FINANCIAL SECTOR DEEPENING UGANDA

Promoting inclusive financial markets that foster job creation, reduce poverty, and improve Uganda's competitiveness

MSME resilience in Uganda:
How the financial sector can better serve MSMEs

November 2021

AGENDA

Time (EAT)	Item	Responsible
14h30 – 14h45	Introduction	FSDU, UAP-OM
14h45 – 15h00	Problem statement, objectives and overview	Cenfri
15h00 – 15h45	Emerging opportunities and approaches for insurers to effectively reach and serve MSMEs	Cenfri
15h45 – 16h05	Q&A	All
16h05 – 16h10	Closing remarks, wrap up	FSDU

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Financial Sector Deepening

OBJECTIVE

- Scope out the **feasibility and options** for insurers to **offer tailored solutions** to better **build the resilience of Ugandan MSMEs** in specific, priority value chains

- Engage industry more broadly to **trigger innovation and competition** in the market for MSME insurance

- Understand **MSMEs' key risks and insurance needs**

- **Identify aggregators** that can work with Ugandan insurers

- Unpack the **major challenges for Ugandan insurers** in offering MSME insurance products (including from the regulatory perspective)

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What is the current state of MSME resilience in Uganda?

MSMEs ARE DIVERSE AND OF VITAL IMPORTANCE TO THE ECONOMY.
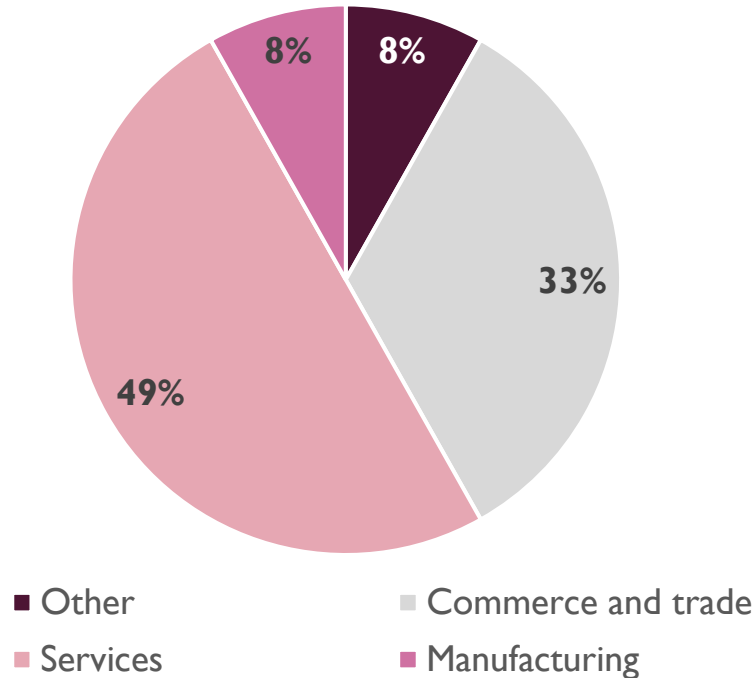
Make up **95% of businesses**

Employ **+3.5 million** individuals
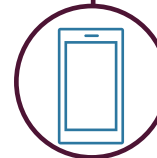
Contribute **40% of GDP**

Sector overview of MSMEs (2016)

8% Other	8%
33% Commerce and trade	
49% Services	
8% Manufacturing	

- Other
- Commerce and trade
- Services
- Manufacturing

Size: predominantly micro firms

71%	18%	11%

- Micro
- Small
- Medium

Digital access: Over **95%** of MSMEs use cellphones for business, yet only **37%** have internet access.

Location: **66%** have **formal business premises**.

Financial inclusion: **60%** are banked, and **55%** use mobile money.

Ministry of Trade, 2019; UBOS, 2012; FinScope, 2018; Uganda Investment Authority, 2016; Nathan et al, 2015

HOWEVER, MSMEs FACE HIGH EXPOSURE TO RISKS AND ARE UNABLE TO COPE.

Two out of three start-ups in Uganda fail within their first year.

Farming MSMEs

- **67%** of farming MSMEs experienced harvest/crop failure, or loss of livestock.

