



THE QUEST FOR A CASHLESS ECONOMY: THE POSITION OF CSBAG

1. Introduction

Civil Society Budget Advocacy Group (CSBAG) is a coalition formed in 2004 to bring together civil society actors at national and district Levels to influence Government decisions on resource mobilization and utilization for equitable, gender-responsive, and sustainable development. Since 2004, Civil Society Organizations (CSOs) under the umbrella of CSBAG have engaged Government in influencing the budget process to ensure that both the local and national budgets address the needs and aspirations of the poor and marginalized groups of people in Uganda. Currently CSBAG has over 100 members, 40% of which are sub-national CSOs. The convergence between fiscal and monetary policies together with growing need for economic digitalization has necessitated a CSBAG position on the achievement of a cashless economy in Uganda.

A digital economy is an embodiment of economic and commercial activities that utilize digital technologies and electronic communications. These activities include e-commerce, digital marketing, digital financial services, digital content production, software, computer games, cloud services, and more (Xia et al, 2024: Tu et al, 2022: Guo et al, 2023). A shift towards digitalization of economic activities has been linked to economic growth in some economies whereby efficiencies between private and public sectors are easily enhanced. In sectors like financial services, health, education, communication and trade digitalization has enhanced information access and exchange which has revolutionized decision making. One of the leading digital initiatives in the financial sector is the cashless payments which is a precursor for a cashless economy.

2. A Cashless Economy: Benefits

A cashless economy is one in which transactions are primarily conducted through electronic means, such as digital payments, bank transfers, or mobile money, rather than through physical currency. It is therefore a form of a digitalization in an economy. According to Vishnevsky et al, (2021) digitalization enabled value generation in all sectors of the global economy

aggregating to approximately 20% of the world GDP. For Uganda, the following are the benefits of a cashless economy.

- i. Increased Transparency in the Financial System.** Fraud has continued to undermine the progress of the financial sector in Uganda on account of heavy reliance on cash transactions. By embracing cashless transactions, the various users of the financial system will be eliminating the risk of loss of value in fake currency and the downside of black money markets.
- ii. Greater Convenience.** Cashless transactions can be executed at any time in most cases and technological advances in this space have enabled seamless settlement of such transactions. The Annual Police crime report 2024 indicates an increase in theft of cash cases by **3,317** between **2020 (4,819 cases)** and **2024 (8,136 cases)**. Costs associated with accessing cash centres like the banks and loss of cash through theft can be eliminated by cashless transactions.
- iii. Better Control of Money Laundering.** Cash transactions are the most enablers of money laundering in the world. Global Financial Integrity Values Uganda illegal wildlife trade to be worth between **UGX 18 trillion** and **UGX 84 trillion** annually. Cashless transactions therefore increase the potency of the fight against laundering because of their ability to curtail its three stages of layering, placement and integration. In 2024, of the **19 registered cases** of money laundering, only six were submitted by the police to the DPP with **none taken to court**. This is an indication of challenges in tracing transactions to build prosecutable cases among other factors.
- iv. Effective Global Integration of the Financial System.** Cashless transactions help to generate real time data on various financial assets of our financial system hence enhancing capitalization and improving efficiency. Disaggregated information can also be used to guide investment decisions beyond just the financial assets. Domestically financial inclusion is mainly driven by cashless alternatives like mobile money with an uptake of 64% (FinScope, 2023).
- v. Optimization of Cash Management Costs.** Cash management is associated with costs of printing (seigniorage), recycling, distributing and safe custody of cash. The Bank of Uganda noted that costs associated with coin issuance increased from **UGX 9,392 million** in FY 2022/23 to **UGX 13,299 million** in FY 2023/24 an increase of 42%. These costs are high and could be offset by the increased use of cashless alternatives.

