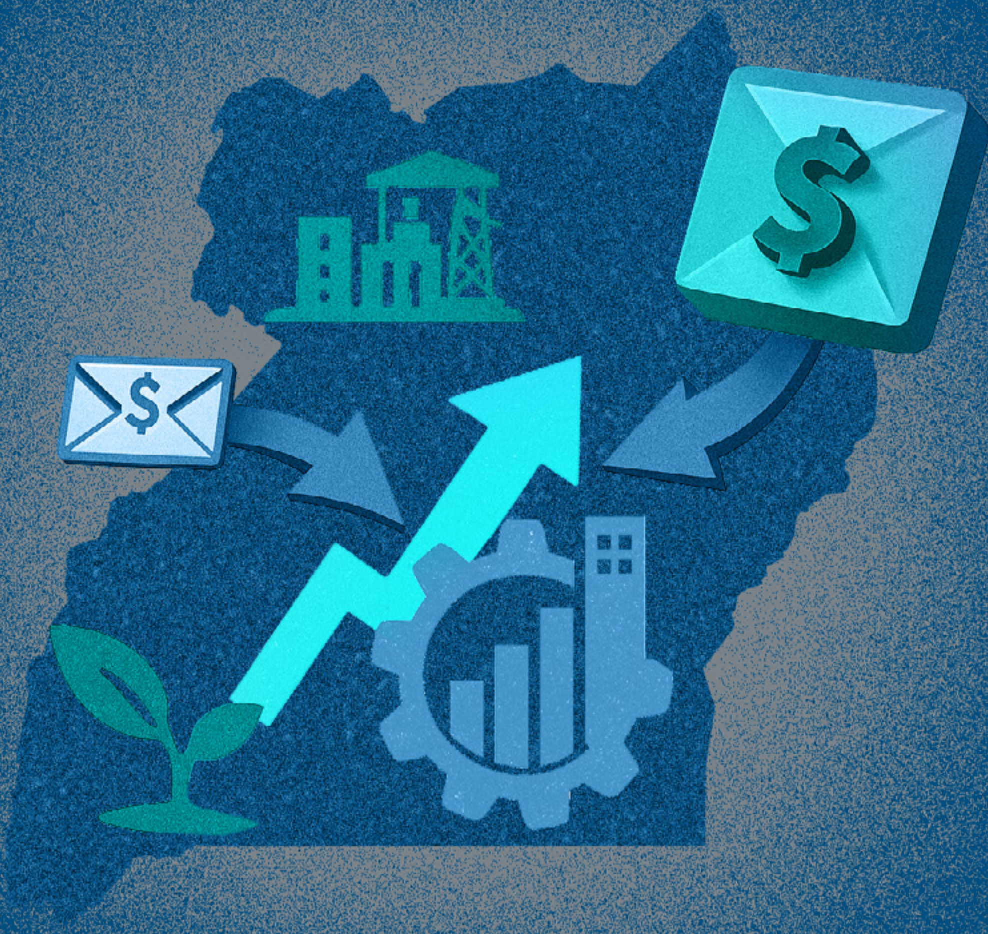
Policy Options to Increase Remittance Inflows to Spur Uganda's National Development



By Bwogi Patra Leoney

YOUTH 4 POLICY
#KAS4 SECURITY
KONRAD ADENAUER STIFTUNG

YOUTH
4 POLICY

www.youth4policy.org

KONRAD
ADENAUER
STIFTUNG

KONRAD ADENAUER STIFTUNG

Uganda & South Sudan

51 A, Prince Charles Drive, Kololo

P.O.Box 647 Kampala, Uganda

E: info.kampala@kas.de

www.kas.de/uganda/en

Policy Options to Increase Remittance Inflows to Spur Uganda's National Development

