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## **PASSING THE BUCK**

### **Money Transfer Systems:**

# **The Practice and Potential for Products in Tanzania and Uganda**

**Cerstin Sander, Peter Mukwana, Altemius Millinga**

**July 2001**

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## TABLE OF CONTENTS

TABLES AND ILLUSTRATIONS.....	2
ANNEXES .....	2
EXCHANGE RATES.....	3
EXECUTIVE SUMMARY .....	4
BACKGROUND .....	4
FINDINGS .....	5
STRUCTURE OF THE STUDY .....	8
<b><u>INTRODUCTION.....</u></b>	<b>9</b>
<b>BACKGROUND AND OBJECTIVES .....</b>	<b>9</b>
<b>RESEARCH DESIGN AND METHODOLOGY.....</b>	<b>9</b>
<b><u>RESEARCH FINDINGS.....</u></b>	<b>10</b>
<b>REGULATORY FRAMEWORKS FOR MONEY TRANSFERS IN UGANDA AND TANZANIA .....</b>	<b>10</b>
<b>MONEY TRANSFER SYSTEMS, PRODUCTS, AND THEIR PROVIDERS.....</b>	<b>11</b>
<b>A SKETCH OF THE SUPPLY SIDE .....</b>	<b>11</b>
FORMAL SYSTEM.....	11
SEMI-FORMAL SYSTEM .....	17
INFORMAL SYSTEM .....	20
INTERNATIONAL MONEY TRANSFER.....	20
MONEY TRANSFER FEES .....	21
<b>MONEY TRANSFER USERS AND USES .....</b>	<b>24</b>
<b>A SKETCH OF THE DEMAND SIDE .....</b>	<b>24</b>
THE USERS AND WHERE AND HOW MONEY MOVES .....	24
THE COST OF MONEY TRANSFER.....	30
WHAT YOU KNOW AND WHAT WORKS FOR YOU: USER OPTIONS AND CHOICES .....	31
SEQUENTIAL LINKS IN MONEY TRANSFERS.....	34
RISK AND ITS MANAGEMENT.....	37
IDENTIFICATION PROBLEMS & HOW TO DEAL WITH THEM.....	42
<b>MONEY TRANSFERS.....</b>	<b>45</b>
<b>AN UNDER-SERVICED MARKET WAITING FOR MICROFINANCE TO JUMP IN? .....</b>	<b>45</b>
MICROFINANCE AND MONEY TRANSFER SERVICES .....	46
OPEN QUESTIONS .....	47

## Tables and Illustrations

<i>Money Transfer Systems, Providers &amp; Their Products</i> .....	12
<i>Overview of Service Fees</i> .....	21
<i>Illustrative Cost Table for Uganda</i> .....	23
<i>Illustrative Cost Table for Tanzania</i> .....	23
<i>Illustrative Cost Graph (Uganda)</i> .....	23
<i>Money Transfer Users and Uses</i> .....	25
<i>An Illustration of Cash Mobility in Uganda</i> .....	28
<i>An Illustration of Cash Mobility in Tanzania</i> .....	29
<i>What You Know is What You Use</i> .....	31
<i>A Sector Trend Perspective</i> .....	33
<i>Buying Coffee Up-Country</i> .....	35
<i>Sending Home Money</i> .....	36
<i>Overview of Risks &amp; Problems in Money Transfers</i> .....	38
<i>Risks in Sending Home Money</i> .....	40
<i>Identification Issues &amp; Mechanisms</i> .....	44

## Annexes

<i>Research Design and Methodology</i> .....	48
<b>MONEY TRANSFER SERVICES NETWORK IN UGANDA</b> .....	49
<b>BANK NETWORK IN UGANDA</b> .....	51
<b>MONEY TRANSFER SERVICES NETWORK IN TANZANIA</b> .....	53
<b>EXAMPLES OF SERVICE COSTS</b> .....	54
<b>BIBLIOGRAPHY &amp; RESOURCES</b> .....	59

## List of Acronyms

Bukta	Shorts (for carrying money) (Kiswahili, Tanzania)
CERUDEB	Centenary Rural Development Bank, Uganda
CRDB	Cooperative and Rural Development Bank
BD	Bank Draft
EMS	Expedited Mail Service (an in-country service; within East Africa the service operates as PostSpeed)
MFI	MicroFinance Institution
MO	Money Order
Mukandaala	Money belt (Luganda, Uganda)
NBC	National Bank of Commerce, Tanzania
NGO	Non-Government Organisation
NMB	National Microfinance Bank, Tanzania
PMO	Postal Money Order
PSDP	Private Sector Development Programme, Uganda
Stanbic	Stanbic Bank (head offices in South Africa)
TC	Traveler's Cheque
TMO	Telegraphic Money Order
TSh	Tanzania Shilling (officially abbreviated as TZS)
TT	Telegraphic Transfer
TZ	Tanzania
UG	Uganda
UMU	Uganda Microfinance Union
USh	Uganda Shilling (officially abbreviated as UGX)

## Exchange Rates

Rates *used* in this report:

815 Tanzania Shilling (TSh) : 1 US\$

1760 Uganda Shilling (USh) : 1US\$

## Conversion Table

	10,000	50,000	100,000	200,000	500,000	1,000,000	2,000,000	5,000,000	10,000,000	50,000,000
TSh in US\$	12	61	123	245	613	1,227	2,454	6,135	12,270	61,350
USh in US\$	6	28	57	114	284	568	1,136	2,841	5,682	28,409

Selected actual mid-value rates per USD:

February 2001 (data collection)

815 TSh

1762 USh

March 2001 (data collection and analysis)

833 TSh

1790 USh

July 2001 (finalising data verification, analysis, and report)

890 TSh

1714USh

## Maps

See separate file.

# Passing The Buck

## Money Transfer Systems:

### The Practice and Potential for Products in Tanzania and Uganda

Cerstin Sander, Peter Mukwana, Altemius Millinga

#### Abstract

The money transfer study looks at how primarily low-income people and micro-entrepreneurs send and receive money in a setting where financial services and their outreach are very limited. Looking at Tanzania and Uganda, the study introduces the supply and demand sides -- such as the available means and services, and trends in services and user preferences, users and uses, and costs and risks. This leads into an identification of attributes of good products and an assessment of the potential for a marriage between microfinance providers and money transfer services.

The study addresses people and organisations or institutions engaged in providing or improving money transfer services or in creating an enabling environment for such services. It should also be of interest to users of money transfer services some of whom are not fully aware of all the

#### Executive Summary

##### Background

People transfer money for a variety of reasons: Some to do business, for instance to make or receive payments for services or goods or to pay salaries; others to send money home, maybe for a family emergency; and yet others to pay school fees or to send their children money for a bus ticket to come home.

Sending or receiving money would generally seem fairly simple: making a deposit into an account, transferring between accounts, or sending a cheque or money order are some of the common ways of doing it. They require institutional systems such as bank or postal networks. In countries where financial services are limited and often restricted to urban or large trading centres, many business and personal money transfers are outside the geographical realm of such financial services.

Looking at Tanzania and Uganda, the study team wanted to learn how people transfer money, for what reasons, at what costs, and with what risks. Based on this we wanted to gauge the market dynamics, what improved or new products should look like to better serve especially a low-income clientele, and gauge the potential for new products and new providers, especially in the microfinance sector. The team used *MicroSave*'s qualitative market research tools and interviewed service providers and users, primarily among low-income businesses and people.

Both countries feature very limited financial services outside the capitals and major centres. The postal corporations have the largest network of branches but some of the worst reputation regarding the quality of their services and some of the worst track record regarding efficiency and timely service. Banks are not accessible in large parts of both countries. As a very rough proxy for financial services coverage, a ratio of bank branches to population in Uganda is 1 : 183,000; in Tanzania it is 1: 206,000, whereby Tanzania covers an area four times the size of Uganda.

The study presents our findings on the demand and supply side of money transfer services, such as what services people use to transfer money and why, and what costs, risks and other issues are involved. It gives a flavour of trends in availability and use of services, and we discuss what it all means for potential service options for the microfinance sector.

The findings offer some small surprises -- even to the readership that is quite familiar with the landscape of financial services in the two countries. The following summary of findings leads into a brief overview of key product attributes or qualities and key considerations for potential new providers. A brief overview of the structure of the study concludes the Executive Summary.

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### **The Bottom Line**

There is an under-serviced market for money transfer services in both Tanzania and Uganda. The emergence of new services, such as by bus companies in Tanzania and by courier companies in Uganda, as well as the introduction and expansion of services such as Western Union and MoneyGram, clearly underline existing demand. The continued prevalence of informal or corporate arrangements to transport money signifies, at least in part, under-serviced market segments. As governments de-centralise and the middle and salaried classes, who support families in villages and build residences up-country, continue to grow, the demand for money transfer services is bound to increase.

Among the key attributes for a good money transfer product are: accessibility, efficiency and timeliness, reliability, a sizeable service network including outside major urban centres, and affordability.

There is potential for products by microfinance institutions and other providers, such as bus and courier companies, who have service networks covering areas not touched by most money transfer service providers. Profitability seems to be relatively easily attained, even on a relatively small scale, as a product pilot in Uganda shows. Nonetheless it should not be considered a fail-safe product for MFIs. A careful consideration of the potential market and one's capacity to offer a good product is key - as it is with any product development. Part of this should be a consideration of alternatives such as: an agency agreement for existing products; development of a proprietary product; or collaboration with other services, such as an agreement between a MFI and a bus operator. A key consideration are internal controls and the capacity, cost, and risk of managing the liquidity such a service requires.

### **Findings**

#### **PROVIDERS & MEANS**

We distinguish between formal (e.g. banks), semi-formal (e.g. courier companies), and informal services (e.g. relatives or oneself). Informal means are still the most commonly used but new providers such as bus and courier companies are making a substantial foray into a largely untapped market. Especially for transfers of small amounts, informal services are very common. At the same time, large amounts going to areas of the country where financial services are not readily available often have to be transported physically as well. For instance, buyers of coffee, tea, tobacco, and other commodities tend to have to carry money to pay for the goods at the farm gate or trading centre where they purchase.

The main formal providers are banks and non-bank financial services such as Western Union or MoneyGram. The most common means used, however, are informal: carrying the cash oneself or sending it with relatives, friends, or acquainted drivers or conductors.

A further distinction can be made between money *transfer* services, which book funds within their accounts or payment systems, and money *delivery* services which physically deliver the amount paid in. Transfer services require cash liquidity management; they bear risks for the provider where physical cash transport is necessary for the liquidity management or where fraud is an issue. Money delivery services carry the risk of loss of the funds during processing and transport. For the recipient they have the advantage that the money is delivered to the door and does not tend to get delayed with processing time.

Due to the limited coverage of service networks, often sequential services have to be used for the money to reach its destination. This holds true also for informal services. This incurs delays and increases risks of loss.

## USERS & USES

Service users are companies, traders, government departments, NGOs, and parents or family more generally. The respondents felt that most money transfers are used for either business purposes or for payment of school fees, followed by remittances for domestic or emergency needs, and transfers of salaries and funds for operations of companies, government departments, or NGOs. Safety, accessibility, and reliability are prominent concerns. For commercial service providers, salary and pension payments are often the largest part of their business.

## CREATIVE MEANS

New technologies offer new avenues for money transfer; for instance, prepaid airtime which is loaded by keying in a pin code on your mobile. The airtime can be purchased by one person and relayed to another, for instance by phone call, to be keyed in by the receiver and thus charging their airtime account. This is an example of an easy way for a salaried family member in the city to supply the parents up-country with cash. The money the parents saved on airtime is then available for other expenses. While this is on a small scale, transfers of small amounts are amongst the very common transfers and tend to be most costly when sent within a system of financial services.

## VOLUMES & FREQUENCY

The volumes for each transaction vary widely. Most respondents felt that the bracket 10,000 to 100,000<sup>1</sup> was the most common amount in both currencies, whereby the Tanzanian Shilling is valued around twice that of the Ugandan Shilling. Individual transactions can be lower or much higher. Transactions of 1 to 5 million, again in either currency, or up to 40 million, are common.

The responses suggest that transfer amounts per transaction tend to be higher in value in Tanzania than in Uganda. One hypothetical reason for this might be that Tanzanian traders may tend to travel with larger amounts due to the higher cost and time required to cover the longer distances there.

Use of transfers is overall quite regular. School fees likely create small peaks and are usually due in February, June, and September of each year, unless paid in installments. For some of the traders, harvests and festive seasons tend to mean more, and/or higher, transfers to purchase stocks.

## COSTS

Service fees vary between 35% and 4% of the transfer value, depending on the amount of money being sent and the service used. Generally, and not surprisingly, sending small amounts is relatively more expensive than sending larger amounts. For very small transfer values the percentage cost can be much higher than 35% due to minimum fees; for large transfer values the cost can be lower, usually if a bank service is available.

Respondents indicated that costs were acceptable and secondary to available, efficient, and effective services. At the same time, people refrain from using available services due to the cost. For instance, a Ugandan pilot experience with a money transfer product in a new market suggests that potential clients for the service decide against using it due to the cost, though the fee may not be higher than their overall cost and opportunity cost in not using the service. This suggests that lowering the costs for small transfers is one of the key challenges in making money transfer services more accessible, for instance to those who require 'low value - high frequency' transfers.

## RISKS & INCONVENIENCES

Risks and inconveniences predominated in respondents' feedback. These topics prompted the most dynamic responses and many illustrative stories. Many fear the risks involved in physically carrying cash, such as partial or complete loss due to robberies or misuse by relatives or friends carrying the money.

The inconveniences most cited included illiquidity at branches, delayed transfers, long waiting lines, and unfriendly service, particularly in post offices. Also highlighted were issues around personal identification to receive funds, network limitations of service providers, and difficulties with unreliable communication. Delays are reportedly less common for the semi-formal services.

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<sup>1</sup> For currency conversions, please refer to the conversion table following the table of contents.

Risks for providers include fraud and robberies. Courier companies are sometimes confronted with the inconvenience of having to locate the recipient address and find the recipient in person, which can mean multiple delivery attempts.

#### TRENDS

People are losing trust in informal arrangements as a result of a generally growing mistrust among people. This feedback is consistent with feedback in much of recent client research in microfinance, such as by *MicroSave* with partner institutions. Users of informal means of transfer expressed consistently a preference for using other services for money transfer if they were available and accessible. Safety is a pervasive concern.

- Bus companies in Tanzania and courier companies in Uganda have successfully identified niches in money transfer services and provide efficient and reliable services.
- International transfer services such as Western Union and MoneyGram are expanding.
- Several commercial banks have introduced new products, such as debit cards, or improved their systems to offer better transfer services. In part this has been made possible by growing and improving telecommunications systems.
- New technologies offer new avenues for money transfer; for instance, passing on the pin code for prepaid airtime which is keyed into the mobile phone to charge the airtime account.
- The expansion of mobile telecommunication networks into rural areas offer financial service providers the opportunity to improve their systems to deliver a better transfer product or to expand into areas previously not serviced.
- As the rates for treasury bills - a key investment for commercial banks in the region - have been dropping in Tanzania and Uganda, commercial banks are expressing an interest in diversifying their income base and money transfer services seem to be an attractive means of revenue to some of them.
- Governments are already a major client for transfer services, using for instance National Microfinance Bank in Tanzania, and Yellow Pages and Uganda Commercial Bank in Uganda. Decentralisation of government systems and a growing middle and salaried class will further increase the demand for money transfer services.

#### SIMILARITIES AND DIFFERENCES

##### DIFFERENCES BETWEEN PROVIDER & USER PERSPECTIVES

Users emphasised the informal system more than providers (of formal and semi-formal services). Providers emphasised banks and did not seem to be aware of the prevalence of the informal means. Providers also did not report the seasonality of transfers as much as users. Seasonality may be a bigger factor in the informal system, though for instance commodity exporters such as coffee and tea buyers move large amounts of money during the harvest season to purchase crops. As formal services often do not service the buying areas, this aspect may be missed by providers.

At the same time, however, providers and users reported the same types of users and uses. This could suggest that providers do not piece them together as interesting market information or that they are simply not interested in identifying new market opportunities.

It is common for a service provider to be focused on their service and similar products. This could mean that they miss out on market opportunities.

##### GENDER DIFFERENCES

There were no significant differences in responses from women and men. The key difference noted concerns personal identification: Neither country has a national ID system and women often have less access to the alternative means used to ID people, such as tax invoices. This means they are more likely to have to approach a local official to receive a letter of reference incurring a small fee. This in turn can lead to the arriving money having to be spent other than intended, be it on taxes or relatives or neighbours requesting assistance in an emergency.

##### DIFFERENCES BETWEEN TANZANIA & UGANDA

Most of the findings are fairly consistent across the respondents in the two countries. The following paragraphs highlight the key differences that emerged:

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- the coverage of bank services relative to population size is lower in Tanzania than in Uganda by around 1/8 -- there is one commercial bank branch per 206,000 people in Tanzania compared to 183,000 in Uganda -- compounded by distances in Tanzania which is four times the size of Uganda;
- the value of individual transactions in Tanzania seems to be close to twice that of those in Uganda; this might suggest that relatively more money moves in Tanzania than in Uganda; or it might suggest that this is due to larger distances and higher cost of travel for which traders aim to compensate by transferring larger amounts at a time;
- issues around identification and use of passwords were mentioned more frequently in Tanzania by both providers and users; and
- similarly the liquidity issue was more prominent in responses in Tanzania.

### ***Structure of the Study***

Starting with a brief introduction, background and methodological information, the study first presents the provider side of money transfer, their services and product attributes. The user perspective then focuses on use patterns and trends as well as risk and its management.

Bulleted summaries highlight the main points throughout the study. Overview tables summarise much of the detailed information and maps and diagrams provide illustrations. For instance, we have mapped examples of what money moves for, especially in domestic trade at the micro- and small-scale levels. We have also mapped examples of sequential use of services with the time, cost, and risks involved. Annexes provide further detail such as on service availability and cost in Uganda and Tanzania.

The study concludes with considerations of product attributes and of the potential of money transfer services by microfinance providers as well as with some directions for further study.

# Passing The Buck

## Money Transfer Systems:

### The Practice and Potential for Products in Tanzania and Uganda

Cerstin Sander, Peter Mukwana, Altemius Millinga

#### **Introduction**

The aim of this study is to offer an understanding of the ways in which businesses and people send and receive money for business or personal purposes. Starting with Tanzania and Uganda, we wanted to know what formal or informal services exist and how people use them. The intention was to analyse service gaps in the formal financial sector, receive pointers for product development, and get inputs to gauge opportunities and criteria for microfinance services.

The study addresses people and organisations or institutions engaged in providing or improving money transfer services or in creating an enabling environment for such services. It should also be of interest to users of money transfer services some of whom are not fully aware of all the options available.

