



Executive Summary:
Uganda country assessment
on affordable and accessible
remittances for forcibly displaced
persons and host communities

June 2018

UNHCR

UNHCR, the UN Refugee Agency, is mandated by the United Nations to lead and coordinate international action for the worldwide protection of refugees and the resolution of refugee problems. The organization delivers life-saving assistance like shelter, food and water, helps safeguard fundamental human rights and develop solutions that ensure people of concern to UNHCR have a safe place to call home where they can build a better future. It also works to ensure that stateless people are granted nationality. UNHCR works in 128 countries around the world on behalf of 71.4 million people.

UNCDF

UNCDF makes public and private finance work for the poor in the world's 47 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 SDG 1 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.

BFA

BFA is a global consulting firm specializing in financial services for low income people. Our approach is to seek out, create and implement financial solutions to help people manage challenges and seize opportunities. We partner with cutting-edge organizations that touch the lives of low income consumers such as financial institutions, fintech companies and information providers. In creating solutions, we integrate our deep expertise in customer insights, business strategy, new technology, and growth-enabling policy and regulation. Founded in 2006, BFA's clients include donors, investors, financial institutions, policymakers, insurers and payment service providers. BFA has offices in Boston, New York, Nairobi and Medellín.

BACKGROUND

Although the market for providing remittance services to refugees is large, financial service providers have found it difficult to develop a business case for targeting them. The cost of reaching and ensuring liquidity at their remote locations, uncertainty regarding acceptable identification, and limited information about refugees' needs and abilities have limited the business case, leaving them without access to convenient, low-cost remittance services. As such, many refugees depend on expensive, ad-hoc and, sometimes, risky solutions to overcome legal and logistical challenges to accessing remittance services. There is an opportunity for development agencies to intervene by supporting remittance and financial service providers, and influencing the policy environment to make serving refugees feasible and commercially viable.

In November and December of 2017, BFA spoke with refugees, host community members, remittance providers, broader financial service providers, humanitarian and development agencies, and policy makers in Uganda to better understand the demand, supply and regulatory environment for providing remittance and financial services to refugees. BFA interviewed 120 forcibly displaced persons (FDPs) and 48 host community members in three settlement areas: Nakivale, Bidi Bidi, and Kampala. The team only spoke with individuals who had received international remittances in the past year, either through informal or formal channels, in order to understand how recipients chose to utilize the range of services available to them.

ACCESS IS COSTLY AND COMPLICATED

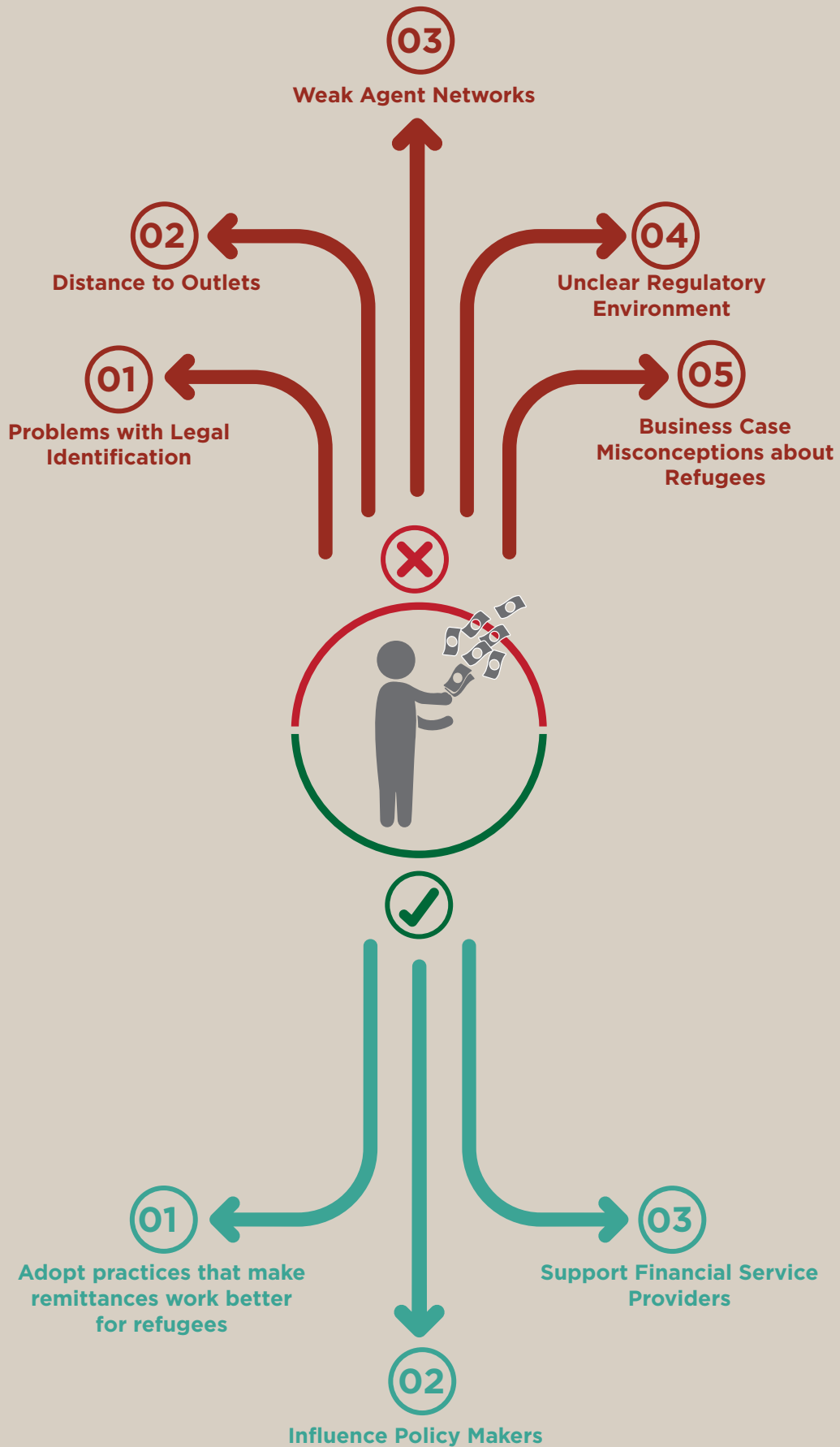
The FDPs BFA interviewed typically received USD 20-100 between four to six times a year from family and friends living in their home country and other countries, primarily through formal channels. This isn't too surprising since previous research has found that three-quarters of Ugandan households receive cash transfers through formal channels¹.

