

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. The short month of February seemed even shorter as many people's attention was diverted by the national elections held on 27th February, which, contrary to some people's fears, were generally peaceful.

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.fsd.u.or.ug.

Informal Financial Structures

During the month, I had two enjoyable and instructive trips outside of Kampala, to Mukono and Iganga districts. The first was in the context of FinScope Uganda, and the second in the context of Village Savings and Loan Associations. During both trips, I was struck once again by the extraordinary number and variety of informal financial institutions in Uganda: ROSCAs, ASCAs, burial societies, and hybrids that defy easy classification.

In Iganga, I accompanied our FinScope Uganda contractors Steadman Associates to observe a focus group discussion with a mixed group of men and women, poor and not so poor, and almost all farmers, even though most had other activities also. In the group of eleven respondents, there were at least five informal financial institutions represented and a couple of projects that did some sort of lending. None of these institutions would appear on a census of micro-finance institutions, but all were providing services people wanted and needed. The group also included customers of one commercial bank and two large MFIs.

In Mukono District, at the invitation of the Uganda National Farmers Federation, I spent an instructive day on 28th February visiting three farmer's groups. Each offered financial services of some sort to their members, and our informants were also aware of a plethora of other local informal financial institutions.

As you will note in the section on the Census of Tier 4 Institutions, below, Uganda has over a thousand MFIs of various sorts, but I suspect there are ten thousand or more informal village-level associations. How well are people served by these structures? Are the millions of dollars being invested in microfinance institutions filling real holes in the financial network, or are we supporting the expansion of MFIs simply because the informal structures are largely invisible? Do the relatively high costs of MFIs compensate for their better products and increased security? Does a falling tide make all ships sink? (That is, when an MFI branch office opens in a poor area, there is an effect at the village level of money being siphoned off to pay the overheads of a distant central office, whatever the effect is at the level of the individual customer).

These questions were raised for me twice this month.

First, Jeffrey Ashe of Oxfam America and Elizabeth Rhyne from Accion International had a predictably concise debate on the importance of informal groups, which I am sure many of our readers have seen and which I recommend to the others, (it is available at https://www.microfinancegateway.org/resource_centers/savings/experts/_asktheexpertsno8),.

Then, in email discussions with distant colleagues working to agree on core questions for demand-side surveys of financial services which will allow cross country comparability, we raised the question of our need for a better typology of informal services. I argued that it is important to begin to agree on how to divide the plethora of institutions called simply “informal”, both in order to achieve finer gradations within countries, and to allow better cross-country comparisons. If there are subgroups of regulated institutions, there is even more variety within the large number of disparate institutions grouped under the heading "informal". At FSDU, we strongly suspect that some sorts of informal institution serve their members better than others, so we want to be able to look more closely at what sorts of institution people are using, and the services they are getting from them.

For instance, I have promised to give our FinScope Uganda survey firm a definition of "ASCA" that they can give to interviewers so we could simply count the number of ASCA members in the sample. But even this simple task has been a bit more problematical than I expected. I can come up with something, but the category is going to be a bit arbitrary around the edges. That's okay, but it would be good, if possible, to draw the same arbitrary lines in Uganda as are drawn elsewhere.

Then, within the ASCA category, we plan to ask a few questions about the approach: Do they use a lock box? Do they periodically distribute assets to their members? Do they have any linkages to either financial institutions, or support institutions? But we can only ask those questions if we agree on what an ASCA is.

In our research work in Uganda, we are dividing financial institutions into three categories in the questionnaire, and not the two that people often use, “formal” and “informal”:

Formal – for us means regulated by the Bank of Uganda, and thus includes Banks, NBFIs, and the new MicroDeposit-Taking Institutions. These are the only institutions that have any effective supervision whatever, and in fact they have quite good supervision. Identifying and classifying formal institutions is not a problem. We know exactly who and what they are.

Semi-Formal - for us means institutions which have a legal existence as a company or a cooperative (we say, "Institutions which are formed under an act of Parliament") but which are not under the Bank of Uganda's supervision. This means, SACCOs, NGO-MFIs, For Profit MFI companies, and money lenders. Identifying Semi-Formal institutions is a bit of a problem, because of the difficulty of getting even a list of SACCOs, and because there are institutions that everyone thinks are SACCOs, and that act like SACCOs, that are for some reason absent from national roles. However, the typology in this category is clear, even if membership might not be.

Informal - which means everything else, that is, groups which do not have a legal personality, that are not created under any national law. Many of these have local registration with district or sub-county officials, which allows them to operate with some visibility at the local level, but does not make them legal persons. It's in the informal category that things get especially complicated. There are ASCAs that have some functions of a burial society. We have cases like the BUTO/SIDA networks where the Apex is a formal company, and most of the retail outlets have no separate legal existence. ROSCAs sometimes set funds apart to provide insurance to their members. Some institutions look like social clubs, but they lend to their members on the side. In Uganda, there are "gifting circles", that work like ROSCAs, except that members contribute pots and pans to the lucky member instead of cash.

And so on, through the great variety of institutions catalogued by Stuart Rutherford in *The Poor and their Money*.

I suspect that 90% of institutions, and 50% of Ugandans, are in the informal category, and that the informal category is going to get an increasing share of donor and government attention.

Village Savings & Loan Association Expansion Project

This month DFID and CARE signed an accountable grant agreement to create a common support facility for VS&LAs, and to provide CARE with funds for on-granting to local implementing organisations. Staff from CARE and FSDU meticulously reviewed the four proposals still being considered from potential implementing partners, suggested modifications, and reviewed the new submissions. We expect to have the first signed contracts with potential partners in March, and issue a follow up invitation to potential partners to submit proposals.

