DFID
Financial Sector
Deepening Project
Uganda

18 Shimoni Rd. No 4B
Kampala
PO Box 11086
256(0)41-254-591
FSDU@FSDU.OR.UG
WWW.FSDU.OR.UG

Deepening

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

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

If you did not receive an earlier issue and would like to do so, please let us know by return email. Similarly, if you would like to be added to or removed from the list, let us know.

This month's newsletter will focus primarily on four things: a visit to the FSDU programme of Savings and Loan Associations (SLAs) in West Nile; an public presentation last Monday given by Brian Branch of WOCCU on the regulation and supervision of member based financial institutions; a new framework for thinking about pro-poor finance in Uganda; and questions consumers have been asking on call-in radio shows in Masaka and Mbale. In addition, we will rapidly review other activities, past and coming.

Visit to 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 and our local partner CREAM have a pilot project in the West Nile region of Uganda, 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.

From 30 March to April 2, I accompanied Godfrey Ssewankambo of the Ugandan MFI UWESO, John Nakedde of PLAN International, and Karen Losse of GTZ on a rapid visit to a sample of Savings and Loan Associations in Yumbe District, near the borders of Sudan and the DRC.

We see these groups as a possible solution to the challenge of bringing financial services to people whose financial transactions are so small that they are not feasible candidates of any formal or semi-formal financial institution. Groups typically agree to save between 100 and 500 shillings a week, or US 6 to 30 cents, and, when they have built up sufficient capital, begin to make loans to group members of between 5000 and 50,000 shillings (US $3 to $30).

These groups have the advantage of being completely self-managed and self-capitalised. Since they have no staff, their administrative expenses are very close to nothing. To assure transparency, all surplus funds are kept in a metal strongbox secured by three locks, with keys held by three different group members. Bye-laws state that the box can only be opened when at least 15 group members are present. We were all struck by the solemnity with which the box was displayed, often covered with an embroidered cloth, and with the generally good respect for procedures shown by the group members.

In an insightful note sent after the visit, Mr Ssewankambo shared:

The visit to West Nile revealed an appropriate approach to provide financial services to a category of the poor that are definitely not able to benefit from MFIs. The case of one lady who borrowed 5,000/= to trade in onions and is able to make a profit of 2,000/= a week is one living example of someone requiring very little money to undertake a business enterprise that would generate money that would make a difference in their lives.

As of 28th February, there were 126 groups with a total of 2794 members. The groups have saved, or earned in interest or penalties, a bit more than 24 million shillings, or USD 14,400. Consistent with some international experience, there is much more demand for savings than for credit, and of the total assets of the groups, only about half is now lent out. The rest sits, non-productively but safely, in the strongboxes.

The groups are designed to distribute all or some of their assets to their members after about a year in a process called the "action audit". This provides an opportunity for people to leave the group, and for new people to join. As of the end of February, three groups had completed their action audits. Members in these groups received sums ranging from 150% to 183% of the amount they had saved during the year.

Informal Information Exchange on the regulation and supervision of member based financial institutions

Background: Every quarter, FSDU continues a tradition begun by MicroSave and continued by the EU's SUFFICE programme, and hosts an informal meeting at which guest speakers address topics of current interest. Minutes and documents from prior meetings are posted on our website: www.FSDU.or.ug

On Monday 25th April, Brian Branch, Operations Director and acting CEO of the World Council of Credit Unions, presented an informative overview of issues concerning the regulation and supervision of Savings And Credit Cooperatives (SACCOs).

Some of his remarks were particularly pertinent for Uganda:

In response to a question about the conditions necessary for the creation of new SACCOs, he replied that in fact worldwide trends were not to create new SACCOs, but rather to encourage consolidation and opening of new branches, because cooperatives, like any financial institutions, require scale to be efficient.

He said that SACCOs work best when they are financed by the shares and savings of their members, although loans equal to a small percentage of a SACCOs assets can be appropriate to guarantee them stable long range capital that they can use to make longer loans, for housing or investment in businesses. External lending for short-term loans can destroy the sense of ownership of members, and while undermining the savings orientation of the institution.

We were pleased that the Bank of Uganda sent a representative to be part of a panel commenting on Mr Branch's presentation. While it is not likely that the BOU will take on the supervision of the hundreds of small SACCOs (indeed, it seems to this writer that the task may simply be impossible), the BOU's guidance and participation in establishing regulations for all institutions that mobilise deposits will be essential if Uganda is to have an integrated financial system.

