HOW TO SUCCEED IN YOUR DIGITAL JOURNEY: A SERIES OF TOOLKITS FOR FINANCIAL SERVICE PROVIDERS

TOOLKIT #3:

LEVERAGE AN EXISTING AGENT NETWORK

PART 2: CASE STUDIES

- UGAFODE, UGANDA
- SOFIPE, BURKINA FASO
- FINCA, UNITED REPUBLIC OF TANZANIA*

By PHB ACADEMY and MICROLEAD

Woman farmer in Uganda
Cyril Ducottet, Photographer

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The MasterCard Foundation
PHB Academy towards financial inclusion
UNCDF MICROLEAD

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LIST OF ACRONYMS

API	application programming interface
BoU	Bank of Uganda
CapEx	capital expenditure
CBO	community-based organization
CBS	core banking system
DFS	digital financial service(s)
DFSP	digital financial service provider
FI	financial institution
FINCA DRC	FINCA Democratic Republic of the Congo
FSP	financial service provider
FTP	file transfer protocol
GSA	GroupSave Account
IT	information technology
KPI	key performance indicator
MDI	microfinance deposit-taking institution
MFI	microfinance institution
MIS	management information system
MM	mobile money
MNO	mobile network operator
MTN	Mobile Telephone Networks
OpEx	operational expenditure
OTC	over the counter
PIN	personal identification number
POS	point of sale
PSP	payment service provider
SG	savings group
SILC	savings and internal lending community
SMS	short message service
SOFIPE	Société de Financement de la Petite Entreprise
U Sh	Uganda shilling*
UNCDF	United Nations Capital Development Fund
US$	United States dollar*
USSD	unstructured supplementary service data
VSLA	village savings and loans association

*Currency symbols: UNCDF uses the currency symbol 'US$' for the United States dollar and 'U Sh' for the Uganda shilling.

DEFINITIONS

Please refer to 'Part 1: Business model description' of this toolkit for definitions.

Group meeting with cash box
Courtesy of PHB Development

1 INTRODUCTION: OVERVIEW OF THE TOOLKIT PROJECT

Delivery channels have evolved drastically over the past 10 years from traditional delivery channels that were mainly physical locations, such as bank branches or automated teller machines, towards alternative delivery channels, also often called digital channels. The latter encompass Internet banking, mobile banking and agent banking.

In the past, traditional channels could theoretically provide the full range of financial services to clients, whereas alternative delivery channels/digital channels could only provide limited services (cash-in/out in the case of mobile network operators, deposits/withdrawals in the case of financial institutions), balance enquiries, payments and transfers. This vision is less and less accurate as alternative delivery channels/digital channels evolve towards providing a full range of services, from client registration to savings collection through collectors or phones, and even credit scoring and loan requests, disbursements and repayments. Technology is facilitating the development of these new channels. Point of sale devices, mobile phones, tablets and netbooks are now enabling transactions anywhere, anytime. The technology is the means for transactions, whereas alternative delivery channels are the means of distribution. As pointed out in the 2015 International Finance Corporation Handbook: Alternative Delivery Channels and Technology, this distinction (technology versus channels) is fundamental.

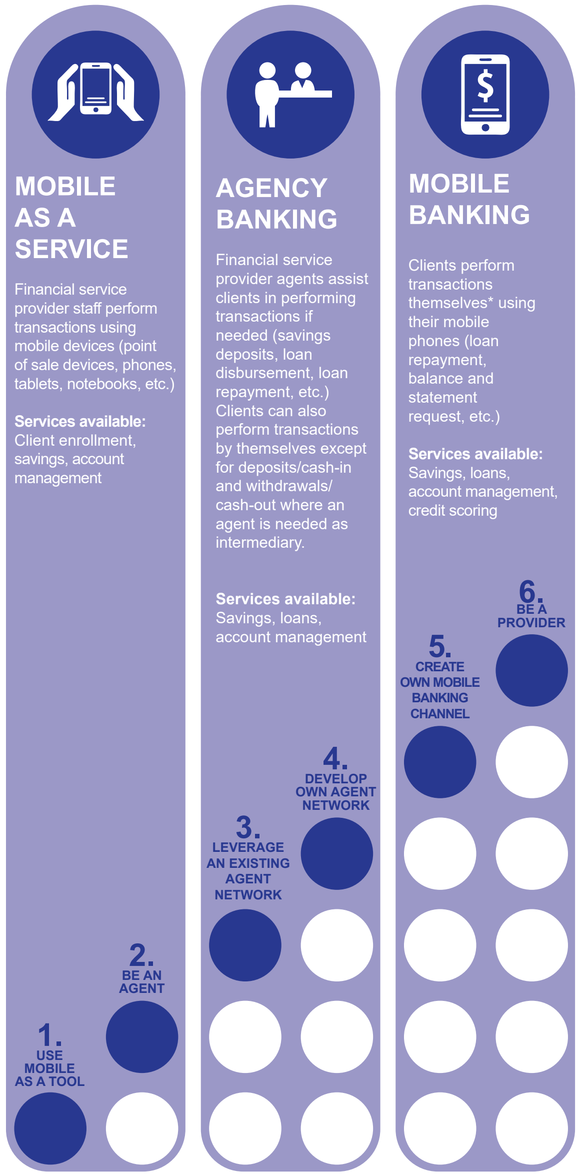
Another fundamental distinction is the critical difference between financial institutions and mobile network operators when it comes to digital finance transactions. Financial institutions 'own' the funds and hence prefer storing value (making money out of intermediation), while mobile network operators 'transact' the funds and hence prefer moving value (making money out of commissions). For the purpose of these toolkits, the authors refer to cash-in/out transactions when discussing mobile network operators and deposit/withdrawal transactions when discussing financial institutions.

MicroLead toolkit project

PHB Academy is supporting MicroLead, a United Nations Capital Development Fund global initiative, in releasing a series of toolkits designed for financial service providers to succeed on their digital journey, with a focus on financial institutions in particular. These toolkits capitalize on and complement existing research, publications and documentation and have been developed based on the experience of MicroLead and PHB with over 100 digital financial service implementations.

Six-step business framework

Six possible business models have been defined for financial service providers eager to go digital (see the figure). The business models are conceived as different steps financial service providers can take on their digital journey. Financial service providers are free to start anywhere in this framework but should be conscious that, the higher up they decide to start in the journey, the greater the efforts to bear.



* Except for cash-in and cash-out transactions performed at agents

The first two business models of this framework consist of using mobile as a service, where basic transactions are performed by staff of the financial service provider using mobile devices. They are described in 'Toolkit #1: Use mobile as a tool' and '#2: Be an agent.' Models 3 and 4 describe agency banking, where agents (of a mobile network operator, payment service provider or financial institution) assist clients with the transactions if needed. Clients can also perform transactions by themselves except for cash-in/out where an agent is needed as intermediary. They are described in 'Toolkit #3: Leverage an existing agent network' and '#4: Develop own agent network.' Models 5 and 6 describe mobile banking, where clients transact directly on their financial institution account, performing the operations themselves using their mobile phones. They are described in 'Toolkit #5: Create own mobile banking channel' and '#6: Be a provider.'

Transactions performed by clients
Courtesy of PHB Development

OVERVIEW OF TOOLKIT 3

This toolkit is the **third** in a series of six toolkits aimed at supporting financial institutions (FIs) to go digital.

It describes the third model that an FI can choose: **to leverage an existing agent network.**

- The FI forms a partnership with a digital financial service provider (DFSP),[1] **providing its own products/services through the DFSP network of agents**.
- Unlike the previous model (to be an agent) in which the products were those of the DFSP and the distribution channel that of the FI, here the products are those of the FI and the channel that of the DFSP.
- This model falls under the agency banking model in which customers can push/pull money from their FI account to their mobile money (MM) account and/or complete over-the-counter (OTC) transactions. OTC transactions are performed with the assistance of an agent. Leveraging an existing agent network can also be done for mobile banking, as the cases of UGAFODE Microfinance Limited in Uganda and FINCA in the United Republic of Tanzania prove; although when developing their own mobile banking channel, FIs often prefer to have their own agent network, as will be discussed in 'Toolkit #4: Develop own agent network' and 'Toolkit #5: Create own mobile banking channel.'

This toolkit is composed of two main documents:

- The document 'Part 1: Business model description' describes the business model and recipe for success. Three international case studies—MOSS ICT in Ethiopia, Diamond Bank in Nigeria and Advans in Côte d'Ivoire—illustrate how a payment service provider (PSP) such as MOSS ICT can be a good partner for microfinance institutions (MFIs) in order to successfully offer digital financial services (DFS) to their customers via an agent network. Diamond Bank leveraged both the agent network of a mobile network operator (Mobile Telephone Networks [MTN]) and of a PSP (Pagatech) to reach remote areas and a financially excluded population. Advans, a 'greenfield'[2] MFI, leveraged an existing agent network of a mobile network operator (MTN) to rapidly expand.
- This document, 'Part 2: Case studies,' presents the digital journey of three organizations:
  - **UGAFODE Microfinance Limited** (hereafter, UGAFODE) **in Uganda**, a MicroLead partner, that developed partnerships with two of the most prominent mobile network operators (MNOs) in the country: Airtel and MTN. The partnerships allow UGAFODE to use the platform and agent network of the MNOs to deliver its own products and services.
  - **Société de Financement de la Petite Entreprise (SOFIPE) in Burkina Faso**, a MicroLead partner, that just started a partnership with the MNO Airtel to leverage the Airtel Money agent network, after a year and a half of operating as an agent for Airtel Money.
  - **FINCA Tanzania** that successfully leveraged agents from the three most prominent MNOs in the United Republic of Tanzania and learned lessons from its four-year experience (2013–2016).

1 Generally, in this context, the digital financial service provider (DFSP) is a mobile network operator (MNO), although it could also be a payment service provider (PSP). MNOs control the mobile telecommunications networks, therefore the PSP must for now negotiate access to the network and the customer with the MNO.

2 'Greenfield' institutions are defined as 'institutions that are newly created without pre-existing infrastructure, staff, clients, or portfolio' or 'created from scratch.' *Source:* Julie Earne and others, 'Greenfield MFIs in Sub-Saharan Africa,' 10 February 2014. Available from http://www.cgap.org/publications/greenfield-mfis-sub-saharan-africa

SECTION 1:
EXECUTIVE SUMMARY

This series of case studies illustrates the implications of an FI and an MNO forming a partnership with the intention of providing easy access to financial services to FI clients through the MNO e-wallet and agent network. Please refer to Part 1 of this toolkit for more details about the business model and options for leveraging an existing agent network.

As shown in Part 1 of this toolkit, establishing a partnership with an MNO or a PSP is not always easy. It is a process that takes time and requires investment of human resources. Nevertheless, this model is easier for an FI to set up than to create its own network of agents, which (as will be seen in Toolkit #4) requires very significant human, technical and financial investment—an effort that only a limited number of institutions that are well established in their markets and with a large network are able to make.

UGAFODE started in 1994 as a non-governmental organization. Its main purpose was to provide quality, affordable financial services to low-income Ugandans in rural, peri-urban and urban areas of the country, while meeting their changing needs. In 2011, it was licensed as a microfinance deposit-taking institution (MDI), targeting primarily rural clients with both savings and credit products. As of the end of 2016, UGAFODE had ~17,000 borrowers and ~98,000 depositors across 16 branches.

The digital journey for UGAFODE started in 2012 when it became an agent for MTN Mobile Money, opening access to a wider market and increasing revenues (see 'Toolkit #2—Part 1: Business model description' for more detail on the experience of UGAFODE as an agent of MTN Mobile Money). Later on, UGAFODE also became an Airtel Money agent. Soon after, in 2014, UGAFODE recognized the benefits of forming a partnership with the MNOs to distribute its products to new and existing clients through Airtel and MTN agents. UGAFODE also wanted to cross-sell its other services to MNO clients transacting in its branches. Developing the partnership with MTN was a quick process, but negotiation/implementation with Airtel took more than two years (still in implementation) due to integration issues to address and competing priorities for the MNO. The integration with Airtel is still only partially complete, as clients can push from their UGAFODE account to their Airtel wallet but not the other way around.

With MTN, the pilot was carried out in four branches from June to December 2014. UGAFODE received approval from Bank of Uganda (BoU), the country's central bank, to roll out to all branches in June 2015. The roll-out started immediately after, in Q3 2015. With Airtel, UGAFODE received approval for partial implementation in March 2016 (from FI account to wallet).

UGAFODE decided to create a proprietary mobile banking platform,[3] while leveraging the agent networks of Airtel and MTN, to enable clients to deposit/withdraw. The mobile banking platform UGAFODE developed, called AirSave, allows individuals and savings groups (SGs) in remote areas to access their UGAFODE bank account via mobile phone. Using an unstructured supplementary service data (USSD) code[4] (*230#) on their mobile phone, clients can check their bank balance, pay bills and deposit or withdraw money using their Airtel or MTN mobile wallet. AirSave enables clients to move money between their mobile wallet and their UGAFODE account. With this system, UGAFODE clients can access services both through the MTN Mobile Money menu (using USSD code *165#) and through AirSave, which is accessible to owners of an Airtel or MTN line using the UGAFODE USSD code (*230#).

The AirSave platform was initially geared towards GroupSave Accounts (GSAs), a new UGAFODE savings account that targeted existing informal SGs with a safer way of collecting, managing and distributing funds to their members. AirSave enables SGs to collect and distribute money digitally instead of manually. It also was designed to help groups transact without having to travel to distant branches.

Establishing the partnership and the connection between its system and the MNO systems has not been easy for UGAFODE. The latter is still far from having achieved the objectives set. The purpose of this case study is to explain the types of difficulties to anticipate and the mitigation strategies that UGAFODE has been able to implement. The challenges encountered by UGAFODE can serve as lessons for other MFIs wishing to implement this model.

SOFIPE was created in 2008 as a public limited company to promote funding of micro and small businesses in Burkina Faso through a range of financial and non-financial products and services.[5] Since 2010, it has been a subsidiary of Ecobank Microfinance in Africa.[6] Today it has more than 30,000 clients, with over half located in rural areas.

Like UGAFODE, SOFIPE also started its digital journey as an agent of an MNO (Airtel). To increase its outreach in rural areas, SOFIPE decided to partner with Airtel to leverage the large agent network of Airtel (over 4,000 agents versus 8 branches for SOFIPE) to distribute SOFIPE services. Clients can deposit and withdraw and get loans disbursed and reimbursed via Airtel Money agents. Financial education was provided to clients with the support of MicroLead and Freedom from Hunger.

3 In this sense, UGAFODE could pertain to Business model #5 (Create own mobile banking channel), but it decided to use an existing agent network instead of creating its own.

4 USSD, sometimes referred to as 'quick codes' or 'feature codes,' is a protocol used by GSM cellular telephones to communicate with the service provider's computers.

5 MIX Market, 'SOFIPE,' information accessible through registration (accessed January 2017).

6 Ecobank, *Annual Report 2015* (Lomé, n.d.) Available from https://www.ecobank.com/upload/publication/201606170409440664JNFYHSGW3/Ecobank%202015%20Annual%20Report_v14_Final.pdf

Results have yet to be evaluated, as the connection with the MNO Airtel was only recently completed. Efforts by SOFIPE to educate its clients (one year of training before becoming operational) can be an inspiration to financial service providers (FSPs) and indicate the commitment that might be required, depending on clients' literacy.

FINCA Tanzania was created as an MFI in 1998 and received its deposit-taking licence in 2013. At the end of 2015, FINCA had 63,000 borrowers and 107,000 depositors across 26 branches. FINCA Tanzania started its digital journey by piloting mobile banking in 2013 with Vodacom (M-Pesa) using USSD for loan repayments and savings. National roll-out took place at the end of 2013. In 2015, FINCA Tanzania extended its mobile banking offering by leveraging the agent network of three MNOs (Vodacom, Airtel and Tigo), using both USSD and SIM application toolkit, and by extending the service offering to loan repayments, savings, withdrawals, transfers and e-wallets.

FINCA Tanzania derived lessons learned from the experience of FINCA Democratic Republic of the Congo (FINCA DRC), which was the first subsidiary of FINCA International to implement partnerships with MNOs to leverage their existing agent networks. The main lessons learned were in terms in liquidity management, which had been challenging in DRC.

Taking into account the risks involved, challenges encountered and benefits added through the partnerships, this case study looks at whether and how a partnership with an MNO can benefit an FI.

Establishing such a partnership allows an FI to have access to a vast network of agents already developed and trained to assist clients in carrying out their transactions. It nevertheless requires formalizing a clear partnership between the FI and its agent network provider (usually an MNO) by clearly identifying the balance of power and the competitive advantage that the FI brings to the MNO. A practical timeframe for implementation takes several months to several years, depending on the willingness of the agent network provider, as it requires interconnecting the e-wallet of the MNO with the bank account of the FI in order for the customer to carry out transactions such as saving in his/her FI account, withdrawing or making a loan repayment. Success is not always guaranteed. The lessons learned from this toolkit—both in 'Part 1: Business model description,' presenting the different steps and advice to achieve the model, and in 'Part 2: Case studies,' sharing the experiences of the three FIs highlighted here—should enable FIs willing to engage in this process to identify their key success factors and to evaluate through the tools provided in the toolkit (Part 1) their degree of preparation for engaging in such a partnership.

SOFIPE client transacting at agent
Courtesy of SOFIPE, Burkina Faso

SECTION 2:
CASE STUDY OF UGAFODE IN UGANDA — JOURNEY AND OBJECTIVES

UGAFODE went digital to mobilize savings and increase convenience for clients. Starting as an agent for two MNOs in 2012 and 2013, UGAFODE formed a partnership in 2014 with both MNOs to leverage their extensive agent networks (over 30,000 agents), enabling clients to transact with agents of the two MNOs.

