

DFID Financial Sector Deepening Project – Uganda Annual Report 2006

INTRODUCTION

This report summarizes FSDU's activities during 2006. It is intended for a general audience of interested development practitioners and other stakeholders. We welcome comments, questions and suggestions.

During the year we entered into important partnerships with SUFFICE and CARE which will help guarantee the long-term return on our investments in the Local Rating Service and in promotion of Village Savings & Loans Associations. In 2007 we will work with our other partners to find the best institutional homes and way forward for the continuing projects in consumer education and protection, in promoting Linkage Banking, and in gathering and disseminating more and better information for policy makers and other stakeholders through FinScope Uganda and the Census of Tier 4 institutions.

OUTPUT 1: *Better Informed and Protected Consumers*

The interest in having consumers who are better informed and protected has increased tremendously and leadership in the area shown by AMFIU, MOP and other agencies, and the wide acceptance of the importance of consumer education by many stakeholders, including financial institutions.

Projects and Activities:

Consumer Education

The pilot phase of the consumer education project was successfully completed in late 2005. Discussions with the Association of MFIs in Uganda (AMFIU) and other stakeholders resulted into the programme being split into two channels:

First, the Mass Market Channel, that is, messages which are designed to reach all consumers, not only present clients of MFIs. Some of the messages are not consistent with the immediate commercial interests of MFIs, such as messages urging customers to shop around, or avoid unnecessary debt. These universal messages, essentially those of the pilot phase, will be delivered through channels including print and radio spots, and hopefully continued participation of the FEWs. The Microfinance Outreach Plan would like the Rural Business Culture component to be involved in this effort.

StraightTalk Foundation (STF) and their subcontractor Communication for Development Foundation Uganda (CDFU) began work on materials development for the national roll-out of consumer education. A study of 1,070 consumers of financial services in Bushenyi, Mukono, Kumi and Lira Districts was carried out to help refine messages and to provide a baseline against which progress will be measured. The survey provided the most accurate information yet available about the knowledge, attitudes and practices of microfinance consumers. In many areas, results were encouraging: most borrowers receive, read and understand contracts. In some areas, however, there were surprises: only half of the SACCO members (52.6%) knew that they own the SACCO. Likewise only 30% said that SACCO members have ultimate authority. The consumer education programme is concentrating on these and other areas where the baseline showed particular gaps in consumers' understanding.

On 2nd and 3rd November, STF and CDFU held stakeholder workshops to revise and validate the strategy, and gain buy-in. Notable in both workshops were informative and supportive opening addresses by officials from the Ministry of Finance, Henry Mbaguta and Lance Kashugyera.

Second, the Client Education Channel carried out by the MFIs themselves. This service is strongly demanded by AMFIU members and the delivery mechanism is consistent with some worldwide trends. During the year, AMFIU was contracted by FSDU to implement this channel among its members. The channel is to be integrated with AMFIU's on-going consumer protection campaign.

In November, AMFIU contracted Microfinance Opportunities, a US based firm, to offer a Training of Trainers to 29 AMFIU members and partners, including MFIs, District Promotion Centers and other institutions with training programmes. AMFIU is coordinating with participants to encourage them to use the materials.

AMFIU also commissioned a theatrical piece that highlights the responsibilities of SACCO members around borrowing shows the challenges that corruption and *bona bagaggawale* pose to SACCOs, and models good SACCO member behavior. This skit has been performed around the country, by three separate drama troupes, to enthusiastic audiences. AMFIU is looking for resources to allow it to continue to present many more iterations of the skit.

Consumer Affairs Specialist at AMFIU

FSDU continued to support the Consumer Affairs Specialist at AMFIU. She advanced both the consumer education and consumer protection programmes. Her contract extends to the end of the project.

Financial Services Consumer Relations Hub

Performance and demand continued to be disappointing even after FSDU and UCPA had made changes to increase knowledge of the service among consumers of financial institutions. The activity was discontinued.