By Bwogi Patra Leoney

CONTENTS

LIST OF ACRONYMS

BoU	Bank of Uganda
GDP	Gross Domestic Product
ILO	International Labour Organization
CGAP	Consultative Group to Assist the Poor
IFAD	International Fund for Agricultural Development
GSMA	GSM Association (though typically refers to the Groupe Spécial Mobile Association)
KNBS	Kenya National Bureau of Statistics
MPI	Migration Policy Institute
MRPAG	Migrant Remittance Policy Advisory Group
EAC	East African Community
OECD	Organisation for Economic Co-operation and Development
WEF	World Economic Forum
UN	United Nations
AU	African Union
GFMD	Global Forum on Migration and Development
IMF	International Monetary Fund
IDS	Institute of Development Studies
OECD-DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee
UNDESA	United Nations Department of Economic and Social Affairs
IOM	International Organization for Migration
PSPs	Payment Service Providers
UNHCR	United Nations High Commissioner for Refugees

ABSTRACTS

This policy paper investigates Uganda's remittance market, highlighting major results such as high transaction costs, low financial inclusion, and regulatory inefficiencies. Through interviews with key informants, including beneficiaries and stakeholders from the Bank of Uganda and financial service providers such as MTN Mobile Money, the study identifies structural hurdles to cost-effective and accessible remittance services. It also compares Uganda's framework to Kenya's sophisticated system, highlighting areas for improvement in law, infrastructure, and consumer protection. The findings highlight the importance of remittances in promoting economic growth and poverty eradication. The recommendations seek to simplify remittance transactions, improve rural access, and encourage financial literacy, therefore maximizing the developmental impact of remittances on Uganda's economy.

INTRODUCTION

Remittances are a significant source of financial input in Africa, frequently outweighing foreign direct investment and government development support. According to the World Bank (2023), remittances to Africa are expected to exceed $105 billion in 2022. Nigeria, Egypt, and Kenya are among the leading receivers. Remittances to Kenya reached $4.02 billion in 2022, accounting for around 3.3% of the country's GDP (World Bank, 2023). These subsidies represent a lifeline for millions of people, increasing access to necessities such as food, education, and healthcare. Furthermore, remittances assist in stabilising national economies, eliminating poverty, and encouraging local business investment, all of which contribute to overall economic growth (World Bank, 2023).

Further, remittances are also important in East Africa, where Kenya, Tanzania, and Uganda depend on them. Kenya is the largest beneficiary, with remittances of $4.02 billion in 2022. Uganda is the region's third-largest beneficiary, getting nearly $1.2 billion in 2022, accounting for over 3% of its GDP (World Bank, 2023). Remittances in East Africa are used to finance education, healthcare, and small enterprises, increasing household earnings and encouraging communal development. For example, the African Development Bank's (2021) research indicated that remittances help to reduce poverty and promote economic stability in the area. In many rural regions, remittances provide a safety net for families without formal work possibilities, thereby playing a critical role in alleviating poverty and fostering long-term development. (African Development Bank, 2021).

Remittances have a significant influence on Uganda's economy as well as its residents' social well-being. Ugandans working abroad, notably in the United States, United Kingdom, and the Middle East, send large sums of money back home. In 2021, Uganda received approximately USD 1.1 billion in remittances, with the United States accounting for 28.6%, the United Kingdom for 12.7%, and the Middle East (particularly Saudi Arabia and the United Arab Emirates) for 18% (International Organization for Migration, 2022). These monies are vital for meeting basic needs including education, healthcare, and housing.

However, Ugandans overseas suffer high transfer expenses, notably from the Middle East, where fees can range from 9 to 12% of the transaction amount (World Bank, 2022). This is substantially more than the global average transfer charge of 6.3%, limiting the potential of remittances. Despite these limitations, remittances promote local entrepreneurship, with many beneficiaries investing in small enterprises, resulting in job creation and economic development. As a result, remittances continue to play an important role in Uganda's socioeconomic growth.

THE LAWS GOVERNING REMITTANCE IN UGANDA

In Uganda, remittances are controlled by several essential regulatory structures aimed at ensuring secure and efficient financial transactions. The Financial Institutions Act of 2004 is important because it establishes licensing criteria for financial institutions, including money transfer providers. This Act authorises the Central Bank of Uganda (BoU) to supervise and regulate these institutions, ensuring that they satisfy operational and financial criteria. Sections 4 and 6 of the Act specifically define the prerequisites for acquiring a licence as well as the BoU's supervisory powers.