#### **Background and Objectives**

Efficient and affordable financial services are key to a healthy business environment for all sizes of business, but also for households more generally. Payment systems and money transfers are critical for the backward and forward linkages for businesses and households, especially in rural areas. Remittances from abroad and also from urban to rural relatives are major sources of cash for parts of the population.

Financial systems networks in both Tanzania and Uganda are still weak, concentrated primarily in urban centres, and geared mainly towards large and medium business and salaried employees. Apart from geographical constraints, access is limited by other aspects such as minimum requirements to be accepted as a client and lack of trust in the sector which has been riddled with insolvencies, illiquidity, bankruptcy, and other problems.

Improvements will occur in the medium to long term as financial systems are improving and diversifying, including growing microfinance services. Some work is under way in Tanzania and Uganda to address banking supervision and regulation and to recognise microfinance as an important sub-sector, which requires different regulatory approaches. Governments in both countries express commitment to an enabling environment for better financial services and rural outreach. In Uganda some work is also in progress specifically to improve the banking payment systems. Uganda has a very vibrant microfinance industry and Tanzania's industry is also expanding and innovating. Commercial banks in both countries are cautiously experimenting with new financial products as is the microfinance industry, especially in Uganda, in the face of growing competition.

In settings where the financial systems and networks to support money transfers is still very limited, however, the question arises: how is money transfer done? How do you trade, make payments, send or receive money for business or personal use? What are the implications of the different means and how people use them? What improvements could be made? What product niches could potentially be carved out?

Starting with a brief overview of the research design and methodology, the following sections discuss the current regulatory frameworks for money transfer, available services, who uses them, for what purposes, with what preferences, and at what risks. Main points are highlighted in bulleted sections. The study concludes with a brief review of attributes of good money transfer products and of the potential and considerations for microfinance providers to offer such products.

*Please note that, as payments systems deal only with the formalised systems of money transfer under central bank regulation, this report uses the more general term 'money transfer' to include all forms of sending and receiving money.*

#### **Research Design and Methodology**

The research was conducted in and around the cities of Dar es Salaam and Kampala in February 2001 using *MicroSave's* qualitative market research tools. The two cities and their immediate environment, such as

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key trading centres, were chosen for the study; they represent the three basic settings of urban, peri-urban, and rural in which the team wanted to explore money transfers. The capitals and surrounding areas see the highest volume of money transfer 'traffic' and are indicative of how the money transfer systems work and are used; many traders and generally much of the financial transactions for personal or business use gets channelled through the capitals in East Africa.

### ***The Respondents***

Respondents were approached as service providers or users. In total, 132 individuals or companies participated in individual interviews or focus groups -- 14 providers and 118 users. A table in the annex provides the respondent profile.

### ***The Tools***

The research team used qualitative research methods in the collection of data in both countries. This included Focus Group Discussions (FGD) and several Participatory Rapid Appraisal (PRA) tools. In-depth individual interviews and review of secondary data from different institutions were also employed. The use of these tools gave the researchers an opportunity to triangulate information on key issues that emerged in the process. An annexed table provides an overview of the tools used and where they were applied.

### ***Scope and Limitations of the Tools***

The qualitative research tools bring to light issues, sentiments, perceptions, attitudes, use patterns, and trends as people perceive them. They do not, however, lend themselves to quantification, such as the volumes involved in transfers or monies lost due to the various risk factors, though interview responses do provide indicative information. To the extent feasible, to capture factual information, the researchers employed in-depth individual interviews with service providers and reviewed written information, such as regarding prices and policies.

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*The research team extends its appreciation to all the respondents who took the time to talk to us, and to everyone who has contributed with information, support, and a critical mind.*

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## ***Research Findings***

### **Regulatory Frameworks for Money Transfers in Uganda and Tanzania<sup>2</sup>**

Cash is the dominant payment instrument in both Tanzania and Uganda with some usage of cheques and telegraphic transfers as the main debit and credit instruments. Money transfer is considered to be part of the payment system. There is no specific legislative framework governing the operations of payment systems in these countries, nor do the Central Banks have any statutory responsibilities on payments and money transfer. There are, however, some regulatory policies which directly touch on payments systems: in Tanzania the Banking and Financial Institutions Act, 1991, the Cheques Act, 1969, and the Capital Market and Securities Act, 1994; in Uganda the payment system is regulated by the Financial Institutions and Banking Act, 1993, and an updated act is currently under review. In both countries the Communications Acts regulate the post offices, which are also involved in financial services as agencies of the post banks. Similarly, the courier companies fall under this act. For instance, in Uganda they are regulated under the Communications Act 1997 as stipulated in section 29(1). This allows them to carry and convey articles by land, air and water within the republic.

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<sup>2</sup> This and the following sections draw in part on "An Overview of the National Payment System in the Country." Tanzania Payment System Newsletter, issue no. 2, June 1999, along with other documents, as referenced, as well as updates through research interviews.

## Money Transfer Systems, Products, and Their Providers

### A Sketch of the Supply Side

This section in bullet points:

- Money transfer services are offered by banks, non-bank financial institutions, and private companies (transport and messenger firms). Also involved in money transfer services are individual business people, traders, individuals, and relatives and friends. The services can be categorised into formal (e.g. banks), semi-formal (e.g. courier companies), and informal services (e.g. relatives or oneself).
- A further distinction can be made between money transfer services, which book funds within their accounts or payment systems, and money delivery services which physically deliver the amount paid in. The service types each bear risks of fraud or theft. The delivery system tends to have a shorter processing time and has the added advantage for the client of delivery to the door.
- The prevalence of informal and semi-formal services indicates a high demand that is not serviced by the formal sector.
- Formal services, e.g. by banks, are severely limited by access factors such as: limited geographic access due to restricted outreach of their small networks of branches -- especially rural areas are grossly under-served; and limited socio-economic access, for instance due to the requirements for becoming a customer.
- The growth of a previously untapped money transfer market has made some banks introduce internal improvements and/or new products to capture a share of the market; these are becoming technically feasible with the improvements in telecommunications, e.g.: centralised information systems (CRDB in Tanzania), debit cards (Advantage Card by Standard Chartered Bank of Uganda), and, more generally, smart cards (e.g. Stanbic is in the process of establishing a smart card system).
- Inefficiencies in the commonly available money transfer services have led to new players entering the market. These include courier and bus companies. In addition, in Uganda, a microfinance provider, the Uganda Microfinance Union (UMU), is piloting a money transfer service in one of their branches.
- The improvement of communication and transportation systems in both Uganda and Tanzania is likely to facilitate entry for these and other new players into the market, which was previously the domain of banks and post offices. Similarly, the latter have opportunity to improve their services and have done so or are in the process.
- People find unintended and ingenious ways to transfer money. For instance, sending money in the form of air time for the mobile phone: pre-paid mobile phone services using pin numbers to charge airtime online can be transmitted by phone. The recipient of the pin can charge their phone with new airtime instantly.

Money transfer services in Uganda and Tanzania are offered by commercial banks, non-bank financial institutions, some companies providing transport and messenger services, and are often provided also by private individuals. The services reflect a range in level of formality in terms of regulations and levels of established and documented procedures in three classifications: formal, semi-formal or informal systems. The variety of products or services they offer are summarized briefly below and synthesised in an overview table. They are discussed in more detail, such as concerning product attributes and client preferences, throughout subsequent sections of the report.

#### *Formal System*

The formal system includes the commercial banks, non-bank financial service providers, and the post office. Commercial banks in both countries provide money transfer services both locally and internationally, independent of whether the banks are locally owned or subsidiaries of international banks. In addition, non-bank financial institutions, such as Western Union, offer money transfer services.

The post offices provide money transfer mainly for small amounts, both locally within the two countries and across the borders within East Africa. Postal money orders, for instance, are limited to US\$ 10,000 each and a maximum of 10 can be bundled for a total of US\$ 100,000 (see also the annexed 'Examples of Service Costs').

Western Union is another service provider, which transfers small to medium amounts of money domestically in both countries as well as regionally and internationally. In both countries it has service agreements with local financial institutions. Similarly, MoneyGram operates in both countries with agency agreements.

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As part of liquidity management, especially in up-country branches, banks can have policies on withdrawal limits and require notice to allow withdrawal of larger amounts. Limits can be TSh 100,000, as for up-country branches of Tanzania Post Bank, or USh 5 million for Uganda Commercial Bank's savings accounts. The latter already requires 1 week's notice. Notice periods generally tend to range between 1 to 14 days. Some banks or financial service providers have no limits, although in practice full liquidity at the branches cannot be assumed.

Each type of institution is discussed in more detail in the following paragraphs. A separate, subsequent section provides an overview of service costs.

**Money Transfer Systems, Providers & Their Products**

System & Provider	Products	Main Service Focus	Prevalence of Availability	
			Tanzania	Uganda
<b>Formal System</b>				
Banks & Non-Bank Financial Institutions (e.g. post banks & Western Union; operating under Central Banks' supervision and under regulations such as financial services acts)	credit & mail transfer, bank cheque / draft, cheque, travelers' cheque, direct debit or withdrawal, fax, phone, or wire transfers	both domestic and international transfers generally for larger amounts	✓✓	✓✓
Post Offices (operating under communications acts)	Postal MoneyOrder (PMO), Telegraphic Money Orders (TMOs), Expedited Mail Service (EMS), PostSpeed (for service within East Africa)	mostly in-country services and for small amounts	✓✓	✓✓
Courier Companies (operating under communications acts)	money delivery	local delivery of primarily small amounts in parts of the country, delivery of salary payments to army staff and of pension fund payments they are located in every district, at least in major trading centres		✓
<b>Semi-formal System</b>				
Bus Companies (no financial or delivery regulations, operating under companies acts)	money delivery	both local and cross-border transfers (generally for smaller amounts)	✓	

System & Provider	Products	Main Service Focus	Prevalence of Availability	System & Provider
<b>Formal System</b>		<b>Tanzania</b>	<b>Uganda</b>	
Prominent Business People	line of cash on debit arrangement	used by traders located in major commercial towns small to bigger amounts determined by level of relationship	✓	✓
Drivers & Conductors	money & goods transport	local transfers, small amounts determined by level of relationship	✓✓	✓✓
Self	money transport	used by small income people local transfers	✓✓	✓✓
Relatives & Friends	money & goods delivery	local transfers small amounts determined by level of relationship	✓✓	✓✓

Please refer to the annexes for an overview of bank and service networks.

### Commercial Banks

There are 14 licensed commercial banks with approximately 170 branches in Tanzania<sup>3</sup> which has an estimated population of around 35 million. Uganda has a total of 17 commercial banks with 120 branches located in various parts of the country<sup>4</sup> for a total population of about 22 million.<sup>5</sup>

The main payment and money transfer instruments used by the commercial banks include the following:

*Credit Transfers:* Banks effect transactions for credit transfer using, for instance, Telegraphic Transfers (TT), fax or wire transfers. Fund transfers such as with TT are relatively more reliable and faster for intra-bank or inter-bank transactions than mail transfers. Coded telex messages are used to communicate the transfers. As the rates for treasury bills - a key investment for commercial banks in the region - have been dropping in Tanzania and Uganda, commercial banks are expressing an interest in diversifying their income base and money transfer services seem to be an attractive means of revenue to some of them.

*A Difference Between Tanzania & Uganda*

The coverage of bank services relative to population size is lower in Tanzania than in Uganda by around 1/8 - there is one commercial bank branch per 206,000 people in Tanzania compared to 183,000 in Uganda which is only 1/4 of the area size of Tanzania.

<sup>3</sup> Bank of Tanzania: Economic and Operation Reports. Various years - 1997, 1998, 1999, and 2000; "An Overview of the National Payment System in the Country." Tanzania Payment System Newsletter, issue no. 2, June 1999; and Bank of Tanzania: Situational Analysis and Stocktaking Report of the National Payment System in Tanzania, 1999.

<sup>4</sup> Bank of Uganda Statistics as at 31<sup>st</sup> December 2000. UCB operates the majority of these branches. (See also the annexed table 'Bank Network in Uganda')

<sup>5</sup> Uganda has a very high population growth rate. The population is expected to double in less than 20 years. Moreover, whereas the official figure for 2000 is 22 million, unofficial estimates are as high as 30 million. (Official data as per the Population Secretariat of the Ministry of Finance, Planning, and Economic Development of Uganda, May 2001)

The main users of the credit transfers are corporate customers and companies with customers in places where their bank has a branch. For example, a company in Dar es Salaam with an account with NBC will request its customers to make their payments through another NBC branch.

National Microfinance Bank of Tanzania is the main domestic money transfer service provider. It is a parastatal bank, soon to be privatized, and has the largest branch network. It handles the bulk of government payments as well as numerous private sector transfers. Both account holders and non-holders can use the service, which is a 'same-day-service'. (Please refer to the text box 'A Core Product' for further details.)

The Cooperative and Rural Development Bank (CRDB) of Tanzania has introduced an instant inter-branch money transfer facility with its 22 branches countrywide. Both clients and non-clients of CRDB can send money to any person with a CRDB account. The bank has been heavily promoting this service since its introduction in early 2001. The service is used by companies which distribute products in various parts of the country as well as by individuals and traders.

In Uganda, Uganda Commercial Bank has the largest branch network. Similar to NMB, it handles the bulk of government payments, such as salaries.

Several banks use the SWIFT system. SWIFT stands for the Society for Worldwide Inter-Banking Financial Telecommunication and is headquartered in France. Around 700 banks worldwide are part of the network.

*Mail transfers:* Mail transfers are popular for domestic inter-branch payments and non-local payments where telecommunication is not available or is unreliable, but it is a slow system.

*Bank Cheques or Drafts:* Drafts are usually drawn by the bank to settle their obligations. Customers of the bank may purchase them for a commission in order to make a payment under special arrangements, such as for payment of visa fees to embassies via mail. The alternatives are money orders from banks or the post office.

*Cheques:* These are based on chequing accounts and thereby limited to bank customers with such accounts. Cheques involve sending the physical cheque document to the bank on which it draws. This can take up to one month for remote parts of a country like Tanzania; within cities it tends to take up to 3 days. Apart from central banks, only commercial banks which maintain current accounts with a central bank are allowed to issue cheques.

*Traveler's cheques:* A bank issues its own local traveler's cheques in different denominations. It clears them like any other intra-bank cheque. The traveler's cheque is drawn on the bank's head office with branches acting as selling agents that remit the proceeds to the head office. Traveler's cheques are sent to head office by courier when encashed by a branch. Banks also handle international traveler's cheques such as Thomas Cook, VISA, AMEX, etc.

*Direct debits:* Some banks provide direct debit services to their customers by use of 'standing bank orders'. Customers use it for recurring loan repayments, insurance premiums, water and electricity bill payment, house rents, and hire purchase installments. This service is available in both countries.

A more recent development is the introduction of debit cards such as the 'Advantage Card' issued by Standard Chartered Bank of Uganda. The card can be used to draw cash or make payments at various points around the country, such as participating petrol stations. Credit cards are not yet commonly used in either country but are offered, for instance by Standard Chartered Bank.

### *A CORE PRODUCT*

National Microfinance Bank (NMB) of Tanzania holds over 700,000 deposit accounts - close to half of all deposit accounts in Tanzania. With a structure of 101 branches, it has the largest network in the country. It is still a parastatal bank but scheduled to be privatised.

NMB offers one of the premier domestic money transfer services in the country handling government payments and private sector transfers. Apart from government for salary and pension payments, clients include large scale traders in agricultural produce, mining companies, and generally businesspeople in commerce and small trade.

Currently NMB employs a range of technologies depending in part on branch location. Twenty of its branches are connected on an intranet; by September 2001 another twenty will be added selected based on transfer volumes. Other branches manage transfers via fax and phone. A very limited number of transfers is still done by mail. While the latter can take 1-2 weeks, all the other options are a 'same-day-service' and intranet can be used also as an instantaneous service, if needed.

Transfer amounts vary widely. An average transfer amount is around TSh 3 million. Larger transfers cluster around TSh 50 to 100 million though transfers of several hundreds of millions are also quite common. For some of the 15-20 branches per each of the six zones of Tanzania there are seasonal patterns in the transfer business, usually subject to the core agricultural produce in the sub-zone.

Liquidity in the branches is ensured through a system of designated branches which serves as cash centres. They link NMB to the Bank of Tanzania's cash centres. From the designated branches vehicles with armed escorts supply the other branches in the area.

*How it works:* Both account holders and non-holders can use the service. All options are possible: for instance, non-clients can transfer to customer accounts and account holders can transfer to non-clients; even non-account holders can transfer to another non-holder, though it happens relatively rarely.

All transfers go with test codes as a security feature on any of the systems (intranet, fax, or phone). Account to account transfers as well as transfers by non-account holders into a client account are straight forward requiring no additional security features. For non-account holder recipients of transfers NMB requires instructions by the sender as to what name and type of ID to expect. This information forms part of the transfer instructions.

*Costs:* To the client -- Fees are the same for both account holders and non-holders. The minimum fee is TSh 4,000 plus a standard transmission fee of TSh 5,000. For amounts up to TSh 1 million the charge is 1% plus the transmission fee. The percentage fee drops down incrementally to its lowest at 0.25 % for amounts of TSh 250 million and up. (Please refer to the annex with Examples of Service Costs for the detailed fee structure.)

To NMB -- The main costs are the security and vehicles to transport the cash within their network. Relatedly, cash management overall is a substantial cost.

*Why do clients use it, or not use it?* Government, companies, and traders use the service for timely and secure transfers or payments. Potential clients for the service who do not yet use it are reluctant to pay the fee.

*Challenges:* Early on the challenge was providing a timely service. Now challenges include recovering the cost of investments such as for the infrastructure necessary to provide an efficient service. Other challenges are marketing the service, especially in such a way that a potential client will understand and accept the fee charged. Packaging of the service is also part of it. This can even include the appearance of branches when potential customer will tend to put more trust in a nicely furnished office with the latest technology.



### Non-Bank Financial Institutions

Non-Bank Financial Institutions take deposits, provide other banking services such as money transfers, but do not operate chequing or current accounts. Examples include the Uganda and Tanzania Post Banks, Western Union, and National Bureau De Change Ltd.<sup>6</sup>

*Post Banks:* Post banks in both countries offer deposit accounts.<sup>7</sup> Tanzania Post Bank has 6 branches, of which 3 are in Dar es Salaam, the others in Mwanza, Arusha, and Zanzibar. Post Bank of Uganda has 7 branches in cities or towns stretching from Masaka in the West to Kayunga located East of Kampala. In addition to their branches, using the post office network under an agency agreement, they allow withdrawal from a regular account from any post office.<sup>8</sup> Alternatively one can transfer or deposit into a recipient's account.

For Post Bank Uganda, a maximum daily disbursement ceiling of US\$ 20 million applies. Despite this policy, actual liquidity at the branch may be low so that no or partial disbursements on any one day are not uncommon, particularly in up-country offices. Tanzania Post Bank has no limits in Dar es Salaam but requests 3 days notice for large withdrawals; in up-country branches the weekly limit is TSh 100,000 and 14 days notice for larger withdrawals.

