

LINKAGE BANKING

Centenary Bank/TIER4 MFI/FSDU
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Study Objective

- Pre-feasibility
- To identify linkage banking interventions
- Centenary Bank and Tier 4 institutions and SACCOs.
- To select 3-4 potential linkage partners for further study by way of feasibility plans.

Methodology - Phases

- Inception meeting and preparations
- Team mobilization
- Field visits to confirm literature reviews
- Compilation of field information
- Analysis of the field and desk research to identify gaps and LB interventions as solutions
- Development of criteria and selection tool of Linkage MFIs,
- Report writing and re-visiting and re-evaluation

Field Findings

#	Gaps	Causes of Gaps	Intervention	Linkage Products/Options
1	Ltd. knowledge of Financial services/ interest in linkage banking among MFIs/ clients	Limited presence of financial institutions in certain localities	Maximise uses of existing structures, utilise MIS for direct and indirect linkages and maximise use of IT for distant places.	Mobile banking, Network banking, Micro finance Service Centre Graduation of clients

Field Findings

#	Gaps	Causes of Gaps	Intervention	Linkage Products/Options
2	Variable tier 4 information	Limited use of MIS by tier 4s	Provide IT platform to reconcile information with partners and share costs.	Micro Finance Service Centre, Network marketing, Mobile banking

Field Findings

#	Gaps	Causes of Gaps	Intervention	Linkage Products/Options
3	Few outlets and channels in the rural areas	Financial costs. Cent. Bank has its own infrastructure. Maintenance.	Share maintenance costs of shared facility through user fees e.g. proposed Microfinance Service Centre accessible to several Centenary Bank MFI clients.	IT platform sharing/ cost, Mobile banking, Network banking, Micro finance Service Centre

Field Findings continued

#	Gaps	Causes of Gaps	Intervention	Linkage Products/Options
4	Absence of remote off site delivery channels (e.g. ATM)	Management of ATMs especially the off-site ones (cash replenishment, trouble shooting, and power supply)	Revisit mobile banking option for rural market days and satellite offices Luwero district and for the landing sites in Mukono to serve the fish trade; and for the schools esp. school fees payments.	Mobile banking, SMS banking

#	Gaps	Causes of Gaps	Intervention	Linkage Products/ Options
5	Narrow product diversity	Limited products offered by MFIs	Match and refine products with MFI client needs, refine, pilot and offer.	IT platform, sharing/costs Audit and Supervision, Network marketing

Selection Process

- Starting point with 41 institutions
- Elimination stage one
- Elimination stage two, 8 institutions
 - Use of Selection tool.

Partner MFI Selection Tool

#	Criteria	Minimum Qualification	Score
1.	Legal Status	Certificate of registration and business premises	1
2.	Similar Mission and Vision to Centenary Bank	Target Group and peri-urban/rural settings	1
3.	Market Potential both Population & Geographic	Critical mass where the Bank has a branch Critical mass beyond that location	2 2
4a	Performance Operational I Sustainability (OSS)	At least 80% with an improving trend.	1
4b	Portfolio	PAR>30days; Volume; Number	4
4c	Economic Activity in the operating area	Economic activity & diversity	2
4d	Income creation potential for CENTENARY BANK and Tier 4 institution	Positive Cash flows projected	3
4e	Cost reduction potential for CENTENARY BANK and Tier 4 Partner	Cost Savings Projected	3
5.	Governance/Management and HR	Quality, availability, skill and internal control policies and procedures in place	4
6	Technical Feasibility	Product complementarily IT delivery channels	2 3
7	Affiliation to professional body (AMFIU, UCA, USCU and track record of service	Paid up member and submitting prescribed performance reports	2
	TOTAL		30

Selection Results

#	Institution	Score	Remarks
	Wekembe Micro Finance Ltd.	67%	Cheap utilisation of existing structure, Tested in other districts Company limited by shares, CRS monitoring tool, Scope for grassroots growth Not yet a member of AMFIU
	Pearl Micro Finance Ltd.	60%	Co. Ltd by Shares from FTC Stability despite transformation Willingness to pay IT platform
	SMS Ltd.	48%	Need to verify data, next ranked. Below minimum score