Output 2: Improved Monitoring, Supervision & Regulation of Tier 4 MFIs

Projects and Activities

Involvement with the Government's "Prosperity for All" programme

The debate in MFI circles during the year has been on the Uganda government's rural outreach program called "Prosperity for All", widely known under its Luganda translation '*Bona Bagaggawale*'. There are those that will have nothing to do with the program as they see it in the same light as the failed "Entandikwa" project which had been viewed as a reward scheme for those who had voted in the NRM party. Others have agreed to work with the Government to ensure that they can try and influence decisions which would result in better outreach, more products for the rural poor.

The program has the objective of placing a financial outlet in every one of the over 1000 sub counties in Uganda, and includes three components:

1. Facilitating the creation of SACCOs in Sub-Counties where there are none and strengthening those that are weak, through an improved capacity building structure that would involve the merger of three prominent donor-funded government programmes, the EU SUFFICE programme, the Microfinance Outreach Plan, and the Microfinance Support Centre Ltd.
2. Putting in place a system of regulation and supervision of SACCOs; the Ministry of Finance circulated a draft statute for financial cooperatives, and is proceeding now to develop a framework for Tier 4 Regulation and Supervision; and,
3. Providing financial linkages to SACCOs to commercial banks or, where possible, to

the government-owned PostBank Uganda.

FSDU participated in these debates both as part of a development partner technical team and with the “Standing Joint Committee on Microfinance”. FSDU will continue to answer the calls of the Ministry of Finance to contribute what it can to this effort.

Rating of Small MFIs

During the year, SUFFICE and FSDU selected Planet Rating to carry out the small MFIs Rating Service. The rating service was housed at SUFFICE, together with a local rating fund. A Manager was recruited with input from FSDU to manage the fund and act as the Secretary for the Rating Fund Steering Committee. Planet Rating established an office manned by 2 rating consultants and carried out 5 ratings during 2006.

Census of Tier 4 MFIs

During the year the Census fieldwork started and was completed, the data has been entered and cleaned, and the final draft report has been presented. The Research Coordinator is responding to some late queries on the Census report from the new Commissioner for Microfinance. Thereafter the final report will be released. In the meantime, we are unofficially releasing some survey findings which seem to be particularly relevant. The survey found only 628 active SACCOs with fixed locations among the list of 1,274 SACCOs received from the Commissioner of Cooperatives. There could be many reasons for this anomaly and one way to resolve the question will be to carry out a “Missing SACCOs” study which will involve sending researchers to examine 100 institutions that we anticipated to find but did not.

Developing the Audit Market for Tier 4 Institutions

The training of MFI accounting staff and External Auditors was concluded during the year. In late August, ACLAIM Ltd was contracted to carry out a comprehensive study of the effects of this training on skills acquisition and adoption of better practices resulting in improved financial statements. The consultants were also to determine whether the auditors that had been trained were in fact using their new skills. On 5th December 2006, ACLAIM presented the results in a public presentation. The report concluded that the training had not achieved its main objectives and made the following recommendations on the way forward;

- Redesign the courses so that they are pitched appropriately
- There should be on site mentoring and follow up of the trainees to help them apply the skills
- The audit course should be split to cater for the Certified Public Accountants and District Cooperative Officers separately.

The participants at the presentation also made the following proposals:

- There is a need for a standard chart of accounts to enable the same training to be delivered to more institutions
- The people sent for training should be working as bookkeepers/accountants and should not be people from other departments receiving the training as a reward.
- The training sessions should take at least 5 days.
- The trainers need to be skilled in adult learning principles

- The trainers need to know the level of skill of the trainees beforehand so that they can pitch the training correctly
- The training sessions should have flexible modules that can be modified quickly to suit different levels of accounting knowledge

The meeting also suggested that the Audit & Accounting working group should be revived and should work with the proposed Capacity Building Steering Committee to:

- Advocate for the use of only Auditors who are Certified Public Accountants to audit MFIs/SACCOs.
- Work with ICPAU to train Auditors in the CGAP Audit Guidelines
- Encourage clustering of MFIs so that Auditors can spread their costs over several institutions in the same region
- Encourage independent quality assurance for audits but through a clustering system to reduce costs.
- Participate in the discussions of the Draft SACCO bill