As Ugandans in general are moving towards digital channels², provision of digital remittance services to refugees in the future looks promising as majority of the refugees we spoke to had access to mobile phones. Today, however, most refugees depend on money transfer operator (MTO) outlets, including bank branches, to access their remittances. Reaching these outlets is difficult as refugees face a number of logistical and administrative costs and challenges. For example, refugees often pay as much as USD 10 each way to travel to providers, which can be over 20 kilometers away, or must pay middlemen to facilitate access.

Moreover, once they reach the remittance service provider, refugees often realize that many providers are not oriented towards serving them, questioning the veracity of their identification documents and exhibiting more risk aversion than when serving locals. In addition, a few banks and MTOs only allow FDPs to access money up to a preset limit. These conditions reflect misconceptions about the refugee population that providers hold, as well as the increased scrutiny they face when serving refugees due to Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and Know Your Customer (KYC) laws and regulations.

1 BOU, 2016. Inward Personal Transfers 2016. [Online] Available at: <https://www.bou.or.ug/bou/bou-downloads/publications/TradeStatistics/RemittanceMonitoring/Rpts/All/ANNUAL-PERSONAL-TRANSFERS-REPORT-2016.pdf> [Accessed Feb 2018].

2 ibid



Ultimately, refugees find themselves spending significant time and effort to access remittance and other financial services. In the next section, we outline the specific challenges that refugees face in accessing services and that providers face in serving them.

KEY BARRIERS TO ACCESS

Problems with Legal Identification

To receive cash transfers or open a savings account, customers must present government-issued identification. In the case of FDPs, the government of Uganda issues a refugee ID once an asylum seeker's refugee status has been approved. Unfortunately, this process tends to be lengthy with many refugees stating it has taken over a year for their ID to be issued, during which period it is nearly impossible to access remittances or other financial services in their own name from a formal provider. During this period, some FDPs receive remittances through friends and family who have the required documentation.

Even after refugees have been issued an ID, many respondents report that financial service providers ask for supporting documents. This is partly because providers are unable to query the UNHCR Refugee Information Management System (RIMS) to verify IDs. Instead, they must verify identification manually by requesting additional documentation or by contacting the Office of the Prime Minister (the government entity responsible for refugee registration) directly. Even with these manual processes, providers cannot verify the photo of the refugee, leaving the verification process incomplete.

