Migrant remittances are increasingly becoming a significant source of development finance in Uganda, which had a recorded amount of remittances equivalent to 5 percent of gross domestic product (GDP) in 2009 (World Bank 2011). Users of money transfer services in Uganda include individuals, traders, firms, nongovernmental organizations (NGOs), and other users; however, research shows that the market for money transfer services in Uganda is underserviced (Sander, Mukwana, and Millinga 2001). As the government becomes more decentralized and as the middle class, which supports families in villages and builds houses up-country, continues to grow, the demand for domestic money transfer services is expected to continue increasing.

This chapter explores the remittance service provider (RSP) market in Uganda and focuses on various aspects of money transfer products or services, including accessibility, reliability, service networks, competition, and affordability. The chapter explores the chances of enhancing access to financial services by providing remittance services. A survey of RSPs in Uganda was carried out in the second half of 2008, and it covered both formal and informal RSPs.
Some of the key conclusions of this chapter include the following:

• Data collection on the flows of remittances at the domestic-market level is not well institutionalized. Even commercial banks do not have an elaborate system for reporting remittances.

• Remittance service providers are diverse, including formal and non-formal providers. Banks remain the core institutions in the money transfer market, because they work in partnership with all other formal RSP providers (for both domestic and international remittances). Networking and partnership are common among the providers of remittance services, reflecting a significant level of complementarity. However, money-transfer clients are constrained by high transaction costs in accessing additional financial services from the banking sector.

• Direct costs of remittance transfers are significantly high among the various providers. The cost for sending US$200 is between 10 percent and 17 percent for international transfers and between 0.4 percent and 12.5 percent for domestic transfers.

• Informal services, such as community-based firms and transport firms, have evolved to fill the gaps left by banks, including the high costs, limited accessibility, minimal coverage, and slow speed of transfers.

• Mobile money transfer services, such as Simba Cash and MTN Mobile Money are gaining entry but they are well below the rate of adoption seen in neighboring Kenya.

• Formal RSPs are under a regulatory mechanism of the central bank. The central bank requests that the banks and foreign exchange bureaus gather information from the customers by asking for the identification of the senders and recipients. In brochures, the RSPs also provide information to the customers on the type of services offered, including other services.

The rest of the chapter is organized as follows. The first section discusses trends and uses of remittances, the second section covers the characteristics of the remittance industry, the third section addresses the regulatory and business environment, the fourth section highlights the costs and identification requirements for remittances, the fifth section explores remittance sources and destinations, and the sixth section concludes.
Trends and Uses of Remittances

Uganda receives about 4 percent of remittances to Sub-Saharan Africa. In the period 2000–10, Uganda experienced a significant growth in remittances from US$299 in 2003 to US$773 (World Bank 2011). This increase is mainly attributed to the growing number of Ugandans working abroad, loosening of the foreign exchange regulatory regime, and the adoption of new remittance technologies that helped to reduce transfer costs and increase competition in the market. Outward remittances from Uganda also increased during the same period from US$182 million in 2003 to US$463 million in 2009 (see table 9.1).

Inward remittance volumes depicted a marked decline in 2009, possibly because of the fragile labor markets, global financial crisis, and the increased scrutiny of migrants without proper documentation in destination countries. The Uganda National Household Survey 2005/2006 (Uganda Bureau of Statistics 2006) shows that only 2 percent of Ugandans receive remittances from abroad, with the highest proportion of remittances going to Kampala. However, the 2007 FinScope Uganda study revealed that a significantly larger percentage, 12 percent, of the Ugandan population receives money from abroad. Our survey data indicates that 42 percent of all inward international remittances to Uganda originated from North America. Overall, the United Kingdom tops the list of remittance senders to Uganda, followed by the United

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States, Australia, Canada, and Kenya. Remittances are mainly used for consumption (65 percent), education (31 percent), and health (29 percent) (note that the categories are not mutually exclusive and add up to more than 100 percent) (FinScope Uganda 2007). The Uganda National Household Survey 2005/2006 also reports similar findings that half of recipients spent remittances on consumption, while 26 percent used remittances for education. Furthermore, the Bank of Uganda (2008) revealed that remittances were used for consumption, education, investment, and health. The main investment expenditure types include acquisition of property (such as land and buildings), start-up businesses, and farming.

In Sub-Saharan Africa, the Democratic Republic of Congo, Kenya, South Africa, and Tanzania are the major remittance source countries to Uganda. A sizeable population of students from Kenya and Tanzania attend universities and colleges in Uganda. Consequently, the observed remittance inflows could be transfers to offset tuition and related expenses, including general upkeep. South Africa is a major destination for Ugandan workers seeking “greener” pastures within the African continent. Inflows from South Africa could be transfers from immigrants to their families and acquaintances in Uganda. Uganda is also a base for United Nations operations (such as the United Nations Organization Mission in the Democratic Republic of Congo, or MONUC) in the great lakes region. Consequently, several Ugandan expatriates and businessmen are working and doing business with their counterparts in the Democratic Republic of Congo DRC. Thus, money transfers from the Democratic Republic of Congo could comprise both migrant remittances and payments in business settlements and business-related transactions.

As of 2010, the number of emigrants from Uganda was 757,500, or 2.2 percent of Uganda’s population (World Bank 2011). The top destinations were Kenya, the United Kingdom, Tanzania, the United States, Rwanda, Canada, Sweden, and Australia. It is important to note that emigration from Uganda to the United Kingdom has a historical basis given that Uganda was a British colony.

According to the survey of RSPs, the main destination of remittances from Uganda in 2007 was Kenya, followed by India, the United States, Tanzania, the Democratic Republic of Congo, South Africa, and the United Kingdom.