SACCO Members Empowerment Tools

FSDU accepted a proposal from Uganda Cooperative Alliance to train a core team of 22 UCA trainers in the use of SACCO Members' Empowerment Tools with their partner SACCOs. We expect up to 13,000 SACCO members to be trained in 2007 in the following 4 tools:

- How to Electing Good Leaders
- Responsibilities & qualities of SACCO officers
- Rules for giving loans to members
- Portfolio & default management

Linkage Banking Initiative

FSDU conducted a competitive tender, during the year, for selection of linkage implementers and consultants for selected areas in Uganda. Aikan Limited was selected to explore and conduct preliminary assessment of linkage options between Centenary Bank and Tier 4 financial institutions in the Central Region while Deloitte selected to work with PostBank on a similar assignment for Northern Uganda. These two consultancies are to be completed in the second quarter of 2007. The outcome of these 2 consultancies will inform the decision on whether to continue to the next level of undertaking feasibility studies for agreed options, or not. We will encourage linkages between regulated financial institutions and Tier 4 institutions through these 2 pilots. The concept of "linkage" for FSDU has always gone beyond simple commercial arrangements of wholesale lending, to the creation of closer bonds that will expand outreach sustainably, especially in rural areas.

Restructuring & Consolidation Challenge Fund

FSDU views consolidation and restructuring as both inevitable and positive in the crowded microfinance institutional landscape. In order to facilitate this process in a pro-active, constructive manner, the project reserved a £175,000 Consolidation and Restructuring Challenge Fund operating on a matching grants basis for institutions seeking to consolidate,

through merger or acquisition; linkage banking, or to restructure their operations in anticipation of future consolidation.

During year, we worked with the following institutions:

- **FOCCAS:** Initially a linkage arrangement was proposed between PostBank and FOCCAS. Subsequently and before a linkage was established, FOCCAS was wound up by a large creditor. FSDU will work with others to document the lessons from this case.
- **PostBank:** DFID signed a contract with PostBank Uganda for the procurement of two mobile vans. These become an important and visible investment in light of the increased role that PBU is accorded under the Government's plan to increase rural outreach. Procurement is in advanced stages and the service is expected to be launched in the second quarter of 2007 in Eastern Uganda.
- **Agaru SACCO:** FSDU sees Agaru as a possible model for increasing SACCO coverage. It is one of a few cases in which there is a unique comparatively strong SACCO in a district that could be assisted to put a branch of some sort in each sub-county of its district. During the year, a Financial Audit was carried out to gauge the financial state of the institution before any further assistance could be provided.
- **Wekembe:** The Wekembe group of two SACCOs and one company limited by guarantee has had several discussions with FSDU about the way forward. There are several options such as merging the two SACCOs as a first step; then have the company absorbed by HOFOKAM. FSDU will provide assistance to both mergers under the Consolidation and Restructuring Challenge Fund.

Output 3: *Products and Delivery Mechanisms that meet a wider range of clients and client financial needs*

Projects and Activities

Village Savings & Loan Associations – Moyo and Yumbe

The assistance to CREAM to promote VSLAs in Moyo & Yumbe ended on 31st March 2006. CREAM subsequently succeeded in getting a grant from CARE to expand VSLAs in the four districts of Yumbe, Moyo, Adjumani and Koboko.

Village Savings & Loan Associations – Expansion Project

The VS&LA project in Moyo and Yumbe was always seen as a first step towards a nationwide roll-out of these institutions. On the basis of the qualified success of the effort in Moyo and Yumbe, FSDU proceeded with a generalised expansion of VSLAs into other regions of the country. The expansion of the programme was based on the selection of a group of implementing organisations, that is, organisations with the ability and resources to train village groups in the VSLA methodology, and meet minimum standards of transparency, contract administration, and reporting. FSDU contracted CARE as the partner to promote VSLAs through the Implementing Organisations.

CARE International is FSDU's inescapable partner in VSLA promotion; CARE has been the principal promoter of the VSLA model in Africa, can draw on international resources to assure the use of current best practices, and is a large, professional institution which projects a long term presence in Uganda and has experienced human resources used to administering sub-grants to local organisations.

