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POLICY BRIEF

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Facilitating financial inclusion through promoting the use of mobile money as a saving avenue

Executive Summary

Mobile money has gained so much prominence in the developing world in recent times due to its potential to bring on board the financially excluded people in the rural areas and transform the mainly cash economies of developing countries into a cashless economies. However in Uganda, the use of mobile money as a saving mechanism has not gained as much impetus as the transfer and payment strands. In this policy brief, we examine the probable reasons explaining why the saving strand has remained unpopular within both the Mobile Network Operators (MNO) and amongst the population. One major setback – the expansion of mobile money beyond mobile payments is still limited in Uganda partly due to limitations in legislation. While mobile money falls under financial services, MNC are licensed and regulated by the Uganda Communications Commission. This contradiction has led to questioning of the legality of mobile money service provisions in Uganda. In addition, setbacks associated with living in hard to reach areas – poor road networks, poor coverage of the mobile networks, limited spread of other financial institutions are some of the hindrances to using mobile money as a saving mechanism. The promotion of savings requires that telecom companies and commercial banks leverage on each other's strengths to deliver a comprehensive saving instrument for hard to reach areas and poor people. The use of mobile money as a saving mechanism also requires innovative approaches that will allow for smooth operations of mobile agents to deposit and withdraw money whenever the need arises.

Introduction

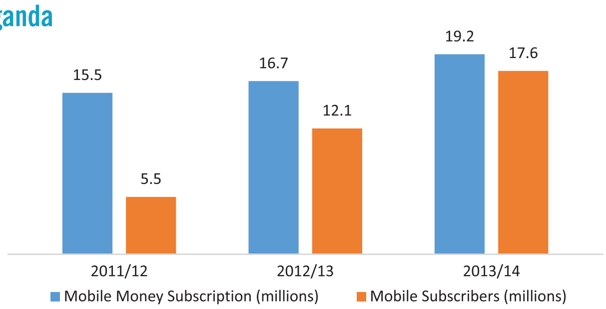
Mobile money (m-money) is a product that allows clients to use text messages to store value in an account accessible by the handset, convert cash in and out of the stored value account, and transfer value between users[i]. Its growth in developing countries has been phenomenal given its potential to increase financial inclusion and reduce the reliance on cash in cash heavy economies. It's a common avenue for utility companies to collect dues, for banks to mobilize deposits, disburse loans and receive loan repayments and for public organizations to disburse benefits and other social payments. In Uganda, the introduction of mobile money in 2009, was followed by an increase in the proportion of the population using formal non-bank financial services from 7 to 34 percent according to the latest Finscope survey of 2013. Also the share of registered mobile money users was higher than bank account holders as well other users of non-bank financial institutions. Similarly, the use of informal services reduced from 42 percent to 31 percent between 2009 and 2013; these developments have been largely attributed to the evolution and adoption of mobile money. The use of mobile money has mainly been for cash withdrawals (56 percent), followed by receiving (54 percent) and sending money (46 percent)[ii]. Its usage as a saving instrument has not been common with the latest Finscope survey showing that only 3.6 percent of the population in Uganda has actually used mobile money for saving. This is in spite of the fact that mobile money offers a safer means of saving than informal methods of saving such as at home (under the mattress), rotating saving clubs or saving with collectors. Beyond transfers, pseudo-saving accounts can be created which are password protected within mobile money and individuals can deposit smaller savings amounts for more immediate needs. The fact that they are password protected offers more security from theft while having increased access when compared to other savings clubs. This policy brief examines why saving through mobile money has remained uncommon in Uganda.