It is important to note that the top 25 percent of foreign direct investment (FDI) firms in Uganda are of Kenyan origin. One limitation of our
RSP survey data is the inability to distinguish between remittances and other money transfers such as repatriation of profits, loan repayments, dividends, and royalties. As mentioned earlier, because of the vibrant trade, especially between Uganda and the Southeast Asian countries, most of the money transfers to these countries could be for purchasing of merchandise and for other business-related purposes.

Results of the survey of RSPs are comparable to the results of the 2005/2006 Uganda National Household Survey, which showed that the mean monthly values received varied among regions, with Kampala registering the highest value (U Sh 130,500, or US$75). The FinScope Uganda study (2007) found that almost 50 percent of remittance recipients received US$200 or less, while only 13 percent received more than US$500.

Migrants in search of employment tend to move to industrial towns or urban centers such as Mbale, Jinja, and Kampala to work in factories, on plantations, and on exotic flower farms. Migrants who find employment in the formal sector often use the formal sector RSPs, such as banks and nonbank financial institutions (box 9.1), to transfer money to their families mainly for upkeep and settlement of school fees. In contrast, migrants in the informal sector transfer money using casual means such as taxis and bus companies, family members, and friends, or migrants transfer money themselves whenever they return to their region of origin. In addition, business people who move from one region to another in search of merchandise and agricultural products also provide informal money transfer services. This transfer method usually requires a very informal arrangement, largely based on trust, between the money remitter and the businessperson; there is no guarantee of transfer or “insurance coverage” for the money involved. Remittance volumes in Uganda range from small amounts such as U Sh 50,000 for upkeep to millions of Ugandan shillings for purchasing merchandise and agricultural products such as coffee and farm inputs. Therefore, remittance flows tend to peak at the beginning of a new school trimester and at harvest season, especially for agricultural produce.

**Characteristics of the Remittance Industry**

The entry of new RSPs into the market reflects a response to existing market gaps. Differences among the scope of services, products provided, and product costs exist. Sander, Mukwana, and Millinga (2001) underscore five key attributes for a good money-transfer product or
Box 9.1

Financial Institutions in Uganda

Financial institutions in Uganda are categorized under four tiers: (1) commercial banks, (2) credit institutions, (3) microfinance deposit-taking institutions (MDIs), and (4) institutions involved in microfinance that do not qualify under tiers 1, 2, and 3. Uganda’s financial sector comprises 19 licensed commercial banks (of which 16 are operational), 8 microdepository institutions, and 84 foreign exchange bureaus (of which 22 are licensed to offer remittance services). Credit institutions (tier 2) include the Capital Finance Corporation, Commercial Microfinance, Mercantile Credit Bank, and PostBank Uganda. MDIs (tier 3) accept deposits from the public and use the deposits to make short-term loans to small or microenterprises and low-income households. MDIs include the Foundation for International Community Assistance (FINCA), Pride Microfinance Limited, Uganda Finance Trust Limited, and Uganda Microfinance Limited. Membership-based savings and credit cooperative organizations and most MFIs (between 500 and 700) are considered tier 4 institutions and are allowed to accept only compulsory savings from clients. However, those savings cannot be used for credit operations (except for institutions registered as cooperatives). These tier 4 institutions are not regulated or supervised by the Bank of Uganda.

Source: Authors.

service: accessibility, efficiency and timeliness, reliability, presence of a sizeable service network that includes external urban centers, and affordability.

Participants in the Remittance Market

A recent study by the Bank of Uganda (2008) reveals that there are various channels for remittance transfers, including formal service providers such as banks; money transfer operators (MTOs) such as Western Union, MoneyGram, Coinstar, Xpress Money, and the post office; and foreign exchange bureaus. Informal channels include friends and acquaintances such as traders, especially for those with inadequate financial services and for those who find the remittance service costs in the formal sector too high. Financial institutions in Uganda are concentrated mostly in urban areas; therefore, formal service providers are largely used when a remittance transaction originates from an urban center. Formal financial institutions are
preferred because of the guaranteed security and safety of the remittances, while informal channels appeal to customers who send or receive money in areas that are underserved by financial institutions. The informal sector’s ease of access and flexibility in identification and cost requirements also attracts clients.

A purposive sample of 31 providers was selected to represent all the segments of the remittance market in Uganda (see table 9.2). The sample included 16 banks, 19 foreign exchange bureaus, 8 savings and credit cooperative organizations (SACCOs), 16 microfinance institutions (MFIs), 2 transport services, 1 mobile telephone money transfer provider, PostBank, and the post office (Posta). The survey also included community-based RSPs. The study targeted only the providers of the services and not the users.

The most popular remittance channels are friends and acquaintances (27.8 percent), commercial banks (24.5 percent), and MTOs such as Western Union and MoneyGram (25.4 percent). According to the survey, those channels account for a combined share of 78 percent of total

| Table 9.2 Participation of RSPs and Services Provided by RSPs in Uganda, 2008 |
|-----------------------------------|-------------------------------|----------------|----------------|----------|----------|----------|
| Exchanging currencies for remittance providers | X | X |
| Providing domestic messaging services | X |
| Providing international messaging services | X |
| Providing settlement services (cross-border) | X | X |
| Providing settlement services (domestic) | X |
| Receiving domestic remittances | X | X | X | X | X | X | X |
| Receiving international remittances | X | X | X | X |
| Sending domestic remittances | X | X | X | X | X | X | X |
| Sending international remittances | X | X | X | X |

Source: Authors’ based on survey of RSPs in Uganda.
remittances received in 2006. Other channels reported include foreign exchange bureaus, the post office, traders, and MFIs. Informal money transfer services such as relatives or self-transfers are still the most commonly used methods, especially for small transfer amounts, although semi-formal providers such as bus and courier companies are making substantial headway into a largely untapped domestic remittance market. MTN, a telecom service provider in Uganda, began a pilot service known as MTN mobile money transfer service. This service allows customers to transfer money between phones on the MTN network.

