

Deepening
The Monthly eNewsletter of
DFID's Financial Sector Deepening Project in Uganda
FSDU
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Dear Friends and Colleagues,

Welcome to this issue of Deepening, the email newsletter of DFID's Financial Sector Deepening Project in Uganda - FSDU.

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Local Rating Service

After a year of conceptualising, scoping, designing, bidding, negotiating and selecting, the Uganda Local Rating Service is about to begin. Hosted by our colleagues at the European Union's SUFFICE programme, and co-funded by SUFFICE and FSDU (for the moment – other donors may join us), the Local Rating Service and Local Rating Fund are an initiative to bring reliable, affordable, internationally comparable, and comprehensive institutional assessments to smaller Ugandan MFIs.

To review the process: After a competitive bid, PlaNet Rating was selected to receive some subsidy from SUFFICE to establish a branch office in Uganda that will have the ability to conduct a large number of ratings of smaller MFIs, at an affordable price. PlaNet has agreed to conduct at least 30 ratings in the first year of its operations. At the same time, SUFFICE, FSDU, GTZ/Sida's Financial Sector Development Project, and other partners are working to create a Local Rating Fund to bring the cost of ratings down to a level more affordable to smaller MFIs.

After a competitive bid and review of many applications, Agnes Mugwanya has been chosen to be the manager of the local rating fund. Ms Mugwanya is a lecturer in Economics at Makerere. She has previously worked in the banking sector and with large MFIs in Uganda. She will manage the fund, and report to a Steering Committee which will provide overall strategic direction to the local rating effort. Welcome, Agnes!

Consultants from PlaNet Rating, Emmanuelle Javoy and Nadine Chahadi, have scheduled a mission to Uganda in mid-May.

Our expectations are very high for the Local Rating Service and Fund. Ratings will do many things: First, they will provide objective assessments of strengths and weaknesses to MFI boards and management, so that they can produce their roadmaps to implementing needed reforms, and – through consecutive ratings – measuring progress. Second, they will give policy makers much more accurate information about the strength, security and absorptive capacity of SACCOs. Also, ratings will guide providers of capacity building assistance in choosing and sequencing their interventions. Fourth, they will give wholesale lenders a comparative reference to complement their own assessments of the credit worthiness of

potential borrower MFIs. Finally, they will provide consumers and shareholders of member-based institutions with information that can protect them, and help them ask the right questions to institution staff and governance bodies. Even if not all of our expectations are met, we are optimistic that these interventions have the potential to revolutionise management, assessment, oversight and support of Tier 4 MFIs in Uganda.

Consumer Education Expansion Project

We have received and commented on draft proposals to roll out a national consumer education campaign from the Association of MicroFinance Institutions of Uganda (AMFIU) – for messages to be delivered by MFIs; and, from a consortium made up of the Communication for Development Foundation of Uganda (CDFU) and Straight Talk Foundation. We are delighted to be working with such strong partners and look forward to receiving the final proposals very soon, and beginning work.

In the meantime, we attended the AMFIU Annual General Meeting in Jinja and were delighted to view a skit presented by the talented Undugu Family Cultural Association drama troupe. The play told the story of the unfortunate Mr Butamanya, who takes a loan purely for consumption goods, misleading, and offering to bribe, his loan officer in the process. Predictably, he is unable to repay, and turns to his wife, an industrious woman, also an MFI client, who dreams of becoming a “modern farmer”. A terrible fight between the Butamnyas is resolved when local authorities and MFI staff explain the importance of saving and prudent investment to Mr. Butamanya, who promises to reform. At a comic high point, Mr Butamanya’s drunkard friend holds up an empty bottle and says, “We need another loan! This one is empty!”

Music, Dance and Drama are an effective medium for reaching rural people, and AMFIU is considering subsidizing institutions which would like to share the story of the Butamanyas at their Annual General Meetings, or on other occasions.

Village Savings & Loan Association Expansion Project

The VSLA Steering Committee held two meetings during the month, on the 4th and the 28th of April. We discussed the existing grants, and decided to try to accelerate the roll-out process by negotiating directly with two institutions which we judged might be capable of gaining considerable scale quickly with less administrative cost. We will tell you of the outcome of this process in the next issue. In or shortly after the meeting of 28th April, the Letter of Mutual Understanding, a “carefully considered but non-binding agreement” was signed by the four present members of the Steering Committee, CARE, Plan International, DFID and FSDU.

CARE held a week-long training of trainers for two of the first round grantees during the week of the 16th, and has scheduled a second TOT for May. They also held an intensive workshop during the week of the 24th with a dozen partners to examine practices in Uganda and begin to agree on some best practices.

During the month, we had contacts with two new donors with an interest in VSLAs– again, we will report on this potential expansion as and if it develops.

On April 7th and 8th, I took an enjoyable trip with Lance Kashugyera, the director of the MicroFinance Outreach Plan, to visit some groups being supported by our sub-grantee FURA, in Kasese district. During the visits, we were accompanied by the FURA director, Reuben Mbauta. The two groups left a powerful impression on both Lance and me.

Ighabino Group in Mahango Sub County was particularly interesting because the members had to resolve two problems during the meeting: two thousand shillings (about a dollar) were missing after the savings were collected (one member finally remembered she had announced her savings amount but had then neglected to bring the money forward).

