

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

Welcome to the ninth monthly issue of Deepening, the email newsletter of DFID's Financial Sector Deepening Project in Uganda - FSDU. This issue covers a month shortened by the Chris Musoke's and my participation at the Capetown Microfinance Conference.

If you would like to be added to or removed from the mailing list, please let us know. Prior issues, and much more, are available on the FSDU website, www.fsdu.or.ug.

Government's Plan to Enhance Rural Financial Services

This month, the Government announced in the local press its *Plan to Enhance Rural Financial Services*, which includes the creation, strengthening, and expansion of savings and credit cooperatives –SACCOs – to cover the entire country.

This plan was expected in light of earlier pronouncements by the government, but nonetheless contained some elements that were not completely anticipated. It assigns a prominent role to the Uganda Credit and Savings Cooperative Union (UCSCU); it encourages the establishment of a guarantee scheme to which all SACCOs would contribute; and it puts a gratifying emphasis on consumer education and mandated transparency about costs and interest rates.

There is naturally a great deal of discussion going on around this plan, with very open communication between the various stakeholders, including UCSCU, the Ministry of Finance, and the donor community. This plan presents an opportunity to move forward in strengthening Tier 4 support, regulation and supervision, but is not without uncertainties and risks.

In a large, cordial and informative meeting of the Ministry of Finance, the Microfinance Outreach plan, and other stakeholders, FSDU listed a number of initiatives that complement and support the government's desire to extend financial services to all Ugandans. These were the establishment of a local Rating Agency; Support to Regional Groupings of MFIs and SACCOs; FinScope Uganda; Consumer education; Promotion of linkage banking; and creation of Village Savings and Loan Associations (VS&LAs) as a complementary approach among populations that are not able to support a full-blown SACCO.

The present state of all these initiatives is discussed below in this issue of *Deepening*.

Rating Service for Small MFIs

We have received the all-but-final report from Emmauelle Javoy, our consultant from PlaNet Rating, who investigated the possibility of setting up a rating service for small MFIs, based in Uganda, able to carry out large numbers of ratings at much lower cost than the ratings provided by international firms based long distances away. At our request, the consultant produced financial scenarios for aggressive establishment and expansion of this planned institution.

Our colleagues at SUFFICE first publicly advanced the idea of a local rating service, an idea which by coincidence we had been exploring with one of the international rating firms. We have been moving forward in close partnership with SUFFICE on all aspects of this. There are many reasons why this service can be of fundamental importance to the development of pro-poor finance in Uganda; there are also some large challenges in the area of sustainability, assuring standardization of ratings, and gaining buy in from a critical mass of agencies.

While MFI ratings ostensibly are carried out to inform potential commercial investors, I know from personal experience being on the receiving end of ratings that they also provide valuable input for management. Even if the rating agency does not make specific recommendations, ratings clearly outline points of risk that need to be addressed, and the prospect of future ratings provides additional incentives to move in a systematic way to make necessary improvements. The broad scope of issues addressed by ratings, covering everything from governance to products, and back office to fiscal environment, coupled with wide dissemination of the findings within the institution and among key stakeholders, helps all the actors concentrate on a roadmap for improvement.

In Uganda, the hundreds of smaller MFIs receive various forms of capacity building assistance from a variety of programmes and donors, including SUFFICE and FSDU. These interventions are poorly coordinated, sometimes overlap, and do not respond to any systematic public assessment of what the MFIs actually need. We believe that the creation of a local rating service will lead to better coordination and sequencing of assistance to the smaller MFIs. We also intend for the rating service to include a rapid standardized assessment of client friendliness, especially transparency about costs, and we will continue to urge donors to put pressure on the institutions they assist to be good corporate citizens.

We are quite enthusiastic about this service, which many of our development partners have strongly endorsed. We will soon put out a request for proposals to interested firms to set up the service.

FinScope Uganda

During the month I had a long telephone conversation with the South African company that is expected to develop the Segmentation Model for FinScope Uganda. I admit that I am climbing up a steep learning curve about market segmentation. Segmentation consists of dividing a market up into sub groups of people who are alike in significant ways, or are likely to behave in similar ways.

Most of us tend to divide the market geographically, because it is easy to visualize geographic segments, and geographic segments tend to also be political divisions. However,

geographic divisions are usually rough indicators at best of how people behave. The small business owner in Moyo, in the far Northwest of Uganda, has more in common with the small business owner in Kampala, the capital, than either does with the peasant farmer down the road.

FinMark trust has pioneered the use of segments to help define financial markets using a basket of indicators including use of financial services; attitudes to money, including financial knowledge, control and discipline; and physical access to banks. These segments group together people with similar behaviors and needs, and thus who can be targeted as a group by financial institutions, or for particular products. These segments, for the moment, carry the intimidating labels FSM-1 through FSM-7.

