

Developing the Business Case for Low-Balance Savings by FINCA Uganda

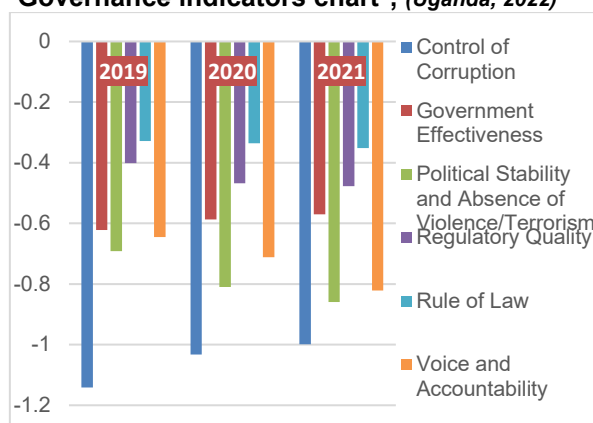
1. DEVELOPMENT RELEVANCE

Economic and poverty context

The economic situation in Uganda has been severely impacted by the Covid-19 pandemic. To contain the virus, the country imposed one of the toughest and longest lockdown measures in the world¹. While most of the measures were lifted by the end of 2021, numerous economic sectors – particularly tourism – are yet to get back to their pre-Covid performance. Moreover, starting in September 2022, the country faced another public health challenge with the confirmation and growing spread of an Ebola virus that had already reached Kampala in October of the same year². Whereas the impact of this outbreak is yet to be assessed, its effects are adding pressure to Uganda's already fragile economic situation.

Table 1 ³ : Population and economic indicators	
Population in million (please indicate year)	47.12 (2021)
GDP growth (year)	3.4% (2021)
Inflation (year)	3.8% (2020)
Trade balance (% of GDP) (year)	-10.6% (2021)
Foreign direct investment (net) (% of GDP) (year)	2.3% (2020)
Net ODA received (% of GNI) (year)	8.3% (2020)
Remittances received (% of GDP) (year)	2.8% (2020)
Economic Freedom Index ⁴ (Rank among 186 countries) (year)	54.2 (2022)
Poverty indicators	
GDP per capita (USD) (year)	858.1 (2021)
Gini Index (0= equality 100= inequality) (year)	42.7 (2019)
International poverty rate (year; at 1.90 USD/day)	42.2% (2019)
National poverty rate (year)	20.3% (2019)

Governance indicators chart⁵, (Uganda, 2022)



Financial sector context

Over the last five years, the Government of Uganda took deliberate actions toward increasing financial inclusion in the country. The Bank of Uganda is approaching the end of the implementation of its National Financial Inclusion Policy 2017 – 2022 that aims at increasing “the percentage of the adult population formally financially included from 58 percent to at least 80 percent by 2022”.

Practical actions taken included:

- launch of a Public-Private shared Agency Banking Platform
- launch by the Bank of Uganda of a Regulatory Sandbox to allow the development of innovative solutions

Moreover, a Financial Literacy Strategy (2019-2024) is currently being deployed and focuses on five major groups: women, the working class, youth, those that reside in rural areas, and special interest groups.

While these initiatives and developments are applauded by the financial industry overall, some high-profile fraud events in the digital space have called for increased efforts in managing new risks faced by the sector⁶.

¹ <https://www.bbc.com/news/world-africa-59935605>

² <https://www.cidrap.umn.edu/news-perspective/2022/10/ugandas-ebola-cases-rise-who-ups-risk-assessment>

³ The World Bank Group (2021). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (07/12/2022)

⁴ Heritage Foundation, (2022) Index of Economic Freedom, <http://www.heritage.org/index/ranking>. Accessed (15/11/2022)

⁵ The World Bank Group (2021). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (07/12/2022)

⁶ [Welcome Remarks by Michael Atingi-Ego Deputy Governor, Bank of Uganda, At the Inaugural Financial Inclusion and Financial Literacy Forum, August 10, 2022](#)