The National Payment Systems Act of 2020 strengthens remittance regulations by establishing a comprehensive framework for the operation of payment systems, including electronic and mobile money transfers. Sections 5, 12, and 26 of this Act outline the licensing procedure, operational criteria, and supervisory duties of the BoU. These areas are critical for the continued efficiency and security of payment systems that permit transfers.

To prevent financial crimes, the Anti-Money Laundering Act of 2013 puts certain duties on financial institutions that handle remittances. Sections 2, 5, 11, and 13 demand customer due diligence, reporting of suspicious transactions, and severe record-keeping obligations. These steps serve to prevent money laundering and terrorist funding in the remittance business.

Furthermore, the Foreign Exchange Act of 2004 oversees foreign currency remittance activities, assuring compliance with national exchange control rules. Sections 3 and 5 of this Act establish the legal framework for controlling and monitoring foreign currency transfers, which is critical to the remittance business.

The BoU also produces guidelines and circulars, such as the Payment System Operation Guidelines and the Anti-Money Laundering Guidelines, which provide precise criteria and operating standards for remittance service providers. These regulatory papers guarantee that Uganda's remittance services adhere to the established legal framework, ensuring financial transactions are both secure and efficient.

RESEARCH GOAL AND OBJECTIVES

This policy paper assessed the effectiveness of Uganda's remittance regulatory framework in ensuring the security, efficiency, and inclusiveness of financial transactions, as well as identifying opportunities for policy and regulatory improvements to support the remittance sector's long-term growth and development.

Specific Objectives

1. Examine the influence of Uganda's remittance restrictions on security, efficiency, and inclusiveness for service providers and recipients.
2. Identify regulatory obstacles and recommend strategies that will improve standards, financial inclusion, and industry growth

METHODOLOGY

The study examined Uganda's remittance regulatory framework and its influence on financial inclusion and economic growth. The research questions included what influences Uganda's remittance restrictions on security, efficiency, and inclusiveness for service providers and recipients as well as what opportunities for policy and regulatory improvements to support the remittance sector's long-term growth and development.

The study used a mixed method approach, quantitative data was acquired from the Bank of Uganda, the World Bank, and other relevant institutions to analyze remittance quantities, transaction costs, and their contribution to Ugandan GDP. Qualitative interviews were conducted with government officials to identify regulatory obstacles and recommend strategies that will improve standards, financial inclusion, and industry growth. The study included a comparison between Uganda and Kenya remittance data and 6 key informants. This included Bank of Uganda officials, remittance service providers and beneficiaries. Further, I also distributed questionaries and acquired feedback of 20 beneficiaries from different households. The data analysis criteria included a line graph for the period of 2019 to 2023 and thematic analysis for qualitative data to validate the findings. A comparative analysis was carried out to assess the merits and limitations of Uganda's remittance regulatory system, with a special emphasis on mobile money platforms like MTN Mobile Money in Uganda and M-Pesa in Kenya.

FINDINGS ON THE ROLE AND IMPACT OF REMITTANCES ON UGANDA'S SOCIOECONOMIC DEVELOPMENT

1. The Impact of Uganda's Regulatory Framework on Remittances

Uganda's regulatory framework for remittance transactions is fragmented and insufficient in terms of security, efficiency, and inclusiveness. Section 44 of the National Payment Systems Act of 2020 authorises the licensing of payment service providers, however, it lacks adequate consumer protection procedures, particularly in terms of charge transparency and dispute resolution. Interviews with 20 beneficiaries revealed that 70% of participants were unaware of the transaction fees deducted. One beneficiary remarked: "Every time I receive money, a portion is deducted, but I don't know how much. It feels unfair."

A key informant working with a financial service provider emphasized: "Transaction fees are unreasonably high. For instance, if someone sends $200, the fees can reach 6.3%. This discourages people from using formal remittance channels."

Stakeholders at the Bank of Uganda acknowledged the challenge of high costs but cited regulatory hurdles as a contributing factor: "While we aim to protect consumers and ensure compliance, operational costs for providers inevitably affect end-users. There's a need for balanced reforms," said a senior official.