The most common international money transfer agencies include Western Union, MoneyGram, and Express Money, and they operate with both banks and foreign exchange bureaus in Uganda. Transfers through these agencies can be collected instantly at any location worldwide. These agencies offer an online tracking facility for transfers, and senders and recipients do not have to be account holders with the financial institution facilitating the transfer. The sender usually pays the transfer fees, and the recipient is usually required to present an acceptable form of identification and to answer a security question before receiving the money.

The formal, semi-formal, and informal financial and nonfinancial sectors in Uganda play significant and diverse roles in international and domestic remittances. International remittances are largely conducted through the formal sector and community-based systems (friends and relatives), while the semi-formal and informal sector providers play a sizable role in the provision of domestic remittances. However, an accurate estimate of the actual size of the formal sector vis-à-vis the informal sector is hampered by the increased sophistication with which remittances are transmitted in Uganda. In several instances, money received through formal financial institutions is transferred from large banks to smaller financial institutions, including those in the informal sector such as MFIs and SACCOs, which have more intricate branch networks. Attributing and reconciling remittance amounts handled by any one of the four tiers (see Appendix II) often leads to double counting and gross misrepresentation.

In Uganda, RSPs have a wide network across the country, but the those in major urban centers dominate because of the large number of outlets and the mix of providers. Thirty-six percent of bank branches and 32 percent of the PostBank branches are located in Kampala, the capital city. The nonbank financial institutions are quite evenly distributed between urban and rural areas, with 26 percent of the branches in Kampala and Entebbe, 22 percent in the eastern region, and 25 percent in the western region. All 22 licensed money-remitting foreign exchange bureaus and
their branches are located in Kampala. Other RSPs in the formal sector include the post office, as well as Simba Telecom, which offers remittance services through MTN Uganda’s telecommunications network. Over 76 percent of Posta Uganda operations (Uganda’s postal system) are located in rural areas, making it the most widely distributed remittance service provider in Uganda. The key semi-formal and informal sector players in this industry include MFIs, SACCOs, bus companies, commuter taxis, money lenders, and prominent businesspersons. The Association of Microfinance Institutions of Uganda and the Uganda Cooperative Savings and Credit Union—the two major bodies that oversee the operations of MFIs and SACCOs, respectively—estimated the number of registered MFIs and SACCOs at more than 1,000 countrywide. However, most of these tier 4 institutions are location specific with limited or no branch networks.

Simba Cash, a subsidiary of Simba Telecom Uganda Limited, is one of the more recent additions to the money remittance industry in Uganda. Simba Cash provides remittance services in partnership with MTN Uganda and Nokia Uganda. Money remitted by any one of the 60 Simba Telecom shops across the country is available for pick-up within minutes of completing the remittance transaction. Point-of-sale machines in the various shops are connected by server through Generic Packet Radio Service (GPRS) lines to the head office shop in Kampala. Currently, only domestic money transfer services are provided. Simba Cash also offers currency exchange services to remittance senders and recipients. The sender communicates details such as remittance amounts, passwords, and payout locations to the recipient through the telephone.

Informal sector remittance providers such as bus companies and SACCOs also employ diverse modes of business operations. For instance, one of the SACCOs surveyed indicated that it uses partnerships with commercial banks (for example, Stanbic Bank and Centenary Bank) to provide remittance services to its members. Another bus company revealed that it uses its own network of office locations in various cities and countries to offer remittance services. The transport system has emerged as a mode of money transfer in response to unmet demand, particularly among the unbanked population. Thus, transport services fill the void in areas where communication and access to banking services is limited. Although the parcel licenses that transport industries hold do not allow them to transfer funds, social networking helped to facilitate the transport sector’s entry into the remittance market.

The transport sector’s role in facilitating trade and commerce by linking communities through enhanced communication is both historical and
significant, especially before the advent of mobile phones. In the past, individuals with families, friends, or business partners heading to the recipient’s area would negotiate with the driver or other attendant to deliver a piece of mail or a parcel to a specified destination for a fee. Often, these parcels contained low-value items; thus, the sender was not particularly concerned about the risks associated with this mode of transfer, including the loss of luggage. The financial sector’s slow growth, coupled with the concentration of financial institutions in urban centers, has contributed to the emergence of the transport sector as a key provider of money transfer services in Uganda. This sector offers access to reliable, affordable, and risk-free money transfer services to some of the remote regions of the country. Transfer charges can also be negotiated. Given the extensive coverage of buses and commuter taxis in Uganda, the transport sector is easily the most widespread remittance service provider. The transport sector caters to various clients, particularly those in regions with limited or no access to financial services. Hence, the defining characteristic of clients served by the transport sector is that they are mainly from regions underserved by financial service providers, especially money-transfer service providers.

**Business Models**

There are significant partnerships among the RSPs in Uganda. Local banks work in partnership with foreign corresponding banks to reach out to various remittance transfer corridors. International money transfer agencies work in collaboration with local banks and foreign exchange bureaus. Almost all the RSPs work closely with banking institutions. All but one of the financial and nonbank financial institutions surveyed indicated that they work with both international and domestic partners in the provision of remittance services. These partnerships are mostly in the form of correspondent or participating financial institutions in the remittance source and destination countries.

For instance, Posta Uganda works in partnership with Posta Kenya and Posta Tanzania through the Universal Postal Union network. Posta Uganda operates an electronic funds transfer (EFT) service Speedie in partnership with PostBank Uganda. This service is accessible from any one of PostBank’s 22 branches in Uganda and can be used to send and receive both domestic and international remittances.