On 21st February, we held the first meeting of the VS&LA Steering Committee, at which representatives from DFID, CARE, PLAN International and FSDU discussed the state of the expansion project and especially how we would work together. We did the last by examining a draft letter of mutual understanding, which we will agree on and eventually sign. There was much discussion about how to incorporate other programmes which are promoting VS&LAs, but do not want to put funds into the central facility. We have rewritten the draft letter of mutual understanding to be more precise about the roles of each sort of member.

FSDU had the honor of being invited to participate in CARE's worldwide conference on VS&LAs, in Nairobi, March 6-10, and I will be in Kenya for that week.

FinScope Uganda

We continued to work to perfect the questionnaire, first in an Advisory Committee meeting on 16th February, and then in a working session with Uganda Bureau of Statistics, Bank of Uganda, and Steadman Associates, on 1st March. The bad news is that it sometimes feels like the process of tweaking the questionnaire will never end. The good news is that each time we go through the questionnaire, there are fewer changes, and the rationale for the questions becomes clearer. We were unable to respect our ambitious programme of holding a public workshop on FinScope before the elections, and a series of other engagements have now pushed that meeting back to the end of March.

Census of Tier 4 Institutions

FSDU continues to work with the Ministry of Finance to conduct a census of Tiers 4 microfinance institutions, and we signed a Letter of Mutual Understanding with the Ministry this month to formalize our existing working relationship.

During the month, contractors from MUIENR Geographical Services completed visiting, or in cases of unstable areas, phoned or otherwise contacted, every sub-county in Uganda; obtained the GPS coordinates for each, either with a GPS device, or in the case of phone interviews, by determining the location of the MFI in relation to known institutions like airports or hospitals; and finally, submitted their lists to FSDU. Luke Okumu, our Research Coordinator, performed meticulous cross checks and data cleaning.

The field workers verified the information that had been given to them based on the 2001-2002 census, updated by UCA and AMFIU, and then corrected by District Promotion Centres, District Officials, and Sub-County Officials.

After data cleaning, the list shows 1105 MFI Outlets, which includes branch offices. The vast majority are SACCOs, but the number of SACCOs actually located in the field is still much less than the numbers reported by the Registrar of Cooperatives. The district with the most outlets is not surprisingly Kampala, with 65, followed closely by Bushenyi, with 60. The districts with the least are Moyo, Amolatar, Butaleja, and Pader, each with one outlet.

The survey work was difficult (for instance, in Bushenyi, the field workers had to hire armed guards to protect them from the lions in Queen Elisabeth Park) and we do not believe it is as yet 100% accurate. However, Luke expects that the final count will not vary by more than five in either direction.

The next step will be to sign additional contracts with the Private Sector Centres to carry out detailed individual interviews with each of the 1105 outlets. We expect this task to begin in March. Stay tuned.

Transformation and Consolidation

After a hiatus, we have begun talking again with PostBank Uganda about launching a mobile banking operation to serve, among others, the customers of the Mbale-based MFI FOCCAS. In the course of two meetings, Lloyd Stevens and I, and senior staff from PostBank Uganda, have planned a rapid study tour to visit Equity Bank in Kenya, which graciously arranged a visit on short notice for next week.

If we go forward with this, FSDU will support the mobile banking initiative, hopefully with the Matching Grant Programme of the Outreach Plan (MCAP) investing in an expansion of PostBank's branch network, and USAID's Rural SPEED aiding in the use of new technologies to improve communication with rural areas.

Consumer Education

After many discussions with AMFIU and other stakeholders, we have decided that it is appropriate to split the consumer education programme here into two channels. Although AMFIU did an outstanding job of overseeing the pilot phase of the project, there are some messages that it is simply inappropriate to ask a membership organization of MFIs to deliver. As a loan officer said in one of the Regional Workshops held by AMFIU to publicise the programme, "Look, I think these consumer education messages are a good thing, and someone should deliver them. But if I am sitting here with a potential client in front of me, I just can't tell her to 'shop around'!"

Therefore, we will work through two channels, a Mass Media Channel, and an AMFIU Members Channel. The two channels will be coordinated by a Consumer Education Steering Committee.

The Mass Media Channel will deliver messages on Consumer Rights and Responsibilities, Types of product and service, and special information for member-based institutions. It will be implemented by a local non-profit firm specialized in Behavior Change Communication, and use a media mix of radio spots, call-ins, flyers, comics, posters, flip charts. We have talked to two outstanding local firms, Communication for Development Foundation Uganda (CDFU), which ably designed and implemented the consumer education pilot project, and StraightTalk Foundation, which has an outstanding local and international reputation in

reaching many groups with many messages, but especially young people with messages about reproductive health.

For the AMFIU Members Channel, we have invited MicroFinance Opportunities, an American firm which has done pioneering work in developing packages for Consumer Financial Literacy campaigns, to come here for the week of March 20-24, to work with AMFIU and other stakeholders to develop a strategy for reaching consumers through the nationwide network of AMFIU members. MicroFinance Opportunities has modules ready for adaptation in Budgeting, Debt Management, Savings promotion, use of Bank Services, and Financial Negotiations, and has tested a variety of delivery channels, including “Stand-and-deliver” training, Radio Shows, Soap Operas, Television, Street Plays and Video. We are looking forward to an intense week of thought and work with MicroFinance Opportunities, which will culminate in a public working session on the 24th, to discuss plans for both channels with a large group of stakeholders.

Local Rating Service

Our friends at SUFFICE, and FSDU, are happy to announce that PlaNet Rating has been selected to create a local rating service in Uganda. We want them to begin as soon as possible, and are negotiating so that they can begin recruitment in March. There will be much more information on this important innovation in subsequent issues.

Best wishes to all,

Paul Rippey
Manager