- **31% did nothing** to cope, **7% worked more**/did casual jobs.
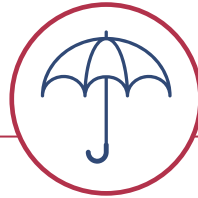
Main risk
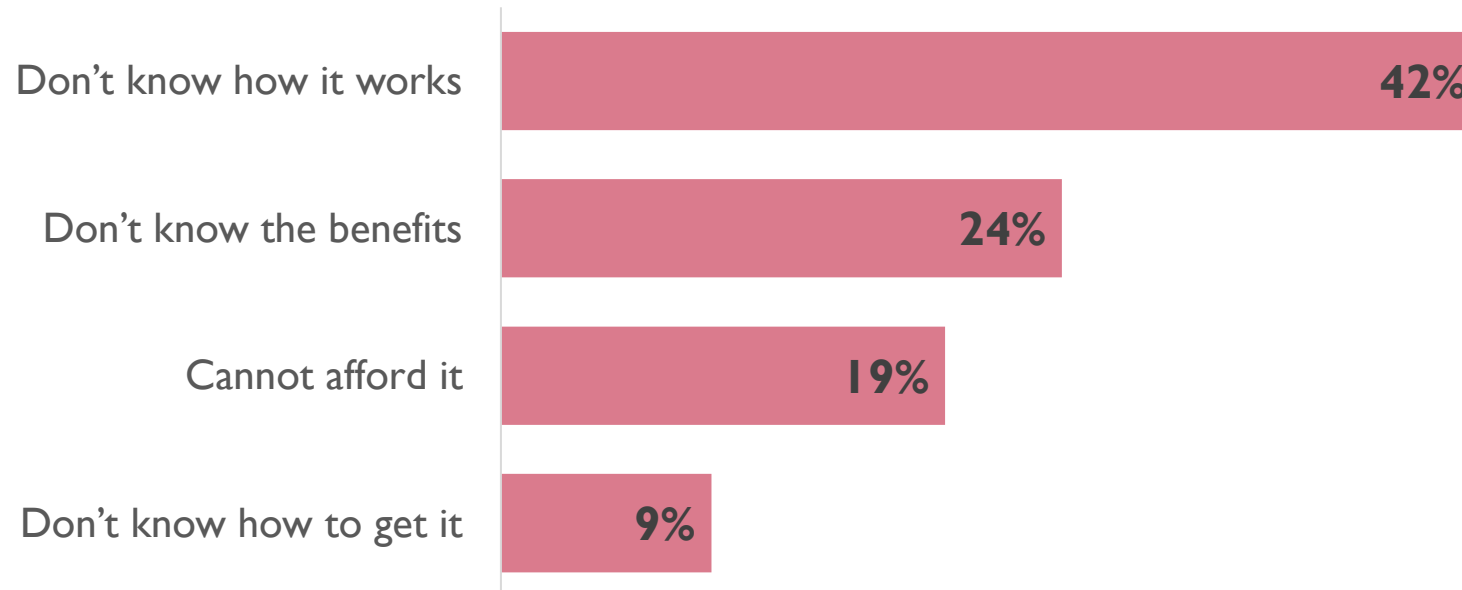
Coping mechanism used

Non-farming MSMEs

- **65%** of non-farming MSMEs had a medical emergency.

- **50%** go to a public healthcare facility, **40%** go to a private healthcare facility, and they face a significant out-of-pocket expense, as less than 1% have health insurance.

Ministry of Trade, 2019; UBOS, 2012; FinScope, 2018

MSMEs' VULNERABILITY IS EXACERBATED, AS THEY ARE UNDERSERVED BY INSURANCE.

Only **2%** of MSMEs in Uganda have insurance.

Main reasons for lack of insurance

Reason	Percentage
Don't know how it works	42%
Don't know the benefits	24%
Cannot afford it	19%
Don't know how to get it	9%

N = 10.4 million

FinScope, 2018

INSURERS FACE A RANGE OF CHALLENGES IN SERVING MSMEs.

High risk exposure and poor risk management strategies

MSMEs are vulnerable to personal and business risks and lack risk management strategies, often making them too risky to insure.

Rapidly changing risk management needs

Risk perceptions and, thus risk management needs, can change rapidly, e.g. materialising of a hazard that was previously disregarded.

Lack of awareness of insurance

MSMEs often suffer from a lack of knowledge on how insurance works and for which risks they should seek insurance coverage.

