

## DFID Financial Sector Deepening Project – Uganda Annual Activity Report 2007

### INTRODUCTION

This report summarizes FSDU's activities for the eight and half month period to 15<sup>th</sup> September 2007 because the contract for ECI Africa Consulting Ltd to implement the FSDU Project ended on that date. During the year we have worked with our partners to find the best institutional homes and the 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 implementation of the Consumer Education activity is in general on schedule, although with one key activity behind schedule, the Learning Exercise.

The CDFU subcomponent – flipcharts, posters, radio shows, call-ins and spots, has been essentially completed. As this is written, an initial draft of the second and for the moment last issue of Money World magazine is being circulated for input from stakeholders. The theme of the newsletter is the Rights and Obligations of consumers, although, as in the earlier issue, there is a strong emphasis on savings, and in deference to the government's rural financial outreach strategy, substantial information for SACCO members.

AMFIU carried out two studies, both in late drafts and about to be released.

AMFIU carried out a rapid evaluation of the impact of the Music, Dance and Drama component, by interviewing participants at presentations of the consumer education skit immediately before, and immediately after, the show. They found clear changes in attitudes towards borrowing and debt, responsibility for SACCO management, and transparency; some of these changes were quite substantial, and argue strongly for a continuation of the skits.

AMFIU also commissioned a study of on-going consumer education among a sample of its members, and found that none of the members did any education other than assuring that their members knew their responsibilities to pay back loans.

At the Third African Microfinance Conference, Basil Tushabe of CDFU made a presentation on the consumer education program, and we released a flyer packed with information about the program.

The Learning Exercise started late and we are rushing it to conclusion as this is being written. The intention is to provide enough documentation about the Ugandan experience in consumer education to make it easy for stakeholders here to continue it, and to help other countries possibly adopt something similar.

The Rural Business Culture has distributed and trained over 100 users of Flipcharts, and reports anecdotally that they are highly appreciated and useful.

## 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 in December. In addition to carrying out activities sponsored by FSDU, she also works on the European Union's Transparency grant with AMFIU.

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

### ***Projects and Activities***

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

FSDU was among the donor projects which decided to actively engage with the government on the Prosperity for All programme. While recognizing the flaws in the design of the program, and the likely outcome of creating large numbers of SACCOs in an atmosphere of imprecise promises of government funding, we also realize that it is our role to support government policy in a constructive way.

The Prosperity for All Programme has been a moving target, however, and basic elements, including the role and definition of a District Link Bank, the amounts of money that will be channeled to participating SACCOs, the regulation and supervision of these SACCOs, whether there would be a new SACCO law, the roles of PostBank Uganda and other institutions in linkage banking, and the question of who will take the lending risk in the case of government loans to SACCOs, are all being debated. Some of these questions are coming closer to answers, but the programme remains in a state of formulation rather than implementation (although SACCO formation is apparently proceeding rapidly in the Sub-Counties). Our participation, along with that of other stakeholders, has been in the form of emails and conversations, rather than concrete outputs. We have been honored to have substantial access to the State Minister of Microfinance, and gratified that he took our input seriously.

FSDU played a substantial role in helping to create a Capacity Building Sub-Committee. This Committee did important work in clarifying the need for better coordination, although at the time it was meeting, early in 2007, it was not clear which participating agencies would even remain in existence to carry out capacity building activities. It now appears that these activities will be concentrated in UCSCU; this is a positive step, as it largely neutralizes the need to coordinate.

#### Rating of Small MFIs

The Rating Agency and the Local Rating Fund had a difficult year.

The local Rating Agency fell far short of its target of 30 ratings, carrying out only 12 as of the writing of this report. The problem was never one of funding; rather, it was a problem of marketing the service. The shortfall in output is perhaps in part to over-reliance on optimistic information from the Rating Fund manager at SUFFICE, who regularly reported on a long list of MFIs that had expressed interest in being rated. In the fact, there was a big and difficult gap between expressions of interest from MFIs, and signed contracts to be rated. Even when a date for a rating was tentatively agreed on between the rating agency and the MFI, the rating was apt to be deferred, sometimes at the last minute. The reasons given by the MFIs were sometimes lack of agreement at the Board level; lack of funds; or, simply "not being ready" for the rating.