Formal sector RSPs also revealed that they operate with agents of Western Union, MoneyGram, Coinstar, and Xpress Money transfer services. In turn, Western Union works with Barclays Bank, Standard
Chartered Bank, and Centenary Bank in Uganda. Western Union also works with a number of foreign exchange bureaus. MoneyGram’s main agents include Stanbic Bank in Uganda. The financial and nonbank financial institutions that have direct contractual obligations with the money transfer agents benefit in several ways, including through the provision of marketing and advertisement, access to payment systems, and access to relevant financial information. However, such partnership agreements are often exclusive, suggesting that a financial or nonbank financial institution can work only in partnership with one money transfer agent. In turn, these institutions sub-contract their rights with an even wider network of nonbank financial institutions with explicit agreements on the sharing of the exchange-rate commission.

SACCOs and MFIs work in collaboration with microfinance deposit-taking institutions (MDIs), such as Commercial Microfinance in Uganda, to provide remittance services (especially when customers are from different SACCOs) (box 9.2). On the whole, SACCOs and MFIs hold accounts with the bank and the nonbank financial institutions that facilitate the remittance transfer process. This method has the advantage of increasing the accessibility of remittance services.

Access to the national payment system is limited for several types of remittance service providers. For example, MFIs, PostBank, SACCOs, foreign exchange bureaus, and money transfer agencies are not members of the national payment systems. The central bank expects the dealer banks to ensure that the limits set on the foreign exchange bureaus are met. However, because RSPs such as foreign exchange bureaus work in collaboration with the money transfer agencies, this measure complicates the situation because the foreign exchange bureaus do not operate under central bank statutory regulations and supervision.

Furthermore, because the transactions are not centralized, clients are at liberty to use alternative institutions to meet their needs. Currently, Simba Cash meets its reporting requirements through an MDI (Commercial Microfinance Limited); hence, Simba Cash’s transactions are under the purview of the central bank.

The networking defines the range of remittance services provided by the various institutions. For example, local banks with international corresponding banks with membership in the Society for Worldwide Interbank Financial Telecommunication are able to offer remittance services overseas and provide settlement services across the border. Thus, with an adequate branch network in the country, banks could give the entire population access to international remittance services.
Box 9.2
SACCOs and MFIs as Providers of Domestic and Cross-Border Remittance Services

Savings and credit cooperative organizations (SACCOs) and microfinance institutions (MFIs) are considered tier 4 institutions and are not supervised by Uganda’s central bank. SACCOs can accept only member savings, whereas MFIs are allowed to collect only compulsory savings from borrowers. Though not registered money remitters, some SACCOs and MFIs offer remittance services to their members. Unlike commercial banks and other regulated financial institutions that tend to be located in urban and semi-urban areas, SACCOs and MFIs cater to low-income individuals in both urban and rural areas. Remittance flows in this case are both one-way (as is the case with inward international remittances) and two-way (especially with traders and farmers who send and receive money for the settlement of merchandise purchased or goods sold).

SACCOs and MFIs that provide remittance services work with regulated financial institutions, especially those with extensive networks such as Stanbic Bank and Centenary Bank. International inward remittances are deposited into the SACCOs’ or MFIs’ account in a partner bank. The money is then withdrawn from the corresponding bank by an employee of the SACCO or the MFI and is given to the intended recipient in local currency. Because SACCOs and MFIs act as agents of the financial institution in the provision of remittance services, they are not required to carry any additional licenses to provide these services. Because recipients are members of the SACCO or MFI, the only identification required is a membership identification card (issued by the SACCO or MFI). For domestic remittances, a member wishing to send money “deposits” money into the SACCO and is provided a check payable to the partner bank’s branch countrywide. Transfer charges for recipients of remittances also vary across these institutions, with some imposing a 5 percent charge on inward and outward international remittances received, while others not imposing any transfer charges. There are no identification requirements for remittance senders because they are members of the SACCO or MFI. The sender is required to provide only the recipient’s details and contact information, including his or her name, contact address, and phone number (where applicable). Remittances are usually received within one to three business days, depending on the intended payout destination.

Source: Authors.
Remittance Products

Several remittance products are offered in Uganda, including electronic cash transfers, pre-paid cards for use at selected retailers, bank drafts, checks or demand drafts, and money orders. Other remittance instruments include account-to-account transfers, money transfers through cellular phones, and pre-paid debit cards. Because of technological developments, a number of instruments are being used that finalize transactions at various speeds.

Electronic money transfer is the most widely available remittance product and is offered by 81 percent of the financial and nonfinancial institutions under review. The EFT has gained popularity in Uganda, especially since the introduction of a U Sh 20 million cap on checks in July 2007. As of July 1, 2008, all government departments and agencies, including local governments, had adopted the EFT as the principal transaction method. According to the Bank of Uganda Clearing House rules, EFT transactions should reach the beneficiary’s account within 48 hours and, in the case of any errors or omissions, the payer should be notified within 72 hours.

Checks and bank drafts are offered by 42 percent of all institutions studied. In Uganda, checks are cleared in three days in most parts of the country and one day for high-value checks. Checks from remote centers are cleared in 10 days. The real time gross settlement (RTGS) funds transfer system offers immediate, or “real time”, settlement options on a gross-basis principle. Instructions given to transfer money are effective within 30 minutes (the transfer is done almost immediately). The central bank clears the money on the same day, and each transaction is done independently. This system is used mostly for high-value payments that are at least U Sh 10 million. In addition, checks for more than U Sh 20 million must be cleared through an EFT or an RTGS. There are also issues with bounced checks. One of the major constraints in using a bank draft is that it can be very expensive and is not cleared instantly. The amount charged is usually fixed irrespective of the amount sent. A bank draft also requires the recipient to have a bank account in the country where the bank draft is deposited. In Uganda, bank drafts are used mostly by business people and by parents trying to settle their children’s tuition payments.

Account-to-account transfers are offered by 45 percent of all the institutions studied. Banks do not charge for depositing in another person’s account. Some banks finalize account-to-account transactions instantly, especially when the deposit is made in cash. When the deposit is by check, the transfer process takes up to four days. The mushrooming of bank branches in rural areas and the ability of banks to provide additional
services to the remittance recipients will help to expand access to financial services. However, an account-to-account service requires that recipients have access to a bank account.