Financial Sector Partner

FINCA Uganda Limited (MDI) is a limited liability company, licensed under the Microfinance Deposit-taking Institutions act 2003 and is directly supervised by the Bank of Uganda. FINCA Uganda is part of the global group of 20 countries under FINCA Impact Finance. FINCA Uganda launched in 1992, primarily serving rural communities and supporting small business development through access to credit. FINCA Uganda is the 2nd largest MDI in the country, providing low-income customers with financial products aimed at building assets for the future. Micro and Small Enterprise lending represent the largest percentage of FINCA's core business, delivered through financial products, including savings products, self-managed group lending, agriculture lending, ordinary business lending, SME lending, and micro-lending. FINCA Uganda has a GLP of \$33 million, deposits of \$27 million, and 132,084 customers; 37.9% of borrowers are women and 42% of savers are women.

In addition to the Swiss Capacity Building Facility, FINCA Uganda has been supported by various donors and lenders to drive digital transformation, such as World Savings & Retail Banking Institute, Abi Trust, Symbiotics, European Investment Bank, CISCO Foundation, etc.



Branch network and customer access points

FINCA Uganda has a total of 28 branches and service points across the country. FINCA Uganda's customers can transact regularly, through:

- over 4,000 "Cente" Agents (in partnership with Centenary Bank).
- over 150,000 Mobile Money agents (in partnership with MTN and Airtel).
- over 500 Interswitch and VISA ATMs in Uganda, as well as any VISA ATM worldwide (in partnership with UBA).
- over 150 Tablet-equipped FINCA staff operating in the field out of the FINCA branches (Digital Field Automation).

2. INTERVENTION APPROACH

Capacity building needs

FINCA Uganda started its digital transformation journey in 2019, with priority given to the development of alternative channels, allowing remote operations for its clients to transact.

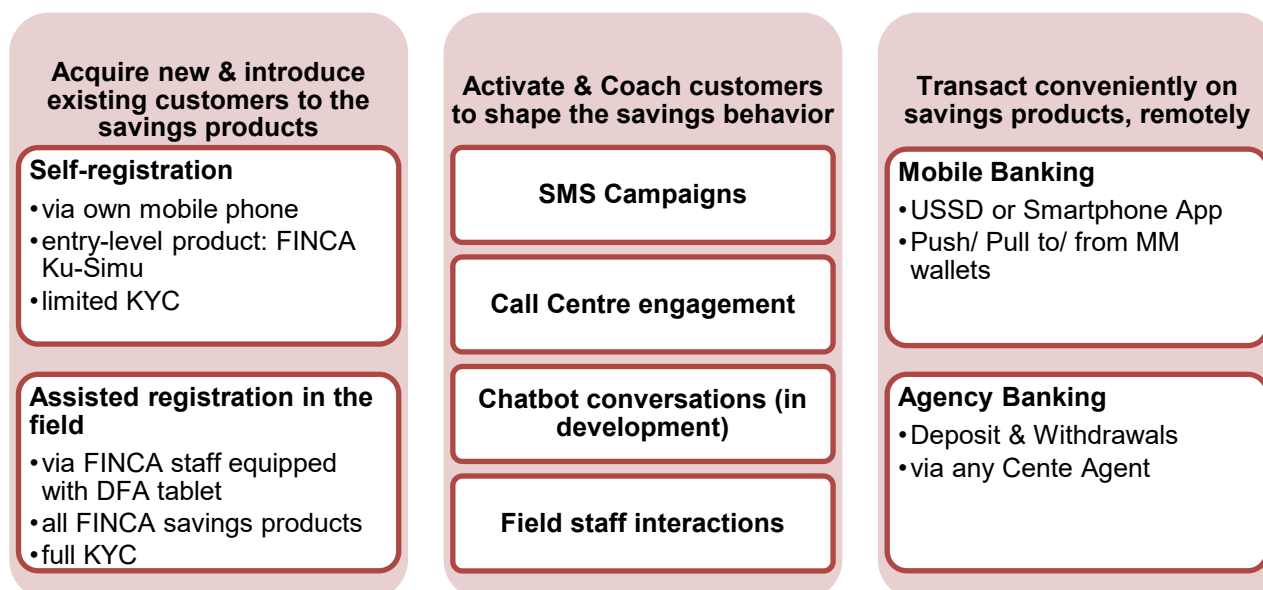
The aim of this project was to develop a business case for low-balance savings mobilization and usage for low-income savers in Uganda primarily through a digital approach. SCBF's contribution allowed FINCA Uganda to procure the technical assistance needed to guide the management team through this journey, while ensuring coaching and transfer of knowledge within its new Innovations Team.