Table 1: Key facts on UGAFODE (September 2016)

UGAFODE	
Regulatory status	Tier III MDI licence (deposit taking) since October 2011
Length of operations	Since 1994
Geographical coverage	Countrywide
Products	Loans, savings, fixed deposits, money transfers, bill payments, GSAs
Staff	244 (including 93 loan officers)
Branches	16
Active borrowers	17 165
Gross loan portfolio (US$)	10 271 087
Active depositors	97 614
Total deposits (US$)	4 530 967

Source: MIX Market, 'UGAFODE,' 2016 data accessible through subscription.

UGAFODE at a glance

Today, UGAFODE is one of five Tier III institutions[7] in Uganda,[8] having received its deposit-taking licence in 2011. See table 1 for a summary of key facts on the institution.

With 16 branches countrywide (11 rural and 5 urban), UGAFODE offers a diversified portfolio of products that contains six savings products[9] (including GSA, an account targeted at informal SGs) and eleven loan products.[10]

In addition, UGAFODE provides money transfer services through Western Union, Xpress Money and MoneyGram in its branches.

To better serve its customers, UGAFODE decided to go digital and offer MM transfers, enabling its customers and the general public to send and receive money anywhere in Uganda using their phone, by being an agent for both Airtel Money and MTN Mobile Money. In 2014, UGAFODE added its AirSave mobile banking platform, enabling clients to access their UGAFODE account in order to conduct operations through the MM account, as both accounts (the MM wallet and the UGAFODE account) are linked. Savings, withdrawals, bill payments, account balance enquiries and mini-statements are all accessible through mobile phones using AirSave, the UGAFODE mobile banking platform.

7 The Tier III FI class in Uganda includes MFIs that are allowed to accept deposits from customers but only in the form of savings accounts. Members of this class of FIs are known as microfinance deposit-taking institutions (MDIs). MDIs are not authorized to offer chequing accounts or to trade in foreign currency.

8 The licensed Tier III institutions in Uganda as of 30 June 2016 were EFC Uganda Limited, FINCA Uganda Limited, Pride Microfinance Limited, UGAFODE Microfinance Limited and Yako Microfinance Limited. *Source:* Bank of Uganda, *Annual Report FY2015/2016* (Kampala, n.d.). Available from https://www.bou.or.ug/bou/bou-downloads/publications/Annual_Reports/Rprts/All/Annual-Report-2015-2016.pdf

9 UGAFODE savings accounts comprise the following: Ordinary Savings Account, a traditional savings account accessible at a branch or through the mobile banking platform AirSave; Target Savings Account, an account targeted at people saving on a daily, weekly or monthly basis for a future goal; Junior Savings Account, an account for children; Fixed Deposit Account, an account for fixed terms, determined by the customer, that receives an interest rate; GroupSave Account, an account targeted at informal SGs; and Institutional Savings Account, an account for organizations and their members.

10 UGAFODE loan products include the following: Agriculture Loan; Business Loan; Housing Loan; Asset Acquisition Loan, a loan for business or personal asset acquisition; Salary Earner's Loan, a short-term financing loan for salaried employees; School Fees Loan; and School Development Loan, a loan for schools to acquire assets or to expand.

The digital journey

UGAFODE started its digital journey in 2012, after signing a contract to become an MTN Mobile Money agent. UGAFODE approached MTN, since 70% of its base customers had an MTN line. Later, UGAFODE also became an Airtel Money agent with the purpose of giving Airtel clients the possibility of channelling their loan payments to UGAFODE via MM.

After being an MTN Mobile Money agent for one year, UGAFODE decided to partner with MTN to use its network of agents. Developing the partnership with MTN was a quick process, leveraging the relationship as agent, whereas negotiation/integration with Airtel took over two years due to competing priorities of the MNO and integration issues.[11] Integration with the MTN platform for real-time transactions took three months (March–June 2014). With Airtel, integration was completed one way (from FI account to wallet) in March 2016 and is still pending for wallet to FI account.

The pilot with MTN was carried out in four branches from June to December 2014. UGAFODE received approval from BoU to roll out to all branches in June 2015. The roll-out started in Q3 2015.

In October 2016, after one year of negotiations, the contract with MTN was amended and UGAFODE became a super agent, which brought favourable changes to the transaction commission structure and options to rebalance and address liquidity issues.[12] See figure I for a summary of the digital journey by UGAFODE.

The interconnection between UGAFODE and both MNOs runs through an aggregator (Pegasus). Platforms are interfaced in real time. With MTN, the process was simplified as both MTN and UGAFODE used the same aggregator (Pegasus). With Airtel, on the other hand, it was more difficult since it used a different aggregator than Pegasus and both aggregators had to work jointly.

Airtel was also in an integration phase after acquiring another MNO (Warid Telecom), and partnering with UGAFODE was not a priority. Ultimately, UGAFODE and Airtel were able to conclude negotiations, and since March 2016, the mobile banking platform can be accessed using the Airtel Money or MTN Mobile Money menu, as well as by using the UGAFODE USSD code. Yet, this integration with Airtel is only partial as clients can push money from their UGAFODE account to their Airtel Money account but not the other way around.

With the help of MTN, UGAFODE acquired its own USSD code (*230#) from the Uganda Communications Commission, since FIs were not allowed to do mobile banking transactions at that time.[13]

UGAFODE started its mobile banking adventure with a pilot phase involving 4 branches, after which it was authorized by BoU to roll out AirSave across its 16 branches. The pilot phase revealed many challenges that UGAFODE tried to address before nationwide launch:

- Financial literacy issues among clients
- Mobile literacy issues among clients
- Low usage of MM by SG members
- MTN agents not always present in areas where UGAFODE operates
- Low liquidity of MTN agents in rural areas
- High fees for low volume transactions
- Transaction limits for large SG transactions
- Remoteness of places where UGAFODE operates making it a challenge to train clients

Figure I: UGAFODE digital journey

11 Airtel put integration on hold while it migrated platforms and changed management. In addition, Airtel would not agree to let Pegasus, the aggregator firm, on the Airtel system. Even to date, the concerns that Airtel is planning to sell its assets to another MNO are still keeping the final full integration with wallet-to-bank transactions from being completed.

12 MTN Uganda does not allow an agent to rebalance at another agent, only at a super agent.

13 Agency banking in Uganda was made possible in early 2016 by a regulation from BoU.

Objectives of going digital

Objectives for UGAFODE

UGAFODE went digital mainly to **capture new savings clients** through increased access and convenience **and improve its savings mobilization efforts** and thereby decrease its reliance on expensive foreign debt to fund its credit portfolio. Becoming an agent not only allowed UGAFODE to tap into a bigger potential market and increase proximity to clients, but it also was a way to increase its revenues by generating additional commissions and fees.

Leveraging the MTN agent network was intended to **improve efficiency and reduce operational costs**, while increasing the **outreach and convenience** to clients in remote areas where UGAFODE did not operate branches.

UGAFODE launched GSAs that target SGs with AirSave, its mobile banking platform, for the following primary reasons:[14]

- Serve an untapped market
- Lower operational costs for the institution
- Mobilize savings and reduce cost of funding (15%–16%)
- Increase savings deposits
- Support and improve the convenience and accessibility of UGAFODE services to both existing and potential customers
- Lower the cost of transactions for customers[15]

Objectives for clients

By introducing the AirSave mobile banking platform, accessible through Airtel Money and MTN Mobile Money, UGAFODE provided clients with easy access to their accounts for saving, withdrawing, repaying loans, checking balances and viewing transaction history as well as serving as another method for buying airtime when needed.

The specific objectives were the following:

- Lower the cost of doing business by removing the need to transport and manage cash
- Increase convenience: Decrease clients' cost and time for travelling to a branch in addition to taking time away from work
- Lower the risk of doing business by removing the use of cash in branches
- Maintain competitive edge in a rapidly developing financial services market in Uganda

Clients can simply deposit money in their e-wallet account with an MNO agent and push it to their UGAFODE account (true in the case of MTN, still to come for Airtel). Withdrawing implies transferring the money from the UGAFODE account to the MNO MM account (operational for both Airtel and MTN) and then cashing out at an agent (see table 2 for fees for MM account to UGAFODE account transfers using an example amount and table 3 for fees for AirSave transactions).

14 In 'Section 4' on UGAFODE achievements, objectives are reviewed one by one to assess which ones were met or not met.

15 Clients using AirSave claim they spend less both in time and cash.

Table 2: Example of customer fees to move U Sh 10,000 between MTN Mobile Money wallet and UGAFODE account

Example: Moving U Sh 10,000 from MTN Mobile Money wallet to UGAFODE account

1. Fee to deposit only Mobile Money wallet	2. Customer airtime fee	2. Customer fee to push money to UGAFODE per MTN merchant tariff fee	Total fees
U Sh 0	U Sh 210	U Sh 500	U Sh 710 (7%)

Example: Moving U Sh 10,000 from UGAFODE account to MTN Mobile Money wallet

1. Customer airtime fee	2. UGAFODE charge to customer to push money to e-wallet	3. Customer withdrawal fee per MTN tariff	Total fees
U Sh 210	U Sh 0 (UGAFODE pays U Sh 540 to MNO)	U Sh 800 (cash-out fee)	U Sh 1010 (10%)

Table 3: Fees paid by customers to MTN for transactions through AirSave

Transaction TIers (U Sh)		Transaction type and customer fees (U Sh)					
		Sending money to		Withdrawing cash from		Making payments for	
Minimum	Maximum	MTN Mobile Money registered users	Unregistred users	Agent	ATM	Bills plus goods & services	Multiplex parking fees
500–2 500		500	1 000	300	NA	110	190
2 501–5 000		500	1 000	400	NA	140	330
5 001–15 000		1 000	2 000	800	1 000	500	1 000
15 001–30 000		1 000	2 200	800	1 000	500	1 600
30 001–45 000		1 100	2 800	1 100	1 200	500	2 000
45 001–60 000		1 100	2 800	1 100	1 200	550	2 650
60 001–125 000		1 400	4 400	1 750	1 850	660	3 500
125 001–250 000		1 400	8 400	3 250	3 450	950	3 950
250 001–500 000		1 400	11 000	5 250	5 750	1 250	5 050
500 001–1 000 000		2 200	21 000	9 500	10 350	3 200	10 700
1 000 001–2 000 000		2 200	40 000	18 000	19 600	5 500	20 500
2 000 001–4 000 000		2 200	70 500	32 000	35 500	10 000	40 000

Source: MTN Uganda

FEES PAID BY CUSTOMERS FOR WITHDRAWING FROM THEIR ACCOUNT

Objectives for the mobile network operators

The value proposition UGAFODE offered to the MNOs was leveraging the UGAFODE customer base as potential new clients for the MNOs, while having UGAFODE pay for using an agent network the MNOs had built. The main benefits for the MNOs were these:

- Earn fees on transactions performed by clients on AirSave
- Acquire additional customers for their MM business
- Get free brand awareness-raising through UGAFODE
- Get free financial education for their customers

SECTION 3:
CASE STUDY OF UGAFODE IN UGANDA — APPROACH TO IMPLEMENTATION

Regulation and partnerships

UGAFODE started as an agent for MTN Mobile Money in 2012 and for Airtel Money in 2013, offering their services in all UGAFODE branches countrywide. As an agent, UGAFODE enables its customers and the general public to send and receive money anywhere in Uganda using their phone. No special licence was required to become an agent.

In 2014 and 2015, UGAFODE partnered with both Airtel and MTN to leverage their agent networks and link UGAFODE accounts to the mobile wallets of the MNOs.

As part of the process, UGAFODE applied to the Uganda Communications Commission to get a USSD platform that was accessible from mobile phones. UGAFODE had to apply for one since the USSD platform of MTN did not have all the required functionalities for mobile financial services at the time.[16]

With funding from MicroLead, a global initiative of the United Nations Capital Development Fund (UNCDF), and technical assistance from IDEO.org, 17 Triggers and MEDA, the GSA and the AirSave platform were developed and piloted in four rural UGAFODE branches. The pilot took place from June to December 2014, with significant results in terms of increased rural outreach, improved financial literacy and enhanced access to formal financial services by formerly financially excluded rural populations, especially women. However, the pilot fell short of performance targets for customer acquisition.[17] In June 2015, UGAFODE received approval from BoU to roll out the AirSave mobile channel to all branches (including new branches).

16 The MTN USSD code did not enable mobile banking services at the time whereas it does now.

17 Enclude, 'Pilot Assessment Report' (internal document, February 2015).

UGAFODE branch
Courtesy of UGAFODE, Uganda

During the pilot of GSA and AirSave, partnerships were negotiated with intermediaries like Catholic Relief Services and CARE International, which form and closely work with local community-based organizations (CBOs; approach explained below). With MicroLead support, UGAFODE has collaborated with four CBOs: Community Initiative for Prosperity and Advancement (CIPA)[18] and Villa Maria in Kyotera, Nkozi Agri-Business Training Association (NABTA) in Mpigi, and Rural Action Community Based Organization (RACOBAO)[19] in Lyantonde, while a memorandum of understanding has been signed with another CBO, Muhorro Area Co-operative Enterprise (MACE),[20] in Kagadi.

Products and services

In an effort to increase financial inclusion, UGAFODE launched a new savings product, GroupSave, targeting rural, previously unbanked people who hold their diversified savings portfolios in savings boxes. The product was designed to 'remove the invisible barrier between rural individuals, and in particular women, and formal banks.'[21]

UGAFODE also looked at this product as an opportunity to efficiently attract more clients to the brand, by eventually banking the individual group members.

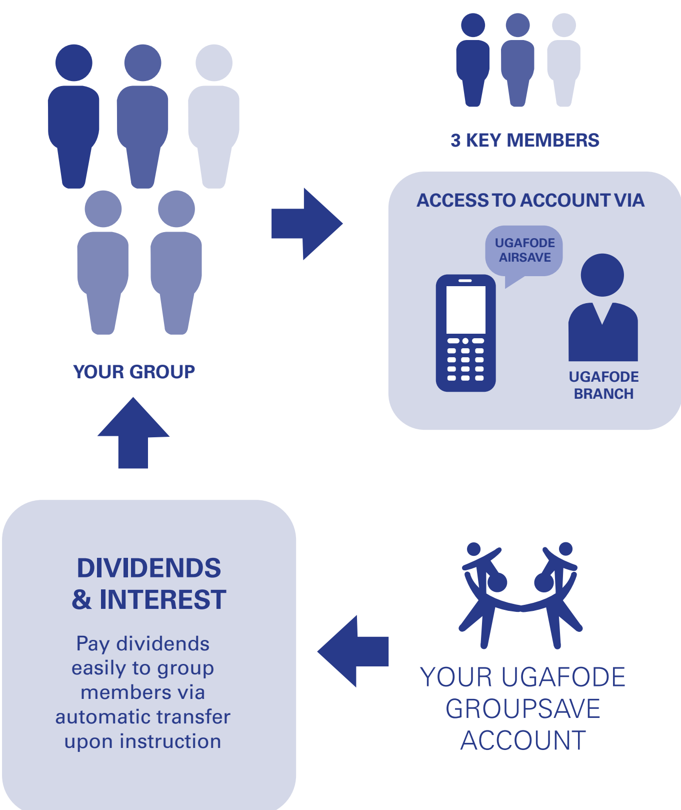
The GroupSave product is aimed at SGs, which are informal groups of 15 to 30 members (predominantly women) who come together on a weekly basis to save and lend their internally generated savings to fellow members. SGs elect leaders, decide on the interest rate to charge members on loans and how often to share-out. SGs allow 'last mile' financial service provision. The GroupSave product is a group savings account that provides members easy access to a reliable formal FI, a safe place to save, and an opportunity to earn 7% annual interest on their deposits.[22] In addition to the group account, individual accounts are also opened for each member.[23]

Linking SGs to a formal FI allows groups to securely store their savings (currently held by a group member in a lock box with two or three other members holding keys to the lock) and can expose SG members to formal institutions and their additional services (e.g., use of agents, financial education on FSP products, and credit once the SG is mature enough).

GroupSave replicates the padlock system of SGs: the signatories/officers of the SG (i.e., treasurer, secretary and chairperson) each need the transaction personal identification number (PIN) of the other two to approve a transaction on the group account. Each of the three executives has two digits of a six-digit PIN. All three have to enter their PINs and receive a push message from the system in order to authorize the transaction. For each transaction performed, a short message service (SMS) confirmation is sent to the three account signatories plus an additional three to five group members randomly chosen by the UGAFODE system, in order to avoid collusion.

Figure II summarizes the GroupSave mechanisms.

Figure II: GroupSave mechanisms



Source: MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

18 See http://www.cipacommunity.org/

19 See http://racobao.org/

20 See http://muhorroacelimited.blogspot.mx/

21 MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

22 Interest is paid on the minimum monthly balance.

23 An individual account is for an individual's transactions and has no link with the group account. However, the individual accountholder can make standing instructions for any transactions between his/her account and the group account.

UGAFODE group meeting
Courtesy of MEDA consultants

UGAFODE decided not to focus on forming SGs. Instead, UGAFODE worked with CBOs and international non-governmental organizations that facilitated, trained and managed existing SGs. The product was originally designed to target SGs promulgated by CBOs and international non-governmental organizations, but UGAFODE expanded to other organizations that save collectively such as rotating savings and credit associations, driver associations and churches.

The GroupSave product required a delivery channel that would support access to the savings accounts in real time to allow for deposit and/or withdrawal of savings in order for members to lend to each other or for share-out at the end of the savings cycle. To address this challenge, UGAFODE rolled out the mobile banking platform AirSave to increase access and convenience, to reduce the cost of transactions for the target customers and to improve operational efficiency for the institution. AirSave has increased account access across all savings accounts (real-time deposits and withdrawals, balance enquiries, mini-statements and airtime purchases). As of the end of 2016, over U Sh 1.072 billion (US$321,600)[24] was transacted through the channel in deposits and withdrawals.[25]

24 Exchange rate U Sh 1 = US$0.0003 (Source: www.xe.com, 15 January 2017). *Note:* This exchange rate is used throughout the document when United States dollar equivalents are provided for Uganda shillings.