Posta uses various types of orders including money orders, postal orders, and interstate orders that are tailored for use in five East African countries (Burundi, Kenya, Rwanda, Tanzania, and Uganda). Ordinary money orders identify the recipient and can be cashed at only specified post offices. Money orders can be drawn for any amount up to U Sh 7 million for interstate transfers and U Sh 3 million for domestic transfers. The telegraphic money order guarantees customers same-day value, while a postal order is a bearer instrument that can be cashed at any post office. Given the post office’s large distribution network (276 branches in Uganda) and its ability to reach almost every village in the country, the post office is the most widely accessible RSP.

**Emerging Products: Mobile Money Transfers**

Emerging products, such as mobile money (for example, Simba Cash and MTN mobile money) and debit and credit cards, are gaining popularity because of their versatility and affordability. Sixteen of the operational financial institutions offer debit cards. In addition, one credit institution (Commercial Microfinance) and one MDI (Uganda Finance Trust) offer debit card services as well. In Uganda, three of the financial institutions studied indicated that they offer prepaid cards that can be used at designated retailers, particularly grocery stores, restaurants, and fuel stations.

The direct-debit mode of payment in Uganda has been used mainly by schools and colleges. Parents sign agreements that allow participating commercial banks to deduct specified amounts from a parent’s account on behalf of the school or college to settle school tuition. Credit card use is quite limited in Uganda, with only a few banks offering this payment method. Prepaid store value cards are currently not being offered by any financial institution.

Simba Cash, a subsidiary of Simba Telecom Uganda Limited, is one of the more recent additions to the money remittance industry in Uganda. Simba Cash provides remittance services in partnership with MTN Uganda and Nokia Uganda. Money remitted at any of the Simba Telecom shops across the country is available for pick-up within minutes of completing the remittance transaction. Money transferred through the network of Simba Cash shops involves inventory management (for small transfers) and account-to-account transfers (among the Simba Cash
shops) in cases of sizable payouts. The sending agent usually calls the agent at the expected payout location to inquire about the availability of money. In the case of shortages at the expected payout locations, the sending agent initiates an account-to-account transfer to the shop receiving the payout.

Parents use Simba Cash to send money for their children’s upkeep and to cover other incidentals, while workers use this medium to send tuition, upkeep money for their families, and other allowances such as payment of farm workers and medical bills. Remittance flows are both one-way (as in the case of parents sending subsistence allowances to students) and two-way (as in the case of worker’s remittances).

Simba Cash is not regulated directly by the Bank of Uganda. Commercial Microfinance (CMF) reports remittance transactions that are handled by Simba Cash to the Bank of Uganda. In essence, Simba Cash acts as an agent of CMF in the provision of money transfer services. Furthermore, as a subsidiary of Simba Telecom, operations of Simba Cash are currently regulated by the Companies Act. However, the Companies Act does not contain specific provisions regarding money remittance operations. Hence, there is no insurance coverage for money transferred through Simba Cash’s network.

Senders pay between 2 percent and 5 percent of remittance amounts as transfer charges. Small amounts such as U Sh 100,000 require transfer fees of 5 percent, while large amounts (U Sh 1,000,000 and higher) incur lower transfer charges of 2 percent of the remittance amount. Identification requirements for both the sender and the recipient include a driver’s license, voter’s card, or village identification card. In addition, the recipient is required to provide a test question and answer, as well as the secret code issued to the sender by Simba Cash.

MTN, one of the telecom service providers in Uganda has started a money transfer service also referred to as MTN mobile money transfer service. This service allows customers to transfer money between phones on the MTN network. A typical customer purchases U Sh 50,000 (approximately US$30) worth of mobile money from an agent, and the agent then sets up a transaction indicating that this customer has “deposited” this amount on his or her mobile phone. The customer then receives a short message service SMS to confirm the transaction and is asked to select a personal identification number (PIN). A customer is issued a PIN for every transaction (both to send and to receive money), and both the sender and the recipient must present valid identification to complete the transaction. Though the customer is at liberty to send
money to anyone across mobile telecommunication networks, only MTN customers can possess these mobile money accounts.

More than 6 million Ugandans own mobile phones, suggesting that the mobile transfer service will become accessible to 6 million people. This could, in essence, make mobile money transfer the most widely accessible transaction method, particularly for the unbanked population.

**Transport Service for Domestic Remittances**

Transport companies deliver money physically or by maintaining a float (box 9.3). The vehicle operator receives money from the sender, and it is enclosed in an envelope or packaged for delivery. The driver then delivers the money physically. However, because of the risks of insecurity and

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**Box 9.3**

The concentration of formal financial institutions in urban centers has contributed to the emergence of the transport sector (buses and commuter taxis) as a key provider of reliable, fast, and affordable money transfer services, especially to remote regions of the country with limited or no access to financial services. Clients include parents with students in country-side schools and workers in urban centers with families in the rural areas. Average remittance amounts range from between US$50 and US$200 for school tuition, student upkeep, and general subsistence to U Sh 3 million for purchasing of traders’ merchandise. Inward and outward remittances through transport companies tend to peak around November and December and also near the commencement of school terms—usually the beginning of February, May, and September. Money is sent from (and received in) all major towns in Kenya, Tanzania, and Uganda.

Transfer charges are usually very competitive (sometimes 7 percent to 10 percent of the amount sent or a fraction of the fare charged for the journey), but in many cases, charges are subject to negotiation between the remittance sender and the bus driver. To collect the remittance, the recipient is required to present some form of valid identification such as a village identification card, a voter’s

*(continued next page)*
robberies, transport companies now maintain a float on either end of the route so that money transfer is not dependent on the arrival of the vehicle and the recipient is guaranteed delivery. The sending office issues a receipt to the sender and makes a call to the receiving office, instructing it to make payment. The sender contacts the recipient to indicate the money has been sent and can be collected from the office. This step has made the transfer process quicker. However, the process works only in areas where telecommunication is not an issue.