Main activity areas (goals, targets, resources & time frame) and outputs

The various interventions of this project were intended to increase customers' choices in how they transact, thus giving rise to increased savings, lower account dormancy, and financial know-how. The project activities focused on the development of a remote account opening solution for savings products (digital field automation), the expansion of payment solutions for FINCA customers through third-party agents (agency banking), the deployment of a mobile banking platform and the launch of a new mobile-only savings product

(mobile savings), and the delivery of a customer engagement strategy aimed at shaping positive savings behavior (financial education). Below are the key pillars of the project:



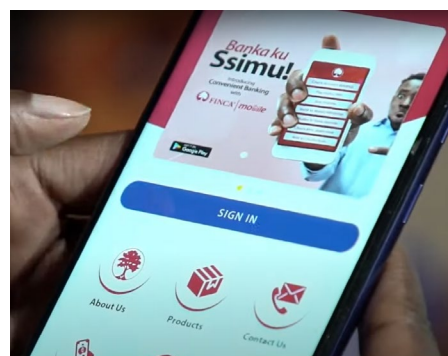
These innovations aimed at making formal savings accessible and impactful for poor customers: those who typically transact in small amounts and that do not justify a trip or extra cost in terms of time and transport to a bank branch.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client-level

FINCA launched a **Mobile banking platform**, available through USSD as well as a dedicated Smartphone app, allowing its existing customers to perform a myriad of transactions from the convenience of their mobile device. Since its launch, over **45,000** customers registered and use the service.

Building on this technical solution and considering the learnings generated through a Human Centric design exercise, FINCA Uganda developed a new mobile-only savings product, called “FINCA Ku-Simu”. The new mobile-based product⁷ allows any Ugandan adult having a valid national ID (verified in real-time against the National Identification Database) to self-register remotely through their mobile device and obtain a free-to-operate savings account within FINCA Uganda.



FINCA Ku-Simu was launched as a soft pilot at the end of 2021 gathering learnings from early adopters. To date, **over 10,986** new customers have self-registered for the product. With **69% youth**⁸ and **31% women**, the target population is represented as expected for a fully mobile-based product. The activity rate is currently low at **16%**⁹, mainly due to technical and operational challenges (as presented in the lessons learned section). FINCA Ku-Simu mobilized **16 million Ugx (~4,000 CHF)**, translating into an average of **~4 CHF** per active customer.

The project also included the deployment and activation of **Digital Field Automation (DFA)**, which allows customers to open accounts remotely. Upon a successful initial experience with FINCA Ku-Simu, customers ready to graduate to advanced (higher) savings products can be fully registered by DFA tablet-equipped FINCA staff in the field.



⁷ https://www.youtube.com/watch?v=mLpHGHWESIM&t=9s&ab_channel=FINCAUganda

⁸ Youth definition: customers below 35 years old

⁹ Active user: at least one transaction in the last 6 months

This is a game changer for FINCA Uganda customers, as it consolidates, simplifies and shortens the customer onboarding journey: (1) customers can choose which product is best suited for them, (2) customers register and open the account instantly via the tablet, (3) customers receive support from FINCA field staff in registering on FINCA Mobile to make their first deposit.

Currently, over **150 FINCA Officers** are equipped with tablets and are actively promoting FINCA Uganda's products to potential customers at their homes and/ or workplace. The operation takes **12 minutes** on average (against 60+ minutes in the branch). Since its launch, over **25,000 new customers** have been registered through this channel. With an average initial balance of **12 CHF** upon sign-up, the customers onboarded through DFA increased their average savings balance to **26 CHF (+114%)** over time.