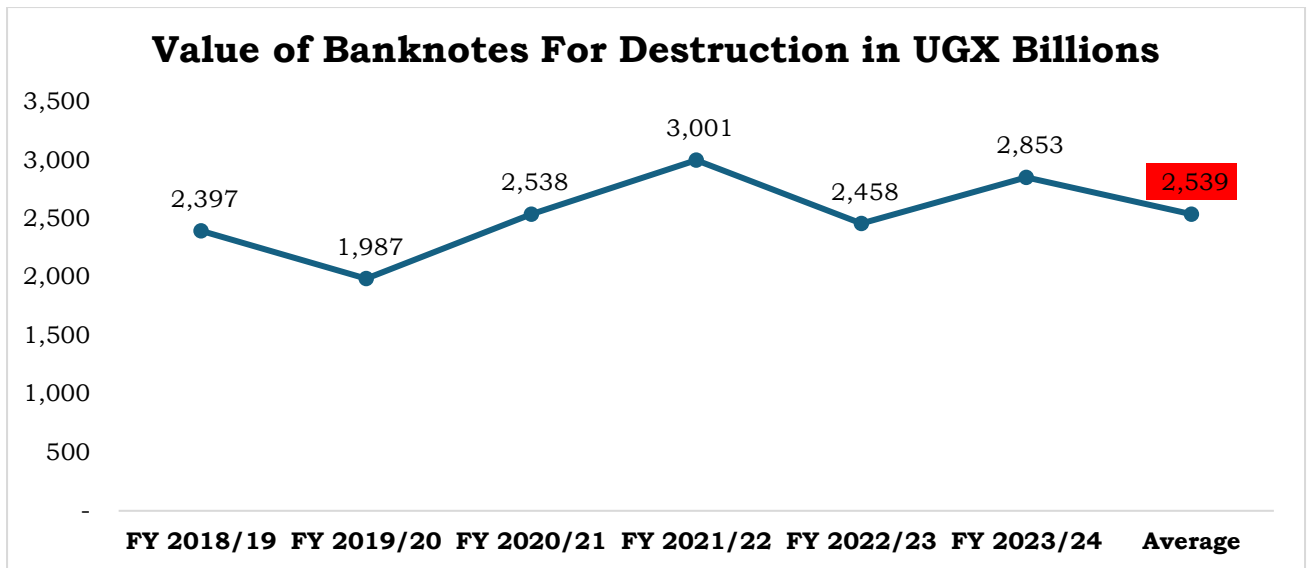
3. A Cashless Economy: The Burden of Cash

The economy of Uganda is projected to continue in its upward growth path peaking 6.5% in 2024/2025 with inflation expected to remain within target below the 5% mark. This implies that the demand for cash will remain elevated on account of increased economic activity powered by rising household spending and public investments. Bank of Uganda in the medium term observes that cash will remain a dominant form of payment due to inherent challenges of limited digital infrastructure and the high transaction fees associated with electronic payments. The trend of cash demand is as shown below.

Period	Withdrawals UGX bn	Deposits UGX bn	Net Circulation UGX bn	Net Circulation Growth
FY 2019/20	9,345	8,236	1,109	-
FY 2020/21	8,800	8,479	321	-71%
FY 2021/22	10,189	9,370	819	155%
FY 2022/23	11,630	11,143	487	-41%
FY 2023/24	13,227	12,350	877	80%
Average	10,638	9,916	723	31%

Source: Author Compilations from Bank of Uganda Annual Report, 2024

In the period under review, net circulation (difference between cash withdraws and cash deposits) growth has averaged 31% on annual basis despite the year-on-year growth of both deposits and withdrawals of cash from the bank of Uganda. Net circulation has averaged **UGX 723 billion** annually in this period an indication that the central bank must maintain sustainable stocks of circulation-ready cash to meet the demand for cash in the economy. Increased sorting of bank notes has enabled the central bank reduce currency issuance costs from **UGX 199.3 billion** in 2022 to **UGX 187.5 billion** in 2023, a 6% reduction. However, currency loss has averaged **UGX 2,539 billion** growing at 5% annually over the last six years and the trend is as below.