A New Framework for Thinking About Pro-Poor Finance in Uganda

The Review of the Microfinance Sector in Uganda carried out by CGAP in 2004 (available on the FSDU website) recommended that the sector develop a process for periodic updates of the Ugandan vision of a pro-poor financial system. Various people have taken this recommendation seriously. Led by William Steel of the World Bank, we have held two meetings under the auspices of the MicroFinance Forum to consider a new framework.

Previously, the term "microfinance" has been used to include everything from the services offered by such institutions as Centenary Rural Development Bank, a large, efficient regulated institution, through smaller MFIs, many credit-only, down through SACCOs, money-lenders, and even ROSCAs and ASCAs. The industry now is tending to divider the large field of pro-poor finance into four categories, sometimes called "pillars":

1. Small and medium scale enterprise finance: This category includes longer term, and larger amount, loans, and other products, including current accounts, leasing and letters of credit - in short, the panoply of financial services needed by businesses everywhere, which can be offered by modern commercial institutions.

2. Traditional Microfinance: savings and credit, including the archetypal microfinance products of short-term working capital loans delivered through group mechanisms.

3. Agricultural Finance: products adapted to the needs of the three-quarters of Ugandans who are farmers, and who need products including simple production loans and safe liquid savings to smooth the high seasonal variation in their cashflow, but also a wide variety of other products designed to provide price stability and guarantees, to facilitate marketing, and to find new ways of appropriately valuing the resources of farm families.

4. Services for the vulnerable poor: Many Ugandans, probably numbered in the millions, need and want financial services, but will have transaction sizes that are too small to allow them to be served even by semi-formal, rural financial institutions. The vulnerable poor can be served by self-help groups such as the West Nile ASCAs, and by appropriate grant-based assistance, including labor-intensive infrastructure projects.

These categories clearly overlap a great deal. For instance, the vulnerable poor are largely farmers, and the lines between other categories, in particular between SME finance and traditional microfinance, will necessarily be a bit arbitrary. Nonetheless, the framework helps us organise our thoughts and immediately suggests next steps in several areas.

Quite in harmony with the new framework, the BOU, GTZ and SIDA hosted a workshop on 5-6 April to examine a way forward for agricultural finance in Uganda. FSDU submitted comments on the draft Agricultural Finance Action Plan resulting from the conference, stressing among other things the need for more reliable and complete information about access to financial services and the role that the Finscope market research tool can play in addressing that.

FSDU has some interest in all of four categories, but in the short run we will be working particularly in the last category, services to the vulnerable poor. Towards the end of the SLA mid term review, we plan to invite a wide variety of actors, including those oriented towards grants and relief work, and those oriented more towards expansion of financial services, to discuss strategy to aid the very poor, and perhaps to create a platform for sharing information and approaches, and for launching common actions.

Questions from Consumer Education Call-in Shows

Background: FSDU and its partners are carrying out a six month pilot project 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. This project relies on a variety of printed materials in English and local languages, supported by radio spots and call-in shows.

The District Microfinance Officers in Masaka and Mbale have monitored the call-in shows on local radio in those two districts, and have sent us informative reports on the questions callers have asked. The questions have been answered by the Financial Extension Workers, or by staff of MFIs; we have not, as yet, received reports on what answers were given by the guests who have been invited to answer the questions of the callers. The following is a list of all the questions asked as they were reported to us, less about five that were repetitive or about policies of specific MFIs. The questions open an informative window into the concerns of Ugandan microfinance consumers:

1. One has a land agreement and cows, how can one get a loan?
2. A woman receives money from [a local MFI] and the man takes it, who do they arrest?
3. I have cows and land which is not worth 2m [about USD 1200], how do I get a loan of 2m?
4. How can the Youths be helped to get money/ Loans?
5. When is the consumer education programme being introduced in Rakai district?
6. How can the rural people access consumer education services?
7. How does insurance service work in MFIs?
8. How are rural consumers going to overcome the exploitation of the institutions?
9. How can agricultural activities be funded in the face of very short loan periods the MFIs are providing?
10. How can ROSCAS be registered to be recognised?
11. Is it all right to borrow from many banks?
12. How can the rural people know that a financial institution is registered or not?

