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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FinScope Uganda

Did you hear a loud sigh of relief coming out of Kololo a few weeks ago? That was me, when it finally became unambiguously clear that in fact we had a good data set from FinScope Uganda. The data have been weighted, and as this is being written, our consultants at The Steadman Group are writing the formal report on the study now. We have scheduled a stakeholders meeting on April 25 to discuss the way forward.

The amount of information coming from the study is amazing, almost overwhelming. While Steadman's report will give some simple cross-tabulations, it is only scratching the surface of what can be gleaned. In the April 25 meeting, we will look at how to target each potential audience: policy makers, financial institutions, academics, the general public, and the international community.

Here is a teaser, a bit of information skimmed off the surface of the report. Where do Ugandans save? How many save? Here's what the survey told us:

At the time they were asked the question, sixty percent of the 2990 respondents said they had no savings at all.

16% said they saved in informal groups. As we dig deeper into the data, we will look at the kinds of informal groups: how many are VSLAs, how many burial societies, ROSCAs, and so on.

14% of respondents said they had an account with a BOU-regulated institution. This includes all people who had any sort of current account with a bank or MDI, where they put money and withdraw it later.

7% are in the "other" category, keeping money with friends, relatives, or hidden at home.

2% save with SACCOs, and 2% save with other MFIs. Much of the saving with MFIs is no doubt forced savings, required to get loans.

Why do people save? Below are the top ten reasons, and the percentage of respondents who gave each answer. We asked this only of the 40% who said they saved; it was an open ended question, and the answers add up to much more than 100% because multiple answers were possible. Overwhelmingly, people save for various consumption needs: to buy food and clothing, for school fees, and for emergencies. 19% said they saved to expand their business. Remember, this is 19% of the 40% of savers, thus about 8% of all the respondents answered that they save for expanding their business.

1	Household basic needs such as food, clothing, health services	82%
2	Emergency (burial, medical)	70%
3	Education of self, children or siblings or others	35%
4	Expanding business	19%
5	To be able to leave something for my children	12%
6	Starting up a new business	11%
7	For using later in life/old age	10%
8	Purchase of livestock /cattle	9%
9	Social reasons (wedding, travel, bride price)	8%
10	Purchasing or building a house to rent out	6%

Much more information will come later. This is just to whet your appetite!

Missing SACCOs and Tier 4 Census

FinScope Uganda looks at what people want. We have also almost completed a pair of studies that look at what is being offered to people. The Tier 4 Census report has been available for weeks and informally circulated to many people. We plan to launch the final study, and the new Outreach Map, at the next informal information exchange on 23rd April.

At the same time, we plan to present the results of the "Missing SACCO Study". As we have discussed in earlier editions of this newsletter, the Tier 4 Census showed that we failed to find many of the SACCOs that we expected to find; in fact, about half of the 1200 names of SACCOs were not mapped. However, we did not want to jump to the conclusion that half of the SACCOs had failed. In fact, the census only recorded SACCOs with a fixed location, and the interviewers reported anecdotes of a number of SACCOs that were active but did not have a fixed location. We also knew that our interviewers were working in difficult field situations, and could have made mistakes. Finally, we got the list of 1200 SACCOs from multiple sources, and it is entirely possible that some of the SACCOs were listed twice under different names, or in the wrong sub-county, or… well, there are many ways that a large study like that could go wrong.

Therefore, we agreed with AMFIU to carry out a study of a sample of the missing SACCOs. Oliver Schmidt of AMFIU offered to provide technical oversight to this effort, and together with AMFIU we bid the work and after a close contest selected Friends Consult to do the work. Friends has finished the field work, and is now working with Oliver on the final report which we will also release on 23rd April.

On the basis of the field work, I can now say that some of the missing SACCOs are failed or dormant, and some, for various reasons, are in fact fine healthy institutions that we simply didn't record for various reasons. But I won't give you any percentages, and will reserve that honor for AMFIU and Friends. See you on April 23!

Consumer Education, or TNT

The expanded nationwide Consumer Education programme is underway, and, following the recommendations of consultants who evaluated the first phase, we are giving the messages a common brand, *Transparency – Negotiation – Trust: TNT*.