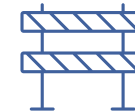**Insurers' lack of knowledge about MSMEs**

Insurers have little experience in catering to the needs of MSMEs.

Difficult to reach

Insurers must find new ways of aggregating MSMEs.

Regulatory barriers

Regulatory restrictions can hold back insurers from tapping into the MSME market, e.g. restrictions on distribution channels.

HOWEVER, IT IS POSSIBLE FOR INSURERS TO OVERCOME THESE CHALLENGES BY CONSIDERING RISKS HOLISTICALLY AND RETHINKING THEIR PRODUCT OFFERING.
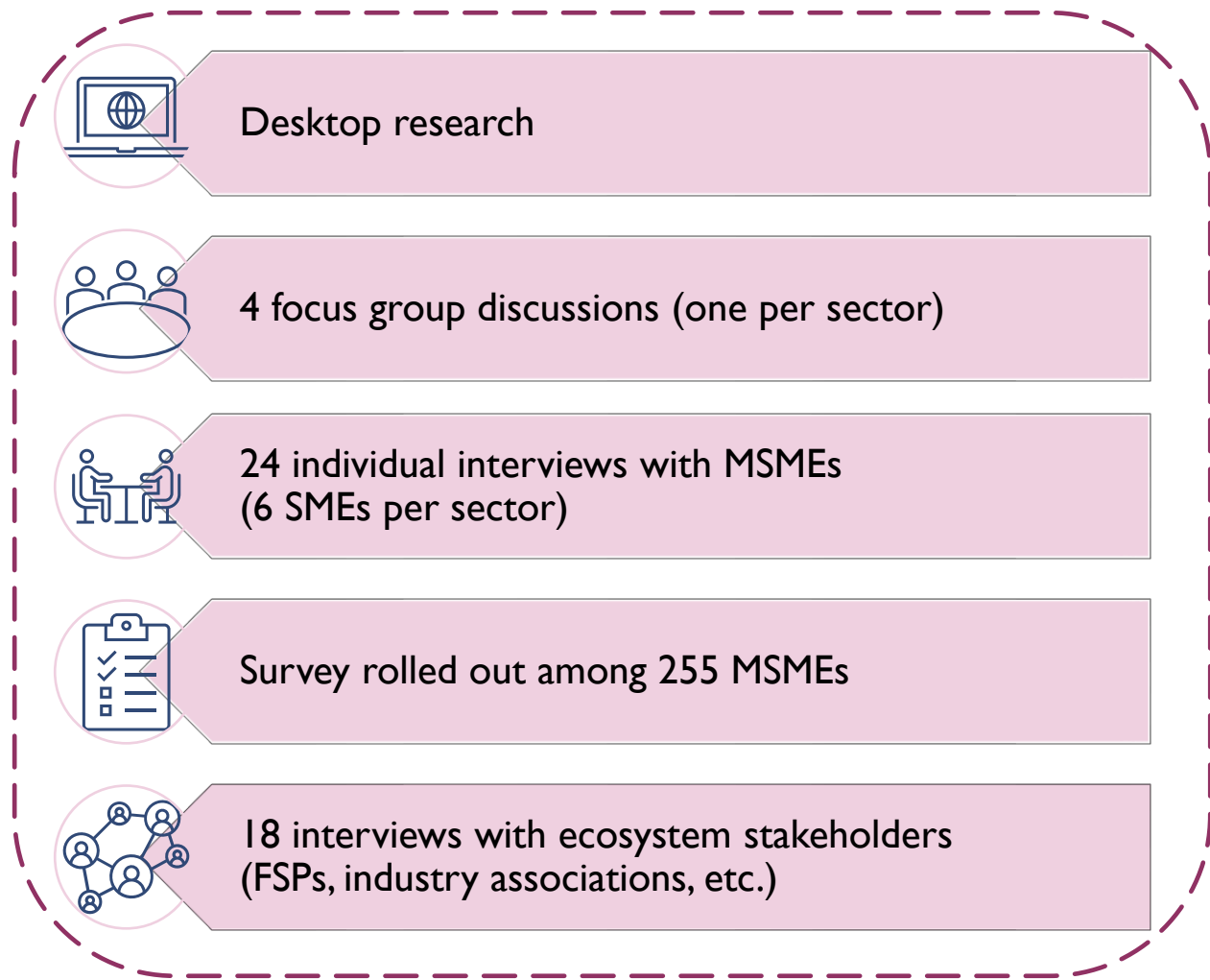
Transfer risk through traditional insurance policies.
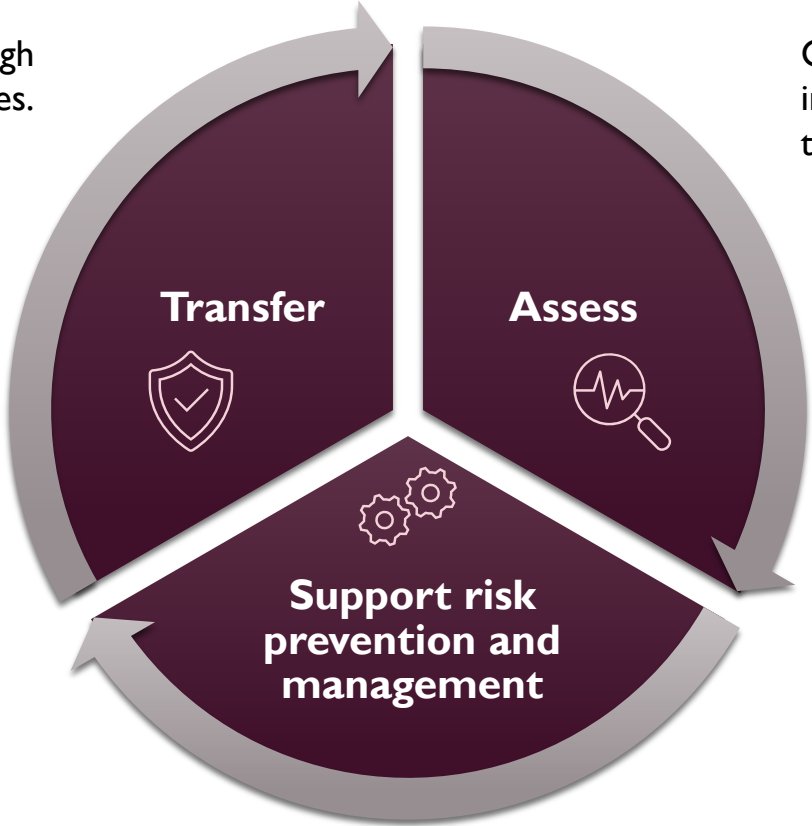
Conduct risk assessments and impact analyses to understand the risks faced by MSMEs.
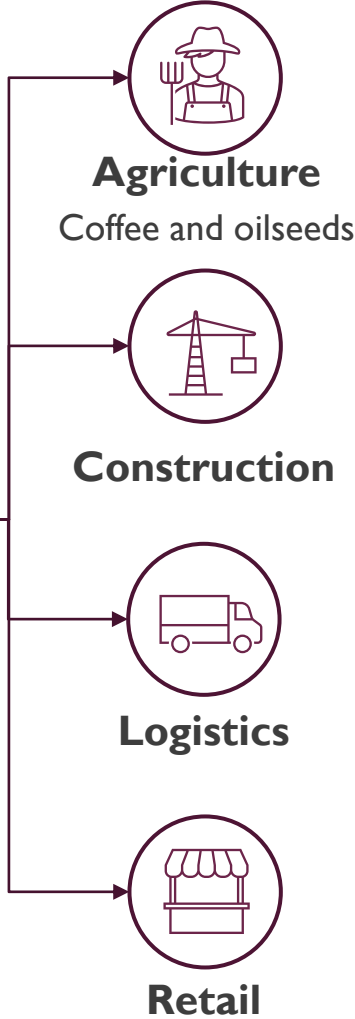
Transfer