25 UGAFODE, *Annual Report 2015* (Kampala, 2016).

Distribution channels

AirSave, the mobile banking platform

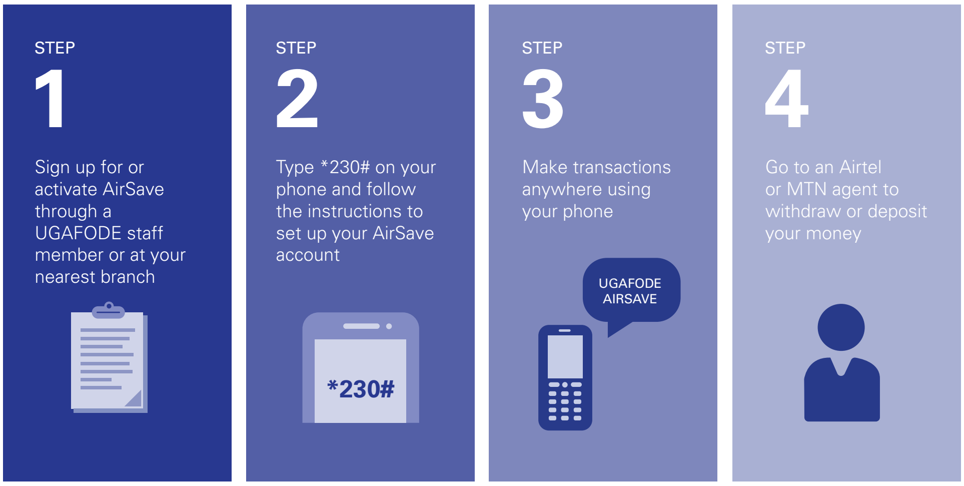
AirSave, the mobile banking platform, is one of the possible channels that GroupSave clients can use to access UGAFODE services. AirSave is accessible to all customers of UGAFODE, not just GroupSave clients. Clients can access AirSave through USSD on short code 230 of UGAFODE or 165 on the MTN platform.

With AirSave, clients can do the following:

- Access their savings account on a real-time basis, anytime and anywhere
- Add money to their mobile wallet through any Airtel Money or MTN Mobile Money agent
- Withdraw/Deposit cash through agents
- Transfer funds to/from their UGAFODE savings account to their MM e-wallet (from/to MTN wallet and UGAFODE account, from Airtel wallet to UGAFODE account)
- Check account balances
- View transaction history (last five transactions)
- Buy airtime
- Pay utility bills

Figures III–V provide more detail on and illustrate the mechanics of the AirSave platform.

Figure III: Steps to perform a transaction on AirSave



Source: MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

Figure IV: Screenshot of money transfer from UGAFODE account to mobile money account

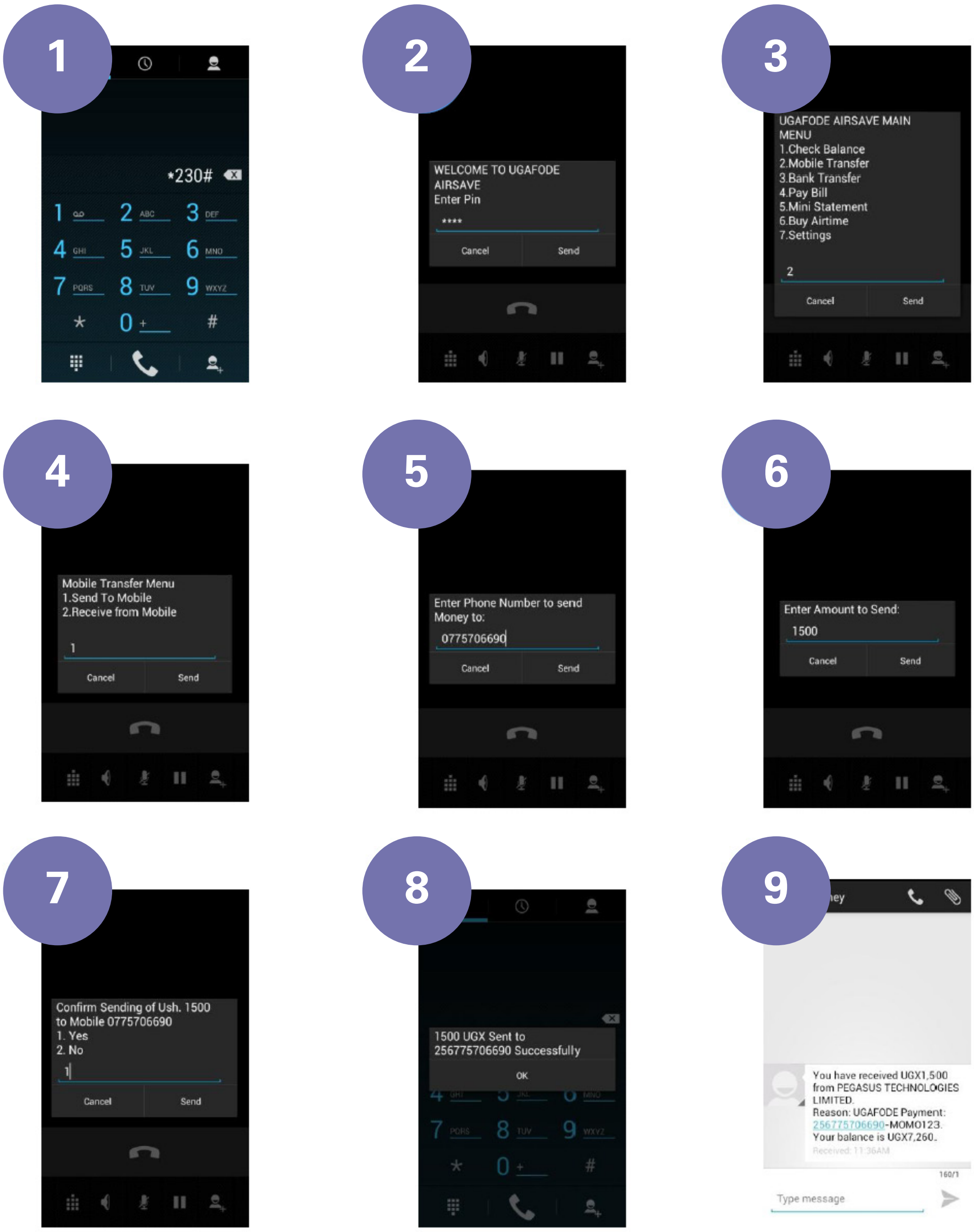
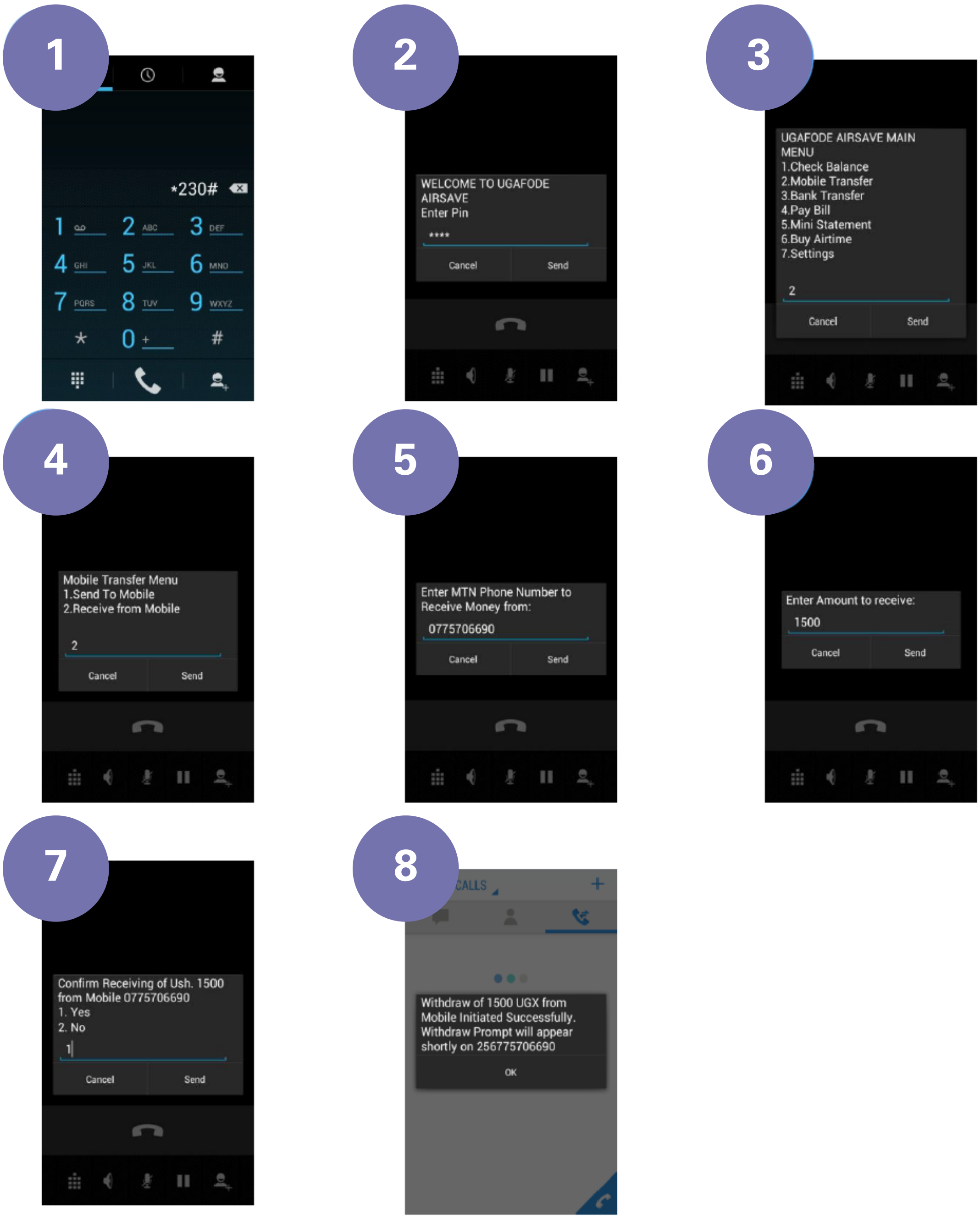
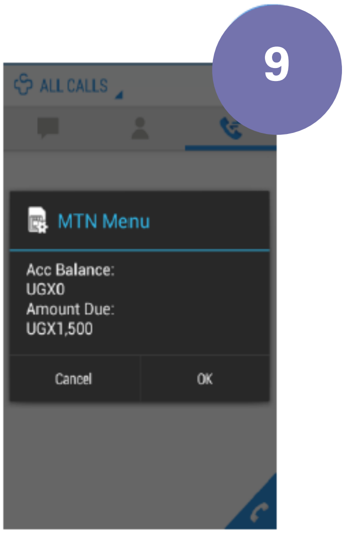


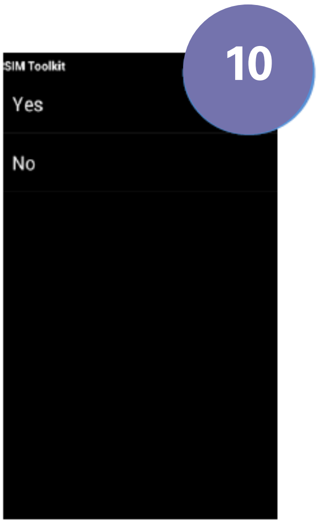
Figure V: Screenshot of money transfer from mobile money account to UGAFODE account

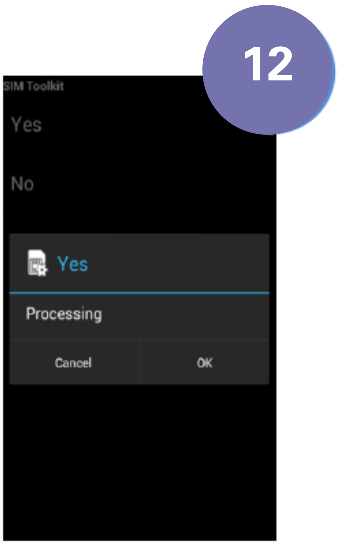
The AirSave part:

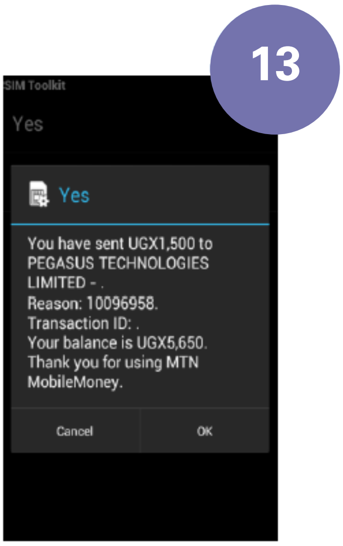


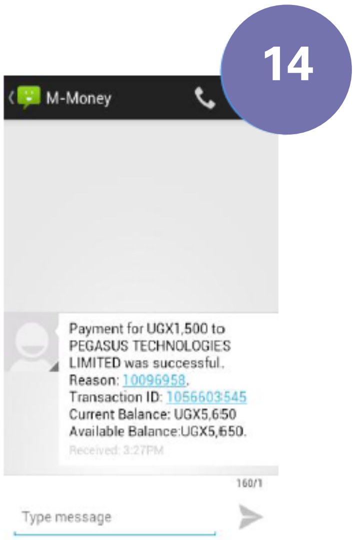
The MTN menu (that pops up shortly afterwards):











In summary, clients push money from their MTN Mobile Money account to their UGAFODE savings account and vice versa using the AirSave platform. In the case of Airtel, clients can push money from their UGAFODE savings account to their Airtel Money account but not yet the other way around. The charge associated for the transfer from the UGAFODE account to the MM account is subsidized by UGAFODE to entice clients to use the services (clients still pay the cash-out fees and airtime fees for the USSD sessions to the MNOs). Clients have to pay transfer fees for pushing money from the MM wallet to the UGAFODE account (on top of paying an airtime fee). There is no cash-in fee.

Transactions performed with agents

Agents of Airtel Money and MTN Mobile Money are the human interface enabling clients to cash in and out (i.e., deposit or withdraw money from their Airtel or MTN MM account). Then, clients need to push or pull money from their MM account to their UGAFODE savings account or vice versa. OTC transactions only occur for airtime top-ups and unregistered MM withdrawals, meaning the agent performs the transaction for the client. Because of low literacy, some rural customers trust agents to complete the transactions for them (OTC model).

The agents performing the transactions for clients work for the two MNOs. UGAFODE neither manages the agents nor pays them any commission. UGAFODE does not pay Airtel or MTN for using their agents. Clients pay to use the service. UGAFODE only pays the transfer fee to both MNOs when clients push money from their UGAFODE account to their MM account.

Agent network management

The main purpose of the partnerships with Airtel and MTN was to leverage their distribution networks (agents) in order for customers of UGAFODE to perform transactions. Thus, UGAFODE does not manage its own agent network but rather uses the Airtel and MTN agent networks to distribute its products, including savings and loans.[26]

The agents are managed by Airtel and MTN, which have relatively good access to the whole country though coverage in remote villages tends to be limited. Regarding coverage, MTN has wider coverage than Airtel. Please refer to Appendix I for more details on the context of Uganda.

Currently, 200 MTN agents and 150 Airtel agents perform transactions for UGAFODE customers.

UGAFODE has no control over agents but wanted to ensure agents' reliability. An engagement strategy with the MNOs was designed to be mutually beneficial, so that agents could have a dependable customer base, customers could expect reliable agents, MNOs could have more MM activity, and UGAFODE could successfully mobilize savings through AirSave. UGAFODE is in the process of implementing it with MTN. Please refer to Appendix II for the detailed agent engagement strategy.

Internal capacity

Organizational structure

During the pilot, responsibilities were shared by the Business Growth Manager who was responsible for marketing and GroupSave, the Information Technology (IT) Manager who handled the back-end and the Operations Manager who handled AirSave.

Following the pilot, which revealed a lack of focus on savings, UGAFODE created a team, as follows, in charge of savings.

At headquarters level

An Alternative Delivery Channel Department was created to support AirSave, and a Channels Manager was appointed in September 2016. The Business Growth Team was made responsible for setting targets as well as marketing and monitoring all savings mobilization efforts through a customer engagement framework.

At branch level

Savings Champions were identified: Sales and Marketing Officers were identified for sourcing new savings business on a half-time basis (the other half focused on credit). The position was a short-term, six-month renewable contract with a salary half that of a Credit Officer and without incentives or bonuses. Turnover was high. The position was revised to become a permanent one with a salary equal to that of a Credit Officer and renamed 'Savings Mobilization Officer.' The new contract format has attracted talented people from banks with marketing and sales background and changed the perception of savings internally within UGAFODE.

UGAFODE beefed up branch field teams by recruiting Savings Mobilization Officers to drive the growth of savings balances on customer accounts through relationship management.

At field level

At each touchpoint, regardless of whether it was with a Customer Service Officer or Credit Officer, 'customers needed to be engaged holistically – as people with both savings and credit needs.'[27] Job descriptions for branch staff were therefore updated to reflect savings responsibilities and to serve the dual purpose UGAFODE held to mobilize savings and to extend credit. Significant presence in the field was required, with sales representatives conducting initial visits with and pitching to SGs, as these groups had little trust in the banking system and hence needed to meet with branch staff members a few times to be convinced to open an account and deposit their money.

