

<b>Learning Area 2:</b>	Bolstering the Financial Inclusion Landscape in Uganda: A case of aBi-Finance Partnership with the Fin Techs Umbrella Body (FITSPA)
<b>Source Material:</b>	
1 Fin Scope 2018 Study report, FSDU, 2018, <a href="http://fsduganda.or.ug/finscope-2018-survey-report/">http://fsduganda.or.ug/finscope-2018-survey-report/</a>	
2 Estimations by Micro Save based on the publicly available data from Venture Capital for Africa	
3 FSDU study report, 2018: The Fintech in Uganda- Implications for regulation	
4 Andrew Wandera, 2020: Regulation of Fin Techs in Uganda: Lessons for Bank of Uganda	
5 FITSPA study report 2022: The state of Uganda’s Fintech Industry	

### **Purpose of the brief:**

This brief highlights the trends in evolution of the financial inclusion landscape, subsequent to the proliferating Fin Tech industry, key constraints to scale (opportunities), lessons learned and proposed interventions for adoption by FinTechs and aBi-Finance.

### **Background to the Intervention:**

Over the past decade, the annual growth rate of the FinTechs in Uganda averaged 35%<sup>i</sup>. While the formal financial inclusion in Uganda is reported at 58%, traditional financial service providers clearly face challenges in extending financial services to the unbanked and under-banked population<sup>ii</sup>. Therefore, the role played by Fin Techs in catalyzing and promoting financial inclusion as the most important enabler through which access to and usage of financial services is achieved, thereby generating significant benefits for the poor, the marginalized, and MSMEs cannot be undervalued<sup>iii</sup>. With the ever-emerging technological disruptions in the financial services sector, financial regulation faces unprecedented uncertainties<sup>iv</sup>. These technological disruptions present an opportunity to Financial Services Providers like aBi-Finance to synergistic collaborate with the Financial Technology Service Provider’s Association (FITSPA) in promoting financial inclusion, hence making it easier to iterate and deploy new financial interventions broadly.

Financial Technology Service Providers Association (FITSPA) with technical support from aBi-Finance, commissioned a study to provide a detailed, industry-backed analysis of the Uganda Fintech industry. This study aimed to evaluate the state of the Fintech industry in Uganda to

allow stakeholders like aBi-Finance to strategically think through and direct interventions that are within manageable interests of the industry<sup>v</sup>. Below are the key findings, lessons learned and proposed recommendations to bolster the financial inclusion landscape leveraging on the Fintech ecosystem.

### **Key Findings:**

- i. The skills considered the most essential are often the ones Fintechs have the most trouble accessing, and these include software and App development, infrastructure, cybersecurity, data scientists, machine learning, cognitive computing, design, marketing, and regulatory and risk management.
- ii. Capital/funding is and remains to be a key enabler and constraint to Fintech growth and development globally. Contrary to popular belief, most of the Fin Techs are self-funded (57%), with minimal investment from other funding sources such as venture capital, private equity, grants and others.
- iii. A multitude of traditional systems pose an obstacle to interoperability between existing legacy systems and new Fintech systems. Fin Techs have had limited success in linking their products and services to other traditional incumbents. The ongoing discussions at Bank of Uganda and UBA to put in place a National Switch which will accelerate interoperability.
- iv. Fin Techs have struggled to create new infrastructure and establish new financial services ecosystems such as alternative payment rails or alternative capital markets. Greater success has been seen in their improvements of the existing traditional ecosystems and infrastructure.

### **Lessons Learned:**

- a) Digital disruption has the potential to shrink the role and relevance of today's FIs (aBi-Finance clients). It can also simultaneously help the FIs to create better, faster, and cheaper services that can render them well-equipped to better serve their customers. In order to best embrace these opportunities, traditional FIs and impact investors like aBi-Finance have acknowledged the need to overcome institutional complacency and recognized opportunities for synergistic collaboration with Fin Techs to deliver customer centric solutions.

- b) The low- and middle-income markets in Uganda present significant opportunities for Fin Techs, impact investors like aBi-Finance, development partners and incumbent FIs to tap into a huge unmet market in credit in enterprise finance, digital insurance, savings, and innovative E- tailored financial services.
- c) FinTech companies are increasingly targeting the access to finance gap, while simultaneously entering some of the most profitable areas of the financial services value chain. Their unique offering, coupled with robust, scalable technologies, has the potential to drive significant gains in financial inclusion, hence rationalizing the planned synergistic collaboration with aBi-Finance.
- d) To realize the full potential of Fintech, there is need for the government, regulators, traditional incumbents, Fintech companies, FSPs and investors to rally together, collaborate and build upon the existing infrastructure to create a conducive environment for Fintech innovation and development.
- e) Traditional marketplace lenders have re-oriented their approach towards digitalization and ease of convenience for their customers. This in conjunction with the growing number of lending oriented Fintechs is and will continue to provide a frictionless application and swift response for customers.

**Recommendations:**

- i. Fintechs seeking funding from investors need to understand the funding context. This means that Fintechs need to understand what type of funding they are seeking it, be it equity funding, concessional loan funding, grant funding amongst others. In understanding what funding type best suits their business, Fintechs can properly position themselves to relevant funders through the Umbrella body FITSPA, innovation hubs, direct business sponsor approach.
- ii. In order to cope with the Financial Services disruption wave, aBi-Finance should customize a blend of financing instruments to address pertinent business needs of the infantry Fin Tech Sector. This can be in the form of Working Capital support to cover operational expenses such as cover for research and development, marketing support, wages and rent and or Capital Expenditure support to enable growth and expansion in terms of fixed assets like infrastructure, hardware equipment, software, construction among others.

- iii. The sector being nascent, without proper credit administration structures and with a constrained regulatory requirement, aBi-Finance could leverage on the existing Fund Managers in the private equity and investment market, to tailor a product with a clear value proposition and shove any such existing inherent risks with the Fin Tech sector.

---

<sup>1</sup> Fin Scope 2018 Study report, FSDU, 2018, <http://fsduganda.or.ug/finscope-2018-survey-report/>

<sup>2</sup> Estimations by Micro Save based on the publicly available data from Venture Capital for Africa

<sup>3</sup> FSDU study report, 2018: The Fintech in Uganda- Implications for regulation

<sup>4</sup> Andrew Wandera, 2020: Regulation of Fin Techs in Uganda: Lessons for Bank of Uganda

<sup>5</sup> FITSPA study report 2022: The state of Uganda's Fintech Industry