CDFU have been organizing radio call in shows, with good results and, as expected, lots of interest. I've been working with StraightTalk Foundation on their printed material, and they have nearly designed a first issue of a newsletter that will go to tens of thousands of people in seven local language versions.

The newsletter (we are still debating its name!) will encourage savings, transparency, shopping around, reading contracts, and will provide consumers with basic information about different types of institution, with an emphasis on SACCOs.

While I was reviewing drafts of these materials, I realized a source of unease. It is difficult to give people advice when they don't have good options, and rural Ugandans often simply do not have good places to save. Banks are safe, but usually distant from rural areas, and even if their minimum account balances are low, the monthly fees will soon eat up the small savings of poor people. SACCOs have a mixed record in Uganda, with many failures; I am hesitant to recommend that poor people save somewhere where I would not save myself. Also, SACCOs are often no less expensive than banks for saving. The Government is encouraging the formation of hundreds of new SACCOs. We are working with this effort in a variety of ways to help assure its success, but we are very aware of the dangers and risks in this effort.

I am often reminded of the Hippocratic Oath taken by health workers, "First, do no harm". To be sure that we are not inadvertently leading people into problems with consumer education, we are putting the emphasis on the following messages, that we think are good advice anywhere and any time, and which we are confident Do No

Harm: Shop around for the best deal you can find. Read and understand the contract before you take a loan. Avoid unnecessary debt. Do not pay bribes, and avoid institutions that ask for them. If you are a SACCO member, educate yourself about the nature of the SACCO, make sure it respects its own bylaws, pay back any money you borrow, and insist that other members do so also.

To help coordinate the various consumer education efforts in Uganda, we hosted a first meeting of a Consumer Education Steering Committee on 7th March. AMFIU, CDFU and STF were of course present, and we were also pleased to have USAID's Rural SPEED project represented; rSPEED has been carrying out a massive savings mobilization project, with some messages similar to those of TNT.

Group Empowerment Tools

FSDU is cooperating with the Uganda Cooperative Alliance to use group empowerment tools in member education in SACCOs. Member education has been the weak link in SACCO building, and we are pleased to be assisting UCA in this vital activity.

Our local consultant, Patrick Ssebowa, and Christopher Musoke from FSDU, trained UCA staff in the usef of the tools during the week of February 12-16. The contract (for UGX 54,834,000) calls for UCA to train approximately 12,000 SACCO members in 60 SACCOs in the Group Empowerment Tools by August 2007.

We are quite excited about this training and the difference that it can make in the strength and safety of SACCOs.

VSLAs

CARE's work with a score of local partners continues, and we are impressed and pleased with the remarkable output they have attained.

In a parallel effort, we are considering a modest grant to the Ugandan Womens Effort to Save Orphans (UWESO) to improve their existing VSLA programme. UWESO courageously and vigorously launched VSLAs with little technical assistance, and overall did a good job, reaching about 12,000 members in six months. However, at UWESO's request, we invited Hugh Allen in to assess their programme in February, and he found weakness that could, if not corrected, lead to a deterioration of quality. UWESO has accepted Hugh's recommendations. Because some aspects of the programme need to be substantially reworked, UWESO and FSDU see this as an opportunity to leapfrog up to the most modern version of the VSLA approach, that is, using no ledgers, and allowing daily savings.

Ledgerless bookkeeping: A substantial part of group training (perhaps as much as half of the time) is devoted to training the groups to keep ledgers of all financial transactions. In fact, the ledgers are seldom kept perfectly, and yet the groups function fine without them, because all the information needed is contained in the members' passbooks. Hugh is now recommending that we do away with the ledgers altogether. We recognize that this will make some people nervous, especially people who have studied accounting. I never studied accounting, but I have seen group after group struggle with bookkeeping, while at the same time serving the needs of their members perfectly well. As a result, I am not at all nervous about this, but instead see this as a blessed relief, making the groups even easier for the members, and removing the slight but always present risk of creating a cult of bookkeepers and over-reliance on those with better academic education.

Daily savings. Groups in Bangladesh developed an ingenious method that allows members to save daily, or as often as they like, through a slot in the box. This approach has not, to my knowledge, been tested in Africa. It appears to bring members no risk, very little complexity, and great flexibility. It is certainly worth a test here. I am delighted that UWESO will be using the daily savings approach.