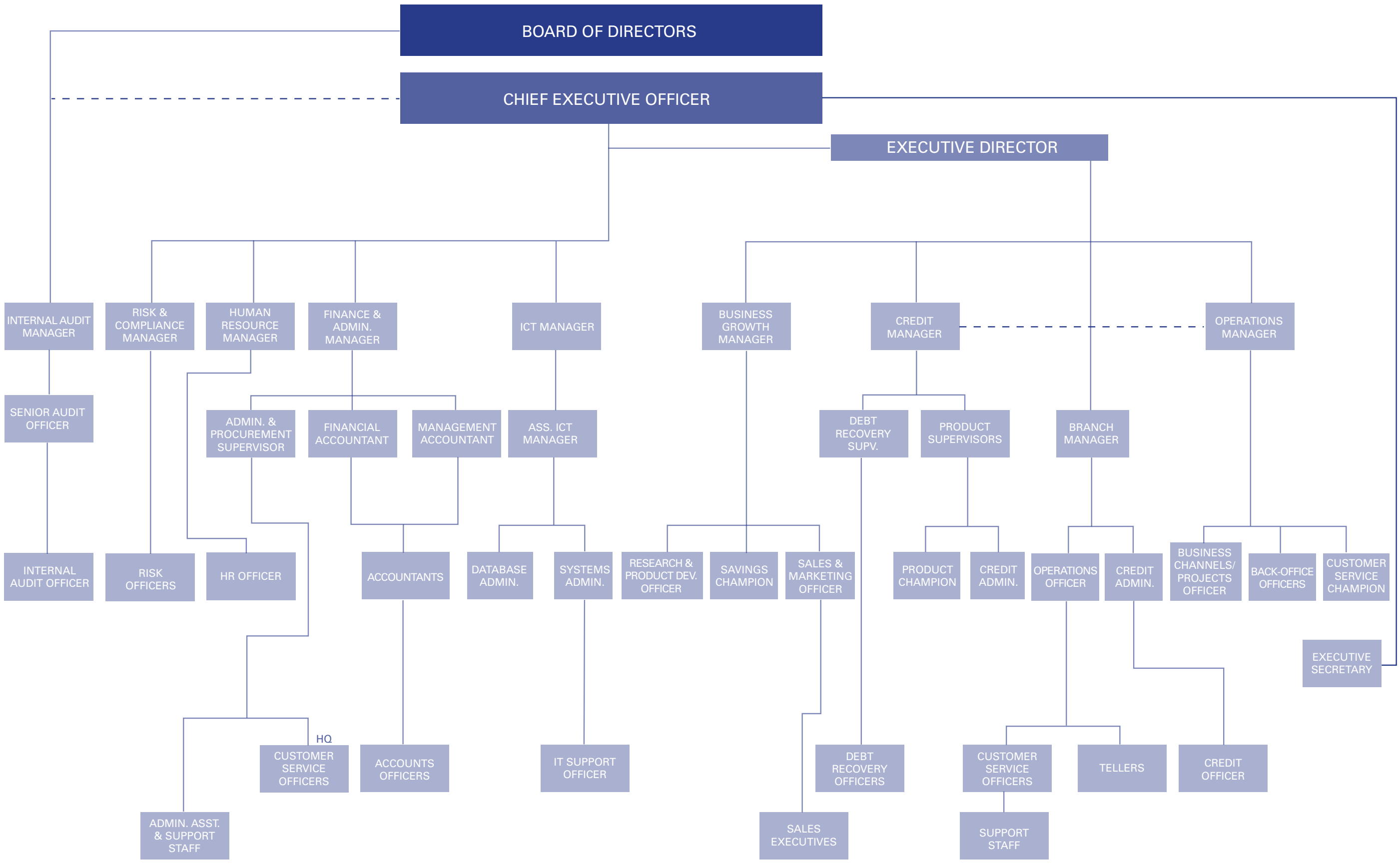
Figure VI further details and illustrates the organizational structure of UGAFODE.

26 Enclude, 'Pilot Assessment Report.'

27 MEDA, consultant report for UNCDF.

Depositing money in UGAFODE account via AirSave
Courtesy of MEDA consultants

Figure VI: UGAFODE organizational chart (as of May 2016)



Source: UGAFODE

Training and development

Institutional capacity-building was provided at both headquarters and branch levels.

UGAFODE staff received three savings mobilization trainings to prepare and refresh them—one in June 2014 before the start of the GroupSave and AirSave pilot, one in April 2015 before roll-out to all 16 branches, and one refresher on customer segmentation, engagement and marketing in August 2016.

Branch staff received training on the customer engagement strategy (savings mobilization strategies, customer segmentation, value propositions, a new framework for customer engagement for all savings products, and the AirSave delivery channel), on the agent engagement strategy (the agent scorecard, and branch roles and responsibilities) and the CBO engagement strategy (recruitment and management of CBOs). Staff who received training included Branch Managers, Sales Officers, Customer Service Officers, Credit Officers and Credit Supervisors.

Incentives

A staff incentive scheme was designed in 2016, yet it is still awaiting implementation (see table 4).

Table 4: Staff incentive system at UGAFODE

Purpose	To incentivize performance of branch staff to achieve the UGAFODE savings mobilization goals
Goals	• Increase savings volume • Increase activity in customer accounts
Principles	• Follow the fairness principle—a clear relationship between job effort and output • Be straightforward, simple and reactive • Take into account the importance of team and individual efforts
Incentives	• New Account Performance Incentive (individual), based on number of referred accounts • Savings Performance Incentive (team), based on net savings volume increase]

Source: MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

Technology

Leveraging the agent networks of Airtel and MTN required integration with their MM platforms for transactions in real time. This integration was performed by the aggregator Pegasus. It required only three months with MTN (March–June 2014) since both UGAFODE and MTN were using the same aggregator, whereas it took over two years with Airtel (2014–2016) because Airtel was using a different aggregator and had other priorities than connecting with UGAFODE.[28] UGAFODE has since integrated an Airtel pull function and is working to complete the push integration.

Internal IT teams at UGAFODE supported the integration between the UGAFODE core banking system (CBS), Pegasus and MTN, gaining new capacity through the UNCDF-MicroLead project.

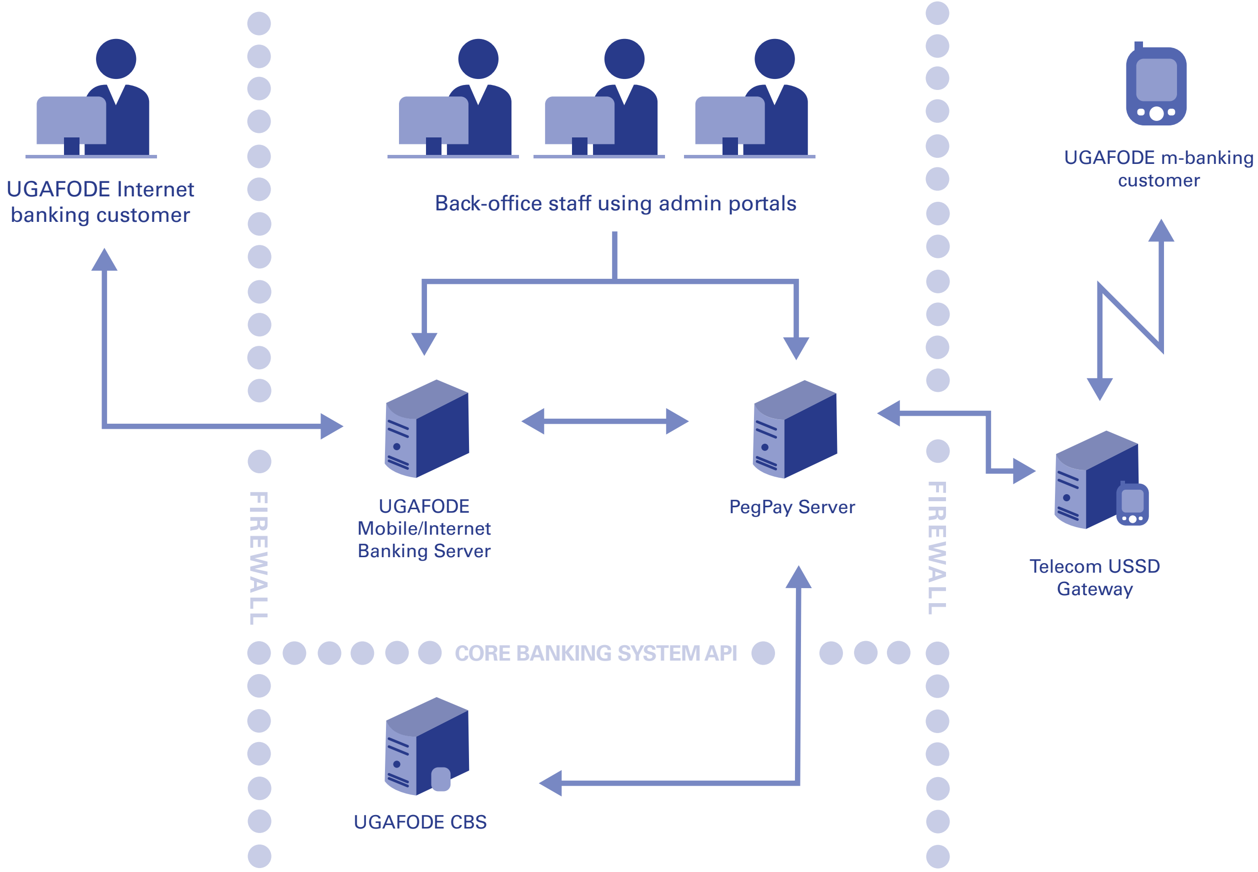
To achieve this integration, UGAFODE also had to upgrade its management information system (MIS). The technology integration and upgrade costs amounted to US$86,000, which was paid by a grant from UNCDF-MicroLead.

UGAFODE uses a web admin portal to register customers, approve new accounts and activate them, view all transactions and reset customer PINs. The system used is the MIS 'Bankers Realm.'

Figure VII diagrams the mobile banking infrastructure utilized by UGAFODE.

28 These other priorities included integrating the MNO (Warid) that Airtel had bought in 2014 and changing management structure.

Figure VII: UGAFODE mobile banking infrastructure diagram



Note: API stands for application programming interface

Source: MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

Financials

Capital expenditures and operational expenditures

Partnering with an MNO is a business model that requires significant financial investments in IT resources as well as hardware. UNCDF-MicroLead paid for the MIS upgrade and integration with the MTN platform.

UGAFODE also invested in training and marketing. MTN educated clients on the attributes of MM, whereas UGAFODE educated clients on the mobile banking aspect. UGAFODE has not invested enough in client education and staff training so far.

Tables 5 and 6 list the capital expenditures (CapEx) and operational expenditures (OpEx) that UGAFODE incurred.

Table 5: Capital expenditures for UGAFODE

CapEx (one-off investment, US$)	
Upgrade of the MIS and integration with the MTN platform	86 000
Acquisition of the USSD channel	10 500
Integration costs with the Airtel platform (mobile banking platform, Telecom USSD API,[a] SMS Gateway)	47 050
Marketing/Promotion/Education	amount not disclosed
TOTAL	**>150 000**

CapEx per branch (U Sh)	
Initial training	4 000 000 (US$1 200)
New branch training	16 000 000 (US$4 800)
Marketing materials per new branch	16 000 000 (US$4 800)
TOTAL	**36 000 000 (US$10 800)**

a API stands for application programming interface

Table 6: Operational expenditures for UGAFODE

OpEx per branch (recurring annual cost, U Sh)	
Furniture/Fittings	75 000
Staff salaries	3 360 000
Head office/Manager monitoring	480 000
Field assistant allowance	1 600 000
Officer field transport	4 200 000
Interest paid on GSAs	12 000 000
Interest paid on individual accounts	800 000
Account documentation	1 200 000
TOTAL	**~24 000 000 (~US$7 200)**

Commissions and fees

Under the partnership agreement, Airtel and MTN collect fees from UGAFODE clients when the latter perform transactions with their agents. Agents of Airtel and MTN receive part of that commission and their respective companies receive the rest. UGAFODE does not receive any commission from agents or the MNOs for sending them UGAFODE clients.

UGAFODE could not negotiate the fees for its customers. Clients pay three types of fees (see table 7 for actual amounts):

- Airtime fee for using the USSD session
- Transaction/Transfer fee for moving money between their mobile wallet and UGAFODE account
- Agent cash-out fee for withdrawals (clients are charged for withdrawals but not deposits)

To increase take-up of the service, UGAFODE subsidized the account-to-wallet transfer fees for clients (from their UGAFODE account to their MTN or Airtel account). Clients only paid cash-out commissions to agents. Yet, UGAFODE could not absorb the cost for wallet-to-account transfers and passed along the cost to the customer.

Table 7: Fees paid by customers for using AirSave

	Airtime fee (U Sh)	Transfer fee (U Sh)	Agent cash-in/out fee (U Sh)
From MM wallet to UGAFODE account	210	700–1000 (US$0.21–US$0.30; i.e., 1%–10% of amount)	NO cash-in fee
From UGAFODE account to MM wallet	210	540 (Paid by UGAFODE to MNO)	330–35200 (1%–3% of amount withdrawn)

Airsave transaction tier		Transaction fees	Transaction tier		Agent charges
500	2 000 000	700	500	2 500	330
500 001	2 000 000	800	2 501	5 000	440
2 000 001	4 000 000	1 000	5 001	15 000	880
			15 001	30 000	880
			30 001	45 000	1 210
			45 001	60 000	1 210
			60 001	125 000	1 925
			125 001	250 000	3 575
			250 001	500 000	5 775
			500 001	1 000 000	10 450
			1 000 001	2 000 000	19 800
			2 000 001	4 000 000	35 200

Source: UGAFODE

Other revenues

The only sources of revenue are the following (see table 8 for annual amounts):

- Interest earned on investments
- Monthly service charge of U Sh 10,000 on GSAs, amounting to U Sh 5 million per year (US$1,500)
- AirSave withdrawal charge[29]

Table 8: Revenue sources for UGAFODE

Revenue sources (yearly, U Sh)	
Interest earned on investments	12 000 000 (US$3 600)
Ledger fees for GroupSave	5 000 000 (US$1 500)
Withdrawal before target charge	1 600 000 (US$480)
TOTAL	**18 600 000 (US$5 580)**

29 This charge is for clients who withdraw their savings before the target date set.

SECTION 4:
CASE STUDY OF UGAFODE IN UGANDA — ACHIEVEMENTS

Pilot results were below targets in terms of customer acquisition and activity rate. Since the pilot, uptake has been rather slow and dormancy has been an issue. Although proximity and convenience have improved for clients, the benefits for UGAFODE are less obvious than for the MNOs, since UGAFODE supported most of the costs to implement the model but has not seen a clear increase in the customer base or decrease in operational costs yet.

Fulfilment of objectives for digital finance

UGAFODE achievements have to be analysed in light of the institution's original objectives for digital finance (see table 9). Although no data back up these assumptions, UGAFODE is convinced from conversations with customers that proximity and convenience have increased. On the other hand, UGAFODE has not met its targets as an institution.

Table 9: UGAFODE digital finance objectives and achievements

	ORIGINAL OBJECTIVE	ACHIEVEMENTS
Objectives for clients	1. Increasing proximity	Although no customer research has been performed, UGAFODE is convinced that proximity to customers has increased and sees it reflected in growth of the customer base.
	2. Improving convenience	Although no customer research has been performed, UGAFODE is convinced that convenience for customers has improved.
Objectives for UGAFODE	1. Lowering operational costs for the institution	The new channel has increased operational costs (new client acquisition costs) and is not yet at breakeven. UGAFODE is losing on average US$1 per SG per month.
	2. Mobilizing deposits: reach 80,000 new depositors	UGAFODE opened 35,000 savings accounts and mobilized some U Sh 5 billion (US$1.5 million) through its efforts on savings (not just via the digital channel).
	3. Reducing cost of funding	A reduction in cost of funding is not yet seen as the savings targets have not been met.
	4. Increasing customer base	Over 379 groups were operating GSAs as of the end of June 2016, representing over 6,420 clients accessing formal financial services. The target was 1,232 groups by the end of 2016.
	5. Lowering cost of transactions for customers	Lower transaction costs are not yet seen for three primary reasons: (1) most GroupSave members are not using the MM agents, (2) small transactions are still costly due to MNO MM fees, and (3) people like to come to town to do many things, so they just come into the branch to transact.

Transacting at Tigo Cash agent
Courtesy of PHB Development

Other benefits for clients

Savings in transportation time and cost

Clients do not need to commute to the nearest branch to deposit or withdraw from their account. They simply deposit their cash with the nearest Airtel or MTN MM agent and transfer to their UGAFODE savings account with a USSD pull transaction. Likewise, they push funds to their Airtel or MTN account and withdraw from the nearest agent. Although no client study has been performed, UGAFODE knows from client feedback that clients experience savings in transportation time and cost and that the commission paid to agents is lower than the transportation cost they previously incurred.

Increased security

There is a large benefit in terms of security for the whole SG as well as its members. When an SG has collected a large amount, there have been cases of mismanagement by leaders at the expense of members.

With AirSave, all transactions are initiated from a mobile phone by the treasurer and have to be authorized by the other two signatories/officers (usually, the chairperson and the secretary) through their own phone using their own PIN. After the transaction, SMS confirmations are sent to the three signatories/officers plus three to five additional SG members, chosen at random by the UGAFODE system, which creates a monitoring mechanism and mitigates risks of mismanagement by those initiating transactions.