Quantification of Linkage Banking Impact from 3 highest ranked MFIs

Item (Dec 06)	Cent. Bank	Wekembe	Pearl	SMS
Borrowers	66,000	2,600	17,000	13,000
Savers	559,000	2,600	17,000	13,000
Loan Portfolio in shs	151.380bn	334m	3.4bn	2.1bn
Savings Balance	217,500bn	66m	680m	422m
Average Loan	1.3m	128,000/	202,000/	162,000/
Caseload per loan officer	245	435	404	435
Average LP per officer in shs.	561m	56m	78m	71m
Operational Self sufficiency	119.61%	105%	96.5%	100.4%
PAR > 30 days	7.7%	19%	2.4%	4.0%

Linkages Else where in World

- **Direct financial linkage**
 - Liquidity balancing (collecting deposit)
 - Credit line (short term ODs) to manage cash flow shortages
- **Facilitating linkage**
 - Credit (Wholesale lending)
 - Deposit (on behalf of MFIs)
 - Mobilization of clients/savings through MFIs
 - Money transfers
 - Payments /Clearing in case upcoming EFT
 - Insurance (Life insurance for borrowers with say AIG)
 - Salary/pension remittances

Existing Linkages for CERUDEB

- Direct Financial linkage mainly
 - Liquidity balancing (MFIs, SACCOs)
 - CERUDEB and current MDIs by facilitating group account opening, handling their deposits, loan disbursements and loan repayment.
- Facilitating:
 - Whole sale lending eg to SOMED

Selected MFI perception of Benefits of Linkage banking

- To improve data management e.g. speed and accuracy of daily reconciliations with their bank accounts
- In position to monitor client accounts with the Bank and to make on real time recovery from guarantee accounts in case of default.
- Real time loan tracking, aging and accurate provision estimation
- Cost sharing of IT facilities

Product Ranking and Regulatory Issues

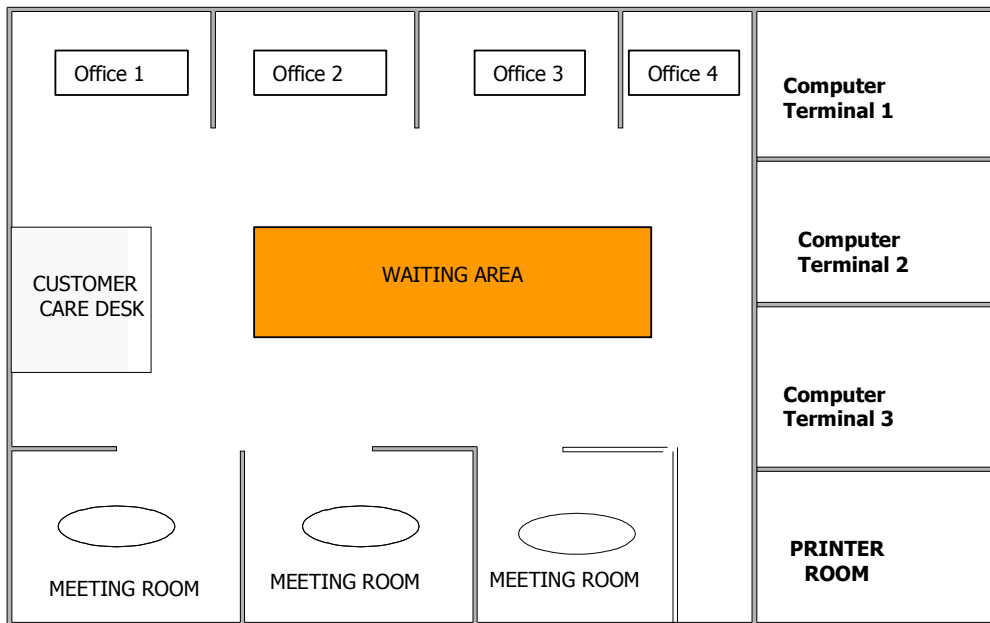
Product Preference by MFIs and Regulatory Issues		
	Products	Regulatory Issue
1st	Refinancing	Credit risk and concentration Collateral to lend to MFIs
2nd	Mobile banking,	Risk of cash movement, insurance, banking data access, Know your customer compliance,
3rd	Audit and Supervision	Bank of Uganda comfortable that Centenary does minimum due diligence with its partners and is covering risks of the non bank by accurate data and reconciliation.
4th	Network marketing	Misconception of public that a non bank is a bank