*Western Union:* Western Union uses a wire transfer system. It has agency arrangements with Tanzania Post Bank and with Nile Bank in Uganda. Centenary Rural Development Bank of Uganda has a sub-agency arrangement with Nile Bank to provide Western Union money transfer services through its network of 16 branches in the country. Typically, money transfers through Western Union are remittances from people working overseas.

*MoneyGram:* This service uses a wire transfer system. In Tanzania it is operated by National Bureau de Change Ltd. In Uganda it was recently introduced through Allied Bank International. This makes it available in the capitals and, in the case of Uganda, also in Jinja, the second largest city.

Thomas Cook, Kenya, has the regional rights for MoneyGram International based in the United States. Transfers can be as fast as 10 minutes according to the providers. The facility is available in 120 countries with some 360,000 outlets.

### Non-Financial Formal Institutions

Post offices around the world are historically one of the common money transfer providers. They are not financial institutions and as such not regulated under central bank frameworks, but rather within communications acts. Similarly under the Communications Act, courier companies in Uganda have begun to deliver money as part of their services.

*Post Offices:* Post offices offer two types of services, one as agents of Post Banks or housing a Post Bank window; the other as a postal service which can be used to purchase PMOs, or send money or cheques as well as other items such as letters or documents.

*As Postal Services:* Post offices in both countries offer money transfer services through Postal Money Orders (PMO) and Telegraphic Money Orders (TMOs). Apart from the regular range of letter mail services, an Expedited Mail Service (EMS), and, for customers within East African countries, PostSpeed, can also be used to send cheques or cash. These are similar to postal courier services in other countries.

#### *Client Frustration with Post Offices*

“Some of us have limited time to queue at post offices to be able to send money home. The easiest way is to just use a friend or relative whom you trust”, said a Housekeeper in Bugolobi, Kampala

<sup>6</sup> While the National Bureau De Change Ltd. of Tanzania is a registered financial institution and is allowed to provide money transfer services, other forex bureaus in both countries are not generally providing money transfer services and are not licensed to do so.

<sup>7</sup> Post Bank Uganda is working on improving its structure and services with assistance from GTZ and the German Savings Bank Foundation. It will be applying for a licence to become a credit institution and will introduce a wireless transfer system. Currently they offer a fax transfer.

Similarly Tanzania Post Bank is working on improvements in part with assistance from MicroSave.

<sup>8</sup> A more economical account is the domicile account which is less expensive because access to it is restricted to the branch managing the account.

Money orders have a maximum value and maximum number of orders that can be issued. This limits the total amount one can send using money orders. (Details of the limits are provided in the annex.)

*As agents of Post Banks:* The Post Corporations in Tanzania and Uganda operate as agents of Post Banks offering savings accounts. They provide money transfer services by fax as well as transfers to, or withdrawals from, savings accounts.

The outreach network is the most impressive of all of the institutions mentioned here. Tanzania Post Corporation has about 200 outlets throughout the country. Uganda Post Corporation provides services similar to those of Tanzania Posts Corporation. With close to double the number of outlets, however, it reaches even further than the Tanzanian network, especially considering the much smaller size of Uganda in terms of area size and population (Tanzania is about 4 times the size of Uganda and has 1.5 times the population). Apart from the head office, the Uganda Post Corporation has 12 regional offices, 49 departmental offices, and in total, well over 300 sub-offices countrywide.

While the network is the most extensive of any service provider, many respondents expressed their frustration with the quality of the services. Frequently cited are long waiting lines, a lack of service orientation of staff, delays in transfers, and illiquidity at the outlets.<sup>9</sup>

*Courier Companies:* In Uganda, courier companies, such as Elma Express and Yellow Pages, have emerged since 1996 and captured a market share of money transfer services. The courier companies have offices in almost all the districts in Uganda, at least in major trading centres. They transfer small amounts of money like remittances, school fees, and sometimes salaries for government departments from urban to rural areas. One example of the latter are salary payments to military staff in northern Uganda. Pension fund payments are in part also delivered by courier. Both of the latter are usually in the form of cheques and drafts rather than cash.<sup>10</sup>

*A Difference Between Tanzania & Uganda*

Tanzanian courier companies do not offer money delivery services. Bus companies in Uganda do not offer money transfers.

Clients sending cash present the money to be counted before it is sealed in an envelope. There are no limits on the amount that can be sent.

*Uganda Microfinance Union (UMU):* The Union is a member-based microfinance provider. UMU introduced a pilot money transfer product in April 2001. Starting in their Kayunga branch they are registering good initial results of this product.

Their clients include large corporations and their franchisees. UMU's challenge is to attract more clients, such as individual business people, particularly traders, as well as to make the service generally more accessible. (Please refer to the text box 'The UMU WAY' for a detailed description.)

### ***Semi-formal System***

A variety of institutions and companies complement the money transfer services offered in compliance with national payments systems by banks and non-bank financial institutions. This semi-formal system consists of companies that are well organised in transferring money from one place to another but not controlled by any financial service or related act. The main providers in this category are bus companies and it is only Tanzanian bus operators that offer such services. A related but different service is pre-paid services which are increasingly on offer from utility and communications companies. While not a money transfer service, they can be used for money transfer at an informal level. All of these are discussed in more detail below.

*Bus Companies:* Bus money transfer services by companies like Scandinavia<sup>11</sup> and Hood are very common in Tanzania. The bus companies have specific routes with booking offices at bus parks or stops where

<sup>9</sup> Tanzania Post Bank is aiming to improve this image and ensure better efficiency by having a separate teller position for Western Union customers in the branches they operate themselves.

<sup>10</sup> For instance, in locations like Gulu and Kitgum in northern Uganda it has been very difficult to pay army officers deployed there. Yellow Pages has identified this gap and has been found to be reliable in delivering salary cheques in this region.

<sup>11</sup> Very recently the Government of Tanzania issued a small number of new licences for courier services; one of them went to Scandinavia, which actually changes the classification for this company from semi-formal to formal.

money can be deposited or received. For instance, Scandinavia Bus Company operates a southern route with booking offices at Dar es Salaam, Iringa (600km), Songea (980km), Mbeya (880km), and Kyela (980km), while the northern route has offices in Moshi (500km) and Arusha (600km). Hood Bus Company offers interstate services between Tanzania and Kenya. Of the private bus companies in Uganda, none offer a service.<sup>12</sup>

A related and growing development, though not a money transfer service, are *Payment Cards and Pre-Paid Services from Utility and Telephone Companies*: These cards are issued by utilities, telephone, and electricity companies. They include 'pay per use' cards introduced by mobile communications providers such as MTN and CelTel in Uganda and Tritel, Mobitel, and Vodacom in Tanzania. The main telecommunications company of Uganda, UTL, has recently introduced a pre-paid service for phone customers debiting against the client's pre-paid service account. The Tanzanian para-statal electricity company TANESCO also offers a pre-payment system.

Generally, new goods, services, or technologies can result in new ways of transferring funds. An example of such new ways are mobile telecommunications companies offering pre-paid access to airtime. Airtime is sold in various denominations in the form of a plastic or plasticised card the size of a business card. A secret pin code on this card can be called into the provider's system to charge airtime. Rather than sending money to his mother up-country, one of our researchers called her passing on a pin code allowing her to recharge the airtime on her mobile. This is money the mother does not have to spend and that could then be available for other expenses.

Any of such payment or pre-payment services can be used to transfer funds as well, with the distinction that here the use is predetermined and will tend to be for informal transfers such as between family members. For instance, the salary earning child paying the utility bill or paying into a pre-paid service account for the parents. While not a money transfer revolution, such options can help take care of the common small remittances among family members.

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<sup>12</sup> The Ugandan Post Bus can only be used informally by handing money or an envelope to a driver. Otherwise it transports the EMS mail within the country which is also used to mail money.

### ***THE UMU WAY***

Uganda Microfinance Union is a member-based organisation. Established in 1997, it is one of the smaller MFIs in Uganda but among the top 5. UMU has developed a spectrum of innovative and client-oriented products, calling it the UMU WAY. It focuses on individual savings and credit. With 5 branches and 2 agencies it is already financially sustainable, albeit on a small scale and still benefiting substantially from various donor support.

UMU started a pilot of a money transfer product in April 2001 with financial support from the CGAP Challenge Fund. The initial pilot is limited to their branch in Kayunga. Kayunga is located roughly half-way between Kampala and Jinja (the second largest city), but around 20 km off the main highway. With the closure of the Cooperative Bank in the banking crisis of the late 1990s, Kayunga was left with only a Post Bank which offers deposit accounts and transfers within its network.

In the first 3 months of this pilot, UMU Kayunga has a small number of clients using the service. Neglecting the initial cost of capital, UMU already realises a small profit through the fees.

To date the clients are primarily large corporations or franchises that have to move cash regularly to secure supplies either to or from the area - commodities like tobacco and petrol. Some clients use the service as often as 2 to 3 times weekly, others weekly or only twice a month.

Transfers go both ways, from Kayunga to Kampala or vice versa, though most still go to Kampala. Transfers typically range between US\$ 3 and 40 million.

*How it works:* Clients in Kayunga deposit their funds. The branch manager calls the Kampala office. In Kampala, the client picks up a cheque. The cheque draws on UMU's bank account. The clients were able to establish acceptance of the UMU cheques with their suppliers. Actual transfer time is usually no more than 30 minutes.

From Kampala, the client deposits the money into UMU's bank account and takes the deposit slip to UMU Kampala. The branch receives the information by phone call for head office (the CEO or the Director Operations) and the client can access their funds in Kayunga.

Cash is physically transferred once or twice per month with an armoured service vehicle from the branch office to Kampala.

*Costs:* To the client -- UMU charges a fee of between 0.25 and 0.4% of the transfer value, negotiable with the (branch) manager. The minimum fee is US\$ 17,500 (ca. US\$ 10).

To UMU -- The main costs are the rental of the armoured vehicle service and additional insurance.

*Why do clients use it, or not use it?* The main concern for businesses is security. Also important is reliability of the service and sure access to the funds when they are needed. This is critical for arrangements such as in the petrol industry where minimum orders have to be placed.

Clients who are interested but not yet using the service feel the fee is too high. They would like to see a lower fee for smaller amounts, e.g. up to US\$ 10 million -- quite to the contrary of common pricing practice.

*Challenges:* Initial challenges included sufficient liquidity in UMU's bank account. Also part of the early days was sorting out the client requirements to establish the liquidity requirements for the branch and the cash transport needs.

The current challenge is how to expand the client base for the product and, relatedly, how to reach clients other than the corporate clients. With more clients and more transfer business the Union might be able to reduce the fees.

*What to watch out for?* Asked what to watch out for, UMU management highlighted tight controls to prevent fraud as a prerequisite for a money transfer product. This calls for improved controls and monitoring systems for the transactions.

### **Informal System**

The informal system is still the most prevalent. It consists of physical money transfers by relatives, friends, transport staff (bus and taxi drivers or conductors), prominent business people, or one's self. A more particular and noteworthy means in this category are the services through prominent business people, discussed in more detail below.

Generally, this system is controlled only by the social and economic values between the parties involved in the process. These types of transfers can be found anywhere in both countries, or between countries in the region, and are used by most people, independent of socio-economic class. To a limited extent it can also serve for overseas transfers.<sup>13</sup>

*Prominent Business People:* Prominent business people, usually men, situated around major commercial towns in both countries, can be used to send and receive money. These businessmen have developed strong social and economic ties with colleagues in other towns dealing in a relatively similar line of business.

For instance, traders dealing in electrical appliances in Kiyembe-Kampala wanting to import goods from Nairobi will simply deposit their money with Mr. Manji (invented name). He will call one of his business partners in Nairobi to effect payment of a specified amount to the depositor or a named person. The depositors travel to Nairobi and are paid their money as they get ready for business. A receipt is issued and payment is made to the depositor who holds the code number or password.

There is no legal recognition of such arrangements. The transfers depend largely on the liquidity at the two points in the transfer process. Communication is very important and there is no physical money movement in the whole process.

### **International Money Transfer**

Commercial banks, non-bank financial institutions, and private companies provide international money transfers from and to Uganda and Tanzania. International money transfer within East Africa, Africa, or overseas is done primarily through the formal system, though some semi-formal and informal ways are also used, as described in the previous sections. Compared to other countries such as India or the Philippines, however, remittance levels for Tanzania and Uganda are relatively low. For instance, in official data for Uganda the projected volume of private transfers is in the range of USD 541 million for the current financial year 2000/2001 of which close to USD 105 million are transfers by NGOs.<sup>14</sup>

International fund transfers of large amounts are handled mainly through corresponding bank relationships. The main means of sending payment instructions to correspondent banks abroad is by coded telex messages or SWIFT. Smaller amounts of money tend to be transferred by Western Union and MoneyGram, as these services can be slightly cheaper than banks for smaller transfers and more easily accessible. There is also an inter-state courier system called PostSpeed operated by post offices in Uganda, Tanzania, and Kenya which provides money delivery as well as letter or parcel services within East Africa. The amount of money sent is registered on the way bill form.

<sup>13</sup> See, for instance, Shivani Puri & Tineke Ritzma: "Migrant Worker Remittances, Micro-finance, and the Informal Economy: Prospects and Issues." ILO Working Paper No. 21, 1999, which reports selected estimates indicating varying levels of remittances through informal transfer means depending on the country.

<sup>14</sup> Balance of Payments, Bank of Uganda, May 2001, provided by the Ministry of Finance, Planning and Economic Development of Uganda.

This is much higher than the reported figures for 1998/99 where the overall amount of private transfers was \$375 million with \$95 million ascribed to NGOs; thus between \$436 million and \$ 280 million, respectively deducting NGO transfers, this would be an increase by a factor of ca. 1.6.

### *Tokens of Appreciation*

"I have managed to build a house back home in Fort Portal over the last two years by simply sending money home through a Taxi Driver. It is not easy to get such a trustworthy person, but it also involves one reciprocating in form of gifts etc., to keep the relationship."

*Worker of a company in Kampala.*

### *Carry It Yourself*

Asked whether people often carry the money themselves, one respondent said: "It is like asking a question 'is the Pope a Catholic?' Obviously the answer is yes!" *PSDP Respondent*

### Money Transfer Fees

This section in bullet points:

- Service fees vary between 35% and 4% of the transfer value, subject to the service and the amount being sent. This can be much higher for very small amounts, due to minimum fees, and lower for large amounts, if a bank service is available.
- Generally, for small amounts, banks and international transfer products are more expensive than other services; for large amounts, banks tend to be among the cheapest but do not necessarily have the adequate network or liquidity in branches.

The service products in the formal and semi-formal systems of money transfer have clear fee schedules. The informal system often involves no direct payment for the service and instead relies on the nature of the relationship and goodwill. Both involve, however, additional transaction costs such as access to the service (the location to deliver the funds to be sent), communication to the recipient, collection by the recipient, and confirmation of receipt by the recipient to the sender. Additional or 'hidden' costs within the informal system include 'tokens of appreciation'.

The following overview table indicates the direct cost of services with fee schedules. A more detailed table showing the cost of various services by transfer amounts follows at the end of this section. In a subsequent section on 'Sequential Links in Money Transfer' we discuss in more detail and with a couple of scenarios how funds move, including the costs involved. For the interested reader, further cost information for selected services is provided in this section and in the annexes.

#### Overview of Service Fees

Service	Providers	Cost
<b>Formal System</b>	Banks	<p><u>Bank charges</u> range, on average, from 0.25% to 1% of the amount in transit; some are as low as 0.1% for their customers; typical minimum charges are TSh 10,000 or USh 20,000, respectively; some banks have higher minimum charges for US fund transfers, in Uganda, for instance USD 25 (ca. USh 44,000)</p> <p><u>Post Bank:</u> Fax transfers - for account holders, 0.5% of value, min. fee USh 2,000; for non-holders, 1% of value, min. fee USh 5,000</p> <p><u>Post Office:</u> Money Orders – 5% commission and handling fee of USh 1,000. Interstate Money Order/Service – 2% of value, minimum commission \$10, additional transmission fee of \$5 for orders sent by electronic means EMS – 5% commission, USh 1,000 for envelope and distance fee ranging from USh 1,000 to 3,000</p> <p><u>Couriers</u> charge a distance fee ranging from USh 800 to USh 2,000 and 5% of the amount in transit plus VAT (17%) on the total</p>
	Post Bank	
	Post Office	
	Couriers	
<b>Semi-formal System</b>	Bus Companies	<p><u>Scandinavia Bus Company</u> charges a minimum of TSh 1,000 for amounts up to TSh25,000; TSh 3,000 for amounts from 76,000 to 95,000 and above that 3.5% of the amount in transit</p>

Service	Providers	Cost
<b>Informal System</b>	Prominent Businessmen	<u>Businessmen</u> do not charge a fee but enjoy discounts from the suppliers when arranging large business deals for them as well as exchange rate earnings when the transfer goes across a border; the availability of the service depends on the personal relationship (direct or through friends or relatives)
	Drivers and Conductors	<u>Drivers/conductors</u> are given a token of appreciation
	Relatives and Friends	<u>Relatives and friends</u> provide the service for free but occasional gifts are common
	Self	<u>Self-transfer</u> incurs transport fare but a trip is often combined with other business or purposes, such as visiting family

Transfers for upkeep and in-country remittances are transactions which are small in value but quite frequent. The minimum costs for bank transfers are often too high relative to the amount sent; typical minimum charges are TSh 10,000 or USh 20,000 for Tanzanian and Ugandan banks, respectively. For instance, a common amount sent to students is TSh 30,000 per transaction. The minimum charge for banks is TSh 10,000 or 33% of the amount to be transferred. In Uganda, a common amount of transfer per transaction is USh 60,000 whereby the minimum charge for banks is USh 20,000 or 33% as well.

This market segment has traditionally been the domain of the post offices. Other options are, however, emerging which are much more attractive as they are more accessible and more reliable. Sector trend analyses conducted in Dar es Salaam and Kampala showed that people have opted out of the post office in areas where alternative means have emerged. The alternatives include bus companies e.g. Scandinavia and Hood in Tanzania, and courier companies, e.g. Elma Express and Yellow Pages of Uganda. The bus and courier companies transfer money quickly, and with the courier companies, they provide door-to-door delivery. Also, costs for the buses were found to be acceptable to the users of the services. For example, the Scandinavia bus service charge is TSh 2,000 to transfer TSh 30,000 or 6.6 % of the amount transferred.

Overall, service fees of formal and semi-formal providers range from 35% to 4% of the transfer value, depending on the amount being sent and the service used. This can be much higher for very small amounts, due to minimum fees, and lower for large amounts, especially if a bank service is available.