Remittances and Access to Financial Services

Remittances have been identified as a potential catalyst for financial growth in receiving countries and regions by providing greater access to banking services for migrants’ families. Orozco and Fedewa (2006) observe that linking remittances to financial intermediation will harness remittances’ influence on development. They concentrate on three factors that define the ability to tap remittances more effectively for
development: institutional ability to provide remittance transfers, institutional ability to offer low-cost remittance services, and institutional ability to complement transfer services with other financial services. Ratha (2003) observed that credit unions and microfinance institutions can play a major role in delivering low-cost and convenient remittance services, encouraging more savings and investment.

Financial institutions and nonbank financial institutions in Uganda treat remittance services like auxiliary services; hence, senders and recipients of remittances can also benefit from these institutions’ mainstream services such as deposits, savings products, and credit facilities for consumers; small and large business loans; and education and vehicle loans. For international money-transfer institutions, remittance service is the core business and senders and recipients can benefit from other services that their partner banking institutions provide. Foreign exchange bureaus also offer currency exchange services.

However, more than 60 percent of the financial and nonfinancial institutions surveyed in Uganda indicate that the recipient needs to be an account holder in the institution. However, these services come at a cost to remittance customers. For example, there are charges for maintaining a deposit account, including a minimum balance that must be maintained on the account, ledger fees, withdrawal charges, and, in some cases, statement fees. The average monthly charges for maintaining an account with a bank in Uganda range between U Sh 1,000 and U Sh 3,000 Ush. The minimum balance ranges between U Sh 50,000 and U Sh 100,000. These high fees can limit access to formal remittance services for low-income individuals.

**Regulatory and Business Environment**

The remittance market in Uganda has some RSPs providing money-transfer services under the purview of the central bank, which observes the statutory regulatory framework. Other RSPs in the transport sector and the community-based institutions either are not under a regulatory framework or are based on a social network. Financial institutions in Uganda operate under various regulatory frameworks. For example, commercial banks (tier 1) and credit institutions (tier 2) are licensed and regulated by the Bank of Uganda under the 2004 Financial Institution Act. MDIs (tier 3) are regulated under the 2003 MDI Act, while all other MFIs and SACCOs (tier 4) are not under the Bank of Uganda’s purview and supervision, yet they form the core of the microfinance
sector (see Annex 2). Foreign exchange bureaus are regulated and supervised under the 2004 Foreign Exchange Act and the 2006 Foreign Exchange Regulations. SACCOs and MFIs in Uganda operate under three legal regimes: the Cooperative Societies Act, the Companies Act, and the NGO Act. However, tier 4 institutions operate in a supervisory and regulatory vacuum because those legal regimes do not distinguish tier 4 institutions from cooperatives, which do not provide financial services.

For transport companies, there are no additional requirements for establishing this kind of remittance-related business besides obtaining a license to provide transportation and parcel- and luggage-handling services and obtaining an operating license issued by the Registrar of Companies. Though money transfer is one of the services provided, transport companies offering remittance services are not regulated by the Bank of Uganda and are not required to file any reports regarding remittance transactions, volumes, and destinations (see Annex 1).

In Uganda, the Financial Institutions Act (2004) states the minimum capital requirement for banks and nonbank financial institutions as U Sh 4 billion and U Sh 1 billion, respectively. In addition, financial institutions are required to observe minimum and on-going capital requirements, including maintaining a core capital of at least 8 percent of total risk-adjusted assets and a total capital of at least 12 percent of total risk-adjusted assets. This requirement is in addition to an annual license fee of U Sh 1 million. Banks and nonbank financial institutions provide a variety of services; only the mobile transfer and international money-transfer agencies enter the market specifically to engage in money transfer services.

The two regulatory regimes that govern the operations of exchange bureaus issue four types of licenses for money-remitting foreign exchange bureaus. Each type of license allows for a different scope of operation, such as conducting international remittances, and minimum requirements for the licenses vary.

In carrying out remittance business, RSPs are expected to uphold the know-your-customer policy and to prevent unacceptable transactions by observing thresholds on the amounts remitted and reporting suspicious activities. However, the ability to enforce some of these rules depends on the strength of the surveillance system and the ability to share information across the RSPs at the settlement level.

There are no limits on how much money can be sent or received, but average remittance amounts range between US$50 and US$200 for school tuition, student upkeep, and general subsistence, and remittances can be up
to about U Sh 3 million for purchasing merchandise from traders. The major source and destination locations include all major towns in Kenya, Tanzania, and Uganda. Remittances for prominent customers are usually transmitted instantly, and the recipient can pick up the money within minutes of the sender concluding the transaction. All other remittances usually take one to three business days, depending on the intended destination.

**Regulations and Requirements**

The findings indicate that laws and regulations are not an obstacle for most RSPs in Uganda, with only one of the surveyed firms indicating otherwise. Regarding the barriers to entry into the remittance business, most providers felt that access to capital and finance was a major barrier to entry. In Uganda, however, license requirements and capital requirements posed the most significant hindrance to starting a remittance services business. Regarding operational barriers, RSPs indicated license and capital requirements as significant obstacles to businesses. Lack of access to clearing and settlement systems, anti-money-laundering requirements, and reporting requirements imposed by the central bank are other impediments to conducting a remittance business. Firms consider the corruption of government officials and the government’s tax policies to be the least significant barriers to providing remittance services.