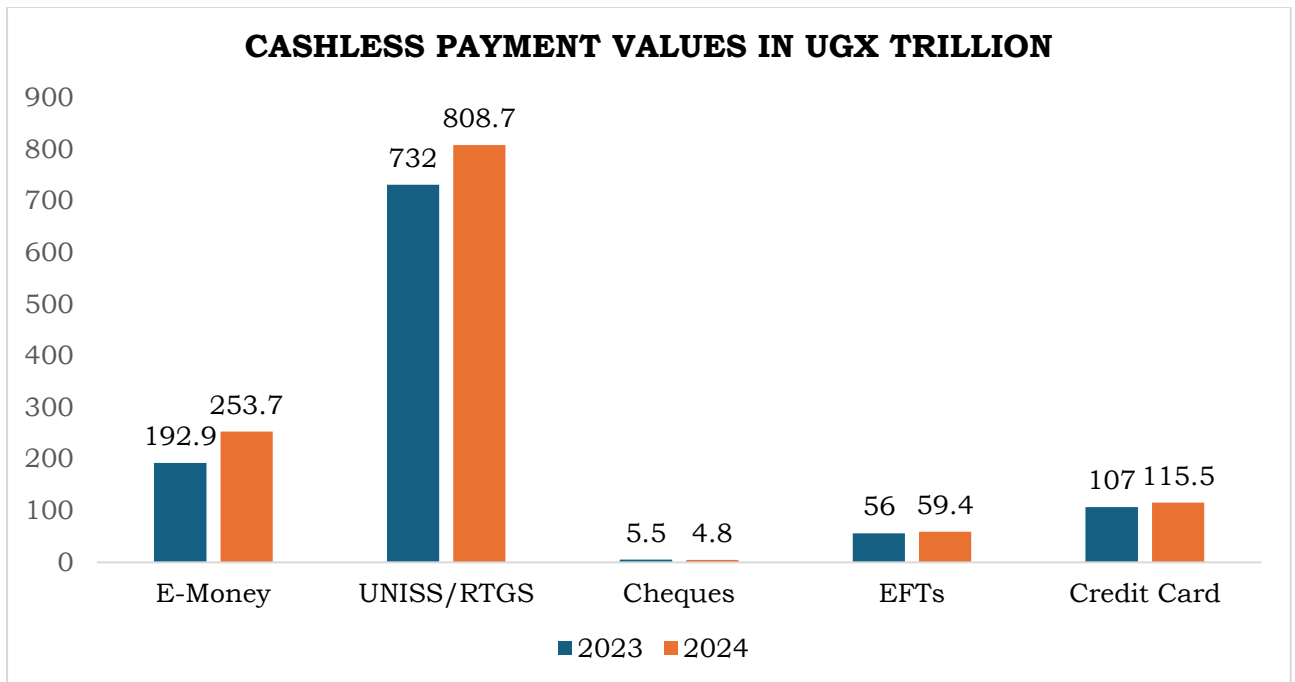


Source: Author Compilations from Bank of Uganda Annual Report, 2024

There is an upward trend in loss of currency which in the long term is unsustainable given the surging demand for cash in the economy over the coming periods.

4. A Cashless Economy: Where are We Now?

The global leaders towards achieving a cashless economy are South Korea and Sweden with averagely **77%** and **74%** respectively of the population preferring to pay without cash. For most developing countries cash remains dominant due to the limited financial inclusion in these countries (World Economic Forum, 2021). According to Bank of Uganda the alternatives to cash in Uganda currently include electronic money (mobile money), transfer systems (Uganda National Inter-Bank Settlement System-RTGS, East African Payment System and the Regional Payment and Settlement System for COMESA), Cards (debit and Credit) then cheques (Kampala Automated Clearing House). In the last two years the performance of these cashless alternatives based on transaction values is as summarized below.



Source: Author Compilations from Bank of Uganda Annual Report, 2024

Year on Year, the values on the listed channels increased with exception of cheques which declined. This is an indication of growing demand for cashless based services in the Ugandan economy.

5. A Cashless Economy: Performance

Even with the above strides, significant bottlenecks continue to undermine the progression of Uganda’s economy towards a no cash economy. They include limited connectivity across the country; high cost of end-user devices and digital services; low levels of digital literacy; cybersecurity risks and inadequate data protection and privacy; limited support systems for digital innovations and entrepreneurship; lack of a national spatial data infrastructure; and weak enforcement of policies, legal & regulatory frameworks and institutional coordination. Considering the above challenges together with the emerging technologies in Artificial Intelligence and Block chain the inherent risk and investment in achieving cashless economy requires a deeply entrenched legal framework that supports innovation, maximizes value, entrenches accountability and most importantly promotes safety.