The following cost tables provide a quick indication of the cost of sending money for selected services and amounts in both countries. (The graphs on the next page also visualise the information using the example of Uganda.) These tables should not be read as a direct comparison of services costs as the geographic availability of these services varies and only some of them can be used for transfers outside the country. The latter can incur additional charges, such as for communication. Overall, the issue is one of cost relative to the transfer value and accessibility of service (e.g. service network or requirements to be a client such as letters of reference or IDs). Generally, for small amounts, banks and international transfer products are more expensive than other services; for large amounts, banks tend to be among the cheapest but do not necessarily have the adequate network or liquidity in branches.

**Illustrative Cost Table for Uganda**

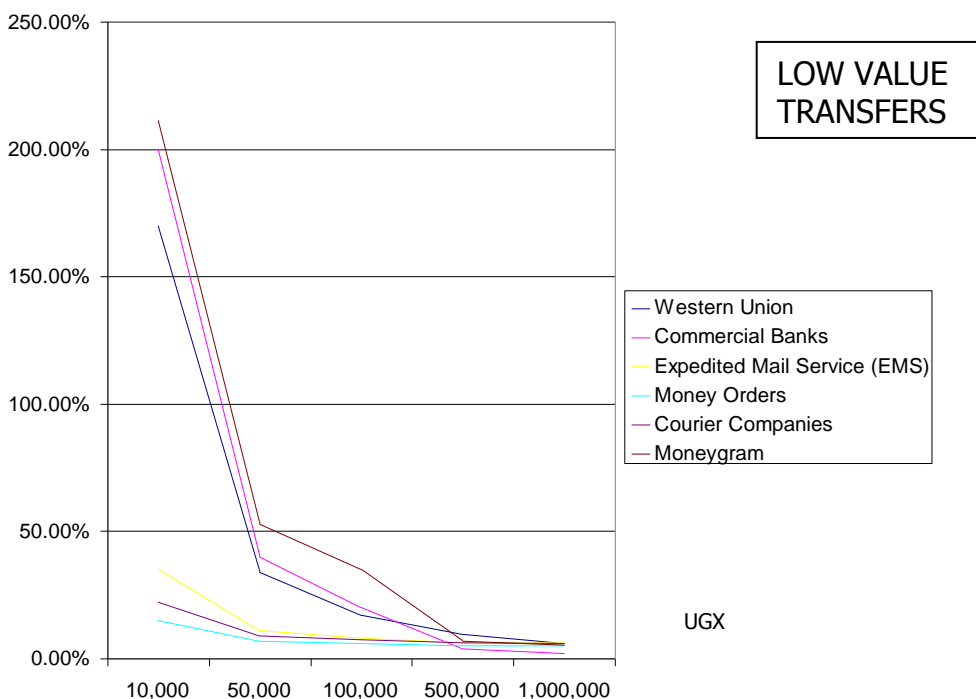
	(%/value) 10,000	50,000	100,000	1,000,000	10,000,000	20,000,000
Western Union	(170%) 17,000	(34%) 17,000	17,000	(6%) 60,000	403,894	(4%) 803,734
Commercial Banks	(200%) 20,000	(40%) 20,000	20,000	(2%) 20,000	62,500	(0.6%) 125,000
Expedited Mail Service (EMS)	(35 %) 3,500	(11%) 5,500	8,000	(6%) 62,000	602,000	(6%) 202,000
Postal Money Orders	(15%) 1,500	(7%) 3,500	6,000	(5%) 51,000	501,000	(5%) 1,001,000
Courier Companies	(22%) 2,223	(9%) 4,563	7,488	(6%) 60,138	586,638	(6%) 1,171,638
MoneyGram	(211%) 21,120	(53%) 21,120	21,120	(5%) 52,800	440,000	(4%) 633,600

**Illustrative Cost Table for Tanzania**

	(%/value) 10,000	50,000	100,000	500,000	1,000,000	10,000,000
Western Union	(90%) 9,000	(18%) 9,000	14,000	33,000	(5%) 52,000	(4%) 404,000
Commercial Banks	(100%) 10,000	(20%) 10,000	10,000	25,000	(5%) 50,000	(0.1%) 130,000
Expedited Mail Service (EMS)	(30%) 3,000	(12%) 6,000	7,000	27,000	(3%) 32,000	(1%) 120,000
Postal Money Orders	(20%) 2,000	(8%) 4,000	6,000	30,000	(6%) 60,000	(6%) 600,000
Bus Companies	(10%) 1,000	(6%) 3,000	3,500	17,500	(4%) 35,000	(4%) 350,000
MoneyGram	(98%) 9,780	(20%) 9,780	12,225	32,600	(6%) 57,050	(3%) 326,000

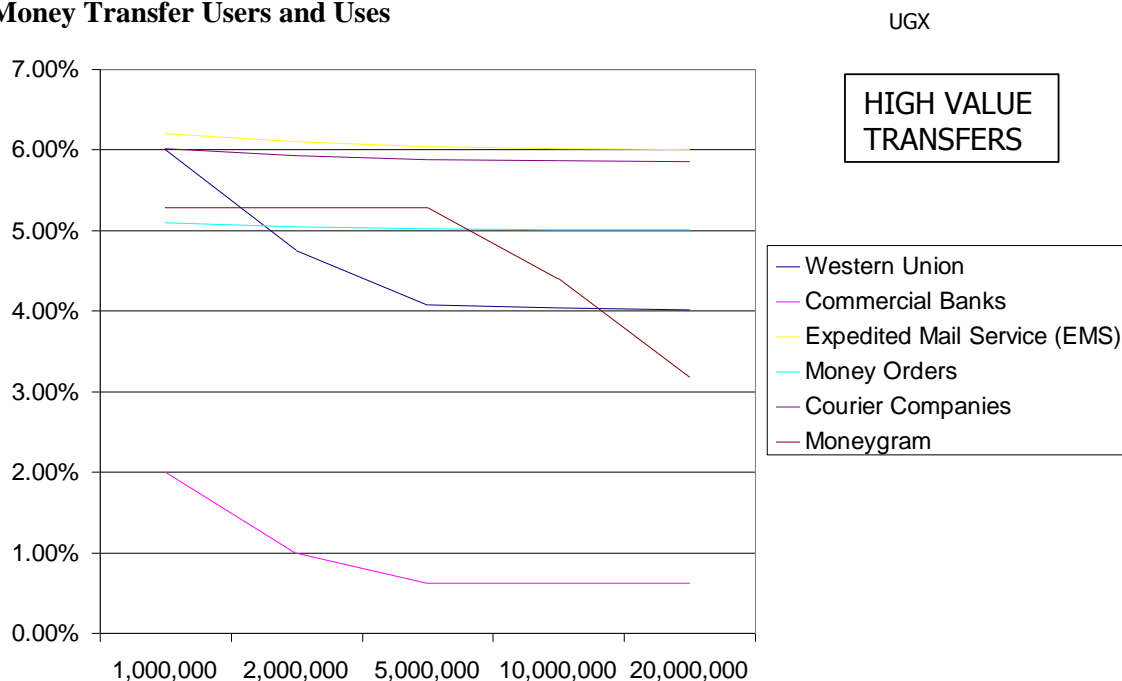
These are excerpts. Please refer to the complete tables in the annex for annotations & more details.

**Illustrative Cost Graph (Uganda)**





### Money Transfer Users and Uses



### A Sketch of the Demand Side

The numerous means available described in the systems and provider section could suggest that there are many options and indeed choices for those in need of sending or receiving money. Each of the means, however, has its own characteristics or requirements which define access to them or find expression in user preferences. The following sections discuss issues such as who uses what service, service awareness, accessibility (e.g. geographic, socio-economic, gendered), cost, and risk.

#### *The Users and Where and How Money Moves*

This section in bullet points:

- Primary users are companies, traders, government departments, NGOs, and parents or family more generally.
- The most common purposes for sending money are: trading and other business transactions (e.g. supply or input purchases), school fees, emergency or other family remittances, salaries, and operations (e.g. for decentralised units of government, NGOs, or companies).
- In trade, money moves mainly within the capitals and between the capital city and major trading points (cash mobility routes).
- Transfers are quite regular and tend to range from between 10,000 to 100,000 up to 40 million, whereby amounts between 1 and 5 million are quite common. These are nominal values in both countries suggesting that individual transfers tend to be higher in Tanzania than in Uganda.
- The banking system and other formal service providers for money transfers have substantial limitations in outreach, especially to more rural areas.
- Carrying money physically is very common and often the only alternative. Government, NGOs, and companies use banking services where the branch networks are sufficient for the transaction. Otherwise, along with traders and others needing to transfer money, the bulk of transfers still involve physically carrying cash.

Money transfer services in Tanzania and Uganda are commonly used by: companies, government departments, NGOs, traders and generally micro- and small business owners, parents and guardians of students, family members and relatives. The specific service chosen depends sometimes on company policies and otherwise on factors such as convenience, destination, volume to transfer, urgency, awareness of options, cost, and risk. The following table provides an overview followed by a discussion with illustrative examples.

### Money Transfer Users and Uses

Means of Transfer	Users	Purpose	Examples of Amounts Typically Transferred
bank transfer	traders, companies, government departments, and NGOs	business transactions, salaries, and operations	primarily for large amounts or variable amounts depending on the purpose (e.g. travel agencies use bank transfers to pay hotel or airline bookings)
physical transfer by self or staff	traders, companies, NGOs, and individuals	business transaction, operations, school fees and students upkeep, and households use	up to US\$ 100 million for companies daily and up to US\$ 10 million per trip for individual traders; individuals typically carry up to US\$ 300,000 and TSh 100,000 for personal affairs
physical transfer by relatives and friends	parents and guardians of students, and workers/employees	school fees and upkeep, and remittances to parents and relatives	up to US\$ 60,000 and TSh 50,000; this refers to amounts people are willing to lose should there be a risk of loss; the amounts can be higher depending on level of trust, and are higher when the person carries the money themselves (as per information in box above)
bus companies (TZ only)	traders, parents and guardians of students, and workers/employees	business transactions, school fees and upkeep, and remittances to parents and relatives	up to TSh 300,000 (although buses in Tanzania have no restrictive policy on the amounts sent, experience to date shows the maximum amount to be around TSh 300,000)
courier companies (UG only)	parents and guardians of students, and workers / employees, companies, and government departments	School fees and upkeep, Salaries and pensions, remittances to parents and relatives and operations for companies and NGOs	cash transfer normally between US\$ 50,000 and US\$ 500,000; cheques and drafts sent can be in millions of Shillings
Western Union	relatives overseas, traders, and parents and guardians of students	school fees and upkeep, and remittances to parents and relatives	US\$ 100 to US\$ 1000
postal services (TMOs, PMOs etc.)	parents and guardians of students	school fees and upkeep	from US\$ 20,000 to 300,000
taxis/buses	parents and	school fees and	range of US\$ 60,000 to 100,000

Means of Transfer	Users	Purpose	Examples of Amounts Typically Transferred
(informal services)	guardians of students, small traders, and workers/employees	upkeep, remittances to parents and relatives, and business transactions	
prominent business persons	business persons, and relatives abroad and locally	business transactions, and remittances to parents and relatives	US\$ 300,000 to 10 million

*Volumes & Frequency*

The volumes for each transaction vary widely. Most respondents felt that the bracket 10,000 to 100,000 was the most common amount in both currencies, whereby the Tanzanian Shilling is valued around twice that of the Ugandan Shilling. Individual transactions can be lower or much higher. Transactions of 1 to 5 million, again in either currency, or up to 40 million, are common.

The responses suggest that transfer amounts per transaction tend to be higher in value in Tanzania than in Uganda. One hypothetical reason for this might be that Tanzanian traders may tend to travel with larger amounts due to the higher cost and time required to cover the longer distances there.

Use of transfers is overall quite regular. School fees likely create small peaks and are usually due in February, June, and September of each year, unless paid in instalments. For some of the traders, harvests and festive seasons tend to mean more and/or higher transfers to purchase stocks.

*Users*

*Companies (primarily medium to large):* Companies transfer money for business transactions, petty cash, and payment of salaries for units away from head offices. Although major transfers of money are done through banks, a big volume of transactions is still done outside the banking system. This includes collection of cash from selling points, such as for beverage distributors, and payment, for instance, of farmers at buying centres for crops like coffee, cotton, or tea.

*A Difference Between Tanzania & Uganda*

The value of each transaction in Tanzania seems to be about twice that of those in Uganda; this might suggest that relatively more money moves in Tanzania than in Uganda; or it might suggest that this is due to larger distances and higher cost of travel for which traders aim to compensate by transferring larger amounts at a time.

Companies would normally prefer to pay their customers by cheque or transfer funds through banks, but they have to allow physical cash transfer to meet the needs of their suppliers or wholesale clients. Thus, some companies use physical cash transfer in order to be consistent with their policies, e.g. a policy of paying farmers ‘cash on delivery’. Such policies are, however, not easily managed given risks of loss due to fraud or robberies.<sup>15</sup>

Money transfer is a challenge for companies with business outside centres where the commercial banks operate, such as Kampala, Dar es Salaam, and other cities and larger towns. The introduction of debit cards (e.g. Advantage Card by Standard Chartered Bank of Uganda) and central network banking (by CRDB in Tanzania) has to some extent reduced personal cash transfer in areas in which they operate, but have barely begun to fill the service gaps.

<sup>15</sup>Other companies, such as Simba Tel of Dar es Salaam, have a policy to not allow disbursing cash above the petty cash limit for payment of goods and services nor for staff to travel with company cash beyond the petty cash limit.

*Government Departments and NGOs:* These institutions transfer money for payment of salaries, pensions, operations, purchase of goods and services, and programme implementation. They use mostly bank transfers, however at some points physical cash transfer is inevitable.

Much of this market segment remains underserved by banks. For example, health centres in remote villages need money to buy medicines, pay workers, and to buy other services from the community; or, the government needs to pay pensioners who reside in villages far away from Kampala or Dar es Salaam where the payment process originates.

*Traders:* Their money movements are primarily between the various trading areas within the two countries, and to some extent across countries in East Africa, and further abroad, especially Dubai and the Far East. Money is transferred for business transactions. Most of the transfers happen within manageable travel distances and traders do much of their money transfer by physically carrying the cash.

The following cash mobility maps illustrate the cash movements and purposes for Uganda and Tanzania. In Uganda, for example, Kampala-based traders travel with cash to purchase fruits, vegetable, bananas, and rice from Mbale, Mbarara, Kabale, Masindi, and Lira. At the same time, shopkeepers of various towns in Uganda travel to Kampala with their cash to purchase locally manufactured products or imported items. Transactions at both ends are strictly cash on delivery. (Please refer to the diagram ‘An Illustration of Cash Mobility in Uganda’.)

Tanzania has three main cash mobility routes with Dar es Salaam at the center of the business. The roots include the southern highlands corridor, which runs between Morogoro, Iringa, Mbeya, and Songea as the main trading centres. The northern corridor includes Tanga, Moshi, and Arusha as the main trading centres. The third is the central corridor, which includes Dodoma, Tabora, and Mwanza. There is also considerable movement of cash between Zanzibar and Tanzania Mainland, and between Tanzania and her East African Community counterparts Uganda and Kenya, SADC countries, Dubai, and the Far East.

Traders move with cash to purchase agricultural produce such as maize, beans, rice, fruits and vegetable, as well as timber. Up-country shopkeepers (retail and wholesale) and hawkers get their trade stocks in Dar es Salaam or Zanzibar. Their Dar es Salaam counterparts get their trade stocks from local manufacturers, or from Zanzibar in terms of re-exports, as well as from Dubai and the Far East. (Please refer to the diagram ‘An Illustration of Cash Mobility in Uganda’.)

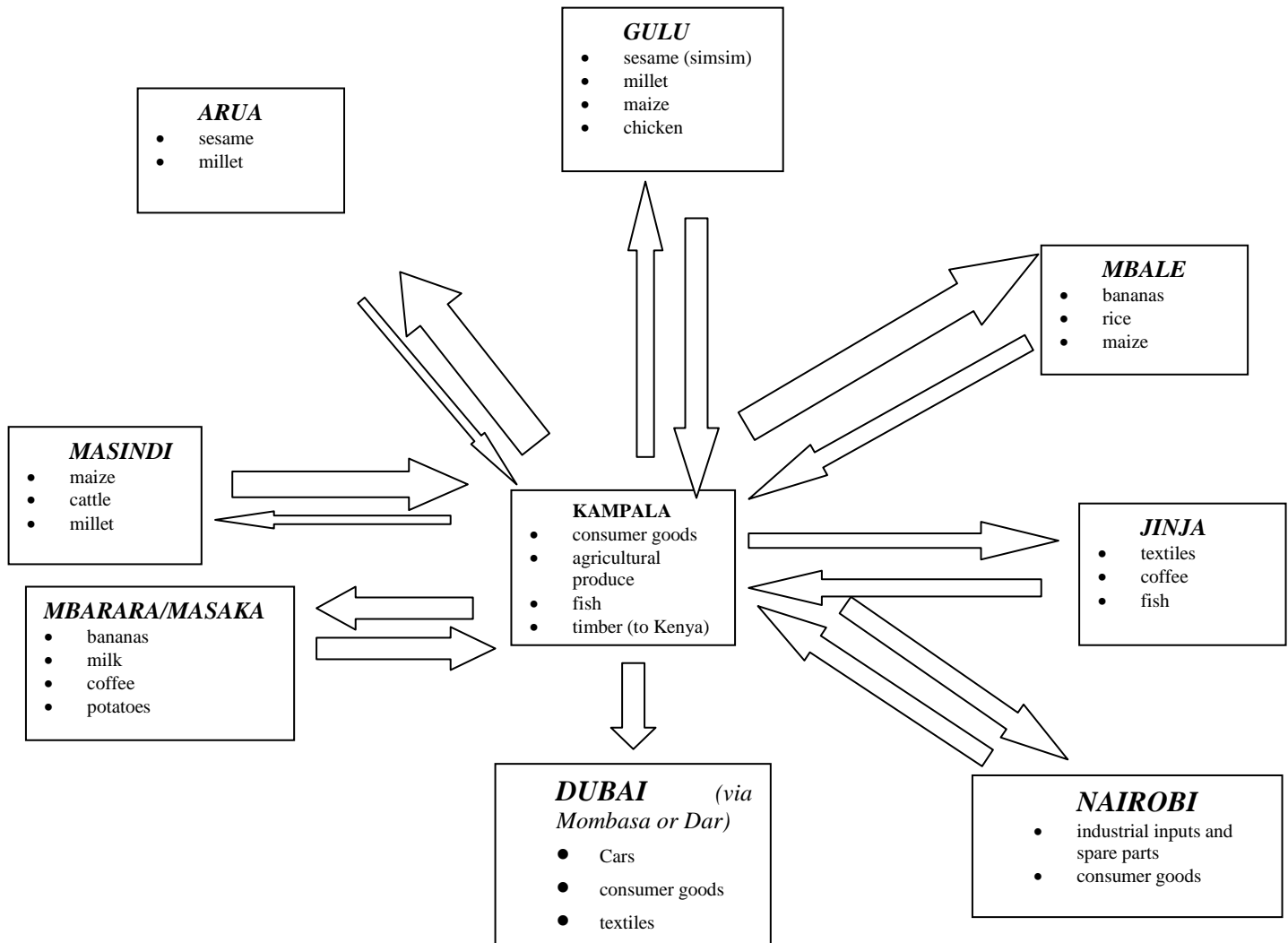
As in Uganda, payments in Tanzania are strictly cash on delivery. Traders who go to villages to buy maize or rice have to pay farmers in cash. A trader sometimes has to spend a week buying trade stocks at different points with inherent hassles and risks (the latter are discussed in more detail in a subsequent section on ‘Risk and Its Management’).