Assess

Support risk prevention and management

Support the implementation of prevention and management mechanisms.

Emerging opportunities and approaches for insurers to effectively reach and serve MSMEs
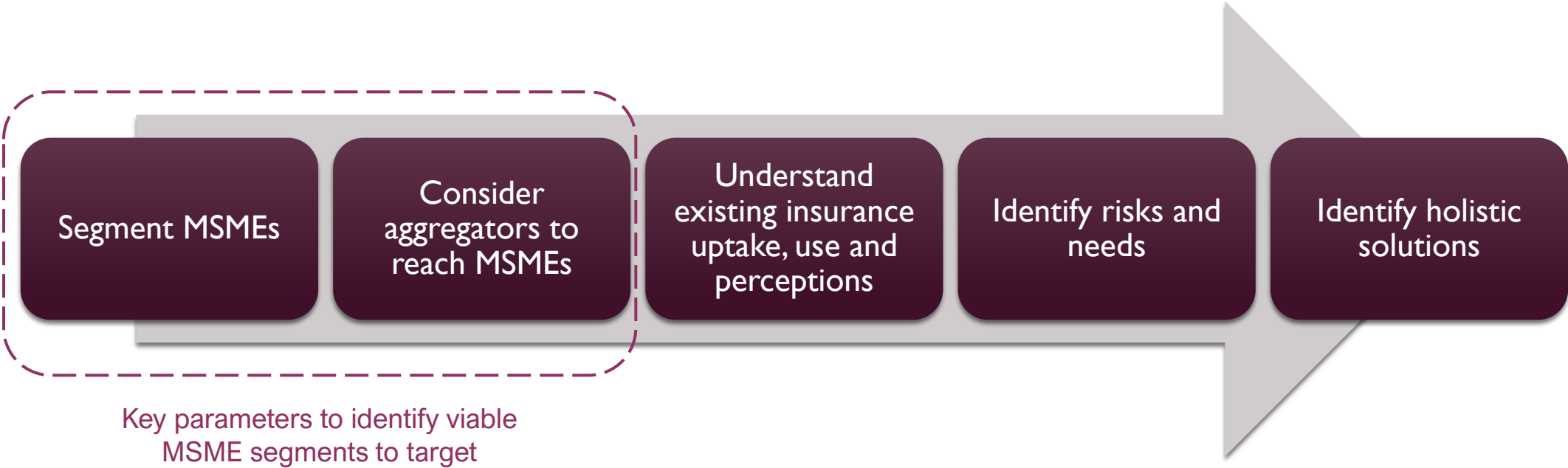
MIXED-METHOD RESEARCH APPROACH WAS USED TO UNDERSTAND MSME RESILIENCE.

Desktop research

4 focus group discussions (one per sector)

24 individual interviews with MSMEs
(6 SMEs per sector)

Survey rolled out among 255 MSMEs

18 interviews with ecosystem stakeholders
(FSPs, industry associations, etc.)

Conducted deep-dives into four sectors:

Agriculture
Coffee and oilseeds

Construction

Logistics

Retail

RETHINKING THE APPROACH TO EFFECTIVELY SERVE MSMEs

Segment MSMEs | **Consider aggregators to reach MSMEs** | **Understand existing insurance uptake, use and perceptions** | **Identify risks and needs** | **Identify holistic solutions**

Key parameters to identify viable MSME segments to target

1. EFFECTIVELY SEGMENT MSMEs USING AN ECONOMIC SECTOR LENS.

Value chain segmentation

The **nature of MSME business operations** and the **sector** in which they operate can lead to different contextual realities and risks faced.

Focused identification of risks and needs

Higher levels of homogeneity

Agricultural sector

- **7.4 million** farmers
- Relatively homogenous within crops grown/ livestock raised
- Contributes **~25%** to GDP
- Contributes **+70%** of total employment

Construction sector

- **Sector relatively small** (0.14% of businesses in 2010/2011)
- Employs **2.2%** of total formal employment
- Contributes **~24%** to GDP

Logistics sector

- **Sector relatively small** (5% of MSMEs)
- Relatively homogenous – road transport carries **96%** of freight cargo
- Employs **2.4%** of all employed persons
- **Enables operation** of other value chains

Retail sector

- **Large sector** (wholesale and retail trade) contributed **18% to GDP**
- Relatively homogenous – large number of small retailers
- Contributes **9.5%** of total formal employment

2. CONSIDER AGGREGATORS TO REACH MSMEs AT SCALE.

Challenges that value chain aggregators can overcome:

Insights into points of **entry and aggregation** of MSMEs

Established **engagement** channels

Trusted partners

Key aggregators

Agricultural sector

- **Agents/traders**: Tend to serve 10 to 200 farmers each
- **Processors**: Purchase beans from the traders and process them before selling to customers or before exporting (e.g., Mukwano, Kyagalanyi)