The findings align with the World Bank's Remittance Prices Worldwide Quarterly Report (2023), which highlights Uganda's high remittance transaction costs in comparison to regional averages. The Anti-Money Laundering Act of 2013 mandates severe compliance standards that increase operating expenses for suppliers. Muthiora (2015) supports this, emphasizing the trade-off between strong anti-money laundering rules and financial inclusion in his research The Regulatory Framework for Mobile Money in Africa.

2. Comparison to Kenya's Advanced System

Kenya's National Payment System Act of 2011 encourages interoperability (Section 36), lowering transaction costs and increasing service efficiency. Uganda's comparable legislation lacks similar provisions, resulting in fragmented services. Evidence from the Financial Sector Deepening Africa Report (2021) shows that Kenya's interoperability rules, notably in mobile money, have improved user experiences. Stakeholders in the Bank of Uganda noted this as a critical gap: "Interoperability is a game-changer. If Uganda adopts such measures, it could reduce costs and improve access to remittance services," said a regulatory expert. Beneficiaries in Uganda observed difficulties moving cash between platforms, which they ascribed to a lack of interoperability mandates, as confirmed by Jack and Suri (2020), who investigated the impact of digital credit and mobile money in their research.

3. Challenges Faced by Beneficiaries in Uganda

During interviews, beneficiaries in Uganda stated:

- High Transaction Costs: Section 50 of the National Payment Systems Act, 2020, allows for the monitoring of service costs but does not establish fee restrictions. A stakeholder from the Bank of Uganda commented: "We recognize the high costs and are working towards frameworks that incentivize affordable services while maintaining provider sustainability. "This is consistent with the results of the Bank of Uganda's Annual Report (2022), which identified high costs as a barrier to remittance utilization. For example, shipping UGX 500,000 costs 2-3 times more than Kenya's M-Pesa system.
- Limited Access to Services: Although Section 51 emphasizes rural financial inclusion, Beneficiaries in Iganga expressed frustrations: "Agents are far, and network issues delay transactions. It's hard to rely on these services," said a participant from a rural district. The Uganda Financial Inclusion Strategy (2017-2022) does not adequately address regional differences. This is consistent with the findings of Ngui et al. (2023), who report comparable hurdles to digital banking access in East Africa.

