inclusion and an incentive to saving. With greater trust and knowledge, and zero fees, consumers are more willing to save using this platform in comparison to that of a multinational company such as MTN who holds a poor reputation and has a lack of involvement within the community.

POLICY RECOMMENDATIONS

This chapter provides recommendations with regards to exploiting the potential of mobile money as a savings device. It starts by discussing the current regulatory framework, the Bank of Uganda Mobile Money Guidelines, 2013. It then outlines policy recommendations with regards to savings in mobile money in Uganda.

On October 1, 2013, the Bank of Uganda issued Mobile Money Guidelines in order to monitor mobile money and provide greater regulation over the use of mobile money services. Although the innovation of mobile money has been in the market since 2009, the volume of transactions was minimal to the concern of the Bank of Uganda. The BoU used a ‘test and learn’ approach to regulating mobile money in Uganda, letting regulation follow innovation. The Alliance for Financial Inclusion (AFI), recommends that the central government set requirements in a flexible and open manner that can “encompass different models in a single range of rules and elaborate as needed further…” rather than attempting to foresee the growth and trends of mobile financial services. This approach prevents the restriction of new products on the market.

The objectives of these Guidelines are to:
a). Provide clarity on mobile money services to customers, mobile money service providers, licensed institutions, mobile money agents, and other parties involved in the provision of mobile money services in Uganda;

b). Outline the approval procedure for parties seeking to engage in the provision of mobile money services;

c). Stipulate roles and responsibilities of parties engaged in the provision and usage of mobile money services;

d). Foster consumer protection for mobile money customers including a mechanism for handling complaints relating to the provision of mobile money services and further the interests of customers in mobile money services;

e). Enhance competition in the provision of mobile money services and related markets; and

f). Promote financial inclusion.

These Guidelines provide an adequate framework to tackle some of the existing shortcomings in the market including low transparency and low competition. While MNOs are required to comply with these guidelines, several provisions are not fully implemented yet. In order to promote a savings culture and the use of mobile money as a means of savings, the Guidelines must be fully implemented.

**GREATER TRANSPARENCY AND COMMUNITY OUTREACH**

Drawing on the findings from this study, people are currently either unaware of the
transaction and withdrawal fees or uninformed of the high fees associated with sending money between different networks. This is due to the lack of transparency provided by the MNOs and lack of knowledge of mobile money agents. The BoU Guidelines include specific provisions on transparency\(^7\), but MNOs currently do a poor job reaching out to their community and informing community members of their services and being transparent of the fees that apply when using mobile money. Mobile money providers have an incentive to educate consumers about their products, because when customers are educated, they are more willing to use the services. If MNOs increased the commitment to their interaction with the locals and provide more training and workshops, then the community will be more aware of the available services and reconsider their preconceived notions. An example of this is the current fear users have that all of the money they store on their devices will be lost if they lose their phone. These customers are unaware that their money is backed on their SIM card and if a mobile device is lost, then the money can be recovered through the replacement of their SIM card.

A solution to this issue is an updated and more transparent terms and conditions provided by the mobile money server, which would come through full implementation of the Guidelines. The recommendation is therefore that the Bank of Uganda continues implementing the Guidelines. In addition, greater outreach to the community shall create greater trust and awareness of the relevant fees, charges, and safety liabilities within the use of mobile money services. These are obstacles that are currently exploiting the potential of mobile money as a savings device, given that low transparency leads to little trust. The BoU Mobile Money Guidelines are a step towards the right direction, tackling the pertinent issues such as transparency, but that they need to be implemented fully. Greater monitoring and

\(^7\) See Appendix 10
Window to the Unbanked 38

training of these individuals, in addition to the agents or service center keepers, create a more bottom-up approach to accessing the people rather than enforcing guidelines and regulations. It is necessary to adapt to the needs of the rural villages at a grassroots level.

LOWER COSTS AND REMOVE BARRIERS

There are currently multiple entry barriers to not only use and store money on your phone, but also to register as a mobile money agent. High entry barriers for agents will mean that the agent network cannot expand and that therefore access, while greater than banks, will not expand into remote rural villages. According to the study titled, “Mobile Money for Financial Inclusion,” prices are high because of the underdeveloped payment systems infrastructure, inappropriate legal frameworks, and a lack of transparency, competition, and consumer protection” (ICD, 2012, p.70).

In order to drive down prices, regulators must ensure that the mobile money industry remains competitive in order to allow well-functioning market forces. The BoU Money Guidelines include a provision which rules out exclusive contracts between service providers and agents and thereby create a more level playing field enabling more competition. These multinational companies must either lower fees or look into a system that removes the burden from the person transacting. Or, a simpler solution would be for mobile network operators to adopt a similar model to that of SmartMoney. With no transfer or withdrawal fees, and the free registration of every member of the community and service centers, there are no entry barriers to using mobile money on an everyday basis and as a means of saving. While the largest concern in the rural community of Gulu was the fear or inability of becoming an agent, with lower registration fees, or no fees at all, more members of the community are able to become a registered user or agent. Another barrier is the
current cap on transferring and holding money on the mobile device. With the removal of fees and barriers, there will be an increase in the use of and access to mobile money and its agents.