Construction sector

Poor aggregation – difficult to reach:
- Aggregators include **procurement and disposal entities**, large **national associations** (e.g., Ugandan National Roads Authority, local governments)
- However, association membership limited (~22%)

Logistics sector

Business associations:
- Uganda Freight Forwarders Association (UFFA) has 114 members

Digital platforms:
- Safeboda: had 18,000 riders on their platform prior to COVID-19
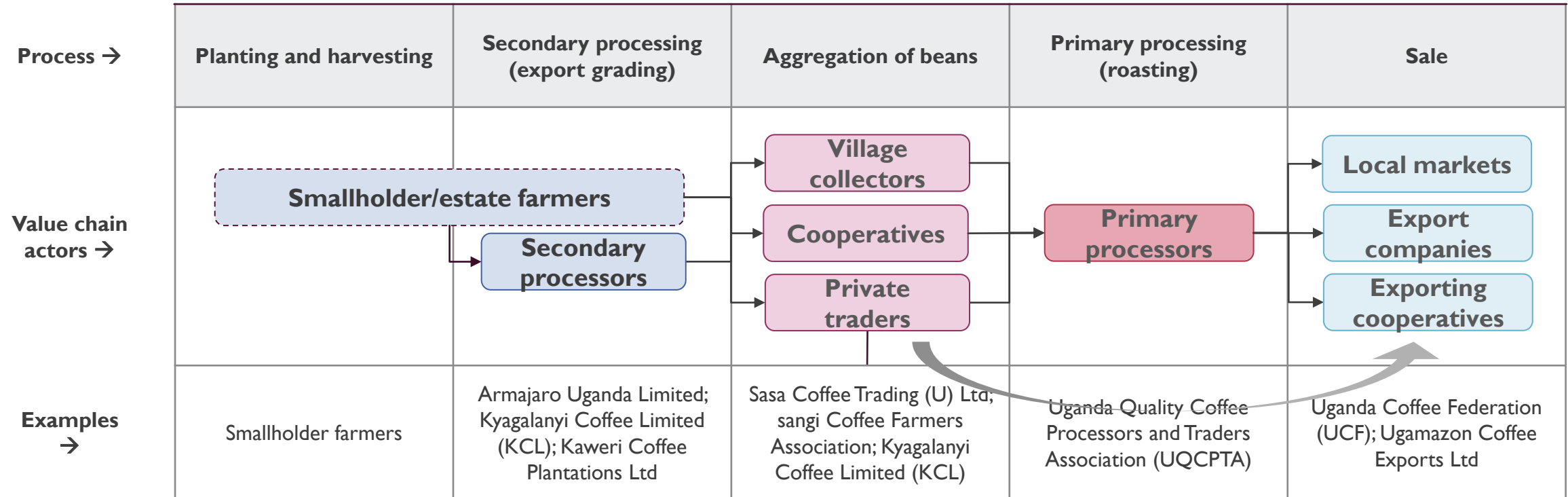
Retail sector

- **Markets/ market associations** – Nakasero market (Kampala) typically has 2,500 vendors. But traders tend to be poorly organised
- Lenders and wholesalers
- **Potential for emerging platform service providers**

CGAP, 2018; Anyang, 2017; quantitative survey; UNCTAD, 2020; Uganda Freight Forwarders, n/d; Africa News, 2020; Shell Foundation, 2020

2. CONSIDER AGGREGATORS TO REACH MSMEs AT SCALE.

Identifying appropriate aggregators requires an understanding of how value chains operate

Example: coffee value chain in Uganda

Process →	Planting and harvesting	Secondary processing (export grading)	Aggregation of beans	Primary processing (roasting)	Sale
Value chain actors →	Smallholder/estate farmers → Secondary processors		Village collectors / Cooperatives / Private traders	Primary processors	Local markets / Export companies / Exporting cooperatives
Examples →	Smallholder farmers	Armajaro Uganda Limited; Kyagalanyi Coffee Limited (KCL); Kaweri Coffee Plantations Ltd	Sasa Coffee Trading (U) Ltd; sangi Coffee Farmers Association; Kyagalanyi Coffee Limited (KCL)	Uganda Quality Coffee Processors and Traders Association (UQCPTA)	Uganda Coffee Federation (UCF); Ugamazon Coffee Exports Ltd