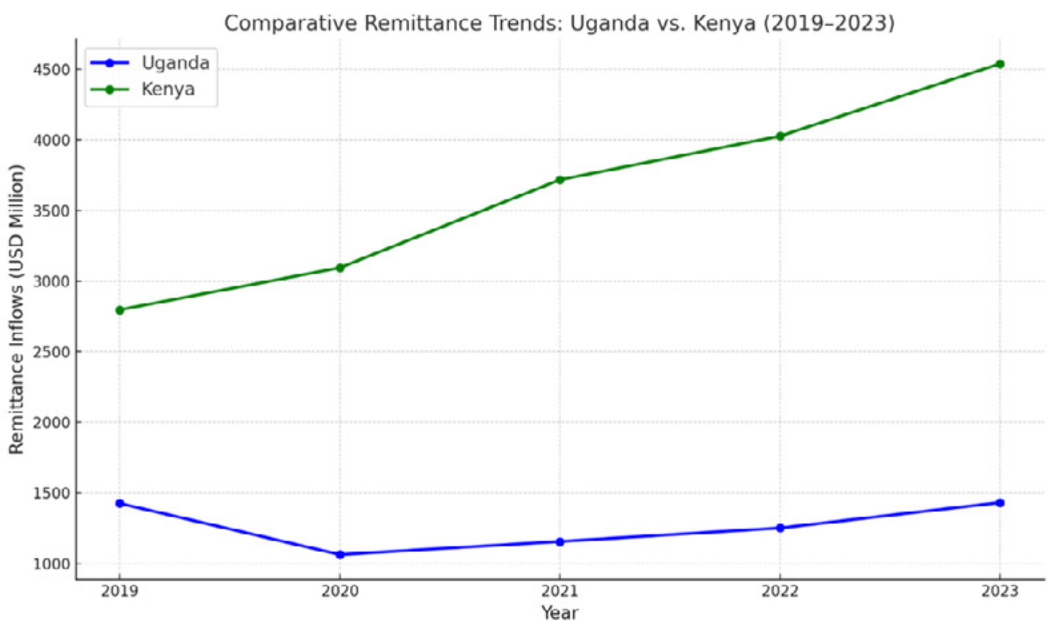
4. Financial Inclusion Gaps

The National Financial Inclusion Strategy (2017-2022) intends to increase access to financial services, yet practical hurdles still exist. A Bank of Uganda official pointed out the gender difference in financial inclusion: "Women encounter specific difficulties, such as low computer literacy and documentation issues. Policies must meet these particular demands." Section 5.1 prioritizes rural connectivity while failing to address documentation issues. Forty per cent of respondents lacked valid identification, which is consistent with the results of Manta (2019), who highlights comparable challenges in Inclusive Digital Finance in East Africa. Women reported lower levels of digital literacy, which is corroborated by the findings of IFAD's (2021) Gender and Remittance Report.

5. Policy and Infrastructure Deficits

Section 44 of the National Payment Systems Act of 2020 mandates service providers to build safe systems, although implementation is hampered by a prioritization of anti-money laundering above accessibility. Stakeholders at the Bank of Uganda acknowledged: "There is a difficult balance between regulatory compliance and accessibility. Revisiting policy priorities can lead to improved outcomes for consumers. Comparisons with Kenya demonstrate the benefits of public-private partnerships, according to Section 28 of Kenya's National Payment System Act, 2011.

MTN a telecom provider in Uganda proposed: "If we collaborated more with regulators and private entities, remittance services could become more innovative and affordable." hence increasing innovation and affordability. The World Bank Kenya Economic Update (2022) praises these agreements for lowering remittance processing.



The graph compares remittance inflows to Uganda and Kenya from 2019 to 2023

- Uganda's remittances increased moderately, from $1.42 billion in 2019 to $1.43 billion in 2023, representing an 8% gain.
- Kenya had a more large and sustained increase, with inflows rising from $2.8 billion in 2019 to $5.4 billion in 2023, a 93% increase.

Kenya's higher starting position, along with tactics such as diaspora bonding and improved digital payment methods, fuelled its rapid rise. Uganda's development, although good, shows opportunities to further use remittances, notably through enhanced diaspora involvement and digital infrastructure. Both nations had peaked in 2023, owing to economic recovery and increased digital remittance use.

RECOMMENDATIONS TO IMPROVE THE IMPACT OF REMITTANCES ON UGANDA'S ECONOMIC GROWTH

1. Improving Legislation for Interoperability and Transaction Fee Caps

Uganda's National Payment Systems Act of 2020 establishes a framework for regulating payment services. However, adjustments are required to improve the remittance sector's efficiency and affordability. Specifically, Section 7 of the Act should be amended to require interoperability across all payment service providers (PSPs). This would allow for smooth transactions across several platforms, decreasing operational inefficiencies and cutting expenses for users. Furthermore, implementing transaction fee restrictions under Section 44 of the Act will align remittance prices with worldwide standards, making services more accessible, particularly for rural recipients. Current rules lack specific measures for cost transparency and restrictions, allowing PSPs to charge excessive fees that prevent customers from using formal remittance methods.

Implementing these legal amendments, informed by the National Payment Systems (Consumer Protection) Regulations, 2022, will create a more competitive and consumer-friendly remittance environment. According to the World Bank (2022), regulatory measures that promote interoperability and charge transparency have a major impact on remittance flows by making them more accessible and affordable.

2. Improving Consumer Protection

Improving consumer protection procedures is critical to establishing confidence in official remittance channels and encouraging their wider adoption. The National Payment Systems (Consumer Protection) Regulations, 2022, enacted under Section 72 of the National Payment Systems Act of 2020, create the framework for consumer protection by enforcing cost transparency and creating grievance resolution channels. However, these restrictions must be reinforced to provide full safety for remittance users. It is necessary to amend Section 44 to ensure rigorous fee transparency and effective complaint resolution processes. Clear criteria should be created for PSPs to declare all applicable fees and charges upfront, lowering the likelihood of hidden expenses that deter consumers from formal channels. Furthermore, obligatory consumer rights training for PSPs and the establishment of a centralized complaint resolution body can ensure that customer concerns are handled in a timely and efficient manner. The Bank of Uganda's Annual Supervision Report (2022) emphasizes the necessity of strong consumer protection regimes in building confidence and growing usage of formal remittance services. Uganda may lessen its dependency on informal remittance routes by providing consumer education and protection, building a more inclusive and efficient financial environment.