Providers are especially vigilant about verifying the identification of FDPs because AML/CFT regulations sanction South Sudan and Democratic Republic of Congo, the two countries from where most of the refugees in Uganda originate. In these cases, financial institutions are responsible for ensuring that the relevant funds are not financing conflict or involved in money laundering activities.

Even when the identification is available and verified, or additional identification has been provided, some refugees report that remittances are denied because their names are either misspelled or inverted by the sender. This is common when translating names from French or when there is confusion about first/last name conventions.

Distance to Outlets

When FDPs in settlement areas receive money transfers, they typically have to travel to the nearest town to reach a remittance provider to withdraw the cash. These towns are usually 20 to 45 kilometers away and the trip requires time and money. For example, residents of Nakivale camp have access to only one service provider, over 20 km away, to receive remittances sent via Western Union. It costs them UGX 40,000 (approximately USD 10) to make the round trip to the bank, which is the only cash point within an hour of the camp.

Unfortunately, providers are unlikely to open outlets to serve settlement areas since BFA research has found that remittances alone are unlikely to be sufficient to sustain an outlet profitably. This is particularly the case with FDPs, since BFA found that remittances tend to taper off once FDPs are settled. Moreover, banks worry that refugees will be resettled abroad and thus they are unlikely to extend additional services such as credit, overdraft, etc. For example, Stanbic Bank reported closing its branches in the remote west and northern areas of Uganda near the refugee settlements because they were not commercially viable.

If remittances are sent via mobile money, FDPs can avoid the long trip to the outlets, but even then, distances can still be great. For example, refugees from Zone 1 in Bidi Bidi have to walk about 5 kilometers or spend UGX 4,000 (approximately USD 1) to make the trip to a mobile money agent. Those in Zone 2, which is further away from agent locations, pay UGX 20,000 (approximately USD 5) to make the same trip.

Weak Agent Networks

Challenges of distance also affect mobile money agents, who must travel long distances to maintain liquidity. Mobile money agents in Nakivale settlement travel 45 kilometers to the town of Mbarara to rebalance e-float with cash. Many are reluctant to make the trip because of the transportation costs, security concerns and lost income that such trips entail, and also because they incur a bank fee for liquidating e-float³.

Maintaining adequate cash reserves is also challenging because withdrawals at agents outnumber deposits so drastically. One agent reported that he processes an average of 50 withdrawals a day, but only about 35 deposits a week.

These challenges mean that refugees often find that agents don't have sufficient cash reserves to execute cash-outs. In Bidi Bidi, refugees reported that they often had to wait two days for the agent to generate sufficient cash to allow them to withdraw all of their money. Members of the host community reported that they prefer to travel to Arua, a town two hours away, because they are confident that the agents there will have enough cash.

The agent network is further limited because regulations require that providers use agents that are already formal, registered businesses. While this requirement is not typically enforced for mobile money agents, it will likely be enforced for bank agents. Given that 96% of Ugandan businesses are informal⁴, this restricts the number of potential agents and therefore limits access to formal financial services in remote refugee communities.

However, with the Government's recent release of bank agent regulations, it is expected that most banks will invest to improve their agent networks and expand to rural areas. At the time of this research, Centenary Bank had over 400 bank agents and hoped to reach 1,000 agents in the next year. Equity Bank had more than 200 agents. In both cases, the banks aim to offer most services available at the branch through agents, including money transfer services like Western Union and Money Gram.

Unclear Regulatory Environment

Even as banks look to invest in agency banking, the role of bank and mobile money agents in cross-border remittances is unclear. There are no specific references to cross-border remittances within the Mobile Money Guidelines and while The Agent Banking Regulations permit agents to provide "money transfers", they prohibit them from conducting "foreign exchange transactions".

In addition, there is no published sector-specific AML/CFT risk assessment guidance for the mobile telecommunications and banking sectors.

³ Mobile money systems rely on customers paying in with actual currency. Customers then obtain digital value, or e-float. E-float may be transferred to other mobile money users and exchanged by the holder for cash by visiting a mobile money agent. See more: <https://www.economist.com/node/16319635>

⁴ See Uganda Bureau of Statistics, Report on the Uganda Business Inquiry 2009/2010. This report defined a business as "informal" if it "may not be registered/licensed and normally has no final accounts and also employs less than 5 persons and does not pay any taxes such as Value Added Tax and Income Tax."

Furthermore, laws are unclear regarding KYC requirements for refugees⁵. So much regulatory uncertainty increases risks for providers considering investments in this sector and ultimately, limits services.