The cash flows are similar in both countries with the respective capital city at the centre of business. The individual products are slightly different, partially due to geo-climatic differences. Another significant difference is Dar es Salaam’s major industrial sea port compared to Uganda’s landlocked setting.

The cash mobility maps are illustrative only and reflect the respondents’ focus mainly on micro- to medium-scale trading. The maps do not indicate some of the common large transactions; for instance, petrol is a high volume commodity coming from Mombasa port to Kampala and from there to distribution points throughout the country. Similarly, Dar es Salaam is the hub for petrol in Tanzania. Also, coffee, tea, and similar exports are not reflected.

### An Illustration of Cash Mobility in Uganda

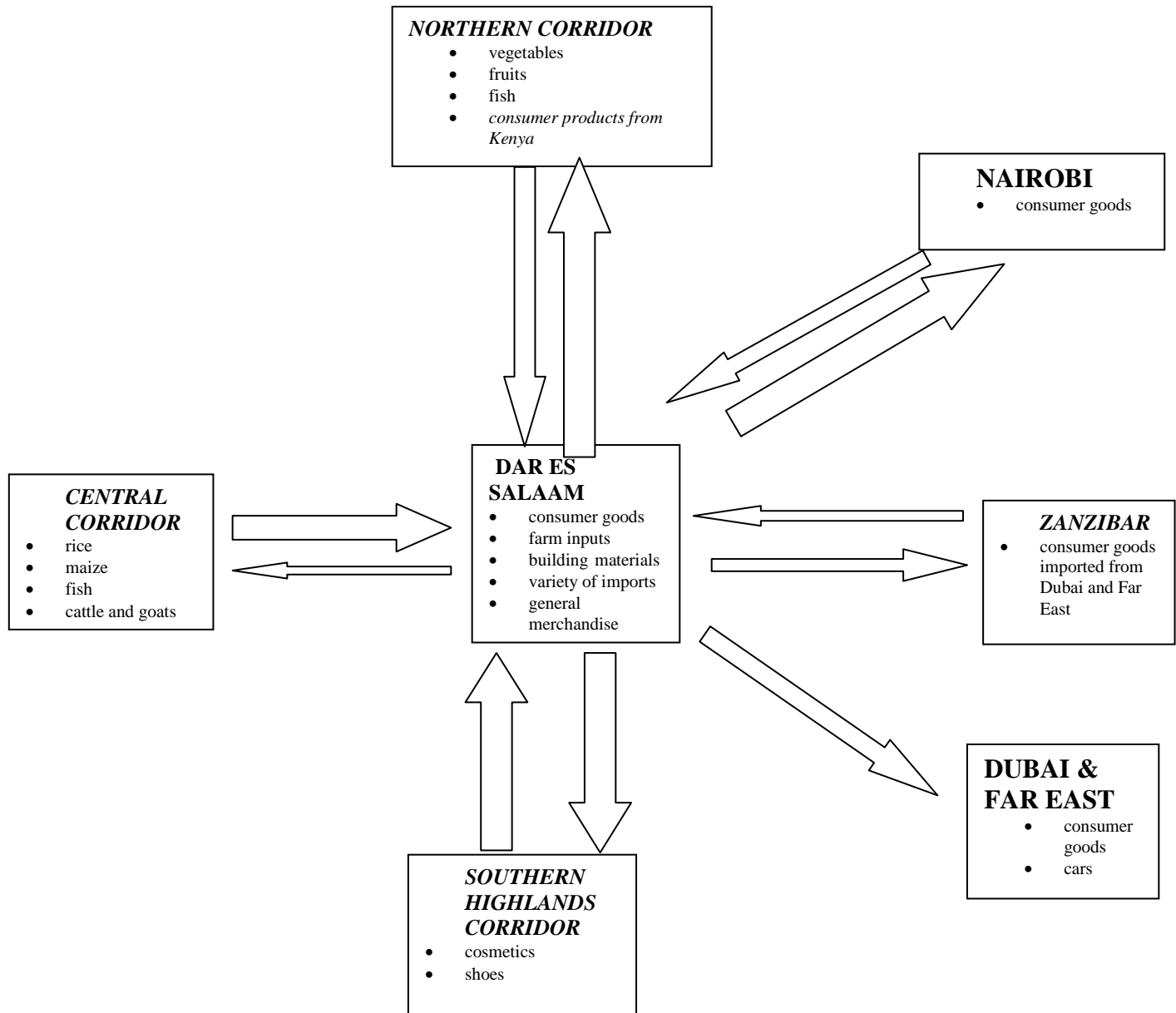
Cash Mobility Map by dealers in electrical appliances on Kiyembe Lane - Kampala



Note: The items listed in each box are those sold in that area or location. The arrows indicate the direction of the flow of funds and the relative thickness indicates relative volumes.

### An Illustration of Cash Mobility in Tanzania

Cash Mobility Map by traders at Kariakoo Market, Dar es Salaam



Note: The items listed in each box are those sold in that area or location. The arrows indicate the direction of the flow of funds and the relative thickness indicates relative volumes.

*Student Upkeep and Family Remittances:* In both countries, students are commonly sent to boarding schools. They receive money from their parents or guardians on a regular basis. The amount of transfer per transaction ranges between US\$ 50,000 and 300,000 or TSh 20,000 and 100,000. Money is transferred to students or to schools for payment of school fees, upkeep, and return fare when schools close for holidays.

Workers and employees in cities and towns transfer money to support their parents and other relatives in the villages. Such transfers are regular but with peaks coinciding with farming seasons, back-to-school periods, and festivities such as Christmas and Easter for Christians, Id holidays for Muslims (especially Id El Fitr), and African traditional festivals or holidays. Remittances to parents and other relatives are also done to meet emergency needs such as illness or burial expenses.

### ***The Cost of Money Transfer***

This section in bullet points:

- Cost is said to be secondary to availability and reliability of services, though certainly a factor in the decision of a potential user.
- Generally costs range between roughly 35% and 4% depending on the amount to be transferred and the service chosen. This can be much higher for a small transfer value and lower for large amounts, depending on the service available at origin and destination of the funds.

In talking to users and potential users, cost seems less of an issue than one might think. Respondents clearly indicated it as secondary to availability and reliability of services. For instance, they said repeatedly that they would prefer to use transfer services rather than physically carrying cash and feeling exposed to the risk of loss such as through robberies.

While this was the tenor of the respondents in the field research, some commercial providers reported that cost is critical in successfully marketing their services. For instance, the Uganda Microfinance Union's (UMU) pilot of a money transfer service in one of the branches shows that several potential users are holding out in the hopes of a lower fee. The current minimum fee is US\$ 17,500. Other factors may also be at play, which UMU will have to identify to broaden the client base for the product.

Costs for money transfer services vary widely depending on the service but also very much depending on the amount to be sent. In the extreme, the service fee can be as high or higher than the amount to be transferred, e.g. where minimum fees apply. For instance, a transfer of TSh 10,000 with a commercial bank in Tanzania would draw a minimum charge of TSh 10,000 or 100% of the transfer value. Generally, however, given the right choice of service vis-à-vis the amount to be sent, fees vary between approximately 35% and 4% of the transfer value. The cost can be as low as 0.1% for some banks for larger amounts; the caveat is often a lack of branches at the point of origin or destination of the funds. (For further discussion and details on costs, please refer to the earlier section on 'Money Transfer Fees' as well as cost information in the annexes.)

Despite the substantial cost of sending or transferring money, respondents in both Tanzania and Uganda indicated that the cost was 'relatively ok'. Very few answered that they felt them to be high. These responses suggest that having access to the services is relatively more important than the cost of using them. This is also supported by the responses to questions around problems with money transfer and possible solutions. High cost was raised as a problem by two respondents or groups in Uganda. The majority of problems and solutions mentioned, however, relate most of all to questions of efficiencies and, secondarily, to questions of risk.

At the same time, experiences of providers clearly indicate that cost does matter, making the availability of low-fee services a challenge. To date the real viability and profits for the services, however, are in the 'high value - high frequency' business.

**What You Know and What Works for You: User Options and Choices**

This section in bullet points:

- While government departments, companies, and NGOs tend to use banks to the extent that their services are sufficient, especially in rural outreach, some business people and many traders and low-income earners are in part unfamiliar with their money transfer services or do not feel very comfortable with banks.
- Recent turmoil and some closures in the banking sector in Tanzania and Uganda have eroded people’s trust.
- The most common options at everyone’s disposal are informal services or carrying the cash oneself.
- Informal services are still used quite commonly and predominantly, especially, though not exclusively for smaller amounts. Use patterns of services, however, have changed in recent years: people’s trust in informal arrangements has eroded and new alternatives have emerged with bus and courier companies offering services.

The use of money transfer services is subject to whether potential users are familiar with them and have access to them. For some the absence of alternative means is due to limited knowledge about their existence. Unfamiliarity or discomfort with some services are other common reasons for not using them. As discussed above, cost is a factor, but not to the extent one might expect to find. Respondents indicated clearly that availability or convenience, reliability, and also speed are often more important than cost.

*Availability & Awareness*  
 “Lack of alternative means of money transfer leaves people with no other choice than to physically carry money with them. Secondly, in places where you would think there are options, people are not aware – and still carry money with them.”  
*PSDP Respondent*

The following overview table provides a first sketch of awareness, accessibility, and effectiveness for the different money transfer systems. Accessibility and effectiveness are also further explored in looking at sequential linking of services, and the cost and risk of such a sequential transaction.

**What You Know is What You Use**

Service	Providers	Awareness	Coverage & Accessibility	Effectiveness
<b>Formal System</b>	Banks	Rural people tend to be less aware of & familiar with banks than peri-urban and urban people as well as less comfortable than the latter	Banks are limited to major towns; especially to poor people they are intimidating	Banks are quite effective with regard to safety but have sometimes failed to make timely transfers due to problems such as with communication or internal reconciliation.  The postal system is not effective due to its liquidity problems, the time it takes to transfer money, and to staff who do not have a customer service attitude
	Post Office		Postal services are found in every district but can have long waiting lines affecting all its customers because those who serve money transfer customers also sell stamps, etc.; overall the whole system is seen to be inefficient	
	Non-bank Financial Services (e.g. Western Union)		Couriers are in most urban centres and have a good network reaching many small trading centres	
	Couriers			



Service	Providers	Awareness	Coverage & Accessibility	Effectiveness
<b>Semi-formal System</b>	Bus Companies	Awareness of the money delivery service by busses in Tanzania is Widespread	Bus Companies are in major towns along specific routes	Quite effective in terms of speed and minimising losses
<b>Informal System</b>	Prominent Business People Drivers and Conductors Relatives and Friends Self	Information on use of prominent businessmen is limited to traders in specific towns  Use of the informal system is known across different social and economic classes	This category can be accessed by anybody anywhere except for.. .. prominent businessmen; they can be found in bigger commercial towns and can only offer pick-up points with fellow business people in specific towns; accessibility depends on personal or indirect contact with them through relatives, friends, or fellow traders	Not quite effective because relatives, friends, drivers and conductors can delay delivery or use or lose (e.g. robbery) some or all of the money  The service of prominent businessmen tends to be quite effective in terms of speed and minimising losses

In speaking with respondents in Uganda and Tanzania we found that many people, especially those from more rural areas, know banks as places where money is kept, but know very little or nothing at all about the money transfer services they offer. As one student of Makerere University put it, he thought that *“people in the village don’t know what a cheque is and you will certainly confuse them further on mentioning bank drafts and telegraphic transfers”*. Most banks are concentrated in bigger commercial towns especially around major cities. Even where bank branches exist, few people will use them to transfer money. In part they find the buildings or the staff intimidating, in part they do not trust banks with their money given recent collapses in the sector. Even some of the larger traders in Tanzania, for instance, who deal with substantial cash flows and do business with Dubai or the Far East do not use banks at all saying they ‘don’t have money to put in a bank’.

Uganda has recently experienced complete closures of some banks (International Credit Bank, Cooperative Bank, and Greenland Bank). This was coupled with a remarkable reduction in the number of Uganda Commercial Bank branches throughout the country, though it still remains the bank with the largest branch outreach, especially in rural areas. A number of districts have no single bank (for instance Nakasongola, Kayunga, and Mayuge), so that their bank transactions have to be done elsewhere. The situation in Tanzania is quite similar, including the experience of bank closures such as Greenland Bank and Meridian Bank.

The Post Banks have a small network of branches they operate directly. Otherwise they use the post offices as agencies. The latter have a good branch network both in Uganda and Tanzania. The post offices tend to suffer from tremendous liquidity problems, though not all of them will see a large volume of money transfer transactions. The delays in disbursements cause the receiving clients major inconvenience. This can take the form of payment in installments, subject to how much revenue the counter has been able to realise in the sale of stamps and other services. The staff are seen to lack a customer service attitude and are reported to leave clients waiting for long hours to be served. Corruption and theft of money and mail items are also common, according to respondents.

The very common options at peoples’ disposal are friends and relatives, bus or taxi drivers, conductors, and carrying the cash one’s self. All these involve the physical transport of cash and have the potential risk of

losing all or part of the money in transit: due to robbers, spending or theft in the event of an accident, friends and relatives ‘borrowing’ it, or minor spending along the way which erodes the original amount.

While these informal ways of money transfer are known to everyone and used quite commonly, use patterns have changed in recent years. In part new services have emerged such as with bus and courier companies. At the same time, however, people’s trust in each other and in informal arrangements has been eroding. This has become evident in the field research for this study as well as for other microfinance client research conducted by *MicroSave*.

The following Sector Trend Analysis (STA) by clients of Akiba Commercial Bank in Manzese, situated on the outskirts of Dar es Salaam, is an example of these perceived trends: The use of friends and relatives has been declining steadily from being high five years ago, least used two years ago, and now no longer in use due to what they described as declining trust in other people. The same applies to using the informal service of bus drivers and conductors except that there the use has remained relatively stable at the lower end for the last two years. Other money transfer services have experienced an increased usage.

### A Sector Trend Perspective

A Sector Trend Analysis by Akiba Commercial Bank Clients, Manzese, TZ

*Note: The chart compares the usage of the different money transfer systems over a period of five years using values from 0 – 5 to determine the prevalence of use of each of the services. 0 means not in use, 1 least used, and 5 mostly used.*

Transfer Means	Present	2 Years ago	5 Years ago	Respondents' Reasons/Issues
Banks	5	4	2	<ul style="list-style-type: none"> <li>The use of banks is steadily gaining importance due to increased awareness</li> <li>Five years ago more people were using their relatives but nowadays their faithfulness has remarkably gone down and thus resorting to other means like banks</li> </ul>
Telegraphic Money Order (TMO)	4	3	1	<ul style="list-style-type: none"> <li>The use of TMO has also been on the rise since many people sent more and more of their children to boarding schools</li> <li>It still remains the only means that has a wider geographical coverage in the country so many use it</li> <li>Its costs are lower than those charged by banks</li> </ul>
Bus Drivers / Conductors	2	2	3	<ul style="list-style-type: none"> <li>The drivers/conductors were used more five years ago but now the trend is changing because they cannot be trusted</li> </ul>
Physical Transfer	5	4	-	<ul style="list-style-type: none"> <li>Five years ago most women had no businesses and thus had nothing to transfer</li> <li>Their activities take them to remote places in the country where other services don't exist so that they have to carry their money in a 'bukta' on their bodies</li> <li>They feel using the 'bukta' is the safest way to carry money especially when going through jammed places which are full of pick-pockets – their greatest problem</li> </ul>
Relatives / Friends	0	2	4	<ul style="list-style-type: none"> <li>Relatives/friends 'have deteriorated morally and nobody uses them now because you stand to lose'</li> </ul>
Association	5	4	1	<ul style="list-style-type: none"> <li>This is a new phenomenon unique to this group of respondents. It has gained usage over the past five years. These women have confidence in this option for their money is safe and the cost is low, if any.</li> </ul>

### ***Sequential Links in Money Transfers***

This section in bullet points:

- The limited outreach of most services means that often a sequential use of services is necessary to have monies reach their final destination. Even informal services can require sequential links to the final destination.
- Sequential links can be a mixture of services of all types from formal to informal.
- Often the only alternative to sequential services is arranging for the money to be carried physically to its destination, be it by oneself, staff, or a combination of staff with a security service.
- Sequential services tend to reduce the risk of loss compared to unsecured direct physical transport, but the cost is higher and the time delay substantial.

Individual service options are characterised by limited access, outreach, or reliability. For instance, the underdevelopment of the intra-bank and inter-bank clearing system, inherent delays, and lack of branches or 'outlets' means that a sender often has to use various money transfer services in sequence to send money from point 'A' to point 'B'. To do so, one has to ask people along the way to help out with the arrangements or spread the responsibility within a decentralised operation of a business or office. Where time is an issue, money has to be transferred physically to the point where it is needed, at a higher risk of loss.

Sending money using informal means can often require sequential links to reach the final destination. One example is sending money to a village off the main road. It might be sent with a truck driver who will drop it off at a shop along the main road nearby the village. The shopkeeper, who knows the recipient, will send a family member to deliver the money in the village.

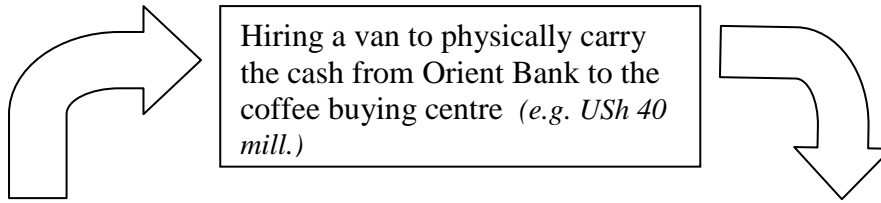
Money transfer, such as by bank drafts and telegraphic transfer, will often first be physically transferred by the bank from the client's main bank branch to the branch closest to the recipient. From the client's terminal bank, the client usually has to physically carry it to where the money is needed.