3. Improving financial literacy

Financial literacy is still a key obstacle to the successful use of remittance services in Uganda, particularly among women and rural people. Developing tailored digital financial literacy initiatives can help consumers overcome this knowledge gap, allowing them to effectively use mobile money platforms and conventional banking channels. The National Financial Inclusion Strategy (2017-2022) emphasizes the importance of educational programs to promote financial inclusion, however, their implementation has been restricted. Uganda may create and execute training programs focused on fundamental digital skills, understanding remittance fees, and financial management by adopting frameworks from organisations such as the Consultative Group to Assist the Poor (CGAP, 2019). These initiatives should be customized to the unique requirements of rural populations and women, who are frequently excluded from formal banking institutions due to low digital literacy. Successful models, such as Rwanda's Digital Ambassadors Program, which increased mobile money use dramatically via targeted training, might serve as a model for similar projects in Uganda.

CONCLUSION

This paper identifies considerable chances to improve Uganda's remittance business while addressing critical concerns such as high transaction costs, regulatory inefficiencies, and low financial inclusion. Strengthening current laws, notably the National Payment Systems Act of 2020, to ensure interoperability, price limitations, and consumer protection, can lead to a more efficient and fair remittance environment. Expanding infrastructure and prioritizing digital financial literacy, particularly in rural and disadvantaged regions, would help to close access and knowledge gaps, allowing beneficiaries to put their remittances to good use.

By addressing these shortcomings and encouraging collaboration among regulators, financial service providers, and diaspora networks, Uganda may realize remittances' transformational potential. This will not only improve individual livelihoods but will also make a substantial contribution to national development goals, which are aligned with global frameworks such as the SDGs. The study's results and suggestions serve as a road map for change, emphasizing the need for inclusive policies and focused interventions in maximizing remittances' influence on Uganda's socioeconomic growth.

References

1. Adepoju, A. (2010). Migration in Sub-Saharan Africa. In M. B. E. Eze (Ed.), Migration, Diasporas and Citizenship (pp. 45-68). New York: Palgrave Macmillan.

2. Ajuna, D. V. (2024, July 1). Uganda starts diaspora mapping to boost domestic growth, and safeguard remittances. The New Vision. https://www.newvision.co.ug

3. African Development Bank (AfDB). (2024). Remittances to Africa: Trends and Policy Implications. African Development Bank. www.afdb.org

4. Basok, T., & Berg, L. (2019). Remittances, Migration and Development: A Global Perspective. (pp122-145). Oxford: Oxford University Press.

5. Bank of Uganda. (n.d.). Official website of the Bank of Uganda. https://www.bou.or.ug

6. Bank of Uganda. (2022). Annual Supervision Report. Kampala: Bank of Uganda Publications.

7. Central Bank of Kenya (CBK). (2024). Monthly Remittance Data for Kenya (January 2019 - October 2024). www.centralbank.go.ke

8. Consultative Group to Assist the Poor (CGAP). (2019). Advancing Women's Digital Financial Inclusion. Washington, DC: CGAP.

9. Ferrer, A., & Orozco, M. (2018). Remittances, Development, and Financial Inclusion: Policy and Research Directions. (pp. 80-101) Washington, D.C.: Inter-American Development Bank. www.iadb.org

10. GSMA. (2021). State of Mobile Internet Connectivity Report 2021. London: GSMA.

11. International Fund for Agricultural Development (IFAD). (2023). Remittances and Development: Trends and Challenges. International Fund for Agricultural Development. www.ifad.org

12. International Labour Organization (ILO). (2022). Global Estimates of Migrant Workers and Remittances 2022. International Labour Organization. www.ilo.org

13. Jack, W., & Suri, T. (2020). The long-run effects of mobile money. American Economic Review, 110(3), 610–631. https://doi.org/10.1257/aer.20180565

14. Kenya National Bureau of Statistics (KNBS). (2024). Economic Impact of Remittances in Kenya: Trends and Analysis (2019-2024). www.knbs.or.ke

15. Lowell, B. L., & de la Garza, R. O. (2017). Remittances and Development: The Role of Migrants in Development. Cambridge (pp. 35-58). Cambridge University Press.