Then, the amount of money requested for loans markedly exceeded the funds available. This was resolved when members voluntarily agreed either to defer their loans to a future meeting, or to accept a smaller amount than what was requested. (Lest anyone draw the conclusion that the groups are flawed because they do not have enough loan capital, and therefore urgently need outside financing, I point out that the members that could not be served at the meeting only had to wait until the next meeting, a week later, to have the amounts they had requested, bringing the total time between their loan request and its satisfaction to one week, which is not bad for a worst case scenario.)

In both of the groups we visited, the remarks of the members made a convincing case for the developmental impact of the programme, not only as a means of bringing reasonably secure remunerated savings and appropriately sized loans to poor people, but as transparent, empowering, democratic grass roots organisations.

The VSLA concept is gaining so much interest that many of us are afraid of it becoming the new Flavour of the Month. As I said in an email to friends, "...do you worry at all that we are advocating a new one-size-fits-all product here, that, to justify its existence, MUST be better than all the alternatives?? ... I remember visiting Bangladesh in 1986 and having an almost religious experience, and became a Grameen devotee for years. And, although I have great respect for Grameen, its people, its brilliance, I see all the problems now with its approach and the harm that has been done by uncritical Grameen replicators around the world, including, I admit, myself. I just want to be cautious as we get into the Next Big Thing. Can't we just say, 'These groups work very well for some people, and many people find them an improvement on the informal structures they now use. They can be an important part of the financial system for the poor, though they should not be expected to replace all other options'."

FinScope Uganda

Our consultants from FinMark Trust, Darrell Beghin and Bob Currin, were in Kampala during the last week of April to work with our contractor Steadman Associates, the Uganda Bureau of Statistics, and FSDU to finalise the questionnaire, and help us with some technical questions around sample size and sampling and other issues. In early pre-tests of the questionnaire, it was taking over two hours to ask all the questions, which is simply too long. By the time the FinMark consultants left, Steadman was able to administer the questionnaire in one hour and twenty minutes, just at the outer limit of acceptable length, and we had improved many of the questions.

Luke Okumu and I have been working on a way to classify informal institutions into the categories of ASCA, ROSCA, Burial Society, Provident Fund, Savings Club, and Investment Club. The challenge is that informal structures seldom fit neatly into our categories. We are looking at an easy and quick way that the FinScope Uganda survey can capture the primary category and secondary characteristics of informal groups to which members belong. We are certain that whatever we decide on in the first iteration of this study will be improved on in future iterations, in Uganda and elsewhere.

MFI Transformation, Consolidation, and Linkages

Godfrey Jjooga Ssebukulu, our Transformation and Consolidation Consultant, has been busy developing a workplan, working with PostBank on a linkage banking proposal to use mobile branches to reach out to rural areas and particularly to clients of the MFI FOCCAS, and to prepare for the next Transformation Steering Committee on 17th May. There will be more to report on each of these initiatives in the next newsletter, and we will let him work in peace now.

Studies

A brief note on other studies underway, and coming up soon:

The Tier 4 Census is about to move to the next phase, of conducting detailed interviews with all the 1200 identified MFIs, or as many as agree to participate. Luke Okumu has worked hard with the Uganda Bureau of Statistics (UBOS) to gain their endorsement of the questionnaire and the survey design. As this is being written, a consultant is drafting the interviewer manual, again in close collaboration with UBOS. Finally, Luke went personally out to resolve discrepancies between the reports of the consultants who worked to capture the exact location of all Tiers 4 MFIs with GPS devices, and some of the District Private Sector Promotion Centres, who complained that we had not found all the existing MFIs. In some cases, the Centres were right, and in other cases, the GPS consultants were right. And sometimes, it was hard to decide: in one case, Luke was shown to a pub. “But this is a bar!?” Luke said to the barman. “Yes, but we have financial services too,” the barman replied.

In late May, we will begin a Study of Wholesale Lending to Member Based Institutions, to be co-sponsored by MicroFinance Support Centre Ltd and FSDU, and, we hope, other partners. The draft study design calls for comparisons of groups of SACCOs which have received wholesale funds apparently successfully, those where the loan was less successful, and a control group of institutions which have refused to accept funds. We will look at the impact of the loans on the balance sheets, the income statements, the attitudes of members, boards and staff, the lending procedures, and other factors. We hope that the study will help guide wholesale lenders in client selection, and in tailoring amounts and conditions to optimise positive outcomes.

We designed with MicroSave, and commissioned, a study on the Transition from Group to Individual Loans that three Ugandan MFIs – Finca, U-Trust and CMF - have undergone. We have accepted the report, but are still waiting for some data from each of the MFIs before publishing. We think that study, and its very clear recommendations, will address issues that many other MFIs are facing around the world, and we are eager to put the final dots on the i’s and publish it. Stand by.

Finally, with our sister programs in Kenya and Tanzania, we are about to launch a survey of Regional Opportunities for Training and Education in Pro-poor Finance. This study will have two goals: first, assemble information on all the opportunities in the three countries, to facilitate access to training and education programmes and help build a regional market. Second, to guide the Financial Sector Deepening Programs in – possibly – putting in place scholarships or other forms of financial support which would be, as an absolute condition, market building, and not market distorting. Stay tuned.

With best wishes,

Paul Rippey
Manager