For instance, money transferred by NGOs from a central account to (other) district bank branches will eventually be drawn by a field officer who will physically carry the funds to the program areas where they are needed. A telegraphic money order to be transferred to a parent or relative in the village will, for instance, be sent to a relative or friend in the closest city or town who will then hand it to a son for final delivery to the intended recipient. A coffee company wishing to buy coffee from a rural area will instruct its bankers to transfer money by TT to a bank branch up-country where a field officer will withdraw the cash and physically transfer it to the buying centre. Alternatively, a van could be hired to transport the cash directly to the buying centre from Kampala. A couple of examples in diagrams on the next page illustrate the mechanisms and what is involved.

**Buying Coffee Up-Country**

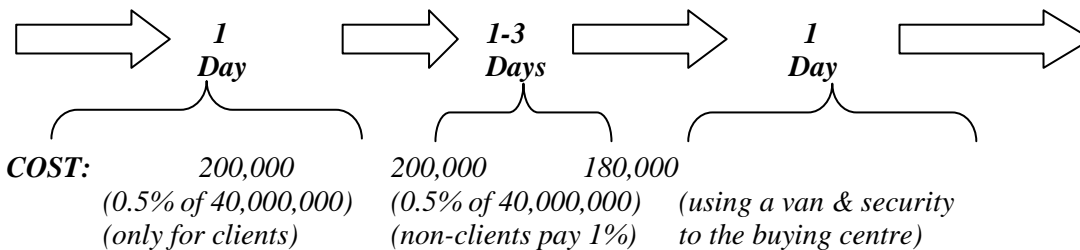
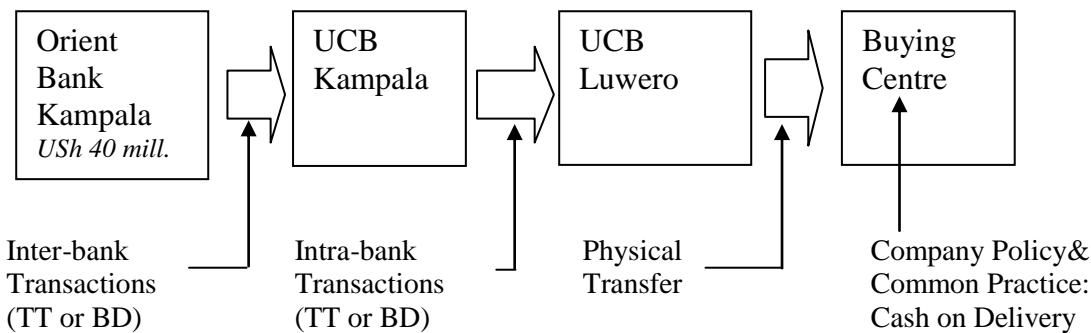
A company buying coffee for export in one area tends to send US\$ 30-40 million twice a week for its purchases. On a monthly basis this amounts to up to US\$ 320 million.

Option 1:



1 day; depending on distance, cost ranges from US\$ 100,000 to 400,000 plus a security fee of US\$ 80,000; additional cost tend to be fuel, insurance, and staff to accompany the transport.

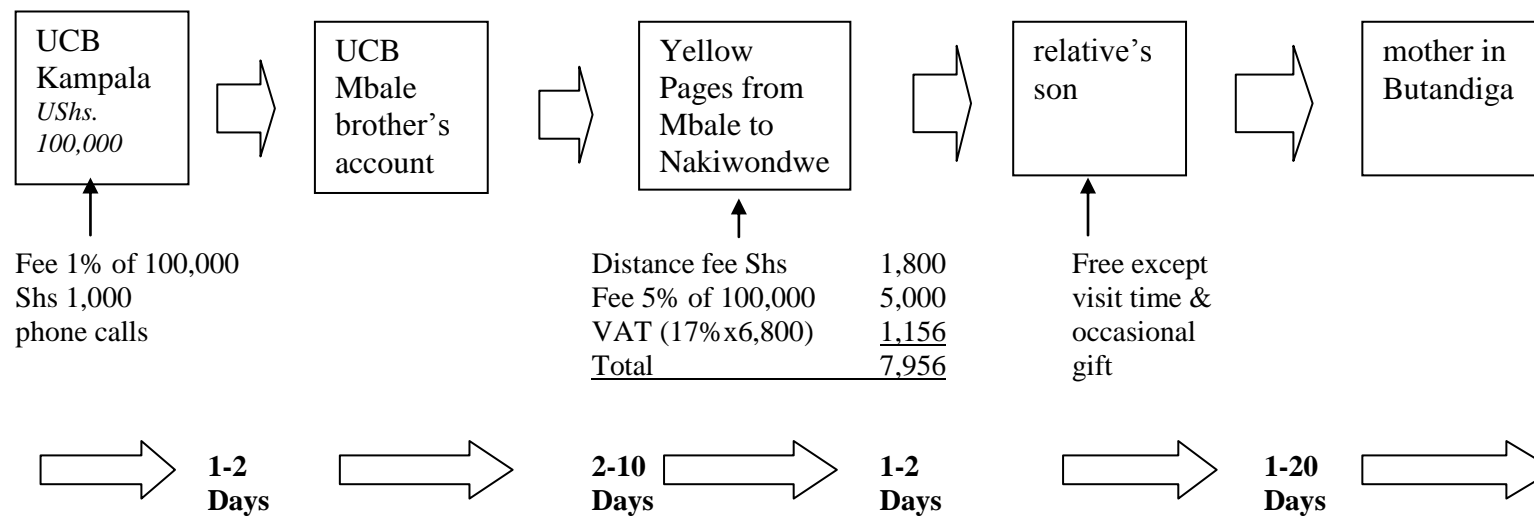
Option 2:



The total cost for Option 1 is an estimated US\$. 250,000 or 0.625% of the value of the funds sent; for Option 2 it is ca. US\$ 580,000 or 1.45 % of the value of the funds sent; additional costs tend to be incurred, such as communication.

If, as an Option 3, the company could transfer the funds it requires during the buying season in monthly transactions to a branch at the buying centre, the transaction cost would be in the range of 0.1 to 0.5%, depending on the service provider

### Sending Home Money



In this example a person working in Kampala wants to send money to their mother in Butandiga. The village is 48km from Mbale town in Eastern Uganda. The sender can instruct the bank to transfer money by TT to the brother's account in Mbale. As a non-client of the bank, the fee is 1%, as a client it would have been 0.5%. The brother in turn arranges to send it via a courier company to another relative in Nakiwondwe trading centre. The relative then hands the money to his son to deliver it to the final destination. The total cash cost of the transfer is ca US\$ 10,000 or 10% of the value of the funds sent. The transfer took 5 to 34 days.

### ***Risk and Its Management***

This section in bullet points:

- Risk of loss of money along with inconveniences such as delays are among the foremost issues in money transfers.
- Common risks or inconveniences in order of priority are: delays, illiquidity at the receiving end, identification, and dishonesty or theft leading to partial or complete loss of the funds.
- Physical money transfers by oneself or through informal arrangements carry the highest risk exposure.
- Especially traders who regularly travel with money have devised ways to mitigate the risk of robbery or loss. Among the common means are hiding places on their body, travelling in groups, reducing the distance of physical transport by transferring funds to the closest service branch, and making several trips with smaller amounts instead of one trip with a large amount.
- Cheques carry delays and fraud as the most common risks.
- Cheques are often not accepted as a form of payment. A Ugandan law makes cheques slightly safer mode of payment in that an uncovered cheque is punishable with payment of twice the face value or a prison term up to 5 years. Thus, cheques seem to find a slightly higher acceptance in Uganda than in Tanzania where there is no equivalent legislation.

Risks, fears, and inconveniences predominated in people's feedback, with many stories told. Though present, they were less prevalent in responses from service providers.

There are several risks associated with money transfer for both local and international transactions. The users and providers of the various money transfer means are aware of the respective risks and problems involved, and, to the extent available and possible, they take measures to mitigate these.

The major risks and inconveniences cited by respondents were, in order of priority: delays, illiquidity at the receiving end, identification, and dishonesty or theft leading to partial or complete loss of the funds. Another common problem is receiving the money in 'installments', especially in the informal system and sometimes also from post offices or up-country bank branches.

Physical money transfers by oneself or through informal arrangements carry the highest risk exposure. Almost all transfers by friends or relatives, one's self, transport workers or services, or even banks and other formal services involve at some stage physically carrying of cash or documents related to the transaction. Money transfer by physically carrying cash and papers (cheques and drafts) was found to be commonly used by corporate and non-corporate institutions as well as individuals. It is considered to be accessible, quick, and reasonably reliable, but risky. The main cost in physical transfer are security costs (paying a cash in transit security service and insurance premiums), or opportunity costs such as transport expenses or partial or complete loss along the way. Banks and microfinance providers (MFIs) also need to regularly transport cash or transfer documents such as drafts or cheques physically within their branch network or from the MFI to a bank and vice versa. For cash, this can be done, for instance, by armoured car or with available transport services such as domestic airlines serving small airstrips.

Speaking with clients of MFIs reveals that many of them carry considerable sums of money when they deposit savings and loan repayments or receive loans. They also carry large amounts when they go to buy or sell products or produce from various areas in Tanzania and Uganda.

Women traders, in particular, transfer money mainly physically. These women have devised various means to travel safely with their money. In Tanzania women have designed special shorts popularly known as '*bukta*' (Kiswahili for 'shorts') to carry money as they move to buy produce or products for resale, while their counterparts in Uganda use a belt known as, '*Mukandaala*' or '*Ekitambaala*' for the same purpose. Women interviewed for this study indicated that, if there was any alternative which could be accessible in the areas where they do business, most of them would prefer to avoid the fear they experience when they travel with large amounts of cash on their bodies.

Cheques remain the most frequently used non-cash payment instrument in both countries. They tend to be exposed to a higher risk of fraud than other means of transfer. Another key problem customers face with cheques are delays in clearing them. Moreover, for many transactions cheques are not accepted though they appear to have a slightly higher acceptance in Uganda than in Tanzania. This is likely due to the fact that in Ugandan law an uncovered cheque is punishable with payment of twice the face value or a prison term of up to five years. Thus, often the threat of calling the police when a cheque has bounced can be sufficient to receive payment. Where cheques are accepted they are often combined with a surcharge for clearing them.

The table on the next page provides an overview of the risks and problems involved with different money transfer mechanisms. A more detailed discussion with examples and illustrations of risk situations and means used to mitigate such risks follows.

The risks in using *bank transfers* include fraud and forgery; other problems include illiquidity, especially at up-country branches, and bank transaction errors. These risks are managed in various ways, such as described in the following paragraphs.

*Minimize fraud and forgeries:* As soon as a transfer is effected the sending branch of clients informs the receiving end by fax or telephone of the transaction details to enable the latter to follow-up with the bank. In case a wrong account has been credited by the bank, the error would be identified and rectified.

**Cash On Delivery**  
 “The biggest challenge for our business is walking around with big amounts of cash for buying our stocks,” said *Mwajuma, a maize trader at Kibaha, Tanzania (trader’s name changed by authors)*. Mwajuma frequently buys maize from Dodoma and Handeni for resale in Kibaha. Similarly, other traders doing business which requires traveling to and from Mwanza or Shinyanga find it difficult to carry cash. They have to travel a minimum of two days by train or bus to reach their destination, exposing them to the risk of losing their money.

**Overview of Risks & Problems in Money Transfers**

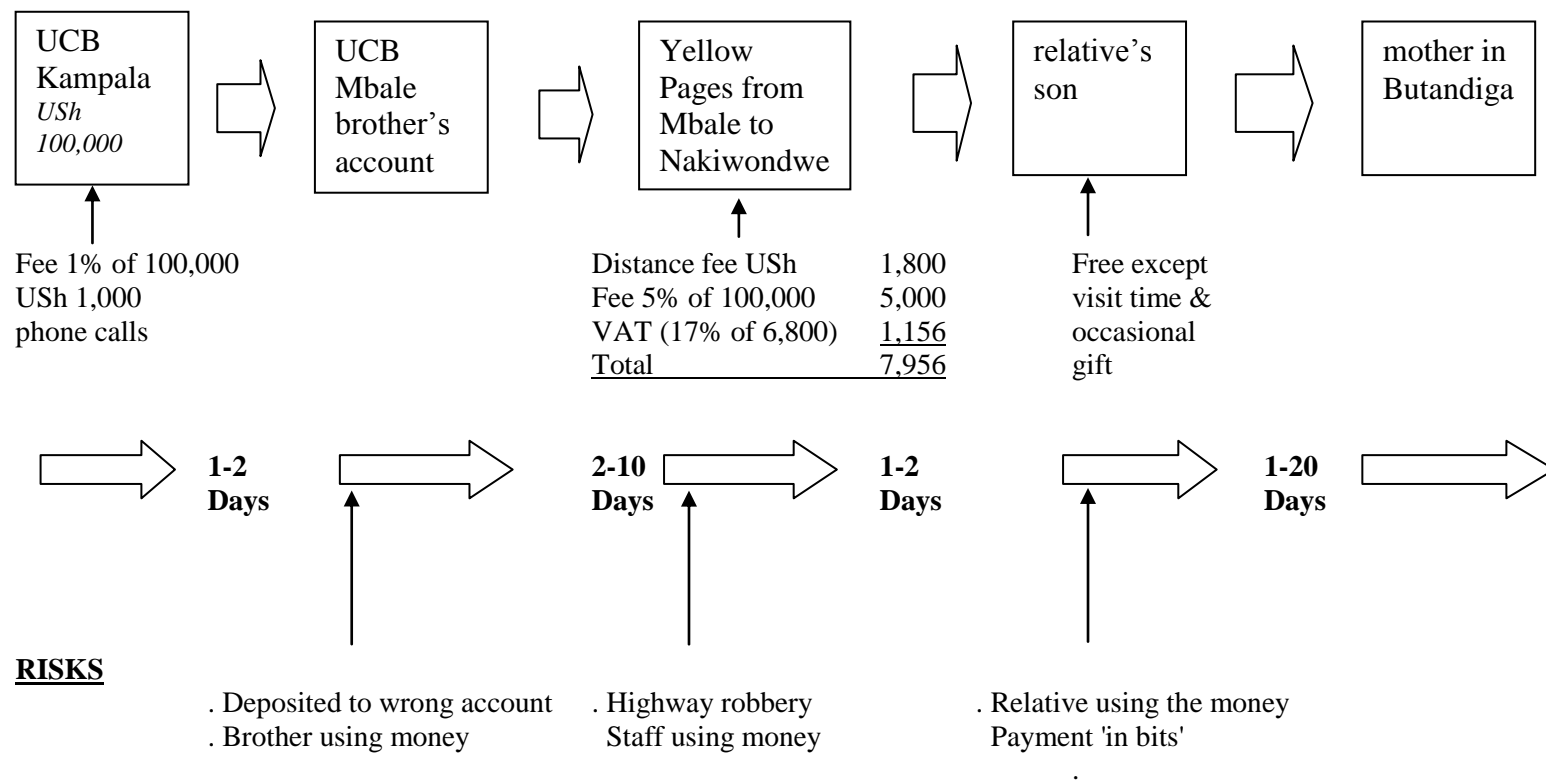
Means of Transfer	Users	Risks	Problems
bank transfer	traders, companies, and NGOs	fraud and forgery bank closure risk of loss business (e.g. if payment were for your supplier, delay or failure to pay on time could cost you business, the supplier might lose confidence with your company, or if it is payment for urgently needed raw materials you might stop production)	delays liquidity problems limitations of available branch networks
physical transfer	traders, companies, NGOs, and individuals	robbery, accidents, and theft	fear of robbery time and expense of multiple trips to transfer a large amount in smaller installments to spread the risk of loss
relatives and friends (physical transfer)	parents and guardians of students, and workers/ employees	dishonesty losing a friend or relative in accident or robbery	payment in installments and delays

<b>Means of Transfer</b>	<b>Users</b>	<b>Risks</b>	<b>Problems</b>
bus companies (TZ)	traders, parents and guardians of students, and workers/ employees	There are risks such as the password being picked by an unintended person	communicating the password to the recipient is costly and sometimes it is difficult to get through on the telephone
courier companies (UG)	parents and guardians of students, and workers / employees, companies, and government departments	highway robbery, accidents, staff disappearing	communicating the password to the recipient is costly and sometimes it is difficult to get through on the telephone
Western Union	relatives overseas traders, and parents and guardians of students	password leaking	communicating the password to the recipient is costly and sometimes it is difficult to get through on the telephone
postal services (TMOs, PMOs etc.)	parents and guardians of students	dishonest postal staff	delays in communicating transfer time spent waiting at post offices liquidity problems can make it necessary to visit several times to collect money
taxis/buses-informal	parents and guardians of students, small traders, and workers/ employees	highway robbery, accidents, or staff laid off by bus owners	delays caused by drivers using client's money to repair the buses in case of problems
prominent business persons	business persons, and relatives abroad and locally	unfavourable exchange rate for foreign transfers since they pay you in local currency, business collapse and death	some business persons pay people in installments



### Risks in Sending Home Money

The following chart illustrates an earlier example of sending money home this time identifying the RISKS involved.



*Illiquidity:* Some banks in up-country branches do not have sufficient cash to pay their clients. To minimize this risk one has to transfer cash physically to meet financial commitments. As a manager of one the coffee buying companies in Uganda said “If you depend on the bank to transfer money to buy coffee from farmers with your and their terms of cash on delivery, you might end up losing the business, simply because your bank does not have sufficient money to pay, though your account has a credit balance.” To minimize the risk of illiquidity on the part of bank branches, some companies use cash in transit services to carry cash and buy insurance policies to cover any risk of loss resulting from robbery or theft.

*A Difference Between Tanzania & Uganda*  
Complaints about illiquidity were more common in Tanzania than in Uganda.

In order to reduce the risk of illiquidity in some of their branches, some banks have established special arrangements with big clients of money transfer. These clients get their money on agreed dates.

*Physical money transfer* exposes users to several risks including highway robbery, other thefts, car accidents, loss of life or poisoning while travelling with cash, and loss of money through dishonest relatives or friends.

There are numerous stories of loss of money by traders when they travel with large amounts of cash. A friendly looking thief makes special arrangements to ensure they travel on the same bus with traders carrying large amounts of cash. Some traders have lost their life; one such incident happened 1999 in Tunduru, in the Southern part of Tanzania, where a cashew nut trader was shot dead with over TSh 200 million robbed in the process. Similar incidents are common enough both in Uganda and Tanzania. Some traders told stories of being denied accommodation in some guesthouses because they are a target for robberies. (See also the text boxes for other illustrations of risks for travelers carrying large amounts of cash.)