16. Manta, A. (2019). Financial inclusion and gender barriers for rural women. International Journal of Management, 10(5), 61–72. https://ssrn.com/abstract=3508713

17. Migrant Remittance Policy Advisory Group (MRPAG). (2024). Migration and Remittances: Policy Briefs on International Remittance Flows and Development. International Organization for Migration (IOM). www.iom.int

18. Muthiora, B. (2015). Enabling mobile money policies in Africa: The regulatory framework for mobile money in Africa. GSMA. https://www.gsma.com/mobilefordevelopment/resources/enabling-mobile-money-policies-in-africa/

19. National Payment Systems Act, 2020, Act 15 of 2020.

20. National Payment Systems (Consumer Protection) Regulations, 2022.

21. Ngui, D., Shimeles, A., Ndung'u, N., Cracknell, D., & Greenacre, J. (2023). Digital financial inclusion and market development in East African Community economies. African Economic Research Consortium. https://publication.aercafricalibrary.org/handle/123456789/3569

22. Orozco, M. (2021). Remittances and Migration: A Global Review of Issues and Impact. In J. M. de Ruyter & P. B. Jackson (Eds.), Migrants and the Global Economy: Remittances, Development and Financial Inclusion. New York: Routledge.

23. United Nations High Commissioner for Refugees (UNHCR). (2023). Global Trends: Forced Displacement in 2023. United Nations High Commissioner for Refugees. www.unhcr.org

24. World Bank. (2024). Migration and Remittances: Recent Developments and Outlook. World Bank. https://www.worldbank.org/en/topic/migration-remittancesdiaspora

25. World Bank. (2022). Remittance Flows to Sub-Saharan Africa: Data and Analysis. World Bank. https://www.worldbank.org/en/region/afr

26. World Bank. (2022). Migration and Development Brief 36. Washington, DC: World Bank Group.

27. United Nations (UN). (2023). Global Migration Report 2023: Migration and Remittances. United Nations. www.unmigration.org

28. East African Community (EAC). (2024). Regional Integration and Migration: Policy Developments and Challenges. East African Community. www.eac.int

29. OECD. (2024). Remittance Trends in Developing Economies: A Comprehensive Study. Organization for Economic Co-operation and Development. www.oecd.org

30. UN Women. (2023). Gender and Migration: Women's Remittances as a Catalyst for Development in Africa. UN Women.www.unwomen.org

31. World Economic Forum (WEF). (2024). The Impact of Remittances on Economic Growth in Emerging Markets. World Economic Forum. www.weforum.org

32. United Nations Department of Economic and Social Affairs (UNDESA). (2023). International Migration and Development: The Role of Remittances in Sustainable Growth. United Nations. www.un.org

33. Migration Policy Institute (MPI). (2024). Migration, Development, and Remittances: Lessons from Africa. Migration Policy Institute. www.migrationpolicy.org

34. African Union (AU). (2023). Regional Policies on Migration and the Role of Remittances in Africa's Economic Development. African Union. www.au.int

35. Global Forum on Migration and Development (GFMD). (2023). Annual Report: Trends in Migration and Remittances. GFMD. www.gfmd.org

36. The International Monetary Fund (IMF). (2023). Remittance Flows and their Economic Impact on Developing Countries. International Monetary Fund. www.imf.org

37. Institute of Development Studies (IDS). (2022). The Role of Remittances in Supporting Vulnerable Populations During Crises. Institute of Development Studies. www.ids.ac.uk

38. OECD-DAC. (2023). Global Remittances: A Development Finance Tool for the Future. Organization for Economic Cooperation and Development, Development Assistance Committee. www.oecd.org/dac

YOUTH
4 POLICY

www.youth4policy.org

KONRAD
ADENAUER
STIFTUNG

KONRAD ADENAUER STIFTUNG

Uganda & South Sudan

51 A, Prince Charles Drive, Kololo

P.O.Box 647 Kampala, Uganda

E: info.kampala@kas.de

www.kas.de/uganda/en