The growth of Mobile Money in Uganda

Mobile money was introduced in Uganda in 2009 by MTN[1] following the successful launch of M-Pes[2]a in Kenya in 2007. MTN was followed by other mobile network operators (MNOs) namely Warid, Airtel, Uganda Telecom Ltd, and many others. Since its introduction, the number of mobile money registered account holders has grown tremendously in Uganda from 3 million in 2011 to over 17.6 million in 2014 according to the Uganda Communications Commission 2015. The number of mobile phone subscription also increased from 9 million in 2009 to over 19.2 million in 2014, surpassing the 5.6 million account holders in formal financial institutions including commercial banks, Credit Institutions (CIs) and Microfinance Depositing Taking Institutions (MDIs)) combined. Currently, the number of mobile money agent's stands at over 17,889 as compared with 477 commercial bank branches with 699 Automated Teller Machines (ATMs) (Figure 1).

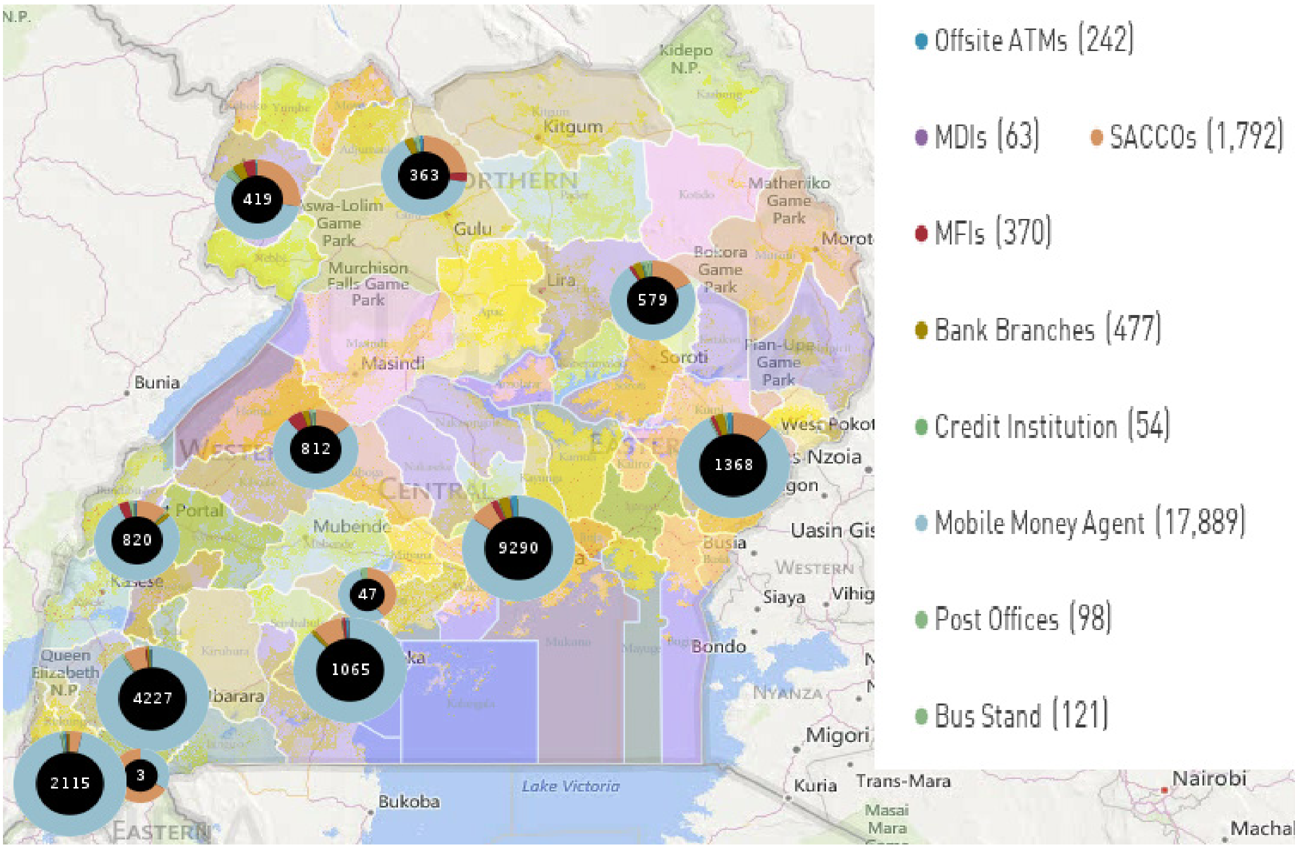
Between 2011 to June 2014, the number of mobile money transactions grew by 24 percent and the value of transaction grew as well by 43.4 percent. This rapid growth of mobile money in terms of subscription and value of transaction (see figure 2), demonstrates its increasing importance in the financial sector and the overall economy. The increase in mobile money registered accounts is partly attributable to the increased mobile phone usage and the mandatory registration of SIM cards in 2012.