Other benefits for the financial institution

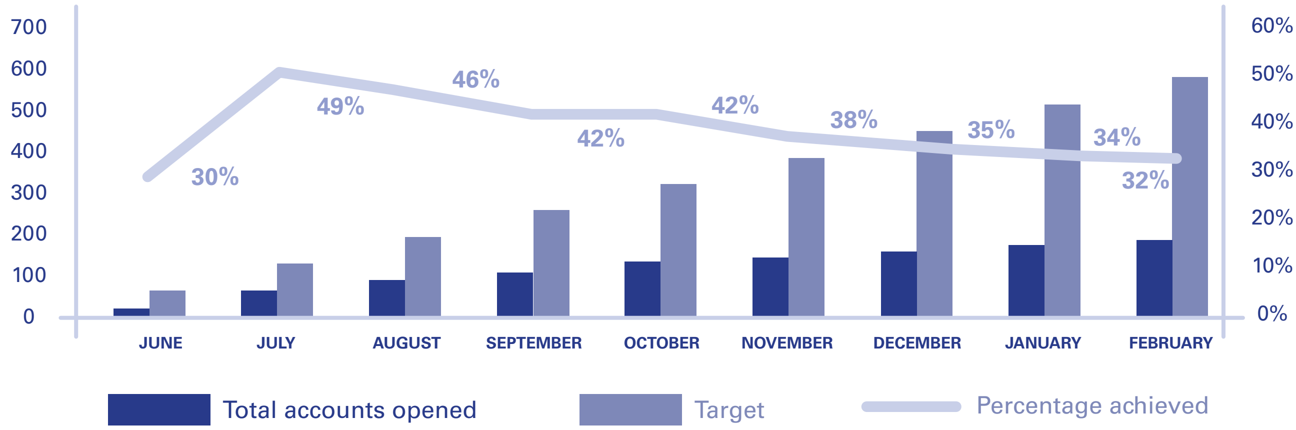
Brand visibility and reputation

By offering AirSave, its proprietary mobile banking platform, UGAFODE was a pioneer and took DFS a step further, leading the competition (being the first mobile banking service in Uganda). Yet, the delay in integration with Airtel has affected that positive image. Nevertheless, UGAFODE enjoys increased notoriety compared to before it introduced the new channel. Although there is no study to confirm it, UGAFODE believes this effort gives clients a positive image of the institution and makes UGAFODE more attractive to new clients.

Results of the pilot (June–December 2014)

The pilot fell short of customer acquisition targets. Results were 30%–50% of targets set (see figure VIII).[30] As of 19 February 2015 (two months after the end of pilot), a total of 189 accounts had been opened against a target of 576 with a total balance of U Sh 36,338,183 (US$10,901), an average of U Sh 192,265 per account (US$58).

Figure VIII: Analysis of pilot performance (customer acquisition)



Note: Data as of 19 February 2015

Sources: Enclude, 'Pilot Assessment Report' (internal document, February 2015); UGAFODE database

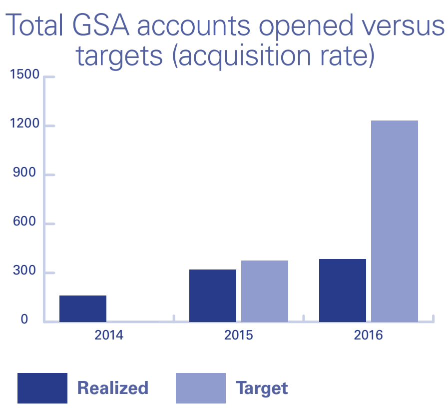
Average account activation across all branches was about 50%. Account activation is defined as when at least one transaction (deposit or withdrawal) is conducted after the customer opens the account.[31] This result means that 50% of customers never completed a transaction after registration and are now considered dormant accounts.

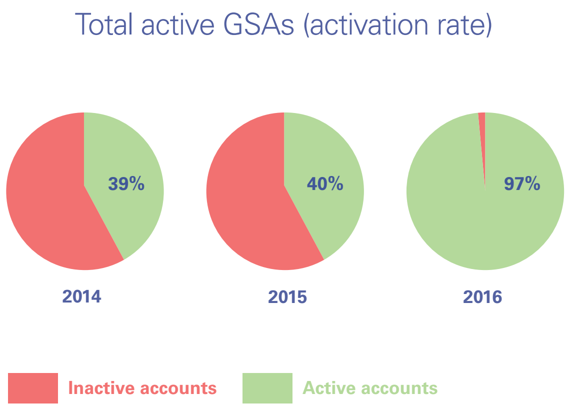
Adoption and use of the digital financial service channel after the pilot (2015–2016)

Low uptake

UGAFODE is opening an average 15 GSAs per month across its 16 branches (i.e., ~1 account per branch per month on average). In 2015, 51% of transactions were conducted by UGAFODE staff.[32] By June 2016, UGAFODE had 384 GSAs, far from its target of 1,232 by the end of 2016. Only 2 of those groups were actively using the AirSave channel. Figure IX further highlights the issue of low uptake.

Figure IX: Performance of the UGAFODE digital financial service channel versus targets (2014–2016)





Source: UGAFODE reporting to UNCDF-MicroLead

30 Enclude, 'Pilot Assessment Report.'

31 Accounts opened in January and February 2015 are not considered as the pilot ended in December 2014.

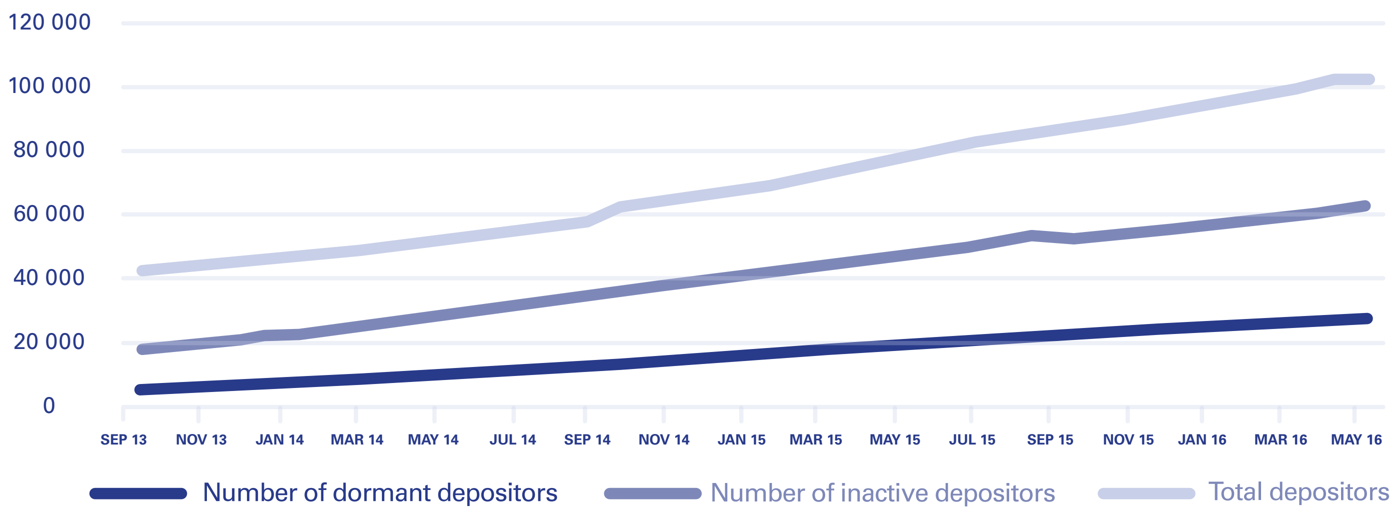
32 These transactions were staff's own AirSave transactions on either their staff salary accounts or individual accounts. *Source:* MEDA, consultant report for UNCDF.

High dormancy

Low uptake is not the only problem. Dormancy is also an issue (see figure X). During the pilot period, the number of total deposit clients had grown by 24%, but the number of dormant accounts had increased even more, by 43%. By the end of the pilot, only 39% of all deposit accounts were active.[33]

About 40% of accounts were active as of the end of 2015 (i.e., a dormancy rate of 60%). With a strong focus on reducing dormancy, UGAFODE managed to reduce it to 3% by the end of 2016 due to closure of dormant accounts with zero balances from the MIS.

Figure X: Depositor activity levels (September 2013–April 2016)



Source: MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

Cost and benefit analysis

As described in the financial section, UGAFODE has limited revenue sources (~US$6,000 per year).

Financial returns on the investment are expected to be derived from the following:

- Lower cost of savings mobilization
- Greater operational efficiency
- Increase in customer base

This is yet to be assessed.

The projections made at the start of the project foresaw breakeven after two years (end of 2017). Based on the current status, the breakeven will be reached at a later stage.

UGAFODE performed a cost and benefit analysis with the help of consultants at the end of 2016, looking at the following key performance indicators (KPIs): growth in number of accounts, number of previously unbanked clients captured, increase in outreach, increase in women customers, increase in rural customers, active users and impact of channels (uptake and usage).

Limited results have been achieved. Rural customers represent 71% of the institution's loan portfolio and 67% of deposits as of September 2016, unchanged from December 2014 when the AirSave channel was introduced. Women represent 33% of borrowers and 37% of depositors as of September 2016 versus 30% and 33%, respectively, in 2014.[34]

UGAFODE is not yet at financial sustainability. Operational costs of GroupSave remain higher than revenues. Currently, UGAFODE loses US$1 per SG per month.

33 MEDA, consultant report for UNCDF.

34 MIX Market, 'UGAFODE,' 2016 data accessible through subscription.

SECTION 5:
CASE STUDY OF UGAFODE IN UGANDA — KEY INFLUENCING FACTORS, LESSONS LEARNED AND WAY FORWARD

UGAFODE had the technical capacity to engage in this model but lacked internal resources and liquidity management capacities. Among the key success factors were a human-centric approach, a clear value proposition for customers, a fast negotiation process and implementation time period with MTN that leveraged an existing relationship and the use of a shared aggregator, and a shared marketing and communication effort. Among the challenges were a lack of segmentation and targeting, a lack of articulation in the value proposition, an unbalanced relationship with the MNOs (no bargaining power for UGAFODE), a lack of dedicated and trained staff to drive GroupSave at the branch level, literacy issues with the mobile banking channel, and agent liquidity and distribution challenges. UGAFODE was probably very ambitious in simultaneously launching a new product (GroupSave) for a new segment (SGs) with a new channel (MNO agents) on a new mobile banking platform (AirSave), which required considerable education and awareness efforts that UGAFODE was unable to fully deliver, lacking field resources to support the effort.

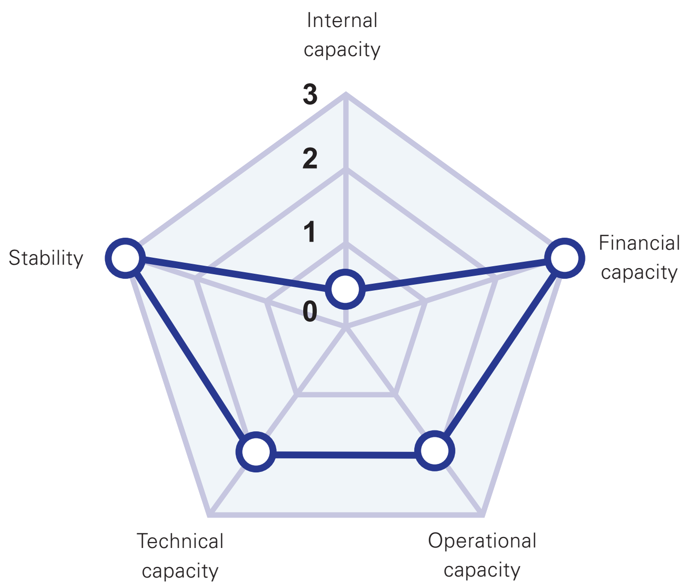
Analysis of readiness

Readiness at time of digital financial service engagement

Figure XI summarizes the institution's readiness at time of engagement with Airtel and MTN, including the following:

- Internal capacity (management, staff capacity, and human resource policy and training)
- Financial capacity (financial resources to pursue the business model)
- Operational capacity (liquidity/cash management, sustainability and regulatory compliance)
- Technical capacity (connectivity, MIS and interfaces)
- Stability (quality of portfolio and governance)

Figure XI: Readiness at time of digital financial service engagement



Meeting the recommended prerequisites

All dimensions are further described in table 10.

Table 10: Recommended prerequisites for Business model #3

Dimension	Prerequisite	Prerequisite description	UGAFODE status
Internal capacity	Management	A channel manager needs to be appointed within headquarter staff but does not need to be exclusively dedicated to this work. The channel manager can inform his/her supervisors of activity on a regular basis (e.g., initially through weekly reports that can later evolve to monthly ones).	UGAFODE did not have a channel manager as DFS were split between Business Growth and Development and Operational Departments. A new channel manager in charge of DFS was only appointed in September 2016.
	Staff capacity	Time is especially needed by FI staff at launch. On a daily basis, there needs to be a partially dedicated team.	UGAFODE did have partially dedicated teams at the branch level. The lack of capacity was solved by the creation of a channels unit to offload duties and redistribute roles. There is now a dedicated team in a channel unit responsible for all DFS activities. UGAFODE lacked capacity in management structure, reporting and product delivery process as well as capacity at branch levels to support the effort.
	Human resource policy and training	Job descriptions need to be adapted/created, and staff involved in the new channel need to be trained (generally provided by the DFSP).	Lack of human resources: sales executives were new when the project started, and there is high staff turnover. New job positions and descriptions and a new unit were created when the business started to expand. New incentives were designed and offered to staff in 2016.
Financial capacity	Financial resources	The FI can use its own or external resources.	UGAFODE used a mix of its own resources and MicroLead resources.
Operational capacity	Liquidity/Cash management	If the FI is doing OTC loan disbursement, it needs to make an initial deposit with the DFSP to be able to start transacting; if the FI is not doing OTC disbursement, then there should be no need for the FI to have its own e-value float. Daily settlement of float should be done at all branches/headquarters if centralized. The FI should help the DFSP agents plan their liquidity by appointing customers to different agents or providing dates for disbursements to agents to anticipate liquidity management.	Liquidity was not managed by UGAFODE at the start; instead, it relied on agents to have the necessary liquidity without warning them of peaks to anticipate. This approach resulted in clients not being able to withdraw or deposit when needed.
	Operational self-sufficiency/ Breakeven	Operational self-sufficiency is greater than 70%.	Operational self-sufficiency was 107% in June 2015 when UGAFODE rolled out. It was 96% as of September 2016.
	Regulation	The FI should have a regular FI licence (there's no need for a special licence for this model) but should check its country's regulations regarding activities that agents can perform and if the agents are required to be exclusive or not.	UGAFODE was licensed by BoU, the country's central bank, to provide AirSave in all its branches after the pilot (June 2015) and also by the Uganda Communications Commission to use a USSD. UGAFODE received approval to roll out with Airtel in March 2016.

Dimension	Prerequisite	Prerequisite description	UGAFODE status
Technical capacity	Connectivity	The FI needs to have Internet connectivity at its main branch/headquarters for reconciliation of transactions performed at partner agents.	UGAFODE has connectivity at headquarters.
	MIS	Ideally, the FI should have a CBS/MIS or MM platform to be able to integrate with the DFSP platform. If not, it is possible to still offer the service using the DFSP web interface.	UGAFODE had to upgrade its MIS to integrate with Airtel and MTN.
	Interfaces	As well as the FTP/API interface,[a] it is advisable for the FI to have a view of the DFSP platform so that it can reconcile all transactions with those that have happened in its CBS/MIS when transactions have been pushed/pulled by its customers on their handset or OTC at agent locations.	The interface with MTN allows real-time integration, so clients can transfer between AirSave and their MTN mobile wallet. Integration is only one way for Airtel.
Stability	Quality of portfolio	Portfolio at risk greater than 30 days is less than 5%.	Portfolio at risk greater than 30 days was 3.74% in June 2014, at the start of pilot. At the end of 2016, it was 6.43%.
	Governance	The FI should have a stable governance to be able to plan and develop a successful digital transition.	UGAFODE had a stable board and management team. UGAFODE had a 3–5-year strategic plan for savings mobilization. Accion International became a shareholder, with two board positions, in 2015 and appointed two staff to the management team (Head of ICT and Head of Credit).

a FTP/API stands for file transfer protocol/application programming interface.

Key success factors, challenges experienced and mitigation strategies deployed

Positioning: Customer centricity but lack of strategy for segmentation and targeting

Key success factor: Customer-centric product developed using human-centred research

Human-centred design research on potential new products was conducted by IDEO.org. As a result of this research, an innovative savings product and channel (GroupSave and AirSave) were developed targeting low-income clients. Another human-centred design company (17 Triggers) developed a marketing campaign and a branding strategy for the savings product.

Challenge: Lack of strategy for segmentation and targeting

One of the lessons learned during the pilot was that branches lacked a strong strategy for which clients to target with their already limited resources.[35]

After the pilot, consultants from Enclude identified a number of challenges:[36]

- Missed opportunities resulting from targeting SGs in remote areas rather than targeting informal groups near the branches (*boda boda* [motorbike] drivers, market women, etc.)
- Dormant accounts due to lack of proper understanding of group behaviour, seasonality and inter-lending cycle
- Focus on increasing the number of accounts instead of getting them active

35 MEDA, consultant report for UNCDF.
36 Enclude, 'Pilot Assessment Report.'

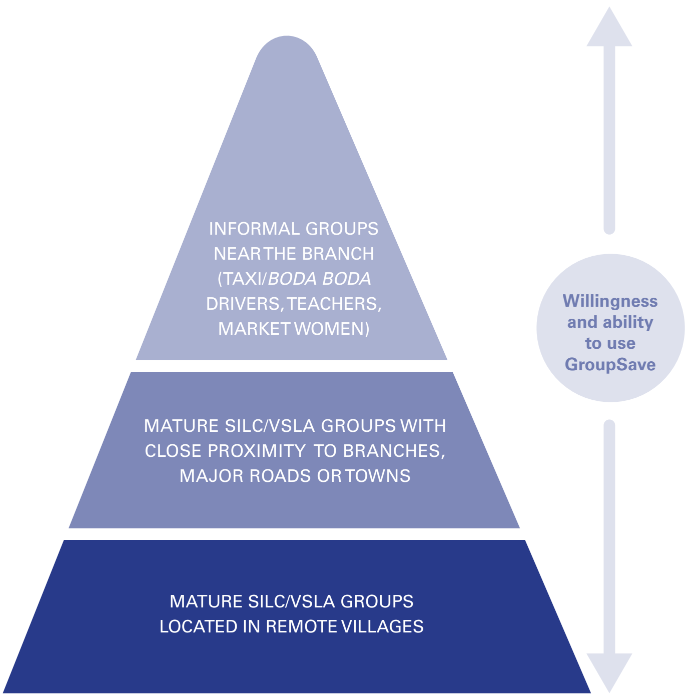
All of these factors resulted in low customer acquisition, low savings balances on GSAs, high dormancy and poor pilot performance.