Market segments in Uganda, where three out of four people are farmers, will necessarily differ from those in South Africa, with its relatively large number of wage owners and generally higher levels of income and infrastructure. The very complex market in Uganda covers an extraordinary range of people, including semi-nomadic cattle herders, sophisticated urban business people, farmers of various degrees of wealth and sophistication, and large numbers of people made vulnerable by civil disturbance, HIV/AIDS, and poverty. Can we manage to identify and quantify segments that correspond in some way to this intuitive segmentation of the Ugandan people? Can we determine not only what institutions, but what institutional *types* are best suited for each group? Can we find a way to popularize the abstract concept of *market segment* by naming or branding segments in such a way that individual segments enter the culture of the stakeholders in pro-poor finance?

Sorry, more questions than answers!

Next month's newsletter should give you overdue news on the selection of the local research firm and the selection of an in-house research coordinator to oversee FinScope implementation and other research activities at FSDU; in both of these areas, we are fighting our way through the dense thicket of contracting procedures, with great help from DFID.

In the meantime, I am pleased to announce that Mr Henry Mbaguta, of the Ministry of Finance, has joined the FinScope Advisory Committee.

Village Savings & Loan Associations

We have prepared a Request for Expressions of Interest from Potential Partners to Establish Village Savings and Loan Associations in Rural Uganda, and have submitted it for clearance from DFID. In principle we will be running this in the local press next week, and will receive expressions of interest from local NGOs and other firms to expand Village Savings & Loans Associations to more parts of Uganda.

We are working with CARE to prepare a public document that will explain the advantages and shortcomings of these member-based institutions, as well as how they are like, and how they differ from, SACCOs. We are always pleased to work with CARE in this area, as this NGO has played the principal role in the creation, refinement and spread of VS&LAs in Africa.

Simultaneously, my colleague Christopher Musoke traveled to West Nile, where our

consultant Revealed Kataru conducted a training of trainers for the staff in charge of VS&LAs. The TOT is responding to a principal recommendation of the Mid Term Review of this project (available on our website) to improve the record-keeping of the existing groups in West Nile. Chris traveled out with a heavy load of vastly improved accounts books for the groups, which directly address one of the principal weaknesses identified by the MTR.

Revealed has also aggressively addressed a second recommendation, that of strengthening management and making some difficult personnel decisions. We are optimistic that the strengths of the programme will continue, and that most of the weaknesses are quickly being addressed.

Consumer Education

AMFIU, FSDU and the consultant who carried out the Knowledge, Attitudes and Practices study at the end of the consumer education pilot project, all met on October 7 to go over AMFIU's comments on the report. I believe that we all agreed on necessary changes to make in the report so that it is informative, accurate and clear. Once the report is finalized, it will be broadly circulated, and we will hold a workshop to look at the way forward in consumer education.

In the meantime, I met with StraightTalk Foundation, to learn more about their remarkably successful approach to education in the areas of HIV/AIDS through StraightTalk Magazine, environmental issues (TreeTalk), agriculture (FarmerTalk), and other areas. The directors of this institution expressed some interest in financial education for consumers using similar techniques (MoneyTalks?). As we develop an RFP for a second phase, we will include StraightTalk among the recipients.

I also met with the Coordinator of the Microfinance Outreach Plan (MOP) to talk about the way forward in Consumer Education. The Outreach Plan would welcome an outside consultant to look at the impact of the work that the Financial Extension Workers (FEWs) did in consumer education; we will try to find someone who could carry out such a study, and make them available at the same time as MOP is carrying out a learning exercise on the impact of the FEWs, hopefully in the next few weeks.

Consolidation and Restructuring

Transformation & Consolidation Consultant Lloyd Stevens is back in Uganda. On October 4, we held the quarterly meeting of the Transformation Steering Committee, the multi-donor body that coordinates all assistance to transforming MFIs. The number of licensed Micro-Deposit Taking Institutions (MDIs) in Uganda remains at three (FINCA, PRIDE and UMU), although we are very hopeful that Uganda Finance Trust will have a license very soon.

The reader may recall that FSDU is working with the Bunyoro-Tooro Rural Development Company Ltd. (BUTO), to investigate options for its future restructuring, through an institutional assessment, and audits of its network of partnered financial outlets (SIDAs). The audit is already well underway, and the institutional assessment has just begun. We are eager to see the results of these studies.

Our favorable impressions of BUTO, and of a number of other regional apex bodies in Uganda, have led us to think that such regional groupings may be an important intermediate step in providing support to Tier 4 institutions. We have circulated a concept note about holding a workshop, perhaps up country, and perhaps in early November, to exchange experiences in this area. Reaction to this idea has been generally supportive.

The institutional assessment of UWESO is almost complete, and the contract to carry out a financial audit has been signed. The reader is reminded that UWESO seeks to spin off its Credit and Savings Scheme into an independent MFI, with hopes of eventually becoming a registered Micro Deposit-taking Institution.

The final report from the linkage banking study for PostBank and FOCCAS is complete, and we are looking forward to a formal debriefing with the heads of those institutions, the consultant, and other possible supporters, to consider the way forward, in November, as soon as everyone's schedules permit. It is not an overstatement to say that there is a lot of interest in this possible endeavor, given its apparent promise to extend the benefits of regulation to rural people.

With special greetings to those readers who are observing the month of Ramadan, and kind regards to all,

Paul Rippey
Manager