Figure 2: Mobile phones and mobile money subscriptions in Uganda



Source: Uganda Communications commission, 2015

Figure 1: Spread of financial networks in Uganda



Source: Bank of Uganda, 2014[3]

1 MTN is a phone network in Uganda and has the highest number of customers.
2 M-Pesa (M- for mobile and PESA for money in Swahili) a mobile phone based transfer and microfinancing service centre launched in 2007 in Kenya. M-Pesa allows users to deposit money and send balances.
3 Bank of Uganda (BoU), (2014), "Bank of Uganda Financial Inclusion Project: Strategy Paper on Financial Inclusion", Bank of Uganda.

Saving using mobile money in Uganda

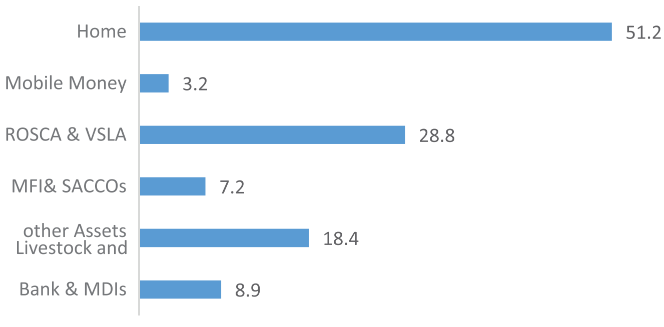
More than half of the population in Uganda save through informal means that is at home, through ROSCAs, ASCAs, Saving Clubs, and Village Groups etc. About 9 percent save through formal banking institutions, 7.2 percent non-bank formal means. Using a simple definition of whether, one has some money stored on their phone to imply saving through the phone, the use of mobile money for savings is rather low in Uganda. Only about 3.2 percent of the population saves through their mobile phones according to the latest Finscope report of 2013 (Figure 1). One of the major reasons why it may be uncommon is the lack of interest that accrues from phone savings when compared to saving through the bank. Latest technology innovations in the mobile and banking industry allow for mobile customers to save directly from the phone to the bank where interest can accumulate. In India for example, a saving mechanism from phone to bank account encouraged low income earners such as vegetable sellers, taxi operators to save directly from the phone to the bank and it substituted for the informal saving methods that were risky[iii]. In Kenya for example, M-KESHO was launched in 2010 and allows for interest-earning bank integrated mobile saving systems. The usage of such bank-integrated mobile saving systems remains limited and largely restricted to better-off Kenyans. This service is also available in Uganda between MTN and Centenary bank. Accumulating interest from saving directly from the phone to bank introduces the barrier of the need to possess a bank account which many rural people in Uganda are unable to access. The best option to encourage saving is to have the interest on savings deposited directly onto the mobile money account. In Tanzania, Tigo Tanzania pays out interest accrued on a mobile money account; an incentive that is directed towards encouraging mobile money savings[iv] . Even if saving through mobile money does not accrue interest, it is a better alternative than saving through informal means such as at home which subjects the savings to risks of theft. Some may argue that costs such as withdrawal cost using mobile money surpasses withdrawal cost using bank auto teller machines. Whereas this is the case, inaccessibility to these banks by people in rural areas, makes the use of mobile phones as a saving avenue to be one of the most favorable options that rural people have.