To address the challenges, UGAFODE created a customer engagement strategy covering savings mobilization, customer segmentation and value propositions, as well as a new customer engagement framework for all savings products and the AirSave delivery channel, which was implemented in early 2016; however, no results could be monitored for lack of a monitoring tool.

MEDA consultants supporting UGAFODE have assisted with prioritization. Customer segments have been refined: savings and internal lending community (SILC)/village savings and loans association (VSLA) groups, UGAFODE loan clients and regular SGs (see figure XII). At the top, representing the highest priority, are the customers who would be most interested in GroupSave and be the easiest to serve. As the triangle expands, the number of potential customers is higher but harder to recruit.

Informal groups have the highest potential activity because they often save for disciplinary reasons rather than for borrowing purposes. *Boda boda* drivers and market women also usually have daily income and would deposit more frequently than those in other occupations. SILC/VSLA groups, on the other hand, have empty accounts for three quarters of the year due to inter-lending, so most are not going to be as active on GroupSave.

Figure XII: Segmentation of GroupSave customers



Value proposition: Clearly articulated but lack of customer engagement strategy

Key success factor: Clear value proposition for clients

UGAFODE articulated four main features of GroupSave in its value proposition and communication:

1. Safety: 'Keep your money safe from fire, home theft and robbery.'
2. Assurance: 'We are licensed by the Bank of Uganda, which means your money is always safe.'
3. Easy access: 'Access your account easily with AirSave, our mobile banking service, or visit one of our 16 local branches.'
4. Interest: 'Make your money work for you by earning interest.'

Challenge: Focus on risk mitigation only and lack of differentiation by segment

The initial value proposition defined with IDEO.org was '**Save any amount** (Deposit any amount, large or small), **Save any time** (Deposit day or night, whenever extra cash is handy), **Save anywhere** (No need to spend money and time on transport to the bank).'

The client value proposition was initially very focused on risk mitigation: the account was marketed as mitigating the risk of box theft. Other elements of the value proposition such as convenience and cost effectiveness were not emphasized. **The value proposition was not strong enough for customers.**

The value proposition was not differentiated by segment. Research conducted after the pilot found that different customer segments had different objectives and used the account for different purposes. Differences in customer groups' objectives also determined their attitude and savings pattern:

- Driver groups *(boda bodas)* have regular cash flow. They can save every month and can ensure cumulative high balances in their accounts. They save together to mitigate the risk of bearing unanticipated events such as accidents and motorbike repairs or to use the group savings as collateral to purchase new motorbikes.

- SG members save in order to inter-lend the money to enhance their returns and to meet individual savings goals at the end of the savings cycle. Active SGs do not have idle savings for about 10 months of the year; they keep rotating their money as loans internally within the group. Only a small fraction of their savings (i.e., social fund) is kept in their savings box to support them during emergencies.

  This pattern affects GSA usage: in most months, SGs are unable to save any money. SG members deposit a very high amount at cycle-start and withdraw the entire sum at cycle-end.

After the pilot, UGAFODE created a clear customer engagement strategy limiting outreach to a 50-km radius around a branch and segmenting customers (near, far, too far). Seven customer interaction touch points were defined and implemented throughout four steps: introduction, account-opening, cross-selling and financial education (see figure XIII).

Product features were also refined and differentiated by segment in terms of benefits.

The customer value proposition is now articulated for each of the segments identified: regular savers, SGs and UGAFODE borrowers.

Figure XIII: UGAFODE customer engagement points

7 - TOUCH PROCESS

1. Welcome and activation
2. SMS message thanking them for registering
3. Utilization — troubleshooting & follow-up
4. Utilization
5. Interaction — get information about the client for cross-selling
6. Utilization & engagement
7. Engagement & cross-selling

Source: MEDA, consultant report for UNCDF (internal document not yet released publicly, December 2015).

Partnerships: Fast negotiation versus lack of focus, and unbalanced relationship with the mobile network operators

Key success factor: Fast negotiation process and implementation time that leveraged an existing relationship and use of a shared aggregator with MTN

With MTN, the negotiation went very fast and the process was completed in three months. The ease of set-up was facilitated by the existing relationship UGAFODE had with MTN as an agent and the fact that both shared the same aggregator.

Challenge: Lack of focus of second partner

Negotiation/Integration with Airtel took two years despite the existing relationship UGAFODE also had with Airtel as an agent (in fact, more recently than with MTN). The two main challenges with Airtel were the lack of focus of Airtel, which was busy integrating an MNO it had acquired (Warid), and the fact that Airtel and UGAFODE used different aggregators.

Challenge: Unbalanced relationship with the MNOs

MNOs like Airtel and MTN have played a big role in the development of the MM market in Uganda and as such play a central role in the DFS ecosystem. That central role gives them the upper hand in negotiating with FIs, especially when the latter are small relative to the MNOs, as is the case for UGAFODE. UGAFODE did not have any bargaining power when it came to influencing the fees paid by customers or getting a share of the commissions, which it did not get.

MTN started competing directly with UGAFODE: MTN developed a competing service on its own MM platform (USSD *165#) that allowed customers to deposit and withdraw money from their MM wallets into a directory of banks, including UGAFODE. AirSave was no longer the only option for mobile banking.

Unfortunately, the slow integration with Airtel negatively impacted AirSave, allowing other competitors to develop their own platforms. By 2016, when the integration was completed, a mobile banking platform like AirSave was no longer a competitive advantage but a ‘standard’ service that customers came to expect.

Marketing and education: Shared effort with mobile network operators but literacy issues

Key success factor: Shared promotion and marketing effort

The success of this model also depends on the chosen marketing strategy for the product and the channel. As they leverage the agent networks of MNOs in this model, FSPs have limited branding influence at points of sales. However, joint promotion between UGAFODE and its MNO partners proved successful: MTN educated customers about MM, and UGAFODE educated them about the AirSave platform and how to use mobile banking.

The choice of the target market also influences marketing. In the case of UGAFODE, it is mainly after GroupSave customers, who are efficiently reached primarily through CBOs as well as mass marketing and targeted marketing. Targeted channels and actions initially used included the following:

- Internal communications (trainings, morning ‘devotions,’ monthly branch manager/head office meetings)
- Mass media (radio, television, press)
- Promotional van
- Branch promotions: external signage, saver’s cards, branded posters and leaflets in branches
- GroupSave promotional meetings (key entry point for marketing savings products)
- Credit officers
- SMS messages

Key messages for clients centred on trust, needs, access and accessibility:

1. Trust UGAFODE: ‘Your savings are safe with us.’
2. Product messages: ‘Our savings products meet your needs.’
3. Easy access to savings products through mobile banking.
4. Savings ‘nudges:’ ‘Save regularly and in small amounts.’

The success of the marketing methods used has not been assessed for lack of related indicators. To approach savings mobilization strategically from the branch level, MEDA introduced Savings Mobilization Plans that incorporated the following items:

- Strategy (e.g., reactivated dormant accounts, increased AirSave usage)
- Deliverable metric (e.g., number of business visits, number of Ordinary Savings Accounts opened per staff member)
- Responsible party (e.g., all staff, Branch Manager, Sales and Marketing Officer)
- Frequency (e.g., daily, weekly, monthly)
- Expected outcome (e.g., percentage of accounts reactivated, percentage of growth in accounts)
- KPIs: KPIs clashed with the targets in the strategic plans, so UGAFODE is currently merging them into one single dashboard

The marketing plan was refined in 2016, differentiating efforts according to audience and tools used:

- Mass awareness: radio, Facebook, website, promotional van, rally sponsorship, branch-opening event, brochures and flyers
- Targeted awareness: Customer Day, Mother’s Day and client lunches
- Internal awareness: training, sales retreat, monthly reporting and branch incentives

UGAFODE promotional van
Courtesy of MEDA consultants

Challenge: Literacy issues with the mobile banking channel

Customers struggled to learn how to use AirSave. The literacy issue was threefold: English literacy, financial literacy and mobile literacy. Quite a number of people in rural areas, a target market for UGAFODE, do not have the level of financial literacy required to easily understand financial transactions and the use of USSD codes. Most just use their phone for calls, and only a few use SMS technology. Customers were unable to read the AirSave menu and the English brochures explaining how to use AirSave.

Customers did not like storing money on the phone because they did not understand or trust the MM system. They either avoided MM entirely or risked fraud by depending on others to conduct transactions for them.

Although AirSave is the most viable option for rural customers to send and withdraw money from their account, it will take time for them to understand how to use the USSD platform and to build confidence in using it due to the high illiteracy level. Risk regarding uptake and usage of the product is high.

UGAFODE developed a financial education strategy that included conducting public events (e.g., Customer Days, rally and volleyball activities, marathon) and quarterly sales pitches per branch.

MM agents of the MNOs were identified by branch to support AirSave customer transactions and the training effort. Their role is to identify needs for training, train clients on cash flows, provide liquidity and float, manage client traffic, and provide support for customer service. The effects are yet to be assessed.

Human resources: Dedicated resource at headquarters but not at the branch level

Key success factor: Dedicated channel manager at headquarters

UGAFODE did not have a channel manager as DFS were split between the Business Growth and Development Department and the Operations Department. As of September 2016, a new channel manager in charge of DFS was appointed. The split between Business Growth and Development and Operations helped clarify responsibilities for staff to manage, monitor and implement strategy between the two departments.

Challenge: Lack of dedicated and trained staff to drive GroupSave at the branch level

The pilot enabled UGAFODE to identify the lack of resources at the branch level to source new clients, conduct pitches and provide education as well as the lack of empowerment at the branch level.

Changes were implemented to create Sales and Marketing Officers, a position that initially was unsuccessful as the salary proposed and the perception of the position within the organization were not high; however, it became a more prestigious position when transformed into a permanent job with good salary, benefits and incentives and renamed 'Savings Mobilization Officer.'

Incentives were introduced but initially focused only on account sign-up and not activity. Staff incentives for savings were designed in 2016 and are awaiting launch. They include account activity, AirSave usage, operational efficiency and better customer service.

Inadequate liquidity management

Challenge: Agent liquidity and distribution challenges that posed a threat to uptake of AirSave by GroupSave customers

Poor distribution of MM agents during the pilot in remote areas, where the majority of UGAFODE GroupSave target customers are located, posed a serious challenge to uptake of the channel by customers. In Masaka and Mpigi, some groups reported that the closest agent was some 10 km away and moreover such agents did not have the required float and liquidity. The implication is that customers might be forced to travel multiple times to conduct a transaction with an agent, which would in turn increase the transaction cost and the risk inherent in carrying cash back and forth. This situation could discourage them from utilizing their GSA.

Initially, due to the savings pattern of customers, agents could not provide the kind of liquidity required by customers: a typical SG has two to three months (recovery months) to deposit up to U Sh 20 million in the bank and withdraw the same amount in a month (disbursement month); agents near SGs cannot offer the type of cash-in/cash-out services they require. This challenge is still present in some areas but is being fixed by the upgrade of UGAFODE to super agent (UGAFODE can provide agents with rebalancing when needed).

UGAFODE is considering providing further support to MM agents in liquidity management and expansion of their footprint/presence, including providing credit to MM agents to facilitate their expansion into UGAFODE areas of operation.

Overambitious launch

Key challenge: Simultaneously launching a new product, a new channel and a new platform targeting new customers

UGAFODE was very ambitious to launch—all at the same time—a new product (GroupSave) targeting new customers (SGs), whose needs UGAFODE did not understand well at the time and with whom it was not accustomed to working, requiring important awareness and education efforts, via a new channel (MNO agents) and a new platform (AirSave, the USSD code). Thus, UGAFODE had to educate its customers on both agency banking (how to use agents) and mobile banking (how to use a phone to push and pull from an MM account to the UGAFODE account). Given the literacy of the target groups (SGs in rural areas), introducing mobile banking was perhaps a step too far for them, and in any case, it should not have been introduced at the same time as the new channel (MNO agents) since the education required was too much.

Lessons learned

The experience of UGAFODE was a learning journey. UGAFODE demonstrated a number of success factors yet had to overcome bigger challenges. Lessons learned from the experience of UGAFODE can benefit other FSPs so that they can prevent or mitigate challenges and succeed on their journey.

From its experience, UGAFODE has derived lessons learned and recommendations to share with other FSPs:

Understand and segment the market adequately:

- Ensure that various customer segments are clearly defined and prioritized.
- Understand the dynamics of different segments and their objectives for keeping savings with the FSP.
- Have a different strategy for targeting different segments: one that is easy to serve but has low volume, one that is for volume but requires more effort in terms of education, etc.
- Understand that all segments will not contribute equally to branch profitability.
- Recognize that different groups require different sales pitches since some features of the product might be more attractive to them than to others; ensure that sales personnel are well trained to be able to use different pitches appropriate to acquiring various customer segments.

Conduct market and/or opportunity assessment and prepare business case prior to deciding to implement the model: market and/or opportunity assessments provide important decision points to identify the best partners in terms of agent network, readiness to partner for new products, etc. Internal capacity should be evaluated and a plan drawn up to identify how gaps will be addressed to allow efficient implementation.

Ensure connectivity is good enough to perform transactions:

- **Opportunity assessment:** Assess Internet and mobile connectivity in the target market.
- **Go to market strategy**: Shortlist MNOs with the best coverage in the areas of the FSP.
- **Launch:** Launch pilot services in selected areas where connectivity is good.
- **Improvement:** Evaluate connectivity of mobile devices and use the results to improve with MNOs.

Plan for literacy adequately:

- Define the literacy level of target groups based on locality according to previous client segmentation.
- Ensure marketing campaigns of the FSP integrate literacy components.
- Prepare the pilot.
- Train staff on communicating and spreading product awareness to the illiterate.
- Start with a limited product range: although many FSPs already offer a wide range of services, consider starting with the most essential services to avoid overwhelming clients.
- **Launch:** Conduct campaigns to share the benefits of the product, including its convenience, and teach customers how to use it.
- **Improvement:** Assess the results of the campaigns and refine training programmes to address customer feedback.

Find the right aggregator:

- **Opportunity assessment:** Assess needs of the FSP and available aggregator solutions in the market, and ensure they are compatible with the preference of the MNO.
- **Go to market strategy:** Shortlist aggregators with the best matching solution.
- **Launch:** Launch pilot services in selected areas.
- **Improvement:** Evaluate performance against targets and use feedback to improve the offering.

Plan liquidity management with the MNO:

- Identify liquidity needs and peaks of customers (e.g., SGs required disbursement of U Sh 20 million one month, which needed to be forecasted and communicated to the MNOs so that agents could plan liquidity adequately).
- Identify the current location of agents who have access to adequate liquidity to meet the requirements of FSP customers, and direct customers to a preferred agent who can meet their liquidity requirements.
- Share internal intelligence with MNOs and aggregators on the location of current customers as well as the customers' cycle times for cash-in/cash-out, which will allow aggregators to make deliberate effort to acquire agents in those areas and deploy cash management services for those agents during peak periods of customer transactions.

Test pricing with customers: In the case of UGAFODE, customers have to pay a commission for cash-out to agents and a fee for wallet-to-account transfer (for pushing money from the MM account to the UGAFODE account). Pricing was not transparent and not properly communicated to clients, resulting in clients feeling cheated by UGAFODE. Fee acceptance is crucial to understand. Some UGAFODE customers proved to be very price sensitive during the pilot and compared interest rates received to charges paid to assess erosion of capital.

Provide dedicated staff at headquarters and branch levels to promote the product and the channel and to educate customers. Ensure there is an incentive system linked to KPIs to motivate staff. Ensure all staff involved in the new channel are trained and receive follow-up training.

Embed a senior project manager role for complex projects including a new channel and a new product.

Track, collect data and evaluate performance of the partnership against projections and expectations. This monitoring will allow the FSP to stay on track and direct activities to the optimum areas as data collected suggest.

Ensure KPIs reflect objectives: In the case of UGAFODE, staff initially did not have active accounts as a KPI—only additional accounts. Thus, there was a focus on acquisition instead of activation. Active accounts are now a KPI for Savings Mobilization Officers, Sales Officers, Credit Officers and Branch Managers, and it is gender disaggregated by percentage. New KPIs implemented include those listed in table 11.

Conduct joint activities with MNOs: FIs should join marketing efforts of their MNO partners and complement them with their own products and services. These joint activities create a bonding opportunity between MNOs and FIs that can be crucial in further negotiations and joint efforts. UGAFODE conducted successful joint marketing campaigns with MTN for educating customers.

Table 11: Key performance indicators used at UGAFODE

AGENT KPIs	AIRSAVE/GROUPSAVE KPIs
• Total number of agents • Total number of clients with active accounts • Previously unbanked clients • Women clients (%) • Rural clients (%) • Total balance of client accounts (US$) • Average balance of client accounts (US$) • Total number of transactions • Average number of transactions per client • Type of accounts accessible via agents	• Number of new accounts this quarter • Number of active accounts • Total balance of client accounts (U Sh) • Average balance per account • Number of deposits • Number of withdrawals • Number of transfers • Number of bill pay transactions • Number of airtime purchases • Total number of transactions • Average number of transactions

The way forward for UGAFODE

The main recommendation that UGAFODE wanted to share from its experience is that building a relationship with an MNO takes time. UGAFODE was able to leverage its previous relationship of being an agent with MTN to speed up the process (three months) but it took longer with Airtel (two years). UGAFODE perceives that—at least in Uganda—MNOs look at FIs as competitors and are not so eager to partner with them.

Originally, UGAFODE wanted to have its own mobile banking channel with its own proprietary mobile banking platform (i.e., AirSave) and its own proprietary agent network (e.g., branches, supermarkets, petrol stations, wholesale shops) instead of relying on Airtel and MTN agents.[37] However, UGAFODE came to realize it had neither the financial and human resource capacity nor the time needed to invest in such a project. Engaging in mobile banking (where customers are required to perform transactions by themselves using their mobile phone), instead of agency banking (where agents support customers), was perhaps not the most appropriate path for UGAFODE given the rural location and low literacy level of its client base and target.