COORDINATED COMPETITION

While increased competition can aid in driving down prices, high competition can also create over-saturation and the lack of coordination. This source of high competition arises from the rapid expansion and development of mobile financial services. There is a fragmented nature of the mobile phone market and lack of interconnectedness that is currently limiting the growth of financial services (Beck & Maimbo, 2012). This is the result of the lack of interoperability. Mobile money operators do allow the transfer of money between networks, but they charge even higher fees. Similarly, while the Bank of Uganda has set a guideline restricting mobile money operators to confine agents to selling only one network’s services, these regulations are not fully implemented yet.

Further interoperability could serve as a way to reduce current costs and expand greater access of services. In addition, if more transactions among subscribers happen within the same network, there are fewer risks and costs associating the transaction (Beck & Maimbo, 2012, p.54). The greater need for coordination and more efficient connection of channels is clear and must be further regulated by the central government.

ROLE OF GOVERNMENT AND FINANCIAL INSTITUTIONS

The role of the government in developing mobile money ecosystems must not be overstated. The Bank of Uganda is responsible for providing environments that enable development. Regulators create the space for experimentation and build policy frameworks to spur further growth (Jenkins, 2008). Appropriate controls must be introduced in order to
ensure security and to build the capacity to oversee fast growing technology. As mobile money serves as a vehicle that can truly serve the financial needs of the rural community, the formulation of regulatory policy provides a useful source for reaching the next level.

The Bill and Melinda Gates Foundation and Grameen Foundation are currently partnered with MTN in order to scale mobile based financial services to the entire Ugandan community (MTN 2014). While there is no statistical evidence that suggests the funds are not being used accordingly to the theories of financial inclusion, it is still important that this recommendation be made. The funds can be more prominent in financial inclusion and to address the poorest of the poor through applying the funds to other social enterprises with unique business models directly addressing the needs of the community. These smaller businesses have the capacity to work directly with the rural communities compared to larger, multinational companies, working at a larger scale.

CONCLUSION

Mobile money has ultimately altered Uganda’s financial landscape to include a portion of the population that was formerly financially excluded. Mobile money has provided the service of transferring money from one person to another in a quick, easy, and reliable manner. While not explicitly designed for saving, mobile money is already used as a means of reliable and safe saving. The wide availability of mobile money makes it an ideal platform to introduce more sophisticated savings products. However, mobile money has not achieved its full potential to mobilize savings – due to high costs and limited product innovation. Although there are current entry barriers preventing consumers from saving on their mobile devices, there are models that supply to the current demand. If more companies
adopt this model and work at the grassroots level, then the incentive to save money will improve the lives of the poor and bring formal financial services to the rural community.

APPENDIX

1. The rotation schedule for the month of April at the Bank of Uganda

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<td>4th – 8th 2014</td>
</tr>
<tr>
<td>3</td>
<td>Reserves Management Section</td>
<td>9th – 10th 2014</td>
</tr>
<tr>
<td>4</td>
<td>Domestic Market Research and Development Section</td>
<td>11th – 15th 2014</td>
</tr>
<tr>
<td>5</td>
<td>Reserve Management and Investment Section</td>
<td>16th – 17th 2014</td>
</tr>
<tr>
<td>6</td>
<td>FMDP Secretariat (Admin and M&amp;E Sections)</td>
<td>22nd – 23rd 2014</td>
</tr>
<tr>
<td>7</td>
<td>Commercial Banking Department</td>
<td>24th – 25th 2014</td>
</tr>
<tr>
<td>8</td>
<td>Research Department</td>
<td>28th – 30th 2014</td>
</tr>
</tbody>
</table>

2. This is a table of expert interview names, dates, and location

<table>
<thead>
<tr>
<th>Expert Interview Name and Title/Department</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stephen Mulema; Director of Financial Markets</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>Alex Ochen; Statistics</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>Godfrey Yiga Massaja; Director of Commercial Banking</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>Wasswa Hanington; Non-Finance Banking</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>Michael Rothe; GIZ</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>Michael Spencer; CEO of SmartMoney</td>
<td>Skype</td>
</tr>
<tr>
<td>Maxwell Abok; Director of Operations SmartMoney</td>
<td>SmartMoney; Kampala</td>
</tr>
<tr>
<td>Mugisha Ocen; VLSA Chair</td>
<td>Laroo, Gulu</td>
</tr>
<tr>
<td>Danielle Laniero; VLSA Treasurer</td>
<td>Laroo, Gulu</td>
</tr>
</tbody>
</table>

3. This is the set of questions used to formulate topics of discussion for the expert interviews:
• How has the innovation of Mobile Money impacted the Bank of Uganda?
• How does the Bank of Uganda regulate the use of Mobile Money and the MNO networks?
• Are the guidelines that were created in October 2013 currently being implemented?
• What are the challenges the Bank of Uganda faces regulating mobile money?
• Do you think there is a potential for using mobile money as a means of saving?

