

Deepening

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

Welcome to the second monthly issue of Deepening, the email newsletter of DFID's Financial Sector Deepening Project in Uganda - FSDU. We hope you find it interesting and useful, and we invite your comments.

We are learning to manage a large mailing list; quite a number of people to whom we intended to send the January issue received either no copy, or more than one. If you did not receive the first issue and would like to do so, please just send us a return email. Similarly, if you would like to be added to or removed from the list, let us know.

This month saw activities in the following areas:

- The launch of the Consumer Education Project in Masaka and meetings with Financial Extension Workers (FEWs) there
- MFI Consolidation
- MFI Transformation
- Savings and Loan Associations in West Nile
- Facing the gaps in our knowledge of financial markets in Uganda
- A working session with the Ankore Microfinance Institution Association

Consumer Launch and Meetings with FEWs

Background: FSDU is funding a six month pilot project in Masaka and Mbale districts to test the usefulness of educating consumers of financial products in their rights and responsibilities, and about the types of products and institutions that are available to them. We are working closely with the Microfinance Outreach Plan (MOP), the Association of Microfinance Institutions of Uganda (AMFIU), Uganda Consumer Protection Association (UCPA) and Communication for Development Foundation Uganda (CDFU). The messages are being delivered with the aid of flyers and handouts, radio spots and call-in shows, and "flipchart" training aids with pictures designed to elicit guided conversations among consumer groups. Increasingly, the project is being carried out by the Financial Extension Workers (FEWs) which the MOP has placed in seven districts around the country.

On Thursday, 16th February, Lloyd Stevens and I joined representatives of MOP, AMFIU, UCPA and CDFU to launch the consumer education project in Masaka. We thank AMFIU and

the District Microfinance Committee for organizing the meeting, and we were pleased that three commercial banks sent representatives to the launch along with a number of smaller MFIs and SACCOs. CDFU conducted an orientation to the consumer education materials for the attendees, in particular for the seven FEWs present.

Informal talks with some of the FEWs over lunch reinforced our conviction that there is much ignorance and confusion about microfinance in rural areas, that financial services for the poor are in constant danger of being politicized, that a few institutions are quite resistant to demands for greater transparency, and that it is a good investment to educate consumers about microfinance services.

At the request of MOP, we agreed to accelerate the roll-out of the consumer education pilot into five additional districts where FEWs are located (Bugiri, Mbarara, Kabale, Nebbi, and Kabarole). This will bring the program to seven districts instead of the two that were originally foreseen. CDFU is producing versions of the materials in the Runyankore, Alur and Rutooro languages, which we will need in the new districts. MOP will invite microfinance officers from the new districts to the consumer education launch in Mbale on 4th March. They will participate in the orientation to be given to the Mbale FEWs, and return to their districts with the printed materials, and the task of orienting the FEWs in their districts to the project.

Consolidation Challenge Fund

Background: FSDU sponsors a Consolidation Challenge Fund through which institutions can receive funding for feasibility and legal assessments, study tours, asset valuations, or other technical work necessary to support mergers, acquisitions, divestitures, and linkage banking, that is, mutually beneficial, long-term, multi-element partnerships between commercial banks and smaller unregulated MFIs. Application procedures for the fund are designed to be flexible, easy rapid and discrete – we only mention the names of applicants who give their specific permission to do so.

We approved a small grant to PostBank and the Mbale-based credit-only MFI FOCCAS to study the feasibility of various linkage banking options. Also, an international consultant arrived this month to begin a feasibility study of a proposed merger between two other MFIs, under a grant previously approved. Finally, we also discussed the linkage banking idea with the president and director of a commercial bank and with two MFIs.

Transformation

Background: FSDU has engaged a Transformation & Consolidation Consultant (TCC), Lloyd Stevens, to support FSDU and other institutions in (naturally) transformation and consolidation. Donors directly supporting transformation have created a Transformation Steering Committee (TSC). This group has agreed to set and abide by common policies for assisting transformation. The Committee serves as a platform for exchanging information and launching joint or collaborative activities, and is, we think, a model for how donors can work together in a donor-rich country like Uganda. The Committee reduces the chances of arbitrage and double funding, and at the same time simplifies the task of assisted institutions by creating “one-stop-shopping”.

At the 8th February meeting of the TSC, members reviewed results of a MOP RFP issued in December for post-application compliance support. This RFP is intended to support those institutions that have applied for or received MDI licenses to meet the rigorous requirements of Bank of Uganda supervision.