While the Rating Agency was falling far short on output, it could be argued that the Rating Fund was never actually established. The members of the Rating Steering Committee agreed to access and subsidy principles, but never pooled money, and some of the members were never even called upon to make a contribution. As of this writing, the only members actually to fund ratings were SUFFICE, Rural SPEED and FSDU. FSDU had originally planned to make a grant to SUFFICE which would manage the money in accordance with agreed upon principles after the closure of FSDU, but as things worked out, SUFFICE suffered operational interruptions, and the programme has more or less closed effectively before FSDU.

The idea of encouraging ratings certainly remains valid. Many parts of the implementation could have been done better. It appears that the carrot of a local rating fund by itself is not enough to lead to large numbers of ratings. All three of the agencies which ended up funding ratings also used the stick of tying assessments to assistance. SUFFICE simply made being rated a requirement for assistance, and at least in one case this was strongly resented, and the MFI in question was uncooperative. Rural SPEED and FSDU were gentler, strongly urging grantees to accept ratings; this approach seems to have been more successful.

On July 24, FSDU sponsored a lunch with representatives of the Ministry of Finance, PostBank Uganda, the Microfinance Outreach Plan, the Ministry of Finance, and Planet Rating to encourage the widespread use of ratings or similar assessments. PostBank Uganda strongly supported that initiative. Shortly afterward, FSDU also put PostBank Uganda in touch with Microfinanza, the Italian Rating firm which has opened an office in Nairobi. PostBank would like to see some of the funds from either MOP or MSCL used for systematic, standardized external assessments. Whether this will happen is one of the questions that will be answered as the situation around Prosperity for All becomes clearer.

### Census of Tier 4 MFIs

The Tier 4 Census has been completed for many months. As this was a project done under the ostensible direction of the Ministry of Finance, we have waited for them to sign-off on the final report before publishing it. However, while waiting for final MOFPED approval, we released headline indicators in two separate public events, and circulated the report widely in late-draft, electronic form.

The Ministry was remarkably non-responsive to repeated telephone calls, emails, text messages, pleas during conversations, and at least one formal letter. Finally, FSDU requested either a response or a green light to publish by going to higher levels, including xx Kiiza and the State Minister for Microfinance. MOFPED responded with a detailed list of changes that they requested in the report, each of which we addressed, and returned the report to them. They came back with another list of changes, which we also made and quickly returned. We are assured that the report is going off for signature now to the Senior Minister. It will be published along with the Missing SACCOs study in a small press run, which we will distribute through AMFIU.

### Developing the Audit Market for Tier 4 Institutions CHRIS

The Audit & Accounting working group was revived in February 2007 and became a subcommittee of the Capacity Building Steering Committee. The outcomes of the deliberations of the subcommittee enabled FSDU to commission 2 consultants to do the following:

- Develop a Model Accounting Policy & Procedures Manual for SACCOs – This will provide a template for SACCOs to design appropriate financial management systems.
- Assess the capacity gaps in the work and functions of Accountants and Auditors of SACCOs – This will provide a plan on provision of the right assistance to build capacity of Accountants and Auditors of SACCOs

### SACCO Members Empowerment Tools

After the initial ToT, the trainers returned to the UCA partner SACCOs and started training the Members in the following 4 Empowerment Tools.

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

By 31<sup>st</sup> August, 9,512 members of 58 SACCOs had received training in the tools. We were unable to achieve the target of 13,000 members due to several logistical challenges. The assessment of the effectiveness of the training was not carried out due to time constraints.

