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# **FUNDING MFI RATINGS IN UGANDA**

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**Uganda Local Rating Fund**

# The Uganda Local Rating Fund

- The Ugandan Rating Fund concept was developed in 2005 by the Support to Feasible Financial Institutions and Capacity Building Efforts (SUFFICE) Programme together with the Financial Sector Deepening Uganda Project (FSDU).
- The objective was to enable small MFIs to access rating at affordable costs by providing a subsidy.

# The Ugandan Rating Fund

- The Rating Fund became operational in May, 2006 and was formalized by a letter of mutual understanding.
- It has so far provided subsidies for 12 mini-ratings.
- The fund targets “Tier 4” institutions, that is, small unregulated MFIs.

# Membership

- EU/SUFFICE
- DFID/FSDU
- USAID/Rural SPEED
- GTZ/Sida FSD
- MSC Ltd



# Operations

- The Fund contributes 85% of the cost of rating up to a maximum of USD 3,500.
- The MFI pays the balance of 15%.

# Applying for the rating subsidy

- The MFI applies for a rating to the Rating Agency, copy to the Rating Fund
- The Rating Agency submits a proposal to the MFI for the rating mission



# Applying for a rating subsidy continued

- The MFI forwards the proposal to the Rating Fund to apply for a subsidy
- The Rating Fund notifies the Rating Agency of its acceptance and approves the rating mission

# Challenges to the Rating Fund:

- Some MFIs are reluctant to be subjected to rating as this would expose their institutional weaknesses or lack of transparency





# Challenges to the Rating Fund continued:

- Some of the MFI Managers think that rating will guarantee them receipt of credit, grants or capacity building which is not the case.
- Some MFIs are unable to raise the 15% contribution and prefer the whole rating paid for or reduced.

# Challenges to the Rating Fund continued:

- Some donors and wholesale lenders that support the MFIs did not put much pressure on them to get rated.
- For some that insisted, the MFIs were not willing to give the required information easily.

# Challenges to the Rating Fund continued:

- The low rating grades scored by the MFIs could have scared some of them away.

Overall, the demand for ratings has been lower than anticipated.

# Way forward:

- Three members of the Rating Fund (SUFFICE, FSDU and Rural SPEED) are closing their projects in 2007.
- The remaining members remain enthusiastic about ratings, but with only two members, the need for a common policy towards subsidizing ratings may not be as acute.
- However, there are plans to create a rating-audit fund to enable MFIs to carry out ratings and external audits at a subsidized cost.

**THANK YOU**