Product Ranking and Regulatory Issues

5 th	Micro finance Service Centre	Drawing the line between a banking hall and a bank. (It is only synergies that are used, e.g. if located near the bank or ATM machine, bank office operations are not in the service centre).
6 th	IT platform sharing/costs,	Licenses for access of the MFIs are obtained and that the Bank of Uganda is comfortable that Centenary is covering risks of the non bank by accurate data.
7 th	SMS Banking	Non banks with out clearing house facilities offering this service and regulations are not in place for on line reconciliation.

SAMPLE MICRO FINANCE SERVICE CENTRE FOR ALL OPTIONS

MICRO FINANCE SERVICE CENTRE



The option not to link

- Cost Benefit Analysis
- Investment in sensitisation

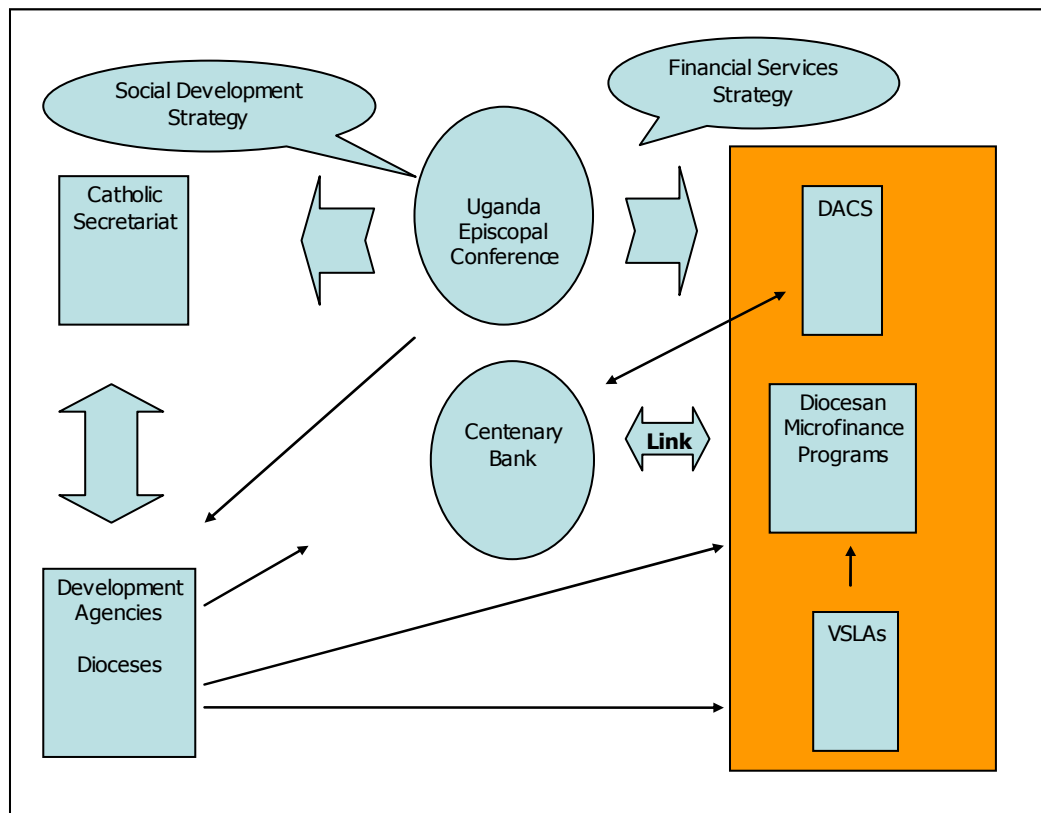
Conclusion from Study

- Ltd. Business case for Linkage Banking with selected MFIs.
- Need to consider a wider business growth model.