In Uganda, the payments space is currently regulated through the National Payment Systems Act of 2020 with other support legislation like the FIA Act, the MDI Act and the Foreign Exchange Act among others. All these legislations in the context of payments are mainly targeting supply side intricacies with the demand side only catered for by the National Payment System (NPS) Consumer Protection Regulations which were gazetted and published in

September 2022 and are now operational. As elaborated above, the demand side of cashless payments requires further legislative support to entrench protection, reasonable pricing, dispute resolution and most importantly standardize the level of service across various platforms.

6. The Cashless Economy: The Case for an Enabling Law

As pointed out above the benefits of cashless payments to the Ugandan economy require no further emphasis however the balance between value, risks and our aspirations as a country in this sector necessitate strengthening of the existing legal frameworks and closure of legal gaps that continue to undermine the prospects of this sector. The Cashless Economy Law is therefore a precursor to achieve a fully cashless economy. Its objectives include.

- 1.** To align all legislations like the National Payments Act, Computer Misuse Act, Data Protection and Privacy, the Electronics Transactions Act, the Electronics Signatures Act, the National Information Technology Authority Uganda Act, and Uganda Communications Act. Policies and regulations that govern the industry like the National Payment System (NPS) Consumer Protection Regulations 2022, Data Protection and Privacy Regulation 2020, Electronics Transactions Regulations, 2013, National Postcode and Addressing System Policy, National ICT Policy, National Board Band policy, National Information Technology Authority Uganda (e-Government Regulations) 2014 towards a legally supportive regime that fosters the digitalization agenda in Uganda.
- 2.** To strengthen measures for preventing cybercrimes, improving incident response, and safeguarding personal and sensitive data from cyber threats.
- 3.** To foster uptake of digital payments and services to enhance the country's competitiveness in the digital space.
- 4.** To promote efficiency in the utilization of national common core infrastructure including data centres, high-power computing centres, and specialized labs for cashless payments.

7. How do we Achieve A cashless Economy: A CSO Perspective.

As CSBAG we are very optimistic of the opportunities that a cashless economy presents. We present the following proposals that we consider significant towards the advancement of the digital economy agenda in Uganda.

- 1.** The government should accelerate Public Private Partnerships (PPPs) on digital infrastructure development especially through targeting the financial sector players and the telecoms. Spreading this infrastructure

across the country and ensuring sustainable operations will ensure service stability and smoothen transaction processing. Efforts to promote shared infrastructure should also be supported to reduce unit costs at operator level.

2. The government should immediately review the legal regime to support the advancement of a cashless economy in Uganda. This law is crucial in ensuring safety of cashless transactions and reducing the need to print and manage physical cash in the economy.
3. The government should consolidate its efforts in promoting digital literacy to realize economies of scale and most importantly ensure value for money. This is a demand strengthening initiative which will enable quicker and broader acceptance of digital currency initiatives across the economy.
4. The government should subsidize digital transactions by eliminating excise duty on charges of digital transactions and instead transfer these taxes to cash transactions based on bands.
5. The government should discourage high value cash withdrawals from the banking system by capping cash-based withdrawals by the public at a maximum of **UGX 5 million** per day for individuals and **UGX 100 million** per day for corporations. This will promote the use of digital platforms as an alternative for cash.
6. The Central bank and the regulated Financial Institutions should work out a transaction cost reduction formula with an aim of making digital transactions charge friendly, hence promoting digital utilization.
7. The Central Bank should device mechanisms to enhance money velocity. This is through heightened Anti-money laundering screening regimes to prevent outflows from the system.
8. The Central bank and the regulated Financial Institutions should enhance consumer protection initiatives around digital transactions by prioritizing safety, turn around time, and overall customer experience with digital payments.

Conclusion

Given the overwhelming benefits of a cashless economy, an enabling law is a very necessary legislation that will transcend the prospects of the Ugandan economy into competitiveness beyond the East African region. It is therefore imperative that all stakeholders converge in thought and effort to promote the cashless programme of our country as envisaged in NDP IV and Vision 2040. Efforts like the Central Bank Digital Currency require broad participation to increase social and economic viability.

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