13. If I am a business person most of the time and if I wanted to access an individual loan, do I qualify to get one?
14. What procedures do I follow to process for a loan?
15. I have my piece of land but it has no title, can I use it as security for a loan?
16. If I keep my savings with an MFI for at least 6 months, do I qualify to be paid interest on my savings?
17. Can you please inform me about the interest rates from the different MFIs.
18. My father has allocated me a piece of land, can I use it as security to get a loan?
19. I have capital of 100,000 [about USD 60] in my business, is it possible for me to access a loan of 300,000/= from an MFI?
20. I am an urban dweller with no asset at all (meaning land?) but interested in getting a loan, how can I access one?
21. I am in a rural area but interested in getting a loan, where can I go for one?
22. How many members should be involved in forming a group?
23. After forming a group, do we automatically get loans from the MFIs or are there other steps to go through?
24. My wife got a business loan from [a local MFI]. Does this call for the MFI to involve me in the repayment in case she fails to pay?
25. According to the government, the loans are meant to help the poor fight poverty, why is it that it is the rich who are benefiting from these loan facilities then?

Other FSDU Activities

On the 13th of April, the Project Management Committee, consisting of Adrian Stone, David Ferrand, and Mercy Mayebo all of DFID, held its quarterly meeting. In addition to discussions and updates of the various FSDU sub-grants, the committee agreed to re-provision the Consolidation Challenge Fund, and at the same time, to ease the matching requirement from the present 50-50 to allow candidates to invest as little as 20%, with FSDU paying up to 80%, of the costs of studies financed through the fund.

Committee members also expressed concern about the difficulty of tracking arrears under the existing record-keeping systems in the West Nile Savings and Loans. FSDU promised to address this concern, which it shares, during the up-coming mid term review of the project.

FSDU agreed with AMFIA, the Ankore MicroFinance Institutions Association based in Mbarara, to organise a training for financial managers of AMFIA's larger members. This is the first in a three part series of training programmes designed to improve the accounting and auditing of rural MFIs. Subsequent steps will be the training of senior staff in financial analysis, and training local audit firms in the audit of MFIs. If this effort is successful in Mbarara, we envision making these training programmes available nationwide. FSDU issued a request for proposals last month for local firms to carry out these training programmes. This month we examined the bids from four firms, and chose two of them to deliver the various modules.

Also, FSDU and SUFFICE co-funded six Ugandan consultants who participated in MicroSave's Senior Service Provider Light training in Nairobi. The consultants will carry out three assignments with MFIs in the subjects included in the programme, which were Process Mapping, Costing and Pricing, and Strategic Marketing. They will submit their reports to MicroSave and, if satisfactory, can be certified as MicroSave Senior Service Providers. We thank SUFFICE for taking the lead in recruiting and organising the logistics for this.

Finally, May promises to be particularly rich and busy:

On 29th April, Lloyd Stevens, FSDU's Transformation and Consolidation Consultant, began a six-week mission in country, with a long list of tasks, including catching up on activities of the MDI candidates; preparing the next meeting of the Transformation Steering Committee; continuing to publicize the concept and options of MFI consolidation by carrying out additional iterations of what we call "The Transformation Road Show"; and following up on our outstanding grants under the Challenge Fund.

On May 1-6, Gerhard Coetzee and Bill Grant from ECL*Africa* are visiting for an intensive week of meetings, planning and brainstorming with FSDU and other partners.

During the month, we plan to begin the Mid Term Review of the West Nile Savings and Loan Associations. This was scheduled to begin on May 1st, but has had a (hopefully slight) delay due to exogenous factors.

Anne-Marie Chidzero and Bob Currin of Finscope, based in South Africa, are coming on 17th May for a four-day scoping mission, in preparation of a planned Finscope launch in Uganda later in the year. Finscope is a set of tools used to measure usage and demand of financial services, and across income levels and regions. Among other virtues, it promises to enable inter-country comparison of key access indicators.

By happy coincidence, David Porteous, Director of the FinMark Trust in South Africa from its founding until 2004, will be in Uganda during the same period. He is coming to present the results of a study on competition among financial institutions, and its effects on interest rates, but has graciously agreed to also make himself available to share his experience of building a private sector coalition in South Africa to fund the continued implementation of Finscope.

FSDU will be represented at MicroSave's periodic CEO conference, this time in Kenya, on the 25th to 27th.

Finally, Chris Musoke and Paul Rippey will present two- and one-day courses respectively at the residential microfinance training at Uganda Martyrs University, towards the end of the month.

Kind regards to all,
Paul Rippey
Manager