The **Agency Banking** regulation in Uganda excludes MDIs such as FINCA Uganda from developing a proprietary agent network. As a consequence, FINCA Uganda had to consider alternatives to offer this cash-in cash-out service to its customers, which resulted in the creation of a mutually beneficial partnership with Centenary Bank (a first in Uganda).

As a result, FINCA Uganda's clients obtained instant access to over 4,000 Cente Agents across the country. Deposits are free to the client (subsidized by FINCA Uganda), thus encouraging the use of savings products. Fairly quickly, this channel positioned itself as a viable alternative to cash transactions at the branch, which proved tremendously helpful during the COVID lockdowns.

With over **18,000 transactions worth more than \$4m per month**, the partnership between FINCA Uganda and Centenary Bank for shared Agency Banking services is considered by the parties and the industry to be a tremendous success and a blueprint for similar cooperation between MFIs and Commercial Banks.

FINCA International also conducted a **Randomized Control Trial** to test and analyze the impact of financial coaching developed by FINCA Uganda on clients' savings behavior (supported by WSBI). The study demonstrated that the combination of remote coaching through a call center and carefully selected SMS combined with simple savings products increased savings transactions among women and decreased account dormancy.

The coaching increased the average deposit value from \$15 to \$36 (**145%**) for people who received at least one call, and up to \$66 (**346%**) for those who received at least 8 calls. On average, the treatment increased the value of deposits by **183%** and the number of deposits by **156%**. The simple reality of being reminded of a savings goal provides a source of inspiration for women, with clients describing it as "a dream that they can look forward to" and which provides emotional relief from present stress, and positivity about the future. These results led to the scaled-up delivery of the financial coaching via FINCA Uganda's Call Centre where we are fine-tuning the messaging and gaining further insights into the conversational flows.

As a result of the learnings from the above coaching combination, and the advent of FINCA Ku Simu, FINCA determined an AI-powered Chatbot could replicate the above coaching at lower cost and offer a sustainable way to prove the use case for and increase the number of low-balance savers, decrease account dormancy, and augment financial literacy. Its Go-To-Market launch is planned for Dec'22 with the pilot ending in Q2 2023.

Meet "Flora", your Savings Coach

"Flora" is very different from other chatbots, as it focuses on customer engagement and savings coaching instead of performing transactions.

She helps customers to set their savings goals, follow up on savings progress and send reminders, nudge behavioral change through regular celebration of savings victories.

Such specific features, coupled with the interactive savings decision-making tree functionality, stand out from any other chatbot on offer in the Ugandan market.



Testimonials



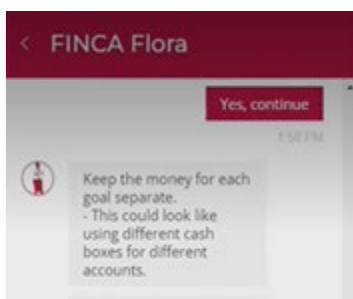
"I did not have to move from my market stall in Owino Market to open an account with FINCA. The FINCA Officer opened my account after teaching us about small business loans and how to open accounts to help us save for our businesses and children."



"FINCA so far meets my expectations. I was introduced to FINCA through a friend. I did not want to go to the banking hall every time to make a transaction. Now with the FINCA App on my phone is easy, I can pay bills, transfer funds and save for my goals using my FINCA Ku Simu Account."



"At registration all was fast using just my ID but when I tried the first deposit via my phone it was not successful. It later succeeded when Joan from FINCA Call center contacted me and taught me how to deposit, set goals to enable me save on the account using my phone."



"That kind of discipline is good that you keep reminding yourself to save. Sometimes I may fail but because I know what I want and I know I will get my money when I want it, it gives me hope."



"My friends told me that FINCA is a good place to save because the staff care about clients."