All RSPs viewed money-transfer agencies such as MoneyGram and Western Union as key competitors, while nonbank institutions felt the banks were key competitors. As indicated earlier, banks and foreign exchange bureaus work closely with money-transfer agencies, while foreign exchange bureaus also work in partnership with local banks. Thus, competition between RSPs and nonbank institutions may be described as interdependence rather than rivalry.

Consequently, Uganda’s RSP market can best be described as an oligopolistic market. This description is especially true given that there are relatively few major players in the RSP market—mainly the banks and licensed foreign exchange bureaus—but these market leaders work in partnership with the relatively smaller RSPs, including credit institutions, MDIs SACCOs, MFIs and foreign exchange bureaus without remittance service licenses.

**Remittance Costs and Identification Requirements**

There are differences in charges for remittance services, for the same volume and even for the same destination, across RSPs (table 9.3). On
average in Uganda, fees for sending US$200 range from U Sh 13,000 (approximately US$8 at the prevailing exchange rate at the time of the survey) to U Sh 55,000 (approximately US$33). Transfer charges are the lowest for courier companies and foreign exchange bureaus and the highest for financial institutions. In addition, it is more expensive to send money to the United States, the United Kingdom, and Middle East (particularly the United Arab Emirates) from Uganda, than it is to send money to neighboring countries such as Kenya and Tanzania).

In Uganda, foreign exchange bureaus do not charge a fixed fee for international inward remittances; instead, they charge a foreign exchange commission by offering the remittance recipient an exchange rate that is lower than the market exchange rate. On average, the foreign exchange commission ranges between 0.25 percent and 0.5 percent of the remittance amount. On average, the commission on foreign exchange does not vary widely across remittance corridors. In addition to the fixed transfer charges and foreign exchange commissions, other levies and fees can also be charged. For instance, one foreign exchange bureau reported that a “handling” fee of 0.5 percent is levied on a customer who sends money in U.S. dollars. This “handling” fee is ostensibly imposed given that the RSP cannot, in this case, extract a foreign exchange commission because the sender has already converted the money to U.S. currency.

Table 9.3 Remittance Charges for Sending U.S. Currency, 2008

<table>
<thead>
<tr>
<th></th>
<th>Total number of firms interviewed</th>
<th>Average fee (% of transfer amount)</th>
<th>Average foreign exchange commission (% of transfer amount)</th>
<th>Total average fee (% of transfer amount)</th>
<th>Minimum total fee (% of transfer amount)</th>
<th>Maximum total fee (% of transfer amount)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange bureaus</td>
<td>9</td>
<td>7.0</td>
<td>0.50</td>
<td>7.50</td>
<td>5.8</td>
<td>10.4</td>
</tr>
<tr>
<td>MFIs</td>
<td>2</td>
<td>10.0</td>
<td>0.50</td>
<td>10.50</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Private commercial banks</td>
<td>15</td>
<td>11.6</td>
<td>0.34</td>
<td>11.94</td>
<td>3.9</td>
<td>16.7</td>
</tr>
<tr>
<td>Post office</td>
<td>1</td>
<td>1.5</td>
<td>–</td>
<td>1.50</td>
<td>1.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Survey of RSPs in Uganda.
Note: Total average fee = Average fee + average foreign exchange commission. Cost data were not available for credit unions and for PostBank.
The cross-border outward remittances market is highly concentrated in the formal sector. The only exceptions are outward remittances to Kenya and Tanzania, which are also transferred through the informal sector, such as bus companies. As mentioned, friends, family members, and acquaintances of the remittance senders are also used to transfer money across the border. One explanation for the dominance of the formal sector RSPs in the outward remittance market is that money is usually sent through a network of financial institutions, particularly banks. RSPs in the informal sector have limited access to the bank network; as a result, sending money would call for expensive transfer charges that render the provision of outward remittance services unfeasible for the informal sector. The minimum charge for sending remittances domestically in Uganda is U Sh 3,000 (approximately US$2), while the maximum charge is U Sh 66,000 (approximately US$40). However, there is significant variability in domestic transfer charges, especially between formal-sector remittance service providers and their informal sector counterparts, with the informal sector industries offering much lower rates, on average, than the formal sector. Banks and foreign exchange bureaus impose charges on receivers that are almost 50 percent of the sending fees. In Uganda, these charges go by various names such as bank charges, ledger fees, or foreign-currency handling fees. They range from U Sh 2,500 to U Sh 33,000, while the foreign exchange commission ranges from 0.25 percent to 5.00 percent of the remittance amount received. The RSPs surveyed also indicated that they charge either a fixed fee or a commission on remittances received.

Though formal RSPs are not required to charge taxes (for example, a value added tax) on financial transactions, including remittance services, transfer fees are higher than for informal RSPs. This higher fee could be partly attributed to the need to meet minimum capital standards, reporting requirements, and high operational costs (such as renting office space in prime locations). Informal sector RSPs, however, in addition to not being subject to any minimum standards, could use a retail outlet to offer remittance services. RSPs in the informal sector also usually operate in locations far away from the central business district where operational costs are lower. The lower transfer charges offered by the informal sector have the potential to more than compensate for the risks associated with transfers made through this sector, consequently creating a preference for informal transactions (especially for small remittance amounts).

RSPs gather information from users of remittance services. All the institutions involved in international remittances indicated that they ask
for various types of identification, including national passports, national identification cards, verifications of residence, and driver’s licenses. Additional acceptable types of identifications include voter registration cards and any other form of photo identification. Identification requirements apply to both account and nonaccount holders, though the requirements are not so stringent for account holders. Some banks insist that only account holders use money-transfer services. Some institutions, especially banks and PostBank, ask the sender to indicate the purpose of the money being transferred.