Case study: Traders buy coffee cherries from about **50,000 farmers** in Mount Elgon:
- 500 small-scale traders who buy from 10 to 30 farmers
- 165 medium-scale traders who buy from 50 to 100 farmers
- 165 large-scale traders who buy from 100 to 200 farmers

CGAP, 2018; ICO, 2019; CIRAD, 2006; Business Focus, 2020

3. UNDERSTAND THE CURRENT TAKE-UP/PERCEPTIONS OF INSURANCE.

Insurance take-up across the sectors is **low** and many MSMEs **distrust insurance.**
However, **aspirational MSMEs*** (our target market) do recognize the **value of insurance** and the security it can provide to their business (although considerations around price may be important, too).

Agricultural sector

- 68% of MSMEs had not taken out any insurance in the past 24 months

Construction sector

- 49% of MSMEs had not taken out any insurance in the past 24 months

Logistics sector

- 57% of MSMEs had not taken out any insurance in the past 24 months.

Retail sector

- 55% of MSMEs had not taken out any insurance in the past 24 months

Most MSMEs learnt about insurance from **agents (59%)** or directly from an **insurance company (27%)**.

A noticeable **distrust of insurance** is noted among **63%** of SMEs. This is highest for **farmers (74%)**.

"The biggest problem is ignorance, Many do not know [what] insurance covers and how it is of benefit to them"

"I have not yet insured these [workers] - I am still negotiating with the client. He was giving me less money for insurance."

"A challenge – because one season goods are stolen, and the insurer doesn't come in to help us."

"Once you get a problem, they take time to get back to you."

*Aspirational MSMEs see their business as having the **capacity to grow** and also **distinguish between personal and enterprise needs**; across sectors at least a third of MSMEs surveyed have a **monthly turnover of at least USD2,100** (and in retail and construction, almost two thirds do)

4. IDENTIFY THE KEY NEEDS AND RISKS THAT MSMEs FACE.

Value chain segmentation can provide a focused identification of risks and needs.
In Uganda, there is **significant variation in risks faced** by MSMEs across sectors.

Agricultural sector

- 74% faced price risks.
- 70% faced pest and disease outbreaks.
- 58% faced weather-related risks.

Construction sector

- 67% faced payment issues.
- 65% have poor risk management/transfer strategies.
- 65% experience damage to property/materials
- 51% experienced injuries.

Logistics sector

- 74% struggle to comply with regulations.
- 31% struggle to coordinate with other SMEs.
- 29% lack a platform to share knowledge and look for opportunities.

Retail sector

- 32% cannot provide digital services (due to lack of either tools or skills).
- 29% struggle to manage inventory and keep track of employees.
- 29% face risk of theft/fraud.

COVID-19 challenges

All sectors experienced negative impact on business due to **global supply chain shocks**
(reduced importing and exporting, shipping/port delays, reduced access to international markets)

Inability to access farmers due to travel/curfew restrictions

Stalled projects (construction clients not having money)
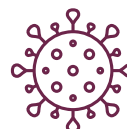
Managing COVID-positive drivers across borders

Staff redundancies and attrition (inability to pay workers)

Qualitative interviews and survey

5. IDENTIFY HOLISTIC SOLUTIONS FOR MANAGEMENT AND TRANSFER.

		Challenge	Possible solution proposed	Effectiveness (% of MSMEs scoring 4/4)
	Agriculture	70% of farmers faced pest and disease outbreaks.	**Pest and disease identification app** allowing farmers to identify and manage crop pests/diseases	49% of farmers
	Construction	67% faced payment challenges (late/no payment).	**Digital escrow solution** to secure payments and help SMEs keep track of funds	44% of construction MSMEs
	Logistics	74% struggled with too many governmental procedures to be fulfilled and border delays.	**Call center** to answer different enquiries regarding permits/procedures required in Uganda, personalized to the business needs	65% of logistics MSMEs
	Retail	29% lack inventory and employee management tools.	• **Digitizing inventory systems** (bar codes and scanners; basic administration software) • **Digitizing employee management systems** to enhance tracking of staff	• 43% of retail MSMEs • 57% of retail MSMEs

