

Conversations: Supporting Fintech Development in Uganda - Olga Kiconco

David Cracknell



Olga Kiconco currently works as an HR Generalist at Wave Mobile Money and formerly worked with the Innovation Village, an innovation hub based in Uganda, as Innovation Strategy & Consulting Lead. This blog is abstracted from our many conversations. Whilst the blog is focused on Uganda's growing entrepreneurial ecosystem, many of the points discussed may be appropriate in other geographies.

David: Olga, what would you say are the challenges facing early stage fintech companies in Uganda?

Olga: Our Fintechs face multiple challenges – I'll mention three, identifying real market gaps/needs, limited available talent with the necessary design, technology and business management skills and patient capital to grow the business. Taking each in turn:

Identifying real needs. A successful Fintech provides a solution to real needs – these are the express needs of customers in our target market. This requires fintech providers to spend time understanding the problems their customers face that could be addressed through applying design principles and leveraging technology to scale the solution by integrating feedback from the customer to guide the user experience and the user interfaces (UI/UX). However, there is a huge gap in performing adequate research and gaining a deeper understanding of what the late Prof. Clayton Christensen coined as 'the customer's job to be done'¹.

¹ <https://hbr.org/2016/09/know-your-customers-jobs-to-be-done>

David: Why do some of these fintechs often fail to conduct sufficient research?

Olga: From an operational lens, I think conducting primary market research can be time consuming and financially strenuous for most Fintechs. However, it is the same research which informs the design of products and services. Oftentimes, startups focus on correlation and not 'causation' - what the customer is actually trying to do, why they are trying to do it and their 'compensating behavior/alternatives to the solution.

David: Yes, I can see how they might have these thoughts. In my view research need not take long – a few weeks, but it should be conducted carefully, it should largely be qualitative, it should use multiple research tools and focus groups with different types of users. Once needs are understood then a proposed solution – a concept can be developed which can be re-presented to potential customers and refined. I feel the idea of agility – we can adapt our solution quickly if it doesn't work for our customers is admirable, but it can't replace understanding the market.

David: So, assuming our fintech has understood real customer needs, what is the next challenge that needs to be addressed?

Olga: Available talent. The challenge of youth unemployment transcends across the globe, and is a particular pain point for Africa, now home to the world's youngest population with a median age of 20². Uganda has a very small formal economy. This means we are a nation of 'entrepreneurs' which are usually home-based microenterprises. However, due to the Catch 22 - you need a job for experience and experience for a job, we have seen young people start technology-based businesses but lack sufficient real business experience. These ventures do not live beyond their first birthday.

David: What do you mean by business experience?

Olga: Business experience covers multiple areas that one typically attains from knowing the ins and outs of their industry, usually from employment. These include functions like Marketing, Business Development, IT, Operations, Strategy, Legal, HR, etc to guide one how to set up their company, serving their customers, engaging clients, developing business plans, pitching to investors, building their professional networks, remaining resilient and agile. These are some of the skills that early stage Fintechs ought to learn in order to increase their chance of success.

David: Isn't this where innovation hubs help?

Olga: Yes, innovation hubs play an important role in providing early stage fintechs with customized support. This ranges from community workspaces where they can network with their peers, participate in incubation or accelerator programs to improve their solutions, access mentors and investors, linkage to market opportunities and provide a learning environment where they can build skills over time. However, in order for the innovation hubs to sustain themselves and to pay staff salaries, innovation specialists, consultants, licenses, rent and utilities, etc, some of these initiatives come at a cost.

² <https://www.pewresearch.org/fact-tank/2020/04/22/populations-skew-older-in-some-of-the-countries-hitha-rd-by-covid-19/#africa>

David: You mentioned that capital is a constraint? Why is this?

Olga: Uganda has made significant steps forward in developing the fintech space with local and international players entering the market as well as the Financial Technology Service Providers Association of Uganda (FITSPA) that has converged different stakeholders to create a conducive environment that stimulates innovation in Uganda's financial services sector industry. However, we compete for investment capital with Nigeria, South Africa, and Kenya which could be attributed to more expansive professional international and local networks, increased digitization and internet proliferation, rapid development in infrastructure and a rising young working population.

Patient capital is critical for startup growth, hiring talent to take the business to the next level, ramping up operations and investing in research to design relevant offerings for their customers. Local investors are slowly beginning to appreciate the role they play to the growth of the ecosystem thanks to awareness and education on startups, but still primarily invest in real estate and other 'tangible' assets. Information sharing and profiling is also increasing the visibility of the startups and the African ecosystem.

David: In many markets the banking sector is also investing in financial technology, what about Uganda?

Olga: There is some dialogue in Uganda in terms of banks, other players in the financial services sector to establish strategic relationships with fintechs.

For example, Stanbic Uganda recently incorporated Flyhub Technologies its fintech as part of its digital transformation journey, Bank of Uganda contracted Laboremus Uganda to develop a digital ID verification system to be used by all banks and other licensed financial service providers. There are numerous use cases for more collaboration opportunities to grow early stage fintechs to work with the local banking industry and also procure the services of growth stage fintechs.

David: So, you mentioned three areas understanding needs, skills, and capital as constraints at the level of the fintechs. Are there issues at the level of the industry itself?

Olga: Yes, the elephant in the room is the uncertainty and inconsistency in the policy environment. For example, in October 2017, key stakeholders in the sector developed a 5 year National Financial Inclusion Strategy with a clear vision that "All Ugandans have access to and use a broad range of quality and affordable financial services which helps ensure their financial security". Then, a year later, the Government imposed the mobile money tax, initially at 1% on deposit and withdrawals, and was later revised to 0.5% on withdrawals. This greatly affected not only telcos but fintechs whose technologies ride on mobile money who had to rethink their offering.

Additionally, (financial) technology is evolving at an exponential rate compared to regulation. There is a need to build capacity of the industry players to keep up with the pace of disruption and market dynamics possibly through co-creation and the recently passed National Payments Systems Act (now law) introduces a regulatory Sandbox to test innovative financial products or services without obtaining a licence.

David: So, policy consistency and a responsive sandbox will help. However, I've seen in some countries like Singapore in Asia and the UK, that there is considerable support from the Government and the local regulators towards the fintech industry. Is there more that could be done in Uganda?

Yes, I think in two areas, the first pertains to investment in Human Capital Development. By maximising the benefits of the demographic dividend, being arguably the youngest population in the world, Uganda can potentially become a hub for top African talent. The emphasis should be equipping the youth with relevant skills to tackle real business challenges for the digital revolution such as creative problem solving, people management, agile learning and leadership.

Second is for the Government to create an enabling environment for the growth of the sector, especially being more intentional on adding the voice of the youth in the formation of policy. Innovation and entrepreneurship are key drivers for socio-economic development as techpreneurs are delivering impactful solutions, and need support in the form of tax incentives, local/ regional markets to expand their operations, capital investment in (digital) infrastructure, stronger public-private partnerships to tap into new markets, and so on. These initiatives can influence our competitive edge regionally and internationally.

David: Many thanks Olga for your insights they are very much appreciated

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting. David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.



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