Business Case Misconceptions about Refugees

Even with these barriers to access, the size and regularity of remittances among the FDP population suggests there might be a compelling business case for providers. However, misconceptions about the socio-economic status of refugees have meant that most providers have overlooked this opportunity.

To start, contrary to the popular belief that FDPs are too poor to be viable customers, a UNHCR assessment found that refugees who depend primarily on remittances have median income levels higher than those of host community members and other FDPs⁶. Moreover, providers can still benefit from serving low-income refugees since they tend to receive humanitarian cash transfers, which can mean large and frequent sums of e-float for providers as well as revenue from transaction fees.

Another misconception among providers is that refugees are all transient. In fact, BFA found great diversity within the population. For example, in Nakivale, Congolese refugees had been in the settlement camp for two to eight years while most Burundian refugees had been there for two to three years. In Kampala, some refugees had lived in Uganda for more than 10 years but only acquired refugee status five years ago; meanwhile, those in Bidi Bidi had been in the camp for 18 months at most. While this diversity means targeting can be challenging, the fact that many refugees stay in Uganda for a long time (years, and sometimes even decades) suggests there is a viable business case to be made.

Unfortunately, due to these misconceptions, banks don't maintain data on refugees separately or in sufficient detail, and thus have no way to identify or determine which refugee segments might be viable.

Finally, even if a provider is dedicated to serving refugees, it is not clear that it would win business since it is the sender, and not the recipient, who usually chooses the cash transfer provider. About 50% of senders reported that ease of access was the biggest determinant when choosing a remittance channel and less than 10% of senders considered their recipient's preferences⁷.

5 Jeremiah Grossman (2017). Study on Know-Your-Customer Requirements for Digital Financial Services in Uganda. [Online] Available at: <https://uncdf-cdn.azureedge.net/media-manager/79041?sv=2016-05-31&sr=b&sig=XSBR2JlxladczDyUGdTkGjFB0BdGkQ5vbPME5JAclfU%3D&se=2018-06-10T17%3A57%3A12Z&sp=r> [Accessed Feb 2018].

6 UNHCR, 2018. Refugee Livelihoods Socio-economic Assessment Data. [Yet to be published]

7 BFA, 2017. East Africa Mobile Money Cross-Border Payments: Market demand Study for CGAP [Yet to be published] and Western Union & Mastercard, 2017. Smart Communities: Using digital technology to create sustainable refugee economies. [Online] Available at: <https://reliefweb.int/report/kenya/smart-communities-using-digital-technology-createsustainable-refugee-economies> [Accessed 28 Mar 2018].

RECOMMENDATIONS FOR DEVELOPMENT AGENCIES

Humanitarian and development agencies can adopt new practices as well as influence government and others to begin addressing the challenges outlined above. In the long run, technology and infrastructure development will alleviate many of these challenges, but there are also short-term opportunities to benefit refugees and incentivize providers.

Adopt practices that make remittances work better for refugees

Development agencies can adopt certain policies and projects in-house to help refugees access more convenient, lower-cost services.

- Create a UNHCR ombudsman to help FDPs engage existing Bank of Uganda complaint and dispute resolution mechanisms
- Inform FSPs about changes in refugee settlement in order to allay the fears about opening accounts or lending to refugees
- Extend existing subsidy programs to cover a wider range of FDP transaction costs
- Support financial entities that already serve FDPs within the settlements, such as SACCOs
- Collaborate to ensure that electronic aid disbursements utilize open loop systems that allow refugees to use the same account for other purposes

Influence Policy Makers

In addition, development agencies should utilize their position and relationships with government to further benefit refugees and support providers in serving them.

- Encourage Office of the Prime Minister to speed up the process to issue IDs to refugees
- Support the Bank of Uganda to ensure that other forms of identification (i.e., refugee approval letter, asylum seeker's card) are a sufficient form of identification for low-value transactions
- Facilitate providers' access to Refugee Information Management System (RIMS)
- Suggest improvements to the refugee ID to make it more easily verifiable

Support Financial Service Providers

Finally, development agencies can work with providers directly to help them serve refugees.

- Consider providing subsidies and/or guarantees for setting up or operating remittance outlets in/near refugee settlement areas
- Negotiate with MTOs to allow remittances to be received via mobile money
- Encourage MNOs to authorize more mobile money agents in settlement areas, especially in Bidi Bidi
- Suggest improvements to tailor KYC procedures for refugees
- Generate a business case for serving refugees through design sprints
- Bolster operations of entities, such as Moban SACCO, that already serve FDPs within the settlements
- Create more awareness among senders and receivers about the availability and ease of facilitating remittances via mobile money wallets



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