The same day, FSDU and MOP signed a Letter of Mutual Understanding, under which the TCC will provide technical advice to MOP on programming their transformation funds. The Committee is now working on developing terms of reference and contracts for the post-application compliance support grants.

SLAs

Background: 38% of Ugandans live below the poverty line of one US dollar per person per day. Most of these people want and need varied financial services, but with transaction amounts that are too small for financial institutions to serve them on a sustainable basis. FSDU has taken over a project started by the NGO CARE in the West Nile district, designed to help people form Time Bound Accumulating Savings and Loan Associations (SLAs); despite the intimidating name, these village associations of 20 to 30 people are simple in concept. Based on the MMD model in Niger, as modified by CARE in Tanzania, SLAs provide people with largely secure savings, very small loans, and even a form of insurance through a self-financed provident fund. On January 1st, after a period of jointly managing an 18-month pilot project in Moyo and Yumbe districts, FSDU and our local partner CREAM took over full responsibility for the effort.

Much of February was devoted to improving logistical and administrative support for this project: our local partner CREAM signed an accountable grant with DFID for UGX 91.8 million, about US\$ 54,000. CREAM submitted their work plan for the next three months, and DFID transferred a used vehicle to CREAM, so that our project coordinator can more easily visit groups during the start-up phase of this project.

Chris Musoke from FSDU accompanied by Jeff Levine and Richard Pelrine from USAID made a monitoring (Chris) and familiarization (Jeff and Richard) visit to the programme on February 2nd-4th. They encountered a number of group members who are having difficulty making the weekly savings contribution of 100 shillings, about six US cents. This sobering fact reminds us that the SLA model is being tested in what are arguably the most remote and poorest districts of Uganda, sandwiched between Congo and Southern Sudan, with a history of instability, and a paucity of economic activity.

Facing the gaps in our knowledge of financial markets in Uganda

Background: FSDU and its partners in Uganda are increasingly aware that the financial industry is sometimes forced to make important strategic decisions on the basis of insufficient data. In particular, the extent of outreach, the degree to which demand for various financial services is being satisfied, the efficacy of different types of financial institutions in meeting the needs of different segments of the population, are all insufficiently understood.

We are actively investigating the possibility of centralizing the collection, analysis and dissemination of data about the supply and demand of financial services, and expect this to

evolve into an important activity during the months to come. In February, FSDU discussed the possibility of bringing the FinScope data collection and dissemination tools to Uganda. FinScope is a financial system data analysis methodology that includes a survey instrument that can be adapted to local needs, approaches to data analysis, and a distribution model emphasizing the commercialization of the information to the extent feasible. Over the next month we will be accelerating plans to work collaboratively to improve monitoring of financial markets in Uganda.

As a partial supply-side oriented solution to the data gaps, colleagues at the Ministry of Finance are conducting a census of financial institutions in seven districts. FSDU provided three hand-held global positioning system – GPS - devices to help the enumerators pinpoint the locations of MFIs, so that the data can be more easily and accurately transferred to an outreach map that the Ministry is preparing. If this test works well, we will expand the use of GPSs.

Meeting with AMFIA

Background: The Ankole Micro Finance Institution Association (AMFIA) is a regional association of MFIs in Mbarara, Bushenyi and Ntungamo districts. It has 50 members, the vast majority being Savings and Credit Cooperatives. With modest means and a small staff, it advances an ambitious agenda.

Lloyd Stevens, Jan Kerer of GTZ and I had an agreeable discussion in the AMFIA offices in Mbarara on 17th February, with the AMFIA president, director, and several staff and board members, followed by visits to two AMFIA members, OMIPA and Muhame. FSDU and AMFIA agreed in principle on three potential areas of collaboration:

First, we presented the Consolidation Challenge Fund to the members present. Lloyd agreed to return in May to conduct a half-day workshop on consolidation to a selected group of AMFIA members.

Second, AMFIA and FSDU will organize a series of training courses jointly to address the inadequacy of accounting capacity within rural MFIs, and of audit capacity within rural accounting firms.

Finally, FSDU was pleased to learn that all AMFIA members have agreed to calculate and declare the interest they charge their clients on the declining balance, rather than the “flat” method used by many Ugandan MFIs. FSDU has agreed to help publicise that decision as a model for other Ugandan MFIs.

Wishing you a happy and productive Spring or Fall, depending on your hemisphere, and with kind regards,

Paul Rippey
Manager

FSDU