BRINGING IT ALL TOGETHER: THE EXAMPLE OF ıBUILD

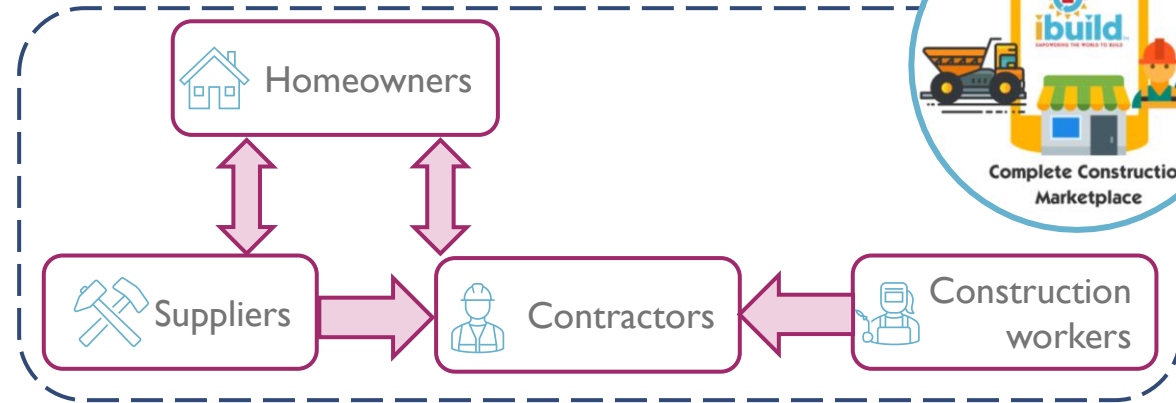| Segment MSMEs by considering economic sectors | Consider aggregators to reach MSMEs | Understand existing insurance uptake, use and perceptions | Identify risks/needs | Identify holistic solutions |

Construction is an important contributor to growth and employment in Kenya

- 5.6% of GDP
- 8% of employment

In a highly fragmented market, iBuild developed a **digital platform** that connects all stakeholders involved in construction processes.

At the end of 2020, they have **30,000 users** on their platform.

Overview of the iBuild platform

iBuild, 2020; Britam, 2020; Schlemmer, Rinehart-Smit, Hougaard and Johnson, 2020

BRINGING IT ALL TOGETHER: THE EXAMPLE OF iBUILD

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Limited insurance uptake.

- **57%** of construction workers lack insurance
- NHIF take up also low - only **37%**
- No voluntary insurance
- However, **69%** are willing to take out insurance via iBuild

High risk of injuries in Kenyan construction.

Industry figures:
Kenya experiences about **64 fatalities per 100,000 employees** annually (high compared to UK (0.44 fatalities), China (4) and South Africa (26)

iBuild sample (n=35):
- **46%** injured on the job
- **31%** could not work for three consecutive days or more due to injuries

Solution: affordable accident insurance cover

- In 2020, **Britam insurance** partnered with iBuild and developed accidental medical microinsurance cover for workers
- Plans start as low as Ksh80 (USD0.72)

iBuild, 2020; Britam, 2020; Schlemmer, Rinehart-Smit, Hougaard and Johnson, 2020; Kemei et al, 2015

CONCLUSION: CALL TO ACTION – ECOSYSTEM ACTORS' ROLE

Effectively meeting the needs of MSMEs requires a **concerted effort** among stakeholders.

"Business as usual" has been unsuccessful in serving MSMEs to unlock this market opportunity and contribute to broader development goals.

Insurers

- Focus on expanding their reach to MSME market segments by deepening their understanding of potential clients
- Shift approach away from insurance-only policies to holistic resilience solutions

Regulators

- Support an enabling environment for innovation
- Support/facilitate dialogue and engagement between established insurers and technology providers
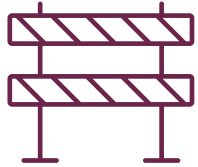
Development partners

- Play a key role in active coordination among different actors (public and private) in the insurance industry
- Focus on maintaining a common innovation agenda
- Support/conduct market research on understanding the needs of underserved target markets
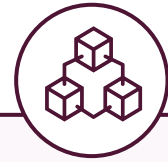
Technology providers

- Seize the opportunity to partner with insurance providers to create innovative solutions targeting MSMEs
- Explore options e.g., digital platforms as aggregation points; apps into which insurance services can be directly embedded

END