### Linkage Banking Initiative

FSDU conducted a competitive tender, during Q4 2006, for selection of linkage implementers and consultants to undertake linkage banking pre-feasibility studies in Central and Northern 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 was selected to work with PostBank on a similar assignment for Northern Uganda. Work on these consultancies began in Q1 2007 and completed in July 2007, behind schedule due to a need to undertake more field work to corroborate findings and conclusions, with a dissemination workshop at the Sheraton Hotel on Tuesday 14<sup>th</sup> August 2007.

PostBank has written requesting for support to take the linkage banking study to the next level i.e. undertake full-blown feasibility studies while Centenary Banks is still conducting internal consultations on the way forward. 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. The two pre-feasibility studies demonstrated that linkage banking for rural outreach is a long term investment requiring a concerted effort and careful understanding of the market and the players.

### 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.

**PostBank:** During the year, DFID signed a contract with PostBank Uganda for the procurement of two mobile vans. These will become an important and visible investment in light of the increased role that PostBank is accorded under the new Rural Financial Services Strategy. The mobile banking service will be launched on 14<sup>th</sup> Sept 2007. This mobile

banking service will bring services to seven 7 out of the seventeen (17) un-banked districts as listed in Government's new rural financial services strategy.

**Agaru SACCO:** From January to September 2007, FSDU co-funded Planet Rating to do a rating for Agaru, Kisaka & Company to undertake a statutory audit for Agaru for the year ended December 2006, and Friends Consult Limited to formulate a strategic business plan for Agaru. Agaru is targeted as a prime linkage banking partner for PostBank in Northern Uganda.

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

#### ***Projects and Activities***

##### Village Savings & Loan Associations – Expansion Project

The expansion project is on track to come close to its targeted 100,000 customers, though it is unlikely to attain quite that number. CARE, with justification, stopped forming new groups, as they did not have sufficient guaranteed funds to continue through the long incubation period that many think is necessary.

Attention has now shifted to finding additional funding to continue SUSTAIN. Rippey of FSDU has engaged in a flurry of correspondence with other implementers and with the Gates Foundation, calling into question the orthodoxy about the cost of group formation, the failure so far to capture significant economies of scale, and the need for a large number of visits to groups. Gates will probably fund CARE to expand their activities, but will also request cuts in per member costs.

Our second grantee, UWESO, is implementing a streamlined VSLA project, using ledger free bookkeeping, and a simplified MIS. They are tracking and reporting on 600 groups, although they report informally that the actual number is substantially higher, because of spontaneous groups in many of their regions. A small number of their groups in densely populated areas are experimenting with daily savings, which we believe to be the only groups in Africa doing so.

### ***Output 4: Development of a “Top end” sector characterised by a smaller number of large regulated Financial Institutions serving the needs of poor clients***

#### ***Projects and Activities***

##### Transformation Steering Committee

The Transformation Steering Committee (TSC) comprised of donors and government agencies interested in supporting transformation in Uganda. The core members of the TSC were: the Microfinance Outreach Plan Coordinating Unit (MOP), FSDU, GTZ/SIDA Financial System Development Programme Project (FSD), the World Bank (implementing agent for IFAD), and the Rural SPEED Project. The TSC coordinated 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).

FSDU served as the secretariat of the Committee by providing a part-time Transformation Consultant who acted as the Committee secretary and coordinated the Committee activities. The Committee met 3 times during 2007 and held its last meeting on Wednesday 15<sup>th</sup> August 2007. Besides coordination of grants and TA, the TSC commissioned a study to assess the effects of the MDI Regulation in Uganda. This study was conducted by Friends Consult Limited under DFID/FSDU funding. Findings of this study were presented at one of the sessions at the 3<sup>rd</sup> African Microfinance Conference in Kampala from August 20-23, 2007 and disseminated widely to the participants.

The TSC leaves the transformation landscape in sombre mood as there are no visibly ready transformation candidates in Uganda.

MED-Net, 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 has supported MED-Net through provision of direct technical assistance by the Transformation Manager during formulation of their strategic plan in Q3 2007.