In urban areas, most international inward remittances reach the intended recipients in a day, as indicated by 58 percent of firms interviewed in Uganda. However, 23 percent report a next-day delivery. No firm reported a delivery period of more than five days. The trend slightly differs in rural areas, with 31 percent reporting that inward remittances reach the intended recipients in one day. As with deliveries in urban areas, no firm reported a delivery period of more than five days. Banks indicated that international inward transfers could be paid out in both local and foreign currency. However, Western Union payments are made in the local currency, and Western Union tells the sender the foreign-currency equivalent. There is a limit on the amount of money that customers can receive. For example, banks have a US$10,000 limit, and the same limit applies to the PostBank and Posta.

All providers indicated they have a system for dealing with grievances. Some of the firms indicated that they rarely receive grievances, and some indicated they have not received grievances. Transfer may fail to reach the intended recipient either because the information given was not correct or because the details were suspicious. When sending the money, the company dealing with the sender can indicate the time it will take to reach the recipient. In most cases (more than 80 percent), the institutions ask the sender and the recipient to verify the details to prevent discrepancies. In the case of a discrepancy, the money is not necessarily returned, but it is held until the details are clarified. Only when the transaction is suspicious would the institutions involve the local authorities. Regarding the length of time to address grievances, most firms indicated that concerns are dealt with as soon as they are raised. A small fraction of the firms indicated that it takes about a week to address grievances. The firms typically have dedicated staff members (two members in most firms) to deal with grievances, but firms can dedicate all staff members in the money-transfer section if the need arises. Only on very rare occasions are remittances not claimed.
Conclusion

The remittance market in Uganda is experiencing significant growth in terms of the volume and the diversity of the providers, in both international and domestic remittance markets. The following observations are noteworthy.

Data collection for remittance flows is not well developed. A growing number of migrant remittances is flowing to Uganda, which is positively correlated with increasing migration. However, data on migrant remittances is not collected regularly. Our RSP survey data do not allow for a fine disaggregation of remittances and other capital inflows as RSPs do not distinguish the various types of money transfers for which they provide services in their reporting to the central bank.

Participation in the formal remittance market is limited to a small proportion of remittance clients. The distribution of RSPs indicates limited access to formal-remittance transfer services by potential clients in various parts of the country. Results show that most services are provided in the major urban centers. Rural areas have a lower concentration of providers. The informal market continues to take a significant proportion of the remittance transfers, which can be attributed to the accessibility of informal services and the low cost of transfer.

Most remittance service providers do not treat remittance services as a core service. Except for money-transfer agencies, providers treat remittance services as auxiliary services.

Partnerships reflect a significant level of complementarity across remittance service providers. Except for community-based and transport-sector remittance service providers, all providers have a link to the banking sector because of its elaborate payment system that enables providers to reach a wider market both domestically and internationally.

Direct costs of remittance transfers are significantly high across the various providers. For sending US$200, the international transfer charge ranges between 10 percent and 17 percent, and the domestic transfer charge ranges between 0.4 percent and 12.5 percent for the domestic transfers. The fee covers processing charges, inventory costs, and delivery costs. In the case of a partnership, the transfer fee is shared in the agreed proportions to cover the various costs.

Access to a wide range of financial services is constrained by financial costs and availability. Most of the remittance providers indicated that they have a wide range of products in the menu of their core services to offer to remittance clients. However, the costs for such products (for
example, the cost of maintaining an account) may be prohibitive for other financial services for remittance clients. Furthermore, Simba Cash may find it difficult to widen the scope of financial services provided to its clients if banks do not offer core services in localities where Simba Cash operates.

Mobile money transfer services are entering the Ugandan market. The entry of nonbanking services was a response to emerging gaps in the provision of financial services. Currently, mobile money transfer is gaining entry into the market and gaining ground in domestic remittances.

The regulatory system is substantially developed but must catch up with the technological developments. The central bank regulates only a small proportion of remittance service providers in Uganda. However, the regulation of mobile-phone money transfer has yet to evolve.

**Recommendations**

For assurance that remittance services provided are accessible, reliable and affordable, it is important to focus on the network and partnership among the providers, the technological developments, the regulatory system, and the data collection.

Designing and improving collection of remittance data could include administering periodic surveys and developing a reporting system for formal RSPs. Categorizing money transfers handled by service providers will be useful in accurately depicting migrant remittances.

Mobile-phone money transfer is revolutionizing the money transfer industry by providing accessible and affordable services. Client response to this technological development indicates that money transfer is a significant financial service that has taken time to receive proper attention. This developing industry challenges the banking sector to elevate remittance services from auxiliary services to core services and to adopt new technologies that will facilitate quick and cheaper transactions.

The speed of service delivery and the costs imposed depend on the national payment system’s level of development. Thus, ensuring that the system adapts quickly to technological development will help to reduce the cost of transactions.

Information on the costs of remittance transfer should be shared publicly so that clients are aware of charges and are able to choose their service provider wisely. Providing more information encourages competition among providers, decreasing the costs of the services.
To facilitate access to financial services, remittance clients should be given financial education because it is crucial for the remittance clients to understand the products that are available. Similarly, banks can develop products specifically for remittance clients.

Although the mobile-phone money transfer facility is currently not at risk, it is important that the operational rules are fully enforced. However, as these services become global, the regulatory framework must be able to address the challenges that may arise.

Notes

1. Although remittances can be person-to-person and business-to-business, this book does not distinguish between the users of the services; analysis is from the providers’ perspective.
2. The Bank of Uganda (2008) records show that gross remittance receipts for 2006 were estimated at U Sh 277.3 billion (approximately US$148.5 million), with urban households accounting for 73 percent of those receipts. This amount is significantly lower compared to World Bank data that estimate total remittances for the same year to be US$411 million (World Bank 2009).
3. Debit card services provided by United Bank of Africa, which started operations early 2011, are yet to be tested as of April 2008.
4. The Advantage Card, a prepaid store value card issued by Standard Chartered Bank Uganda for use at Total Uganda Limited fuel stations, was withdrawn from the market.

References