UGAFODE will still be required to invest time, effort and money to make this channel work. The key learnings of this digital journey will be helpful to move forward.

37 This model will be explored in Toolkit #5.

CASE STUDY OF SOFIPE IN BURKINA FASO

Société de Financement de la Petite Entreprise (SOFIPE) was created in 2008 as a public limited company to promote funding of micro and small businesses in Burkina Faso through a range of financial and non-financial products and services.[38] Since 2010, it has been a subsidiary of Ecobank Microfinance in Africa.[39] Today it has more than 30,000 clients, with over half located in rural areas.

Key figures on SOFIPE (2015)[40]

- Gross loan portfolio: US$4.72 million
- Deposits: US$2.82 million
- Assets: US$5.20 million
- Number of active borrowers: 12,210
- Number of depositors: 30,960
- Number of branches: 8

Key figures on the agency banking channel (April 2015–April 2017)

- Number of customers using it: Unknown (waiting for complete integration to have reliable data)
- Number of Airtel Money agents serving SOFIPE customers: 62 in one area, 30 in the second area[41]
- Number of women trained in digital finance: 30,000 (through ~1,200 SGs)
- Number of SGs that have opened accounts at SOFIPE: 500 (~40% of those trained)

Main objectives for going digital

SOFIPE is the first banking institution in Burkina Faso dedicated exclusively to small business financing. SOFIPE formed a partnership with Freedom from Hunger for agency banking, starting in April 2015.

Leveraging Airtel Money agents to serve clients in rural areas instead of opening costly branches helped SOFIPE to better address its group clientele. Contrary to RCPB (Réseau des Caisses Populaires du Burkina), another MFI in Burkina Faso that decided to establish its own agent network, SOFIPE felt that it made more sense for a small MFI to leverage an existing network.

The partnership with Airtel helped SOFIPE promote financial inclusion, get closer to customers in rural areas and offer low-cost services. SOFIPE could reach more clients through Airtel, an established market leader with an extensive agent network, and could further leverage the partnership as a cost-effective alternative to opening its own branches.

SOFIPE products and services offered through the digital channel

SOFIPE offers loans, including special funds for import, and other financial products for small entrepreneurs and businesses that otherwise would have difficulty accessing conventional banks. The range of financial products includes credit for women's groups, micro-entrepreneurs and small businesses.[42]

To ease client access to financial services, SOFIPE first became an Airtel Money agent in its eight branches (refer to 'Toolkit #2—Part 1: Business model description' for more details), offering services such as cash-in/cash-out and person-to-person transfers.

38 MIX Market, 'SOFIPE.'

39 Ecobank, *Annual Report 2015.*

40 MIX Market, 'SOFIPE.'

41 Out of a total agent network of 4,200 Airtel agents

42 Burkina PME PMI, 'Démarrage au Burkina d'une banque de financement des petites,' 24 August 2010. Available from http://www.burkinapmepmi.com/spip.php?article1928

SOFIPE clients
Courtesy of SOFIPE, Burkina Faso

CASE STUDY OF SOFIPE IN BURKINA FASO (CONTINUED)

To make it more convenient for clients to access its services anywhere and anytime, SOFIPE gave its clients the possibility to visit any Airtel Money agent for withdrawal/deposit operations, including loan disbursement and reimbursement. SOFIPE leverages the wide network of Airtel Money agents (over 4,200 agents countrywide[43]) to address client needs, especially in remote areas where SOFIPE does not have branches or agents.

Benefits of leveraging the network of Airtel Money agents

For SOFIPE

- Avert need to build its own agent network
- Reach customers in even more rural areas—in two years (April 2015–April 2017), 500 new SOFIPE group accounts were opened as a result of the partnership, representing ~12,500 women
- Offer services at a more cost-efficient price[44]

For clients

- Gain convenience
- Save in transportation cost and time

How the SOFIPE operational model works

How clients access the service

SOFIPE clients can access their SOFIPE account via the Airtel Money account, using a USSD code. For deposits and withdrawals, it is necessary to visit an Airtel Money agent.

For clients to access the service, they must meet these requirements:

- Have a SOFIPE account, which can be opened by visiting one of the SOFIPE branches; and
- Have an Airtel Money account.

Clients will be able to push and pull money between their Airtel Money account and their SOFIPE account. For now, though, the two systems are not interfaced in real time.

How it works backstage

As a subsidiary of Ecobank, SOFIPE started by offering its deposit and withdrawal services through the Ecobank platform, whose basic banking system was already integrated with the Airtel platform. As of July 2015, an interface was developed between the Airtel Money platform and SOFIPE to allow the MFI to notify Airtel Money of the availability of funds each time a client sent a debit request.

For deposits, the amount deposited by a SOFIPE client in the Airtel Money account is first forwarded to Ecobank and then disbursed to the SOFIPE account. For withdrawals, after the client has made a request, SOFIPE is notified by Airtel. If funds are available, Airtel facilitates the withdrawal from the SOFIPE account via Ecobank and the client can visit an agent to get the amount needed.

The real-time integration between Airtel and SOFIPE systems should be achieved during the second half of 2017.

Setting up the agency banking channel

Training of agents and clients

Airtel provides general training to all agents, but SOFIPE provides additional training and education as well. Financial education is also offered to newly enrolled clients by SOFIPE staff members, using videos developed by Freedom from Hunger and practising transactions. Clients are trained extensively over a period of one year to use mobile banking and perform transactions on their own.

Technical implications

SOFIPE needed to update its MIS to enable integration with the Airtel Money platform, which was required to enable real-time transactions. Integration challenges arose, resulting in additional integration costs of US$20,000, paid by UNCDF-MicroLead in 2017.

Financial implications

The fee structure was unnegotiable for SOFIPE clients. SOFIPE only receives a commission if a client visits a SOFIPE branch that is an Airtel Money agent; no commission is received if a SOFIPE client uses another Airtel Money agent.

43 See the Airtel agents map here.

44 Cost efficiency will be measured once SOFIPE has completed integration in real time with Airtel.

CASE STUDY OF SOFIPE IN BURKINA FASO (CONTINUED)

Liquidity management

SOFIPE acts as an aggregator, in charge of managing Airtel Money agents. For liquidity, SOFIPE has to map its existing client groups to attach them to a particular agent. As a result, SOFIPE can share with Airtel Money agents the planning for loan disbursements, which enables them to anticipate liquidity requirements.

Key success factors and lessons learned

Key success factors

1. Support offered by Freedom from Hunger (technical assistance) and UNCDF-MicroLead (financial support) was a key element of success.

2. The image of SOFIPE was strengthened through the partnership with Airtel, a major institution in the country.

3. Through reduced transaction processing time, greater user friendliness and convenience were achieved, with the benefits of fewer queues in agencies and improved quality of service.

Challenges and lessons learned

- Client illiteracy is high (64% of the total population in Burkina Faso); Freedom from Hunger developed a financial literacy programme through videos that were shown by SOFIPE staff.

- An SMS confirmation of a transaction is not trustworthy enough for clients; a printed or physical receipt would be more reassuring.

- SOFIPE had no bargaining power since Airtel is a market leader (32% market share; 4.6 million registered Airtel customers out of 14.4 million mobile subscribers).[45]

- Connectivity can be difficult in rural areas; clients travel to market areas and perform their digital transactions on market days when they have a network connection.

Next steps

SOFIPE plans include the following:

1. Bank-to-wallet linkage: Airtel Money accounts will be linked to SOFIPE accounts so that clients can easily conduct all types of transactions in real time (deposits, cash withdrawals and credit requests). A pilot started in 2015, offering formal savings accounts integrated with mobile wallets and relying on the MNO network of Airtel Money agents.[46] SOFIPE is about to launch its mobile banking solution (second half of 2017).

2. Offer additional financial education on a regular basis to clients.

3. Ensure completion of the platform integration for real-time transactions to reassure existing clients.

SOFIPE is also planning to equip roving agents with mobile phones or point of sale (POS) devices to perform cash-in transactions where customers live or work. An initial test was carried out, but clients had a low level of trust since two MFIs in Burkina Faso had closed; clients were afraid agents would abscond with the money. Moreover, as real-time transactions were not yet enabled, agents had to come back to the branches to register transactions manually. This delay between the time money was deposited and registered on the account created additional trust issues for clients. Clients could not do a cash-in and cash-out in the same day, as they had to wait for the transactions to be registered. SOFIPE is thus considering using POS devices with the facility to print receipts, which will be all the more necessary as the next step SOFIPE wants to take is to have its own agents who would perform deposits and loan reimbursements. For the time being, cash-out/disbursement is not conducted given security issues for roving agents carrying cash.

In the future, SOFIPE plans to set up its own fixed agent network but could face contractual limitations with Airtel (seen as competition) that will need to be taken into account. Other challenges, especially in rural areas, relate to the minimum requirements that each agent should have as per national regulation.[47] Ultimately, additional operations like instant credit, bill settlement and payment of micro-insurance (e.g., health, marriage) and school fees via MM will be added.

45 Orange, 'Orange conclut l'acquisition de l'opérateur mobile Airtel au Burkina Faso,' 22 June 2016. Available from http://www.orange.com/fr/Press-Room/communiques-2017/communiques-2016/Orange-conclut-l-acquisition-de-l-operateur-mobile-Airtel-au-Burkina-Faso

46 Alice Allan, Brendan Ahern and Matt Wilson, 'The State of Linkage Report' (London, CARE/Plan/Barclays, 2016). Available from http://progresomicrofinanzas.org/wp-content/uploads/2016/03/the-state-of-linkage-report-20161.pdf

47 A trade register and budget of 500,000 Burkina Faso CFA francs

CASE STUDY OF FINCA IN THE UNITED REPUBLIC OF TANZANIA

FINCA International reaches more than 1.6 million clients as of 2016 through its 21 subsidiaries in Africa, Eurasia, the Middle East, South Asia and Latin America.[48] Its outreach is among the broadest and most comprehensive of today's microfinance networks.

Established in 1998, **FINCA Tanzania** is a FINCA International subsidiary. Its mission is to alleviate poverty by providing financial services to the lowest-income entrepreneurs, in order to create jobs, build assets and improve standard of living. FINCA Tanzania was the first MFI in the country to be granted a microfinance banking licence (2013),[49] allowing it to mobilize savings with the goal to reduce its cost of funding.

FINCA Tanzania started its digital journey by piloting mobile banking in 2013 with Vodacom (M-Pesa), using USSD for loan repayments and savings. National roll-out occurred at the end of 2013. In 2015, FINCA Tanzania broadened its mobile banking offering by leveraging the agent networks of three MNOs (Vodacom, Airtel and Tigo), using both USSD and SIM application toolkit, and by extending the service offering to loan repayments, savings, withdrawals, transfers and e-wallets.

FINCA Tanzania derived lessons learned from FINCA DRC, which was the first subsidiary to partner with MNOs to leverage their existing agent networks. The main lessons learned were in terms of liquidity management, which had been challenging in DRC.

Key figures on FINCA Tanzania (2015)[50]

- Gross loan portfolio: US$29.21 million
- Deposits: US$10.40 million
- Assets: US$38.40 million
- Number of active borrowers: 63,020
- Number of depositors: 107,200
- Number of offices: 26
- **DFS channels:** 50% of transactions at branches, 30% at agents and 20% via mobile

FINCA Tanzania products and services offered through the digital channels

FINCA Tanzania offers a wide range of financial products and services, including different types of loans (business, education and small group), different types of savings accounts,[51] alternative delivery channels such as FINCA Mobile (mobile banking service) and FINCA Express Wakala (agency banking), cash management and payroll solutions, and SMS alerts to help clients keep track of their accounts.

FINCA Tanzania combined agency banking and mobile banking to enhance its delivery channels, increase outreach and improve overall client experience. The institution has experienced a variety of models as it has developed its own agent network (agency banking), called FINCA Express, as well as mobile banking that leverages the agents of the MNOs. FINCA Tanzania has a partnership with three MNOs (Vodacom, Airtel and Tigo) in order to provide mobile banking services to clients located far from a FINCA Express agent.[52] The mobile banking channel uses e-money from the MNOs.

Although FINCA Tanzania implemented both the model of leveraging existing agent networks and the model of developing its own agent network, this case study focuses only on its experience leveraging existing agent networks. Its experience developing its own agent network is discussed in Toolkit #4.

Main objectives for mobile banking

Through mobile banking, FINCA Tanzania aimed to reduce its operational costs. This channel was also intended to help the institution grow its customer base and increase outreach.

FINCA Tanzania identified an opportunity to leverage the large networks of agents that MNOs had built to distribute FINCA services.

48 FINCA, 'Where We Work.' Available from http://www.finca.org/where-we-work/global/ (accessed April 2017).

49 FINCA, 'History.' Available from http://www.finca.co.tz/who-we-are/history/ (accessed April 2017).

50 MIX Market, 'FINCA – TZA,' 2015 data accessible through registration.

51 FINCA, 'Savings.' Available from http://www.finca.co.tz/what-we-offer/savings/ (accessed April 2017).

52 PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, 'FINCA EXPRESS Tanzania: Mobilizing Savings Through Agency Banking' (n.p., October 2015). Available from https://www.phbdevelopment.com/pdf/FINCA_Tanzania_Success_Story_final_web.pdf

CASE STUDY OF FINCA IN THE UNITED REPUBLIC OF TANZANIA
(CONTINUED)

The Tanzanian MM market is dominated by Vodacom that has over 86,000 M-Pesa agents countrywide[53] and Airtel that has more than 20,000 Airtel Money agents.[54] In 2013, FINCA Tanzania started providing its mobile banking service with Vodacom Tanzania, using M-Pesa wallets, to reach more clients in remote areas. FINCA Mobile enables clients to access their FINCA account through their M-Pesa MM account to save, repay loans, make balance enquiries, obtain mini-statements, pay utility bills and perform internal transfers. FINCA clients can deposit money in their M-Pesa wallet at a Vodacom agent and then push it to their FINCA account. According to a FINCA factsheet, 'one year into the partnership, 28% of the total value of deposits and 34% of the total number of transactions [of FINCA Tanzania] were remitted through M-Pesa, and FINCA Tanzania represents the fifth largest source of transactional volume for Vodacom in Tanzania.'[55]

FINCA Tanzania subsequntly established partnerships in 2015 with two other MM providers in the country (Airtel and Tigo) in order to improve customer accessibility.

FINCA Tanzania products and services accessible through the agent networks of the mobile network operators

FINCA mobile

Through **mobile banking**, clients can perform the following operations: deposits, withdrawals, transfers (account to account, account to e-wallet, e-wallet to account), bill payments, airtime purchases and mini-statement requests.

How clients access the service

Client registration is a simple process, performed at FINCA Tanzania branches only (clients cannot register with MNO agents). Customers are registered for both agency banking and mobile banking. For mobile banking, clients need to provide a phone number registered under the same name as the FINCA account. As an extra layer of security, in the United Republic of Tanzania the name registered for a SIM card can be checked through a USSD code, meaning that a FINCA agent can see if the phone number is registered under the same name as the FINCA account. Thanks to the mobile banking services provided by Vodacom M-Pesa, Airtel Money and Tigo Pesa agents, FINCA clients can transact through their m-wallet using a USSD code (since 2013) or via the SIM application toolkit (since 2015).

Setting up the mobile banking channel (using mobile network operator agents)

Agent training

Agent training is completely conducted by the MNOs; FINCA is not involved. Client training on how to use the channel is offered at FINCA Tanzania branches by loan officers.

Liquidity management

Liquidity management can involve risks as FINCA Tanzania does not manage the MM agents. Liquidity is managed by the MNOs.

Operations

FINCA Tanzania started with banking services, with back-office staff managing the new channels. Later it shifted the responsibility to the office of the Chief Commercial Officer.

A Channel Business Manager, who reports to the Chief Operating Officer, is in charge of both mobile and agency banking channels and is responsible for managing the Channel Business Officers who promote these channels at the branch level.

FINCA Tanzania has a department in charge of agent network management for its FINCA Express agents (its own agents), but it is not managing the MNO agents (the MNOs take care of managing their own agents).

Financial implications

For its mobile banking channel (MNO agents), FINCA Tanzania receives as revenue a share of the fee that clients have to pay for their transactions with MNO agents: 60% goes to FINCA Tanzania, 40% to the agents. FINCA Tanzania has to pay an annual support cost estimated at US$10,000.

53 Philemon Matoi, 'M-Pesa in Tanzania: The journey so far,' presentation. Available from https://www.udbs.udsm.ac.tz/images/ICAESB2016/M-PesaM-Pesa_in_Tanzania.pdf (accessed April 2017).

54 Airtel, 'Why Airtel Money.' Available from http://www.africa.airtel.com/wps/wcm/connect/AfricaRevamp/Tanzania/Airtel_Money_NEW/Home/Service/why-airtel-money (accessed April 2017).

55 FINCA International, 'Mobile banking and POS technology' (n.p., June 2016). Available from http://www.finca.org/wp-content/blogs.dir/1/files/2016/06/FINCA-Mobile-Banking-Factsheet.pdf

CASE STUDY OF FINCA IN THE UNITED REPUBLIC OF TANZANIA (CONTINUED)

Technical implications

FINCA Tanzania started mobile banking in 2013 with a direct-push integration with M-Pesa. Later, in 2014 and 2015, it changed the approach by using an aggregator (Selcom) for push-and-pull transactions to make the link between its platform and the MNO platforms, thereby providing clients with more accessibility to their accounts. All transactions are in real time and managed by the aggregator. The integration between the platforms of FINCA Tanzania and the aggregator took more than six months to complete, and manual reversals were necessary for some transactions.