FINCA Officer: "Saving improves her self-esteem. As she keeps saving, she will keep learning more and will learn to speak up."

Financial Sector Partner-level

The solutions deployed with SCBF's support allowed FINCA Uganda to further its mission of financial inclusion, leveraging technology for a better value proposition to its clients.

The partnership between FINCA Uganda and Centenary Bank, leveraging their **Agent network** to offer transactions to FINCA Uganda clients – a first in the country – proved beneficial for both parties and opens the pathway to further collaboration among Financial Institutions to maximize the return on heavy investments in the digital space.

The deployment of **Digital Field Automation** for client registration and account opening also paved the way for increased interaction in the field and ultimately brought the Bank closer to its clients. FINCA Uganda is committed to continuing this initial development, intending to reach end-to-end digitization of its operational processes.

Social performance and Satisfaction	
Staff turnover ratio	13.9%
Outreach to very poor, poor, or low-income people (Clients below 1.5x NPL)	9%
Business performance	
Loan to deposits ratio (Deposits over GLP)	83.3%
Self-sufficiency (operational self-sufficiency)	112.1%
Efficiency (borrowers per Loan officer)	140
Portfolio quality (PAR 30 days)	6%
Mobile Banking transactions	
Registered customers (#)	50,986
Active customers (#, last 30 days)	5,506
Percentage of active customers (%)	10.8%
Transactions per month (#)	18,281
Average value per transaction (USD)	\$39.45
Agency Banking transactions	
Unique customers per month (#)	7,121
Unique Agents per month (#)	2,069
Transactions per month (#)	18,889
Average value per transaction (USD)	\$227.84

The **FINCA Ku-Simu product** and the DFA solution together allowed FINCA Uganda to register **over 30,000 new customers** to date. FINCA Uganda has over **44,000 customers enrolled on the mobile channel**,

agnostically using the Mobile App or USSD code to deposit, withdraw, transfer and make various payments. Including the use of Agency Banking, **over half of FINCA Uganda's monthly transactions are performed through digital channels.**

Most importantly, however, the work done and the learnings achieved on the Mobile Savings product, and the impact of coaching on savings mobilization has been instrumental for FINCA Uganda. It opens new customer engagement channels allowing for deeper understanding of the levers that need to be pushed to increase savings and to create a stronger savings culture. We saw with savings coaching the value of **savings among women** increase by **185%** and the number of savers increase by **156%**. As a result of SCBF's support we now understand what is likely to unlock greater savings among women and are developing an AI-powered two-way chatbot solution, which goes live in Dec'22.



Increased Quality of Service in the Branch

- No more queues in the Banking hall
- High-value services with due care



Convenient services in the Field

- Self & assisted Registrations & Account opening
- Self & assisted Multi-channel transactions

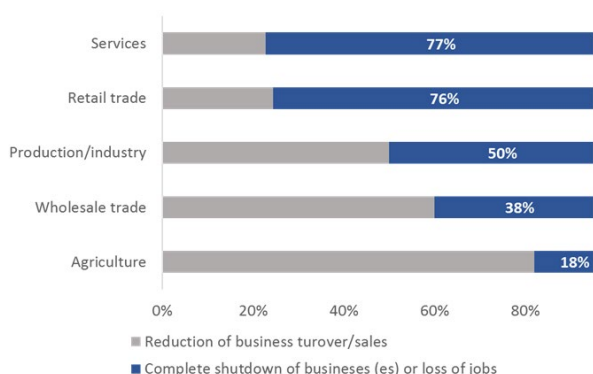


4. LESSONS LEARNED

Navigating External Crisis

The first half of the project was heavily impacted by the strict lockdown measures imposed by the government during the height of the COVID pandemic. Nearly 90% of FINCA respondents reported a significant drop in household income due to either complete shutdown or significant reduction of business turnover.

However, this context proved beneficial for the launch of digital transactional channels, as shown by the quick uptake of mobile banking and agency banking. Branches closed or operated at minimum capacity, and with limited travel options, FINCA staff and customers were required, by necessity, to embrace digital channels. Once customers became familiar with the channels, they realized the practical benefits that they offer.