*A Treacherous Journey*  
A trader in Tanzania was travelling the 3 hours from Kibaha to Tanga by bus with large amount of money to buy vegetable and fruits for resale in Dar es Salaam. While seated in the bus he was reading a newspaper. A person sitting next to him borrowed the paper. After a while the friendly looking neighbour returned the paper and the trader decided to revisit some of the stories in it. The trader found himself in a hospital bed the following day. Fellow travelers who had found him unconscious on the bus had brought him to the hospital. He lost all the money he had been carrying and the friendly looking neighbour was not among those who had brought him to hospital. It was later discovered that he was intoxicated with drugs which were somehow put on the newspaper.  
*The wife of the victim narrated this story during a focus group discussion with clients of the Presidential Trust Fund of Kibaha Branch.*

There are various ways which traders who physically carry money have developed to mitigate such risks. The common means include:

*Travelling in groups:* Traders have formed informal groups to travel together when they go to buy stocks. Particularly women traders travel in groups and take a bedroom in a guesthouse to accommodate four to seven of them. (See also text box ‘Moving in Groups’.)

Traders from up-country who come to the cities of Kampala and Dar es Salaam are frequently robbed just before boarding the buses for their return trip home. Wholesale business for agricultural produce is done early in the morning at the main markets in the two cities. A trader from Kariakoo market in Dar es Salaam mentioned that “traders from up-country are easily

*Moving in Groups*  
On one occasion, while in Dodoma, six of us booked ourselves in a guesthouse and we took a single room with two beds, we didn’t sleep well that night since one of us carried TSh 12millions. We moved all the beds against the door, but still we slept with fear and worst still the next day we had to travel to the villages to buy stocks. It took us three days to complete the buying. *The story of a trader of Manzese, Dar es Salaam.*

identified by thugs, they always get robbed before they reach the bus stand.” To reduce the risk, a group of traders from the city escorts their fellow traders from up-country to the bus stand and encourages them to continue moving in groups, even on the buses, as thieves can travel with them.

*Use of public transport:* Traders prefer to use public transport, which is found to be less risky than private cars. Although buses can be hijacked, this is not common for buses which use highways during the daytime. The traders know which buses to take when they travel with large amounts of money and buses in Tanzania are not allowed to travel after 10.00 pm. Tanzanian traders find it risky, however, to use the train because it takes many days and it involves night travel. In Uganda most traders use public transport as a way to minimise the risk of highway robbery. There are some reports of highway robberies both in Uganda and Tanzania. Despite these, according to many respondents, public transport is still the most preferred and safe means of travel for traders who carry large amounts of cash.

*Use of combined means of money transfer:* As another way to minimise the risk of losing funds in transfer, traders use bank or other transfers up to the point where it is convenient and travel the rest of the way to the destination with cash. For example, a trader from Dar es Salaam, who buys rice from Shinyanga in Tanzania transfers money by TT to her relative’s account with NBC Shinyanga and collects the money when she arrives by train. NGOs and some companies which deal in agricultural produce transfer their money to a local bank branch where they can collect amounts sufficient to meet their needs. A case in point is an NGO working in North Western Uganda which transfers money by TT to UCB Arua branch where the cash is taken by staff and physically delivered around the area for project operations.

#### *Using Special Dress and Devices*

Women traders in some parts of Tanzania use what they call ‘bukta’ to carry large amounts of money. These are shorts with big pockets which are sealed after the money has been put in. It is worn as a substitute for underwear or on top of underwear under the skirt. The pockets can accommodate up to TSh 12 million. One can only lose the money if someone undresses you completely which can happen when the car you travel in has been hijacked and you are forced to undress. “We used to carry money in our bags or brassieres, but thieves are so clever, they can easily steal your money” said Doris, a trader at Vituka in Dar es Salaam. Men keep the cash in stockings in order to minimize risk. Women in Uganda keep their money in a belt, called ‘mukandaala’ in Luganda, which they wear around their waist and covered with a big dress called ‘gomesi’. One can transfer up to USh 8 million in the ‘mukandaala’.

*Buy cash in transit insurance policies:* This is common for companies, NGOs and MFIs which transfer cash on regular basis from cash collection points to banks or their head office, or branches and up-country offices.

*Money 'one can afford to lose':* Both in Tanzania and Uganda people transfer money through friends and relatives while knowing that some of them might not be completely trustworthy. They mitigate this risk by sending an amount they can afford to lose. Respondents indicated that a commonly acceptable amount 'one can afford to lose' is up to TSh 30,000 or USh 60,000 if it happens that a relative or friend taking the money is not trustworthy.

Business people who need to transfer large amounts of money do it in instalments; they care less about the costs than about safety and timeliness of the transaction. “If you want to transfer ten million Uganda Shillings from Kayunga to Kampala you don’t take the whole of it with you. You transfer in say five instalments of two millions each,” said a trader from Kayunga, Uganda.

Despite the various means used to mitigate risks during physical transfer of money, traders interviewed expressed a lot of fear about moving with cash and told tales about traders having lost capital and loved ones. Companies and organisations and their staff similarly face many risks.

#### ***Identification Problems & How To Deal With Them***

This section in bullet points:

- Identification is a key security feature in money transfers and neither Tanzania nor Uganda have national photo IDs. This complicates the transaction and increases the risk of fraud as well as the cost of the transaction.

- Rural people and especially women tend to be at an even higher disadvantage than urban people and men to prove their identity. The opportunity cost of proving their identity can include having to use some of their money for purposes other than the intended ones.

Identification is a key security feature in money transfers. It is a more pronounced issue for service providers who offer openly accessible services, as opposed to banks who can limit their services to account holders at the sending and receiving ends. Neither Tanzania nor Uganda have a system of national photo IDs.

*A Difference Between Tanzania & Uganda*  
Issues around identification and use of passwords such as fraud were mentioned more frequently in Tanzania by both providers and users than in Uganda.

To safeguard the interest of all parties (sender, transfer provider, and the recipient), all formal and semi-formal money transfer providers have identification procedures. These include the post office, courier and bus companies, and Western Union. Banks were found to have no experience with identification of recipients or senders because they are normally account-to-account transactions. The table below provides an overview of identification mechanisms and issues.

While it can be a challenge for anyone in either country to prove their identity or for a service provider to check it, it is often worse for women, especially in rural areas where an ID is considered at best an issue only for men. Most people in rural areas have no picture IDs such as ones issued by companies or government departments for their staff. By going to the local leader for an introduction letter, the money might end up for paying tax or go to the husbands (if the recipient is a woman) or any unintended use because the information is now public. Women are less likely to own an ID and therefore more likely to have to incur the inconvenience, risk, and cost (in Kampala US\$ 1,000) of getting a letter from the local leader.

Generally, the lack of a national ID system tends to increase the cost of using money transfer services, at least for the user. One of the alternative arrangements tends to be the use of passwords. This means the sender has to inform the recipient of the password. This involves communication costs. It can also incur the risk of fraud, if a third party has to be involved to communicate it, which may be the case when the recipient cannot be reached by phone.

**Identification Issues & Mechanisms**

<b>Transfer Product</b>	<b>Identification: Sender</b>	<b>Identification: Receiver</b>	<b>Limitations &amp; Constraints</b>
<b>Post Office - TMOs</b>	Fills requisition forms, presents it to the counter with the amount of money to transfer, name and full address (box number, location etc.) of the recipient. The counterfoil of the requisition form is detached and kept by the sender for any inquiry thereafter.	The recipient will receive a notification to collect money through his/her post box address. The notification must be countersigned by the legal owner of the post box number whose specimen signature is at the post office. The recipient has to present the notification together with a photo ID. Since most people in Tanzania and Uganda do not have IDs, letters from local leaders are acceptable and, in Uganda, a tax receipt is also acceptable. The recipient is also asked to list possible names of people who have sent the money.	Most people in rural areas have no picture IDs. By going to the local leader for an introduction letter, the money might end up for paying tax or go to the husbands (if the recipient is a woman) or any unintended use because the information is now public. Women are less likely to own an ID and therefore more likely to have to incur the inconvenience, risk, and cost (in Kampala US\$ 1,000) of getting a letter from the local leader.
<b>Courier Companies</b>	The sender visits the office of the courier company, pays the money he/she wants to send and is given an official receipt with his/her name and postal address and the receipt; the receipt shows the particulars of the sender and the recipient (name, location (village and/or street and house number)). There is no password; it is delivered as any courier mail.	An official of the courier company will go to the recipient's home or workplace (as per the address given by the sender), identify the person through ID or by asking neighbours / workmates, and hands over the money.	Finding the recipient of the money at the time of delivery is often difficult and the company sometimes has to make more than one visit.
<b>Bus Companies</b>	The sender visits the office of the bus company, pays the money he/she wants to send, and is given an official receipt and a password.	The recipient is given a password by the sender for identification at the office of the bus company to collect the money. A photo ID is needed but one can collect the money also using only the password.	The password can end up in the hands of others who can take advantage of it. It costs TSh 2,000 or US\$ 4,000 to make an ID, for instance within ca. 30 min in Kampala.
<b>Western Union</b>	The sender visits a Western Union office or agent, pays money in local or foreign currency, is given a receipt with name and address of the recipient and a password	The recipient submits a password and an ID to the paying office of Western Union for payment. In case of lack of a picture ID, an introduction letter from a local leader or employer can do.	The password can end up in the hands of others who can take advantage of it. Telephone calls from or to abroad to communicate the password are expensive. Alternatively, e-mail services can be accessible mainly in major towns and cities.

## Money Transfers

### **An Under-serviced Market Waiting for Microfinance to Jump In?**

In conclusion, looking at how people transfer money within Tanzania and Uganda as well as within the region for purposes of trade or business as well as personal use, this study aimed to provide: a sense of the available options, and of gaps and opportunities for services, generally, and for microfinance products, in particular.

The findings suggest as a bottomline that there is an underserved market for affordable and good money transfer services. Existing formal financial services have not saturated the market with their products. In both countries commercial financial providers have various limitations such as limited representation outside the capitals and loss of trust in the banking system due to recent collapses. There is scope for other services as the introduction of MoneyGram in Uganda and the money transfer product pilot by the Ugandan Microfinance Union suggests.

There are also services one might not think of immediately. In Uganda, courier companies transfer, or rather transport, money for you. In Tanzania, the bus companies are a very commonly used service for money transfers. These are not regulated financial services, and not necessarily insured as such, but they provide a service that works well and at a low cost for the destinations they reach.

Informal services, such as sending money through relatives, friends, a driver, or a businessperson, are also extremely common. While there is often no direct cost, several hidden or opportunity costs exist, such as loss of the money. Quite noticeable, in this context, is a growing mistrust among people and the uptake of other options such as the bus and courier services where they are available. Where they are not readily available, people tend to prefer to carry the money themselves but fear the risks such as robbery. To mitigate for some of the risk, they tend to carry larger amounts in smaller chunks on multiple trips; or they resort to linking a number of services to get money from point A to point B.

Many businesses have to arrange for their own money transport between their banking hub in the capital and their operations up-country. Companies such as petrol stations and buyers of agricultural commodities such as coffee or tea would happily use a reliable service instead. Other businesses who need to pay for supplies arriving from Kampala or Dar es Salaam similar to petrol stations, or companies that have distribution networks outside the capitals, such as distributors of beverages (e.g. beer and sodas in particular), could also be potential customers. Similarly decentralised government operations and a growing middle and salaried class suggest a good potential for growing demand. Concurrently, with treasury bill rates dropping in Tanzania and Uganda, commercial banks are becoming more interested in diversifying their income base and money transfer services seem to be attractive to some of them.

All of this indicates an under-serviced market and suggests that transport and delivery operators such as couriers and overland busses and also microfinance providers, with their networks reaching many trading nodes, have some of the prerequisites and good potential for a profitable and appreciated service. The newer services already available from bus and courier companies have the potential to capture a larger share of the market, both from market shares already tapped and from those untapped by other services. Further new services are conceivable as technologies and infrastructure are improved, in particular telecommunications. Expanding mobile telecommunication networks are already improving financial services in the areas where coverage is introduced and make it more feasible to set up branches there. Other opportunities might be further development of debit card products, for instance a product similar to pre-paid phone cards which would not require a bank account, if acceptance of such cards as a form of payment can increase sufficiently to make setting it up worthwhile.

Demand for money transfer services would have to be fostered to some extent to get potential clients to change from their current 'mode'. In part this could be achieved through good marketing, but primarily also through heeding the messages of users and potential users when designing the product. They are looking first and foremost for *a more secure way to transfer money* and then for the following features, many of which are commonly expected of financial products:

A service that is

- accessible both at the point of origin and of destination of the funds
- safe & reliable
- efficient
- timely
- client & service oriented
- moderately priced

*How do you and your competitors' products score against these criteria?*

Responses to interview questions regarding what improvements could be made focused mainly on making available larger networks, increasing efficiency, and overall on improving systems and services.

### ***Microfinance and Money Transfer Services***

Given the profitability of money transfer services for some microfinance institutions and given the added outreach of their network, money transfer may seem like a fail-safe moneymaker for microfinance. Similar to bus and courier companies, the existing setup of MFIs lends itself relatively easily to incorporating money transfer as a new service, either in alliance with existing service providers, such as Western Union, or independently.

If there can indeed be opportunities for a marriage of microfinance and money transfer, what are the criteria under which it should and should not be done? As with any product, a careful consideration of product development issues should be a first step.<sup>16</sup> In this case, these would include:

Legal & regulatory framework

- What does the legal and regulatory framework stipulate? For instance, those not licensed to take deposits have to find viable alternative ways in designing a product.

Compatibility between product and MFI

- how compatible is such a service with the MFI -- e.g. its mandate, its systems, its organisational capacity and skills, its financial and cash flow capacity as well as liquidity management, or its other products ?
- Can the MFI afford to hold the necessary liquidity reserves ?
- Does such a product require changes in financial controls or other aspects of the operation (e.g. authorities of branch managers) ?
- Who can and should have access to such a product (e.g. only members or clients or also non-clients; this is in part defined by the legal and regulatory framework)?

Risks

- what are the risks of physical cash transfer in the MFIs location ?
- is adequate insurance coverage available and affordable ?

Market potential and market position

- What is the actual demand in the specific market in which the MFI operates (e.g. volume and regularity of transactions, acceptability of projected fee; are only certain branches likely to have a sufficient market) ?
- Who would be the users ? and for what purposes ?
- Is the demand regular or seasonal, or maybe with seasonal peaks ?
- What is the potential for market growth or at least stable demand ?
- What is the market position vis-à-vis any competitors ? (what is it currently ? what can it expected to be in future ?)

Pricing

- What are fees for comparable services?

<sup>16</sup> See also the documentation on product development and testing by *MicroSave* available on their web page at <http://www.MicroSave.org> ; more detailed references are provided in the annex under 'Bibliography & Resources'.

- What has to be considered in costing one's own product (e.g. cost of capital and of additional insurance, cash transports, security service, staff training, communication) ?
- What hidden or opportunity costs may a money transfer product incur (e.g. speed is a factor - to what extent could it affect the quality of delivery of other services)?
- Break-even points for the service?
- Break-even points for potential clients compared to their current options? (e.g. cost of transporting the funds oneself)

#### Marketing

- What is an effective marketing strategy for the product ?
- How to communicate and make service costs transparent ?

#### Operating independently or in alliance with others ?

- Is an agency arrangement for an existing product a better option than developing a proprietary product?
- Could a collaboration with other MFIs or a commercial business, such as a bank or a bus operator, be useful, for instance to expand the service network for the product ?

#### Of all the product development choices...

- What is the comparative advantage of a money transfer product over other potential products or expansion or improvement of existing products ?

There is no general yes or no to money transfer as a microfinance product. Money transfer can be a profitable product but poses its own challenges, such as in liquidity and cash-flow management, market acceptance vs. demand, and in how to offer the service to a broad spectrum of clients rather than the few with relatively larger amounts to transfer. An MFI interested in a money transfer product should search its institution's 'soul', research its market, and design, pilot, and monitor its product. The answer depends on the context of the potential service provider.

#### ***Open Questions***

The focus on Tanzania and Uganda and the qualitative market research method applied have resulted in a wealth of data and analysis. A number of questions excluded here or emerging from this work, however, seem worthwhile pursuing in future research. While the specific market has to be analysed for product development, there are some further, broader-based market research questions:

- i) the national volumes involved in money transfers, number of transactions, and the value of common transactions;
- ii) a review of product experience of MFIs in East Africa and elsewhere; as MFIs have become sustainable over time, have to compete in some environments, and are generally more interested in developing new and client-oriented products, a small number are already offering money transfer services and more are likely to follow;
- iii) an exploration of a money transfer product related to school fee payments;
- iv) a feasibility assessment for designing a money transfer product that can reach a broad clientele, including clients requiring services for small volumes and irregular transfers;
- v) an exploration of the potential and of success factors of partnerships or agency agreements between MFIs and banks, international money transfer providers, or other innovative strategic partners such as bus and courier companies; or
- vi) a review of some of the widely available international money transfer products to explore experiences and critical factors for successful products and agency arrangements.

#### Invitation To Comment Or Share Experience

Please contact the authors or **MicroSave** for discussion and exchange. ([info@MicroSave.net](mailto:info@MicroSave.net))



## ANNEXES

### Research Design and Methodology

The research was conducted in and around the cities of Dar es Salaam and Kampala in February 2001 using *MicroSave*'s qualitative market research tools. The two cities and their immediate environment were chosen for the study because they represent the three basic settings of urban, peri-urban, and rural in which the team wanted to explore money transfers. The capitals and surrounding areas see the highest volume of money transfer traffic and are indicative of how the money transfer systems work and are used; many traders and generally much of the financial business for personal or business use gets channeled through the capitals in East Africa.

#### *The Respondents*

Respondents were approached as service providers or users. In total, 132 individuals or companies participated in individual interviews or focus groups. The following table provides the respondent profile.

	Users – corporate	Users - individual	Providers
Tanzania	5	23 women / 37 men	6
Uganda	5	20 women / 28 men	8
Total	10	43 women / 65 men	14

Grand Total: 132

#### *The Tools*

The research team used qualitative research methods in the collection of data in both countries. This included Focus Group Discussions (FGD) and several Participatory Rapid Appraisal (PRA) tools. In-depth individual interviews and review of secondary data from different institutions were also employed. The use of these tools gave the researchers an opportunity to triangulate information on key issues that emerged in the process.

The table below provides a summary of the number of respondents per tool. Focus Group Discussions were often combined with other PRA tools listed in the last 4 columns; thus resulting in different grand totals than for the respondent count.

Tool # of groups & of (participants)	Individual Interview	Focus Group Discussion	Cash Mobility Map	Sector Use Matrix	Sector Trend Analysis	Relative Preference Ranking
Tanzania	11 (13)	7 (53)	2 (16)	2 (17)	3 (22)	0
Uganda	12 (16)	8 (45)	1 (5)	1 (6)	2 (7)	1 (11)
Total	23 (29)	15 (98)	3 (21)	3 (23)	5 (29)	1 (11)

Grand Total: 50 (211)

#### *Scope and Limitations of the Tools*

The qualitative research tools bring to light issues, sentiments, perceptions, attitudes, use patterns, and trends as people perceive them. They do not, however, lend themselves to quantification, such as the volumes involved in transfers or monies lost due to the various risk factors, though interview responses do provide indicative information. To the extent feasible, to capture factual information, the researchers employed in-depth individual interviews with service providers and reviewed written information, such as regarding prices and policies.