Innovations in the mobile money sector that encourage households to save through minimizing the transaction costs and the risky nature of informal saving methods, increase the possibility of saving by low income earners[v]. Nevertheless, there are many people especially in rural areas that still save informally (almost 70 percent) which should not be the case if mobile money presented a better alternative to saving. Our results show that unregistered mobile money users in rural areas are still less likely to save with mobile money compared to their registered counterparts in urban areas. Rural areas due to poor supportive infrastructure may be affected by network coverage and few mobile money agents making it hard for rural population to save through mobile money. Additionally, the issue of liquidity emerges in rural areas. Most mobile money agents often don't have enough float for individuals to withdraw cash and do not have the security to hold large amounts. To bear in mind is the fact that the mobile money agents also need to access banks in order to acquire float.

Who gets to save with mobile money?

The findings further show that, registered mobile money users in urban areas are more likely to save with mobile money compared to their rural counterparts. The results also show that the least developed regions are still less likely to save with mobile money when compared to their counterparts in the central region. Individuals in Eastern, Northern and western are still less likely to save with mobile money than their counterparts in central Uganda (Kampala inclusive). The presence of a widespread network of mobile money agents in Kampala and in the central region may explain this. The findings also show that the relatively lower cost of mobile money and proximity to mobile money agents and financial institutions increases the likelihood of using mobile money as a saving mechanism. These findings can be explained by: one, rural dwellers tend on average to have lower incomes compared to the urban counterpart and thus have less to save. Similarly, residents of Kampala tend to have higher incomes and thus high savings compared to residents of other regions. Secondly, poor infrastructure in rural areas in terms of lack of electricity and poor telecommunication network coverage may limit the use of mobile phones and consequently the use of mobile money.

Figure 2: The saving modes used in Uganda today



Saving with mobile money in other countries

A study on using mobile money as a saving avenue in Ghana found that significant delays in activating mobile money due to limited mobile phone coverage and mobile money agent's ability to travel to rural areas was a limiting factor[vi]. In 2010 in Kenya, saving through M-PESA was also found not to be a common practice at the time. As of early 2009, only 21 percent used M-PESA for storing money.

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This was mainly attributed to the lack of interest by Safaricom to publicly promote using M-PESA as a saving tool for fear of provoking the Central Bank of Kenya to regulate it more tightly. In the same year, M-KESHO a mobile savings, credit and insurance product was launched in partnership with Equity bank. M-KESHO would allow Equity Bank customers to to pair their bank account with their M-PESA account, making it convenient to move money between accounts. The partnership did not last long and the credit and insurance elements did not survive for more than three months after launch. In 2012, safaricom partnered with the commercial bank of Africa and launched a similar product to M-KESHO; M-SHWARI. M-Shwari has become a popular a mobile savings, credit and insurance product.

Conclusions and Policy Implications

The low levels of saving with mobile money can be attributed to a number of factors. First, it could be partly explained by limitations in the legislation that doesn't incorporate mobile money into financial services. Secondly, the absence of interest payments on mobile money saving may act as a disincentive to save through this mechanism. Thirdly, the use of mobile money as a saving mechanism still necessitates wide spread financial infrastructures to allow for the smooth operations of mobile agents to deposit and withdraw money whenever the need arises. To promote savings, MNCs and commercial banks should leverage on each other's strengths to deliver a comprehensive saving device for hard to reach areas and poor people.

Endnotes

i Aker,J.C., and Mbiti,I.M. (2010). "Mobile Phones and Economic Development in Africa."Journal of Economic Perspectives, 24(3): 207-32.
ii Economic Policy Research Centre (EPRC) (2013), FinScope III Report (2013). "Unlocking Barriers to Financial Inclusion in Uganda", Economic Policy Research Centre, EPRC, 2013
iii Nandhi, M.A. (2012). "Effects of Mobile Banking on the savings practices of low income users. The Indian Experience. Institute of Money, Technology and Financial Inclusion". Working Paper #2012-7.
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vi Aker, J. C. and K. Wilson (2013), "Can Mobile Money Be Used To Promote Savings? Evidence from Preliminary Research Northern Ghana", Swift Institute Working Paper No. 2012-003.

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

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