FSDU and CARE created a Transformation Steering Committee, to which various donors interested in supporting VS&LA expansion meet, agree on a common approach respecting evolving best practices in the area, harmonize funding procedures, avoid overlap, and present a coordinated voice in publicising the VSLA approach to government, development practitioners, media, and the public.

CARE has expanded its activities in the year to reach about 45,000 members across the country. FSDU has continued to direct some potential donors towards CARE, so that the project can proceed after the close of FSDU.

In December, FSDU visited the VSLA programme of UWESO, an unsuccessful bidder to receive assistance through the DFID grant to CARE. UWESO has done an impressive job of launching a large VSLA programme with minimal technical assistance, relying above all on the manual which they downloaded and have extensively studied. FSDU left with the impression that UWESO staff had internalized the essential elements of the VSLA approach, and were expanding at an amazingly fast pace, having grown to about 13,000 members in four months after beginning to accept savings. Remarkably, UWESO carried out the programme with limited funding, using existing staff and volunteers from the groups, and bits of money taken from other projects.

Because of the apparently impressive performance to date and the potential for massive outreach at low cost, FSDU decided to accept UWESO's request to provide assistance to them through an assessment of their methodology and a workshop for their staff. This was undertaken in early 2007 by the VSLA expert Hugh Allen.

Collaboration with MicroSave

Under our general support grant to MicroSave, we have supported MicroSave's ongoing technical assistance to Ugandan Action Research Partners CMFL, FINCA UML, Centenary Bank and UFT. MicroSave is an active member of the Transformation Steering Committee whose Secretariat is at FSDU

Output 4: Development of a "Top end" sector characterised by a smaller number of large regulated FIs serving the needs of poor clients

Projects and Activities

Transformation Steering Committee

The Transformation Steering Committee is comprised of donors and government interested in supporting transformation in Uganda. Its current core (funding) members are the Microfinance Outreach Plan Coordinating Unit (MOP), FSDU, GTZ/SIDA Financial System Development Programme Project (FSD), the World Bank, and the Rural SPEED Project. The purpose of the Committee is to coordinate the provision of funding for and to facilitate the

successful transformation of a number of microfinance institutions into regulated, deposit-taking entities (banks or micro-finance deposit-taking institutions) by establishing common policies for this process. The Committee provides guidance to its members in their funding of transformation and post-transformation activities.

FSDU serves as the secretariat of the Committee, providing a part-time Transformation consultant who acts as the Committee secretary and coordinates the Committee activities. Lloyd Stevens the first Transformation Consultant and Secretary to the TSC completed his contract at the beginning of the year and Godfrey Ssebukulu took over the reins. The Committee met five times in 2006.

In September FSDU placed newspaper adverts in the local press, on behalf of the TSC, inviting expressions of interest from MFIs hoping to transform into MDIs in the next five years. No responses to the newspaper adverts were received by the deadline. Subsequent telephone follow up with the potential candidates yielded responses from Success Microfinance Services, MedNet, and HOFOKAM.

Assistance to UFT

FSDU's support to U-Trust ended on 30th September 2006, when funds disbursed under the grant were fully spent. UFT got its MDI licence on 12th October 2005.

Assistance to Faulu

FSDU's support to Faulu ended on 30th June 2006 and an unspent balance of the grant was refunded to DFID. The institution delayed to submit its MDI license to BoU as the sale of the FHI shares to Opportunity International (OI) took time to complete. The sale was concluded on 28th Dec 2006.

MedNet

MedNet, one of the largest remaining credit-only MFIs, has a strong desire to transform. The new CEO has a good idea of what is involved because of her earlier transformation experience at UFT. FSDU accepted a request for co-funding a consultant to formulate a transformation plan for MedNet. K-Rep won the bid and carried out the assignment. The recommendation from the assignment is for MedNet to first restructure its systems and operations before it can embark on transformation into a regulated financial institution.

Output 5: Increased dissemination of relevant information to Micro-finance Policy makers and Practitioners

Projects and Activities

FinScope Uganda

FinScope Uganda is a demand side study of Uganda's financial market. The study will produce detailed, nationally-representative information on demand, access and application of financial services with specific emphasis on credit, savings and insurance services. This information will help determine the nature of the market for these products, and the profiles of people who are served, as well as those yet unserved or underserved. It will help determine

what kinds of institutions, in what locations, and with what products, are necessary to reach more people. This information will also be useful for financial institutions of all kinds, policy makers, donors, and consumers of financial services themselves.