4. This is a table of informal interview names, dates, and location

<table>
<thead>
<tr>
<th>Informal Interview Name and Title/Department</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kimanthi Githachuri; Head of The Helix Institute of Digital Finance</td>
<td>MicroSave Workshop</td>
</tr>
<tr>
<td>Joseck Mudiri; Mobile Financial Services Specialist IFC</td>
<td>MicroSave Workshop</td>
</tr>
<tr>
<td>John Ndunguru; Program Officer Financial Services for the Poor, Bill &amp; Melinda Gates Foundation</td>
<td>MicroSave Workshop</td>
</tr>
<tr>
<td>Rogers Kakeeto; Head of Marketing and Business Development, Opportunity Bank</td>
<td>MicroSave Workshop</td>
</tr>
<tr>
<td>Dennis Akena; Savings Officer, FINCA</td>
<td>FINCA, Gulu</td>
</tr>
</tbody>
</table>

5. These were the focus group discussion topics and leading questions

**Topic: Financial services**

• Do you currently save/store money?
  o If so, where?
  o If not, why?
• How much do you currently save?
• At what age did you start saving money?
• What challenges do you face, saving money?

**Topic: Financial services**

• Do you have a bank account?
  o If so, how far away is your bank?
  o If not? Why?
• Are you a current member of a SACCO or VSLA?
• Do you use mobile money?

**Topic: Mobile money**

• Do you have a mobile device?
• Do you use mobile money?
• Where is the nearest agent?
• Do you currently store money on your phone?

6. This is the survey completed by the applicants

Using Mobile Money to Save:
Survey May 2014

Please circle your answer and fill in the blanks with your response:

Name: ____________________  Age: _________  Gender: ________________

Do you use mobile money?  [ ] Yes  [ ] No

List the ways you use mobile money:  Circle that apply
1. Sending money
2. Receiving money
3. Pay bills (school fees)
4. Storing money

How long do you typically store money using a phone?  ________________

Do you feel safe using mobile money?  [ ] Yes  [ ] No

Do you trust your mobile money agent?  [ ] Yes  [ ] No

Do you have a bank account?  [ ] Yes  [ ] No

Do you trust banks?  [ ] Yes  [ ] No

If you do not have a bank account, why?  Circle that apply
1. Too expensive
2. Distance
3. Do not trust banks
4. I am not comfortable entering a bank hall

Do you currently save/store money?  [ ] Yes  [ ] No
How much do you typically save/store (per day?) (per week?) (per month?)

If you were paid some little money to store money on your phone, would you save on your phone? □ Yes □ No

7. Questions asked to mobile money agents/observation factors

- How many clients do you receive per day/per week?
- What is your relationship to your clients? Do you know all of them?
- Were you trained to become a mobile money agent?
- How often are you monitored by the MNO?
- What are some of the challenges you face as an agent?
- What is the incentive of using mobile money?
- Do you feel safe being an agent and using mobile money?

8. This is the consent form offered to all participants in this study

Consent Form

1. Purpose of the study:

This study is being conducted to gain an overall understanding of the current use of, demand for, and access to mobile money. The main areas of this research will focus on the understanding of the current savings culture in Uganda and the potential social impact mobile money presents as a platform for saving. To gather this information the researcher will be conducting expert interviews, informal discussions, focus group discussions, a questionnaire, and observation of mobile money agents and users.

2. Rights Notice:

In an endeavor to uphold the ethical standards of all SIT ISP proposals, this study has been reviewed and approved by a Local Review Board. If at any time, you feel that you are at risk or exposed to unreasonable harm, you may terminate and stop the interview. Please take some time to carefully read the statements provided below.

- **Privacy:** All information you present in this interview may be recorded and safeguarded. If you do not want the information recorded, you need to let the interviewer know.
- **Anonymity:** All names in this study will be kept anonymous unless the participant chooses otherwise.
- **Confidentiality:** All names will remain completely confidential and fully protected by the interviewer. By signing below, you give the interviewer full responsibility to uphold this contract and its contents. The interviewer will also sign a copy of this contract and give it to the participant.

____________________________________  ______________________________________
Participant’s name printed  Participant’s signature and date

____________________________________  ______________________________________
Interviewer’s name printed  Interviewer’s signature and date


The agent shall clearly display in a conspicuous place:

(i) The identity of the mobile money service provider(s) for whom he/she operates as an agent;

(ii) The agent’s unique identification number provided by the mobile money service provider;

(iii) All applicable charges and fees for the mobile money service;

(iv) A written notice that no charges or fees are levied at the agent location;

(v) The dedicated telephone line through which customers can contact the mobile money service provider, including the contact in case the consumer has a complaint about the service; and

(vi) A statement that the agent does not carry out transactions on behalf of customers.

Where a consumer is unable to understand English, the agent shall provide an oral explanation in a language the consumer understands. Where a consumer is unable to understand written information, the agent shall orally explain to the consumer the written information.


Dewalt, K., & Dewalt, B. Participant Observation. A Guide for Fieldworkers., Chapters 8, 9, 10).