On the contrary, this context had a negative impact on the uptake of savings as people had to use savings to buy food and medicine. A study conducted by FINCA International in 2020 showed that more than 90% of FINCA respondents cut non-essential expenses and 67% used savings to buy food. Self-employed and private sector employees reported reducing number of meals and going hungry significantly more frequently, especially those employed in retail trade and service sector. Many customers shut down their businesses completely.

FINCA Uganda had to focus on emergent circumstances such as business continuity, loan rescheduling, liquidity challenges and moratoriums on loans. Consequentially, the project implementation plan was adapted to focus resources on priority activities. The more complex developments within the savings project had to be postponed, and targets reviewed in

line with the same. Even today, the effects of the pandemic on the economy continue to have negative impacts on the level of savings.

Driving Change in Mature Organizations

Driving change in mature banking institutions is challenging. Having a dedicated team to drive innovations and managing change is critical, otherwise there is a risk that innovations get overtaken by activities related to business as usual, particularly in times of stress and crisis. To this end, FINCA Uganda created a new Innovations Department reporting directly to the Managing Director. This department focuses on carrying the transformation vision and implementing its various initiatives within.

There is now a network-wide discussion about the possibility of creating innovation departments not just in Uganda but possibly in other Subsidiaries in the future. This model would allow for faster go-to-market.

The Journey of Building a Disruptive Low-Balance Savings Product

Among the activities undertaken as part of this project, the FINCA Ku-Simu product launch and adjustments proved to be the hardest task. Proof of a viable business case for low-balance savings mobilization relies heavily on the scale-up of this product, and scale was not achieved by the end of this project.

Using a Human Centric design approach to better understand customers' needs and aspirations for savings, the following principles were identified for developing a viable low balance savings product:

- People need to identify and name a personal savings goal and to be encouraged towards achieving it - the use of cashboxes is a physical representation of this need. This led to the development of Personal Goal Setting as a default feature of the product.
- People understand the value of putting money aside and do want to save, but they need support and reminders to consistently do so. Peer pressure is a key driver behind the use of informal savings groups. This led to the development of a Goal Sharing feature within the product.
- People often need support in setting realistic savings expectations in line with their capabilities, then encouraged regularly to gradually increase the savings objective. This led to the development of a behavioural change-oriented Financial Education Coaching Curriculum via an interactive chatbot.

The product must be of unprecedented efficiency so it can scale and become profitable. The traditional approach which includes involving staff in its promotion and ongoing operations is not an option given the thin operational margins expected from the product. This necessitated the development of a fully automated self-registration process, the adoption of the Chatbot to deliver cost-efficient ongoing customer engagement, and the deliberate choice of a mobile-only self-service transactional approach.

Transaction Fees – A Balancing Act

A key topic still open to debate concerns the impact of transactional fees on the product's value proposition. Designed as a mobile-only savings product, all deposits are made through the customer's mobile money wallet: this transaction is charged by the MNO (mobile network operator) to the customer. Similarly, withdrawals are made from the product to the mobile money wallet, which are charged by FINCA. To get cash in hand, the MNO charges this transaction as well. Essentially, the customer is impacted by 3 charges in total, from cash in hand → to FINCA Ku-Simu → to cash in hand. While these charges are justified by both the MNOs and FINCA separately to recoup costs incurred, they are likely to heavily impact the business case for a positive savings outcome.

While having started with a mobile-only self-service transactional approach for this product, FINCA Uganda is currently gathering feedback from early adopters on the impact of fees (costs) against the product's value proposition (benefits), to inform what solution should be implemented. It is worth noting that while FINCA Uganda can waive its fees, other solutions rely on MNOs' willingness to collaborate and accept the proposed terms.

Conclusion

Despite these challenges and delays, we believe the process has generated critical learnings, allowing to bridge the gap between theoretical assumptions and results in practice. This has led to adjustments currently in progress in pursuit of a scalable solution addressing the needs of low-income savers in Uganda.