Recommendation – Business Model Strategy

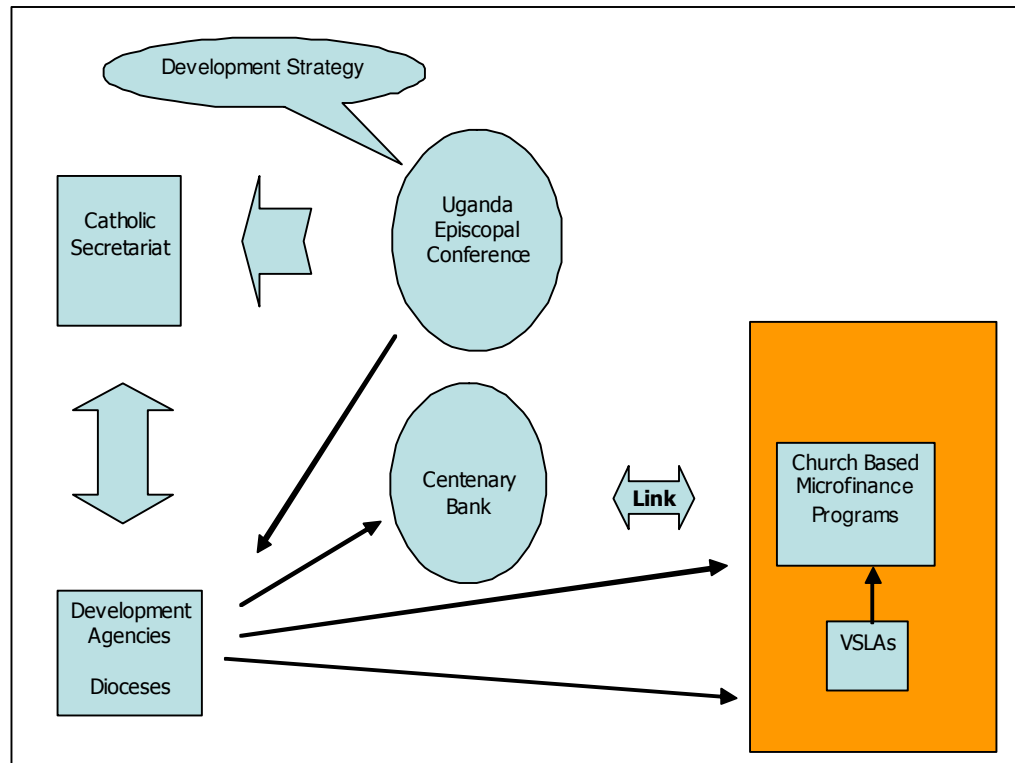
Option 1: Strong Linkage Option

i) Strong Linkage Model



Recommendation – Business Model Strategy Option 2: Soft Linkage Option, (The preferred)

ii) Soft Linkage Model with Diocesan Structure



Salient Issues for Option 1

- Historical linkage with DACs vs current role
- Need to keep at arms length the DAC structure inherited at the inception of the bank versus current role and management oversight.

Why Option 2?

- Positioned to exploit Church networks
- Insulated from Church influence at Board/Management level
- Set up permeable structures under the guidance of Centenary Bank, with minimum qualifications spelt out in:
 - Governance –
 - Written policies/procedures
 - Competent Management and staff.
 - Good systems e.g. software of choice producing timely accurate reports;
 - Business volumes
 - Low executive and network costs

Recommendation – Business Model Strategy

Option 3: Open Linkages with independent MFIs

- Working with independent MFIs that are run on best practice principles. Institutions with the minimum standards agreed with the Bank.
- Can also be run concurrently with Option 2 above.

The Way Forward.

- What is the alternative for Centenary Bank not to link?
- What is the alternative for MFIs not to link?
- The feasibility study phase.

The End

THANK YOU!