### MONEY TRANSFER SERVICES NETWORK IN UGANDA

Please note that the commercial bank network is listed in a separate, subsequent table.

DISTRICTS (capitals) / SERVICES	Western Union	Courier Companies	Post Bank	Post Office	Standard Chartered Bank - Advantage Card (AC*)	F&R / D&C/ P / (PB*)	no transfer services by bus companies in Uganda
Adjumani		✓		✓		✓	
Apac		✓		✓		✓	
Arua		✓	✓	✓	✓GS	✓	
Bugiri		✓		✓		✓	
Bundibugyo		✓		✓		✓	
Bushenyi		✓		✓	✓GS	✓	
Busia		✓		✓		✓	
Fortportal	✓	✓		✓	✓GS	✓	
Gulu	✓	✓	✓	✓	✓GS	✓	
Hoima	✓	✓		✓	✓GS	✓	
Iganga		✓		✓	✓GS	✓	
Jinja		✓		✓	✓GS, SM, R, NC, H	✓ *	
Kabale	✓	✓		✓	✓GS	✓	
Kalangala		✓		✓		✓	
<b>Kampala</b>	✓	✓	✓	✓	✓GS, SM, H, R, C/H, NC, MPC	✓ *	
Kamuli		✓		✓	✓GS	✓	
Kamwenge		✓		✓		✓	
Kanungu		✓				✓	
Kapchorwa		✓		✓	✓GS	✓	
Kasese	✓	✓		✓	✓GS	✓	
Katakwi		✓		✓		✓	
Kayunga		✓				✓	
Kibale		✓		✓		✓	
Kiboga		✓		✓		✓	
Kisoro		✓		✓		✓	
Kitgum		✓		✓		✓	
Kotido		✓		✓	✓GS	✓	
Kumi		✓		✓		✓	
Lira	✓	✓	✓	✓	✓GS	✓	
Luwero	✓	✓		✓	✓GS	✓	
Masaka	✓	✓	✓	✓	✓GS	✓	
Masindi		✓		✓	✓GS	✓	
Mayuge		✓				✓	
Mbale	✓	✓	✓	✓	✓GS	✓ *	
Mbarara	✓	✓	✓	✓	✓GS	✓ *	
Moroto		✓		✓		✓	
Moyo		✓		✓		✓	
Mpigi (incl. EBB)		✓		✓	✓GS, H, SM	✓	
Mubende	✓	✓		✓	✓GS	✓	
Mukono		✓		✓		✓	
Nakasongola		✓		✓	✓GS	✓	
Nebbi		✓		✓		✓	
Ntungamo		✓		✓	✓GS	✓	
Pallisa		✓		✓		✓	

Rakai	✓	✓		✓		✓
Rukungiri		✓		✓	✓GS	✓
Sembabule		✓		✓		✓
Sironko		✓				✓
Soroti	✓	✓	✓	✓	✓GS	✓
Tororo		✓		✓	✓GS	✓
Wakiso		✓		✓		✓
Yumbe		✓				✓
NAIROBI						*

KEY:

F&R Friends and Relatives

GS Gas Stations

D&C Drivers and Conductors

SM Super Markets

P Physically

R Restaurants

PB Prominent Businessmen

HC Health Clubs

\*AC acceptance points:

NC Night Clubs

MPC Mobile Phone Companies

H Hotels

C/H Clinics and Hospitals

**BANK NETWORK IN UGANDA**

DISTRICTS	UCB	AB	NB	DFCU	CTB	CB	BOB	PBU	CIB	CERUDEB	SCB	TAB	OB	TRAB	NBC	BARK	DMND	SB
Adjumani	✓																	
Apac	✓																	
Arua	✓									✓								
Bugiri	✓																	
Bundibugyo	✓																	
Bushenyi	✓																	
Busia	✓																	
Fortportal	✓									✓								
Gulu	✓									✓								
Hoima	✓									✓								
Iganga	✓						✓											
Jinja	✓	✓				✓	✓				✓		✓	✓				
Kabale	✓									✓					✓			
Kalangala	✓																	
Kampala	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kamuli	✓																	
Kamwenge																		
Kanungu																		
Kapchorwa	✓																	
Kasese	✓									✓								
Katakwi																		
Kayunga								✓										
Kibale																		
Kiboga	✓																	
Kisoro	✓																	
Kitgum	✓																	
Kotido	✓																	
Kumi	✓																	
Lira	✓									✓								

DISTRICTS	UCB	AB	NB	DFCU	CTB	CB	BOB	PBU	CIB	CERUDEB	SCB	TAB	OB	TRAB	NBC	BARK	DMND	SB
Luwero	✓			✓						✓								
Masaka	✓			✓			✓			✓				✓				
Masindi	✓																	
Mayuge																		
Mbale	✓						✓	✓		✓	✓							
Mbarara	✓		✓				✓	✓		✓	✓							
Moroto	✓																	
Moyo	✓																	
Mpigi	✓											✓						
Mubende	✓									✓								
Mukono	✓																	
Nakasongola																		
Nebbi	✓																	
Ntungamo	✓																	
Pallisa	✓																	
Rakai	✓									✓								
Rukungiri	✓																	
Sembabule																		
Sironko																		
Soroti	✓									✓								
Tororo	✓																	
Wakiso																		
Yumbe																		

**KEY**

UCB	Uganda Commercial Bank	BOB	Bank of Baroda	BARK	Barclays
AB	Allied Bank	PBU	Post Bank Uganda	DMND	Diamond Trust Bank
NB	Nile Bank	CIB	Cairo International Bank	TRAB	Tropical Arab Bank
DFCU	Bank	CERUDEB	Centenary Rural Development Bank	NBC	National Bank of Commerce
CTB	Citibank	SCB	Standard Chartered Bank		
CB	Crane Bank	TAB	Trans-Africa Bank		
OB	Orient Bank	SB	Stanbic Bank		

**MONEY TRANSFER SERVICES NETWORK IN TANZANIA**

Location/Service	Postal services	Posta-Speed	EMS	Tanzania Post Bank	Bus Companies: Scandinavia	Bus Companies: Tawfiq	Bus Companies: Hood Bus Service	NMB	CRDB	NBC	F&R / D&C / P
Arusha	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Bukoba	✓		✓			✓		✓	✓		✓
<b>Dar es Salaam</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dodoma	✓		✓					✓	✓	✓	✓
Iringa	✓		✓		✓			✓	✓	✓	✓
Kibaha	✓		✓					✓			✓
Kigoma	✓		✓					✓	✓	✓	✓
Lindi	✓		✓					✓	✓	✓	✓
Mbeya	✓		✓		✓	✓		✓	✓	✓	✓
Morogoro	✓		✓				✓	✓	✓		✓
Moshi	✓		✓		✓	✓		✓	✓	✓	✓
Mtwara	✓		✓					✓	✓	✓	✓
Musoma	✓		✓			✓		✓	✓		✓
Mwanza	✓		✓	✓		✓		✓	✓	✓	✓
Shinyanga	✓		✓					✓	✓		✓
Songea	✓		✓		✓			✓	✓		✓
Sumbawanga	✓		✓					✓	✓	✓	✓
Tabora	✓		✓					✓	✓		✓
Tanga	✓		✓			✓		✓	✓	✓	✓
Zanzibar (Unguja)	✓		✓	✓				✓		✓	✓
Pemba (Zanzibar)	✓		✓					✓			✓
<i>Kampala</i>		✓				✓		✓			✓
<i>Nairobi</i>		✓			✓	✓	✓	✓			✓

KEY:

- F&R Friends and Relatives
- D&C Drivers and Conductors
- P Physically

EXAMPLES OF SERVICE COSTS

**Illustrative Cost Matrix of Uganda (nominal values in US\$)**

	<b>10,000</b>	<b>50,000</b>	<b>100,000</b>	<b>500,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>5,000,000</b>	<b>10,000,000</b>	<b>20,000,000</b>
Western Union	17,000	17,000	17,000	48,000	60,000	95,000	203,974	403,894	803,734
Commercial Banks *	20,000	20,000	20,000	20,000	20,000	20,000	31,250	62,500	125,000
Expedited Mail Service (EMS) **	3,500	5,500	8,000	32,000	62,000	122,000	302,000	602,000	1,202,000
Postal Money Orders	1,500	3,500	6,000	26,000	51,000	101,000	251,000	501,000	1,001,000
Courier Companies	2,223	4,563	7,488	30,888	60,138	118,638	294,138	586,638	1,171,638
MoneyGram ***	21,120	21,120	21,120	35,200	52,800	105,600	264,000	440,000	633,600

**Illustrative Cost Matrix of Uganda (percentage values of transfer amount)**

	<b>10,000</b>	<b>50,000</b>	<b>100,000</b>	<b>500,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>5,000,000</b>	<b>10,000,000</b>	<b>20,000,000</b>
Western Union	170.00%	34.00%	17.00%	9.60%	6.00%	4.75%	4.08%	4.04%	4.02%
Commercial Banks *	200.00%	40.00%	20.00%	4.00%	2.00%	1.00%	0.625%	0.625%	0.625%
Expedited Mail Service (EMS) **	35.00%	11.00%	8.00%	6.40%	6.20%	6.10%	6.04%	6.02%	6.01%
Postal Money Orders	15.00%	7.00%	6.00%	5.20%	5.10%	5.05%	5.02%	5.01%	5.01%
Courier Companies	22.23%	9.13%	7.49%	6.18%	6.01%	5.93%	5.88%	5.87%	5.86%
MoneyGram ***	211.20%	52.80%	35.20%	7.04%	5.28%	5.28%	5.28%	4.40%	3.17%

**Annotations**

\* Commercial Banks generally charge 0.25% to 1%; the average of 0.625% was used. The minimum charge by Commercial Banks is typically between US\$ 10,000 and 15,000. For international transfers it is higher, e.g. US\$ 35,000 in the case of one bank, or USD 10 to 20 in some other cases. A close to mid-value of US\$ 20,000 is used here. The receiving bank can also charge a similar fee on withdrawal. Maximum rates go to around US\$ 170,000.

\*\* EMS Costs - Figure after bracket is average distance fee and the one following is the cost of envelop (ie US\$ 1,000 for every US\$ 100,000)

\*\*\* The rates are calculated from the USD fee rates quoted. Maximum amount to be transferred in one transaction is USD 10,000. Higher amounts are parcelled into several transactions.

**EXAMPLES OF SERVICE COSTS - continued**

**Illustrative Cost Matrix of Tanzania (nominal values in TSh)**

	<b>10,000</b>	<b>50,000</b>	<b>100,000</b>	<b>200,000</b>	<b>500,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>5,000,000</b>	<b>10,000,000</b>
Western Union	9,000	9,000	14,000	19,000	33,000	52,000	92,000	212,000	404,000
Commercial Banks *	10,000	10,000	10,000	10,000	25,000	50,000	100,000	130,000	130,000
Expedited Mail Service (EMS) **	3,000	6,000	7,000	10,000	27,000	32,000	42,000	70,000	120,000
Postal Money Orders	2,000	4,000	6,000	12,000	30,000	60,000	120,000	300,000	600,000
Bus Companies	1,000	3,000	3,500	7,000	17,500	35,000	70,000	175,000	350,000
MoneyGram ***	9,780	9,780	12,225	16,300	32,600	57,050	81,500	203,750	326,000

**Illustrative Cost Matrix of Tanzania (percentage values of transfer amount)**

	<b>10,000</b>	<b>50,000</b>	<b>100,000</b>	<b>200,000</b>	<b>500,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>5,000,000</b>	<b>10,000,000</b>
Western Union	90.00%	18.00%	14.00%	9.50%	6.60%	5.20%	4.60%	4.24%	4.04%
Commercial Banks *	100.00%	20.00%	10.00%	5.00%	5.00%	5.00%	5.00%	0.13%	0.07%
Expedited Mail Service (EMS) **	30.00%	12.00%	7.00%	5.00%	5.40%	3.20%	2.10%	1.40%	1.20%
Postal Money Orders	20.00%	8.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Bus Companies	10.00%	6.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
MoneyGram ***	97.80%	19.56%	12.23%	8.15%	6.52%	5.71%	4.08%	4.08%	3.26%

**Annotations**

\* Commercial Banks charge 5% with minimum of TSh 5,000 to 15,000 or US\$12.5 (CRDB at the time of study). Maximum fees are around TSh 130,000 for some of the banks.

\*\* One can send up to TSh 100,000 per Money Order (MO); larger amounts have to be split into several MOs.

\*\*\* The rates are calculated from the USD fee rates quoted. Maximum amount to be transferred in one transaction is USD 10,000. Higher amounts are parceled into several transactions.



**EXAMPLES OF SERVICE COSTS - continued**

**MoneyGram Fee Schedule**

Transfer Amount in US\$	0-100	101-200	201-400	401-600	601-800	801-1,000	1,001-1,200	1,201-1,500	1,501-1,800	1,801-2,500	2,501-5,000	5,001-7,500	7,501-10,000
US\$ fee	12	15	20	30	40	50	60	70	80	100	150	250	300
USh fee (1760 : 1)	21,120	26,400	35,200	52,800	70,400	88,000	105,600	123,200	140,800	176,000	264,000	440,000	528,000
TSh fee (815 : 1)	9,780	12,225	16,300	24,450	32,600	40,750	48,900	57,050	65,200	81,500	122,250	203,750	244,500

**National Microfinance Bank (NMB), Tanzania**

Rates for Domestic Transfers

Transfer Amount in TSh		0 - 1 million	1 mill. - 10 mill.	10 mill. - 50 mill.	50 mill. - 100 mill.	100 mill. - 200 mill.	200 mill. & up
Percentage fee		1%	0.75%	0.7%	0.55%	0.4%	0.25%
Additional standard transmission fee	5,000						
Minimum fee	4,000						

(International transfers also available on request)

**EXAMPLES OF SERVICE COSTS - continued**  
**WESTERN UNION MONEY TRANSFER in TANZANIA (domestic & international rates) through Tanzania Post Bank**

From	To	Charge TSh	low-value % cost	high-value % cost
0	60,000	9,000*	900000%	15%
60,001	130,000	14,000	23%	11%
130,001	200,000	19,000	15%	10%
200,001	260,000	22,000	11%	8%
260,001	325,000	27,500	11%	8%
325,001	500,000	33,000	10%	7%
500,001	650,000	35,000	7%	5%
650,001	950,000	48,000	7%	5%
950,001	1,100,000	52,000	5%	5%
1,100,001	1,300,000	61,000	6%	5%
1,300,001	1,600,000	70,000	5%	4%
1,600,001	1,900,000	80,000	5%	4%
1,900,001	2,200,000	92,000	5%	4%
2,200,001	2,500,000	104,000	5%	4%
2,500,001	2,800,000	116,000	5%	4%
2,800,001	3,100,000	128,000	5%	4%
3,100,001	3,400,000	140,000	5%	4%
3,400,001	3,700,000	152,000	4%	4%
3,700,001	4,000,000	164,000	4%	4%
4,900,001	5,200,000	212,000	4%	4%
5,800,001	6,100,000	248,000	4%	4%
7,000,001	7,300,000	296,000	4%	4%
7,900,001	8,200,000	332,000	4%	4%
8,200,001	8,500,000	344,000	4%	4%

\* minimum charge

**WESTERN UNION MONEY TRANSFER in UGANDA (domestic & international rates) through Nile Bank and Centenary Rural Development Bank (CERUDEB)**

From	To	Charge USh	low-value % cost	high-value % cost
0	114,000	17,000*	1700000%	15%
114,001	225,000	25,000	22%	11%
225,001	340,000	33,000	15%	10%
340,001	450,000	38,000	11%	8%
450,001	570,000	48,000	11%	8%
570,001	850,000	54,000	9%	6%
850,001	1,100,000	60,000	7%	5%
1,100,001	1,700,000	88,000	8%	5%
1,700,001	2,000,000	95,000	6%	5%
2,000,001	2,300,000	106,000	5%	5%
2,300,001	2,800,000	128,000	6%	5%
2,800,001	3,400,000	140,000	<b>5%</b>	<b>4%</b>

NOTE: For each 600,000 or fraction thereof over 3,400,000 add 24,000 to the rate.

\* minimum charge

**EXAMPLES OF SERVICE COSTS - continued**  
**POSTAL MONEY TRANSFER - UGANDA**

<b>INLAND MONEY ORDER</b>	
Max. value of order payable at HPOs	100,000
Max. number of orders to HPOs	4
Max. value of order payable at DPOs	50,000
Max. number of orders to DPOs	4
Max. value of order payable at Sub POs	10,000
Max. number of orders to Sub POs	1
Commission: 5% of value + US\$ 1,000 handling fee	
<b>INTERSTATE MONEY ORDER (SPEED CASH)</b>	
Max. value of order payable at Nairobi & Dar	\$1,000
Max. number of orders to Nairobi & Dar	5
Max. value of order payable at DPOs in Kenya & Tz	\$500
Max. number of orders to DPOs in Kenya & Tz	2
Commission: 2% of value; minimum fee \$10	

HPO = Head Post Offices  
 DPO = Departmental Post Offices

**EMS COSTS, Uganda**

- 5% of the money in transit
- US\$ 1,000 for an envelope (max. amount in an envelope is US\$ 100,000)
- Distance fee ranging from US\$ 1,000 to 3,000 depending on distance

**EXAMPLES OF SERVICE COSTS - continued**

**POST BANK UGANDA**

**SPEEDY** (fax transfers)

Service for clients and non-clients; 24 hour service within the network of 8 service points of which 4 are located in Kampala; fees:

Passbook account

Transfers between branches		Transfers within same branch
Amount in US\$	Charges	Charges
1 - 500,000	2,000	500
500,001 - 1 mill.	5,000	5,000
1 mill. - 2 mill.	10,000	10,000
above 2 mill.	0.5%	0.5%

Domicile account, between branches: 0.45%, minimum fee US\$ 2,000

Domicile account, within same branch: US\$ 500

For non-account holders: 1%, minimum fee US\$ 5,000

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Shivani Puri & Tineke Ritzma: "Migrant Worker Remittances, Micro-finance, and the Informal Economy: Prospects and Issues." ILO Working Paper No. 21, 1999

## **Resources**

See also documentation on product development and testing by **MicroSave** available on their web page at <http://www.MicroSave.net> such as

**MicroSave**: "Market Research and Client-Responsive Product Development" which is available online at <http://www.MicroSave.net> this paper provides a good overview and lists further resources.

See also:

**Wright**, Graham A.N. "MicroFinance Systems: Designing Quality Financial Services for the Poor", *University Press Ltd.*, Dhaka and *Zed Books*, London and New York, 2000