Benefits achieved by leveraging the agent networks of the mobile network operators

For FINCA Tanzania

- Reach higher volume of customers in more rural areas
- Increase savings mobilization, as agents are located near busy, residential areas for easy access to the services
- Achieve lower cost to offer quality services, as FINCA Tanzania only pays commission to the aggregator (Selcom) and the MNOs pay the agents

For clients

- Reduce risks associated with carrying cash
- Gain convenience of access, due to 24-hour service availability and not having to wait in a queue at the bank
- Conduct money transfers safely, quickly and easily
- Save time and transportation costs, as transactions can be done from anywhere

Results achieved (2013–2015)

- Transaction cost for FINCA Tanzania decreased from US$1.21 for a branch-based transaction to US$0.50 for an MNO-agent transaction.
- The service eased congestion in branches considerably, which in turn improved customer service by reducing wait time for other services conducted at branches.
- Transaction split in volume between channels at FINCA Tanzania was 50% at branches, 30% with agents and 20% via mobile, as of the end of 2015.
- Yet, savings mobilization and take-up of service still require attention by FINCA Tanzania.

Currently, when clients use mobile banking with MNO agents, it is cheaper for FINCA Tanzania: US$0.50 per transaction with MNO agent/mobile versus US$0.85 with a FINCA agent.

However, from the perspective of clients, the value proposition is less interesting as they have to pay fees like any other MM clients in the country when using MNO agents (for cash-out or transfer); in contrast, transactions are free of charge at FINCA Express agents (subsidized by FINCA Tanzania). As a consequence, mobile banking and MNO agents are used mostly for loan reimbursement and FINCA agents are used more than MNO agents.

MNO agent in United Republic of Tanzania
Courtesy of PHB Development

CASE STUDY OF FINCA IN THE UNITED REPUBLIC OF TANZANIA
(CONTINUED)

Key success factors, lessons learned and challenges experienced

Key success factors and lessons learned

Derived from a case study by FINCA and The MasterCard Foundation[56] and another case study by FINCA and PHB Development,[57] the following success factors and lessons learned are highlighted:

1. An institutional assessment should be conducted and a service level agreement should be formalized prior to engaging in a partnership.
2. Business ownership for the appropriate delivery channel should be ensured right from the start and driven by the Chief Operating Officer and the Head of Retail Banking.
3. A dedicated team for the DFS channel should be put in place to reduce overwork and demotivation.
4. A pilot should be carried out before the commercial launch.
5. Processes should be simplified to avoid forcing ‘old’ manual microfinance processes into the modernized electronic payment structure.
6. Operations should be subjected to continuous risk analysis.
7. Periodic campaigns should be carried out that focus on customer awareness and education as well as dedicated sales, which are key for success.
8. Feedback mechanisms based on interactions with customers should inform improvements.
9. It should be recognized that implementation of the delivery channel(s) will disrupt operations significantly.
10. Support should be sought from experienced external consultants to ensure a broad, detailed analysis of the challenges.

Challenges experienced

1. There is weak mobile network service mostly in rural areas.
2. Fraud leads to loss of customer trust.
3. Rigidity of MNOs to reverse transactions results in delays.
4. Lack of awareness regarding the benefits of FINCA Mobile leads to low customer adoption.
5. Market competition in the United Republic of Tanzania is very high when it comes to agency banking and mobile banking; in spite of successful results in channel implementation, FINCA Tanzania still struggles with growing its deposit base and loan book.

Next steps

1. FINCA Tanzania would like to expand the network of its own agents and use MNO agents in remote areas.
2. In the long term, the delivery channel strategy of FINCA Tanzania is to use mobile banking as an entry point accessible to all customers and leverage it mainly in remote rural areas, as it can be easily accessed all the time.

The successful example of FINCA Tanzania and its MNO partnerships will inform FINCA subsidiaries in other countries to replicate or adapt that model, while waiting to develop their own networks of agents.

56 FINCA/The MasterCard Foundation, ‘Expanding Access to Finance through Mobile Payments’ (n.p., June 2015). Available from http://www.finca.org/files/2015/06/FINCA-MasterCard-Case-study-2015.pdf

57 PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, ‘FINCA EXPRESS Tanzania: Mobilizing Savings Through Agency Banking.’

ANNEX 1: UGANDAN CONTEXT

Financial sector

The Ugandan financial sector has 25 commercial banks,[58] 4 credit institutions and 5 MDIs supervised by BoU as well as a number of saving and credit cooperatives registered as non-governmental organizations or associations that provide financial services to people in peri-urban and rural areas (see table 1.1).[59] In addition, 20 insurance companies are licensed and regulated by the Insurance Regulatory Authority.

Table 1.1: Ugandan financial sector in numbers, June 2016

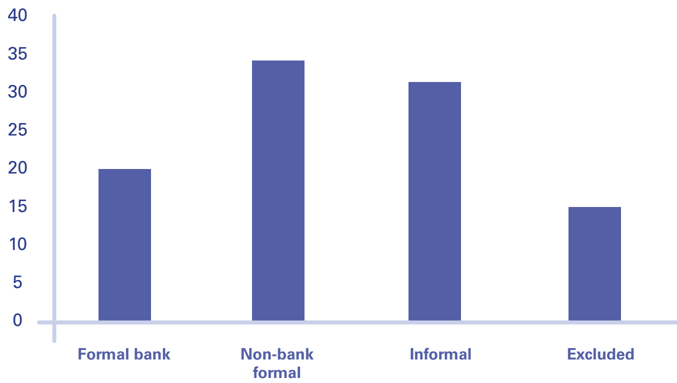
Commercial banks[a]	25
Bank branches[b]	566
MDIs	5
Credit institutions	4
Saving and credit cooperatives[c]	1 940

a Bank of Uganda, *Annual Report FY2015/2016* (Kampala, n.d.).
b UGAFODE, *Annual Report 2015* (Kampala, 2016).
c Caryn Vesperman, 'Credit Unions Create a Better Future in Uganda' (n.p., World Council of Credit Unions, n.d.); and, Uganda Co-operative Savings and Credit Union Limited, 'Home.'

Among institutions that target microfinance clients, only two banks (Equity Bank and Centenary Bank) have sufficient size to reach a mass of underserved clients; others are concentrated in certain regions or on certain types of clients. While most other players serve the general market, including businesses and consumers, EFC Uganda (an MDI) focuses exclusively on micro, small and medium enterprises with expertise and products that respond to their needs.

Since 2009, there has been a tremendous evolution in MM services that has changed the Ugandan financial landscape to include a large proportion of the population that was formerly excluded from the financial service sector (see figure I.I). As a BoU representative stated, "access to formal financial services increased from 28 percent in 2009 to 54 percent in 2013 and … a significant part of this increase is attributed to increased access to mobile money services."[60]

Figure I.I: Financial inclusion countrywide (% of those aged 15+), November 2013



Source: FinScope Uganda, *Uganda 2013 FinScope III Survey Report Findings* (Kampala, Economic Policy Research Centre, November 2013).

According to a 2013 FinScope report, 'financial deepening in Uganda is still very low and the financial system remains underdeveloped in a number of respects. The banking sector is still highly concentrated with 3 out of 24 commercial banks accounting for approximately 50% of the total market share (i.e., assets, deposits and number of branches). Most commercial bank branches are concentrated in the capital, Kampala, and other urban centres leaving the rural population with no access to commercial banking services.'[61]

The majority of the rural poor in Uganda rely on informal financial services, consisting mainly of community-led self-help groups and welfare funds where they save and loan money among themselves. VSLAs are particularly popular with the rural poor. They collectively save and provide loans among members, which includes paying the interest rates set by the group.

58 Bank of Uganda, *Annual Report FY2015/2016*.

59 Caryn Vesperman, 'Credit Unions Create a Better Future in Uganda' (n.p., World Council of Credit Unions, n.d.). Available from http://cuworld.woccu.org/documents/CUs_Create_a_Better_Future_in_Uganda (accessed April 2017); UGAFODE, *Annual Report 2015*; and, Uganda Co-operative Savings and Credit Union Limited, 'Home.' Available from http://www.ucscu.co.ug/ (accessed April 2017).

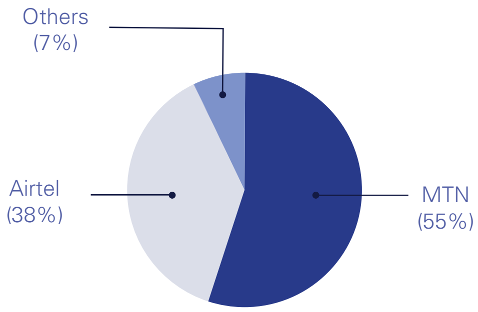
60 Ivan James Ssettimba, 'Mobile Money in Uganda,' presentation, 14–16 March 2016, slide 5. Available from https://www.theigc.org/wp-content/uploads/2016/03/3.-Ivan-Ssettimba-Bank-of-Uganda.pdf

61 FinScope Uganda, *Uganda 2013 FinScope III Survey Report Findings*, p. 2 (Kampala, Economic Policy Research Centre, November 2013). Available from https://www.bou.or.ug/opencms/bou/bou-downloads/Financial_Inclusion/Finscope-Report-2013.pdf

Telecom sector

Data from the Uganda Communications Commission (the MNO regulation body in the country) shows Uganda had more than 21 million people[62] connected to different mobile telecommunications in Q1 2016, with Airtel and MTN having the biggest share with more than 17 million users split between them (see figure I.II).[63]

Figure I.II: Market shares of mobile network operators (% of subscribers), 2015



Source: Cartesian, 'Mobile Network Access for MVNOs: Market Assessment,' v. 1.0 (n.p., 30 January 2015).

The estimated number of internet users stood at 14.5 million in March 2016, with an internet penetration rate of 39.8%.[64] In recent years, internet subscription has grown rapidly, with mobile subscription growing faster than fixed internet, which is attributed to the fact that the mobile phone is more attractive to individual users in terms of cost and flexibility, leaving fixed internet mainly for large institutions.

According to a 2015 InterMedia survey, 85% of Ugandans have access to a mobile phone and 55% own a phone.[65]

Digital financial service initiatives

MM was introduced in Uganda in March 2009. As of the end of 2016, there were five MM providers. The MM brands are MTN Mobile Money by MTN, Airtel Money by Airtel, Orange Money by Africell, M-Sente by Uganda Telecom, and Smart Pesa by Smart Telecom.

MM providers require a partnership with a supervised FI, where they must hold in an escrow account the equivalent of all the MM that has been issued. MM providers and their partner FIs are supervised by BoU.

DFS, especially MM and agency banking, in Uganda has grown quickly in the last few years and covers the whole country. As of January 2017, ninety-two percent of the population has access to an MM agent within 5 km, while only 2% has access to an MFI and only 1% to a bank branch within 5 km.[66] As explained on one website, 'access to digital financial services is fundamental to enabling poor people to become more economically stable, prosperous, and resilient. These services—payments, credit, savings and insurance offered through mobile phones or other technology—are reaching millions of people around the world who had not previously been included in the financial system. Historically, being included in the system meant living close enough to access a physical bank branch, credit union or ATM location. With the advent of mobile money, location still matters, but proximity of the nearest mobile money agent is now more important than the nearest bank branch or ATM.'[67]

According to a report by the European Investment Bank and UNCDF, there were 14.2 million registered users in Uganda as of the end of 2013, representing 77% of adults, with active user rates at just under 29% of adults.[68] The number of registered MM users as of June 2016 was 19.6 million (>50% of the total population).[69] Active account ownership grew from 30% of Ugandans in 2013 to 34% in 2015, according to an InterMedia survey.[70]

The number of MM transactions stood at 809 million as of June 2016, representing U Sh 37 trillion (US$11 billion), an increase by 41% over the previous year.[71]

Regulation of mobile financial services

DFS in Uganda are regulated by BoU, which published guidelines providing clarity on the roles and responsibilities of MM service providers, customers, FSPs, MM agents and other parties involved in the provision of MM services in Uganda. The first guidelines were issued in October 2013.[72] In January 2016, BoU released new guidelines for agency banking: the Financial Institutions (Amendment) Act, 2016.[73] These new guidelines were developed in partnership with the Uganda Communications Commission. Up to that time, regulation allowed MNOs to offer DFS, including wallets and agents. The new regulation paves the way for FIs to engage in agency banking. Banks in Uganda are currently in the process of developing their agency banking or mobile banking channels.

62 Out of a total population of 39 million. *Source:* World Bank, 'Where We Work: Uganda,' 2015 data. Available from http://www.worldbank.org/en/country/uganda

63 Cartesian, 'Mobile Network Access for MVNOs: Market Assessment,' v. 1.0 (n.p., 30 January 2015). Available from http://www.ucc.co.ug/files/downloads/SMP_Report_Mobile%20Network%20Access_April%202015.pdf

64 Uganda Communications Commission, 'Post, Broadcasting and Telecommunications Market and Industry Report: First Quarter (January–March 2016)' (Kampala, n.d.). Available from http://www.ucc.co.ug/files/downloads/Q1-Market-Report-for-Jan-March-2016-Mbaga.pdf (accessed April 2017).

65 N=3,000, 15+, July–August 2015. *Source:* InterMedia, 'Uganda: Wave 3 Report—FII Tracker Survey' (n.p., February 2016). Available from http://finclusion.org/uploads/file/reports/2015%20InterMedia%20FII%20UGANDA%20Wave%20Report.pdf

66 www.fspmaps.com, 'Uganda.' Available from http://www.fspmaps.com/#/map@1.095819,32.082825,8(dark,cicos_uganda),Uganda?country-summary=open

67 HOT, 'Mapping Financial Inclusion in Uganda.' Available from https://www.hotosm.org/projects/mapping_financial_inclusion_in_uganda (accessed April 2017).

68 European Investment Bank and UNCDF, 'Digital Financial Services in Africa: Beyond the Kenyan Success Story' (n.p., December 2014). Available from http://www.eib.org/attachments/country/study_digital_financial_services_in_africa_en.pdf

69 Bank of Uganda, *Annual Report FY2015/2016*.

70 N=3,000, 15+, July–August 2015. *Source:* InterMedia, 'Uganda: Wave 3 Report—FII Tracker Survey.'

71 Bank of Uganda, *Annual Report FY2015/2016*.

72 Bank of Uganda, *Mobile Money Guidelines, 2013*. Available from https://www.bou.or.ug/bou/bou-downloads/Financial_Inclusion/Mobile-Money-Guidelines-2013.pdf

73 Uganda, *The Financial Institutions (Amendment) Act, 2016*, Act 2 of 4 February 2016. Available from https://www.bou.or.ug/bou/bou-downloads/acts/supervision_acts_regulations/FI_Act/Fin-Amendment-Act-2016.pdf

ANNEX 2: UGAFODE AGENT ENGAGEMENT STRATEGY

1

- UGAFODE acquires list of agents from MTN
- UGAFODE verifies/confirms the agents

2

- Branches map out directions and distances of agents relative to branch locations

3

UGAFODE evaluates and ranks agents on the following:

- Experience, business viability and commitment
- Ability to transact and reliability
- Customer service and experience

4

UGAFODE attends MTN agent conventions in towns where UGAFODE operates

UGAFODE pitches to agents:

- Opportunities and benefits of AirSave to customers
- Opportunities and benefits from UGAFODE partnership

5

UGAFODE trains agents on the following:

- How to sign up a customer for AirSave
- How AirSave works

6

- Qualified agents who sign up receive branding to 'certify' the agent as a UGAFODE-trusted agent
- Branch refers AirSave clients to agents

ABOUT MICROLEAD

MicroLead, a UNCDF global initiative which challenges financial service providers to develop, pilot and scale deposit services for low income, rural populations, particularly women, was initiated in 2008 with support from the Bill & Melinda Gates Foundation and expanded in 2011 with support from The MasterCard Foundation and LIFT Myanmar. It contributes to the UN's Sustainable Development Goals, particularly SDG 1 (end poverty), SDG 2 (end hunger, achieve food security and promote sustainable agriculture) and SDG 5 (achieve gender equality and economic empowerment of women), as well as the Addis-Abeba Financing for Development Agenda (domestic resource mobilization).

MicroLead works with a variety of FSPs and Technical Service Providers (TSPs) to reach into previously untapped rural markets with demand-driven, responsibly priced products offered via alternative delivery channels such as rural agents, mobile phones, roving agents, point of sales devices and informal group linkages. The products are offered in conjunction with financial education so that customers not only have access but actually use quality services.

With a specific emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based programme that supports partnerships which build the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings. As UNCDF rolls out the next phase of MicroLead, it will continue to focus on facilitating innovative partnerships that encourage FSPs to reach into rural remote populations, build on existing digital financial infrastructure and emphasize customer-centric product design.

For more information, please visit www.uncdf.org/microlead. Follow UNCDF MicroLead on Twitter at @UNCDFMicroLead.

ABOUT PHB ACADEMY

PHB Academy provides training and coaching aimed at improving financial inclusion. We focus on increasing the take-up and usage of digital financial services (DFS). PHB Academy offers training and coaching face-to-face and online, as well as in blended format (a mix of face-to-face and e-learning). Workshops and programmes can be custom-designed and tailored to our clients' specific needs. The design of our programmes is based on the latest insights in adult learning and executive coaching. We change behaviour by doing more than just transferring technical knowledge. We focus on the development of the practical skills and positive attitudes that managers and field staff need to design, manage and deliver DFS in a sustainable manner. Experiential learning methods and a focus on self-management are key to our success. Our offer is available to financial institutions, mobile network operators, remittances & payment providers and development agencies that pursue financial inclusion through innovative delivery channels.

PHB Academy is the Training & Development Practice of PHB Development, a specialist consulting firm with operations across the world. Since 2006, PHB Development has been committed to increasing financial inclusion in underserved markets. PHB has helped its clients develop viable financial services and delivery channels throughout more than 100 projects.

For more information, please visit http://phbdevelopment.com/. Follow PHB at @PHBDevelopment on Twitter.

ABOUT UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

For more information, please visit www.uncdf.org and sign up for our Newsletter at http://uncdf.org/en/content/subscribe-our-newsletter. Follow UNCDF at @UNCDF on Twitter and Facebook.

ABOUT THE MASTERCARD FOUNDATION

The MasterCard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006.

For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.

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