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

### **Projects and Activities**

#### **FinScope Uganda**

FinScope Uganda is a massive, robust demand side study of Uganda's financial market that has produced vitally important information for financial institutions, donors, and policy makers. The study has had repeated delays, but the final report is being released as this report is written, and we held a well attended news conference and launch on August 16, at the Serena Hotel.

The project is overseen by the FinScope Uganda Steering Committee, made up of financial institutions, the Bank of Uganda, the Ministry of Finance, donors, and researchers. At the recommendation of the Steering Committee, DFID signed a contract with the research firm The Steadman Group to assist in dissemination. Steadman will make 20 presentations to a various stakeholders targeted by the Steering Committee. In addition, the Steering Committee will monitor use of the dataset, develop a research agenda to mine the existing data further, and oversee institutionalization and future iterations of the study.

We also commissioned a study of the data by Susan Johnson focusing on the factors that determine access to services. Dr Johnson presented her findings at the Third African Microfinance Conference.

#### **Informal Information Exchange Meetings**

FSDU organised an Informal Information Exchange meeting on January 22<sup>nd</sup>, with the theme "*Rural Outreach, Two Approaches*". Subsequently the organisation of the meetings was handed to AMFIU who arranged the meetings on 23<sup>rd</sup> April and 23<sup>rd</sup> July. FSDU funded the

subsequent 2 meetings. AMFIU are soliciting for sponsors of these very informative and useful meetings

## Deepening

FSDU's monthly *Deepening* newsletter remains one of our principal ways of disseminating information. The mailing has gone to about 500 subscribers, with roughly half within, and half outside of, Uganda. Each issue receives numerous email responses, often requesting additional information, and often from outside of Uganda.

## Website

The website was extensively revamped during the year and arrangements have been made to have it hosted for another 18 months after FSDU has closed.

## Uganda Martyrs University MF course

Christopher Musoke and Godfrey Jjooga Ssebukulu both offered courses at the residential phase of Uganda Martyrs University's microfinance programme in May 2007. Christopher taught "Organisational Development" and Godfrey taught "Product Diversification".

## Other Studies and Presentations

- FSDU played key roles on the Programme, Finance and Organising Committees for the Third African Microfinance Conference: New Directions for Rural and Urban Africa. The conference was much more time consuming (and stress producing) than we had been led to believe it would be, but the results of the conference were so satisfying that we have forgiven those who misled us into believing that it would be "easy".
- As has become its custom, FSDU held a public meeting 30<sup>th</sup> January 2007 at the Sheraton Hotel to present its 2007 Work Plan, and discuss its activity report for 2006.
- On 23<sup>rd</sup> February FSDU hosted a breakfast presentation by Hugh Allen on VSLAs, very appreciated by the 30 guests.
- We also widely disseminated the influential study and a subsequent journal article on the state of the Zanzibar VSLAs, two years after the end of CARE support. FSDU co-funded the study, and Chris Musoke was part of the field team, and a co-author, of that study.
- FSDU published a four page document to help MFIs make the transition from group to individual lending, based in part on the work that Jill Burnett had done here in 2006.
- FSDU published a short report on the state of the Financial Services Associations; two years after assistance to them from FSDU had ended.
- One of the FSDU staff (Rippey) worked with a small group of colleagues around the world to increase awareness of the likely effects of global climate change on microfinance customers and institutions, and the countries they are located in. He co-authored, with Elisabeth Rhyne, an article called *Preliminary Thoughts on the Implications of Global Climate Change for Microfinance* which appeared in the Spring 2007 issue, number 14, of the *Microbanking Bulletin*. He also developed a presentation on Climate Change and Microfinance, using many of the slides from Al Gore's *An Inconvenient Truth* presentation, and presented that for it to financial institutions, including 60 staff members of Standard Chartered Bank; the MicroSave CEO's

Conference; Plan International Regional Conferences in Dakar and Nairobi; the Kampala Microfinance community; and the Board of Centenary Bank.

- We made copies of the 2007 Outreach map of financial institutions for key stakeholders in the microfinance industry.