The research company, Steadman completed the field work and data entry. They have submitted raw, un-weighted data to us and Bob Currin, a consultant from FinMark Trust, came to Uganda for two days to help us review progress and examine the data. The next step is for the Uganda Bureau of Standards to have the data weighted to compensate for over samples in the urban areas.

We have developed a draft data dissemination plan, which will lead to draft terms of reference for some individual or firm to help us with the social marketing of the FinScope Uganda data. We will issue an RFP before the end of March 2007.

Informal Information Exchange Meetings

FSDU continued to fund and arrange the Informal Information Exchange meeting every quarter with the following themes:

- January 30th, “**Getting the product right**” featuring Ms. Jill Burnett an independent consultant and Mr. Henk Oosterhout of the SUFFICE Project
- April 24th, “**Supply and Demand for Financial Services in Uganda: The Census of Tier 4 MFIs and the FinScope Study**” featuring Mr. Luke Okumu of the DFID/FSDU Project and Ms. Darrell Berghin & Mr. Bob Currin of FinMark Trust
- July 31st, “**Institutional Structures that respond to the bottom 80% of Ugandans**”, featuring Mrs. Grace Majara Kibombo, VSLA Coordinator CARE in Uganda
- October 23rd, “**Innovative Linkages: The Cameroon experience**”, featuring Dr. Simeon Numbem and Mr. Hamadou Bayo of Afriland Bank

Deepening

FSDU’s monthly *Deepening* newsletter remains one of our principal ways of disseminating information. The mailing list has grown to over 550 subscribers, with roughly half within, and half outside of, Uganda. Each issue receives numerous email responses, usually favourable, often requesting additional information, and often from outside of Uganda.

Website

The FSDU website continued to have an average hit rate of over 700 per month. More information continues to be added.

Uganda Martyrs University MF course

Christopher Musoke and Paul Rippey both offered courses at the residential phase of Uganda Martyrs University’s microfinance programme between 25th May and 29th May. Christopher taught “Organisational Development” and Paul “Product Diversification”.

Other Studies and Presentations

- To publicise the importance of the informal sector, FSDU commissioned a cartoon suggesting that international experts were sometimes blind to the existence of informal sector institutions.
- The FSDU Manager wrote an article on VSLAs which was published in “Donor News” magazine.
- FSDU’s Manager and Research Coordinator attended a FinScope conference on 24-27 March in Magaliesburg South Africa and made two presentations on “Differentiating the ‘Informal Sector’” and “Differentiating the ‘Poor’”. Both papers suggested that the traditional segmentations coming out of the South African FinScope experience were not sufficient for Sub Saharan Africa as they neither captured the richness of institutional forms present, nor recognized the variety of occupations among groups often lumped together under the term “the poor”.
- As has become its custom, FSDU held a public meeting 31st January 2006 at the Sheraton Hotel to present its Annual Work Plan, and discuss its activity report for 2005.
- Luke Okumu of FSDU presented the work he is doing in data collection to the AMFIU AGM on 3-5th May
- FSDU designed and published, with the members of the Rating Steering Committee, a Flyer publicising the Rating Service.
- FSDU commissioned a study on the Transition from Group to Individual loans, carried out by the consultant Jill Burnett. While the consultant’s conclusions seem valid, the study itself was marred by the difficulties she encountered in obtaining information from the participating MFIs, FINCA, U-Trust and CMF Ltd.
- FSDU commissioned a study on the outcome of the large grant to FSAIU to create a network of “Financial Services Associations”. We have had little contact with these institutions since we ended assistance two years ago. The consultants found that, of 32 FSAs created, ten were either closed, or moribund. Eleven were weak, still making some financial transactions, but with poor loan recovery, and essentially all income immediately being spent for recurring costs. Finally, eleven more, including half of those in the Kampala area, were judged to be strong, both profitable and growing.