Tier 4 Regulation

Since my first day in Uganda almost four years ago, the issue of regulating, supervising and supporting Tier 4 institutions has been a preoccupation and frequent source of frustration for the government, donors, and financial institutions. The reasons why this has been difficult would fill a newsletter by themselves. I am delighted to report that there is reason for cautious optimism that there is significant movement on two fronts in this area.

The Ministry of Finance with support from GTZ/Sida is working to develop a framework for Tier 4 regulation and supervision that can potential lead expeditiously to regulations covering savings and credit cooperatives and other Tier 4 lenders. Their consultant, Dean Mahon, has made two trips here already, and we applaud the movement in the direction of robust, adapted regulation of Ugandan Tier 4 institutions.

In parallel, the Microfinance Outreach Plan with support from FSDU hosted a workshop with thirty people from a dozen institutions of 28th February to create a mechanism to improve coordination and efficiency of capacity building for Tier 4 Institutions. The meeting led to the creation of working groups to carry reflection forward in the areas of Governance and Consumer Education; Audit and Accounting; The Functioning of proposed Capacity Building Steering Committee; Financial Linkages; and definition of a Model SACCO. Each group was given terms of references to reflect on how best we can harmonize our efforts. Stay tuned for the results.

Climate Change and Microfinance

Since the last newsletter, I have given presentations based on Al Gore's *Inconvenient Truth* slideshow to (among other audiences) DFID (February 1) and USAID (February 15), and also to an international conference sponsored by Plan International in Nairobi (March 12). I have found that the messages from the former Vice President's show are not all well suited to African audiences. While Americans need to be less profligate, it is in everyone's interest to help African countries develop faster and better, and that means increasing, not decreasing, energy use. Based on valuable conversations with participants, I have modified the slideshow to tailor it to local audiences. I stress the difference between resource-exhausting 20th century development models and approaches (landlines, incandescent bulbs, and automobiles) with 21st century models, based on efficiency and technology (mobile phones, compact florescent bulbs, and public transportation).

I am still climbing up a learning curve of issues around carbon trading aggregation through financial institutions, getting clear on the differences between voluntary and compulsory channels, nuances between the CDM and EU ETM, proof of additionality, and many other details. At the same time, I have begun to confront the issues of using MFIs to finance small solar installations and other energy saving approaches; the numbers are sobering, and one soon runs into the fact that, as long as we subsidize fossil fuels by not adding in a carbon tax, fossil fuels remain the cheapest way to power our homes.

Nonetheless, the microfinance industry will soon find that it has a key role to play in averting the worst effects of climate change. We have scheduled a special presentation on Climate Change and Microfinance on May 2nd, 3:00 PM, Sheraton Hotel Ballroom. Please mark your calendar now.

Ratings

The Local Rating Fund Steering Committee, in an effort to increase the number of ratings of small MFIs being done in Uganda, decided at its January 19th meeting, to open up the fund to ratings from all approved rating agencies. In practice, this will have little immediate effect, because our friends at Planet Rating have an office in Kampala, know the country, and will have a cost advantage over other firms. Still, Planet welcome competition, as we all do, and we invite enquiries from other rating agencies.

We are also actively investigating a future home for the Rating Fund, and the possibility of enlarging the fund also to finance financial audits. We will keep you posted.

Linkages

We continue our work with Centenary Bank (Central Uganda), and PostBank Uganda (in the North), to help them study linkage-banking prospects, and develop strategies for linkages with Tier 4 (unregulated) institutions. Centenary is working with Aikan Ltd and PostBank is working with Deloitte & Touche. We are impatiently awaiting delivery of two mobile banking vans to PostBank Uganda for a pilot project in Eastern Uganda. Implementation will begin as soon as the vans arrive.

MDI Regulatory Impact Assessment

Under the auspices of the Transformation Steering Committee, we have developed terms of reference for a study of the impact of the MDI law on the MDIs, on other players in the market, on the regulators, and on consumers. We are awaiting final comments from members of the committee, after which we will launch a request for proposals.

Third African Microfinance Conference

On the 20th to 23rd of August 2007, Uganda's Ministry of Finance, Planning and Economic Development will host the Third African Microfinance Conference: New Options for Rural and Urban Africa. The conference will have six sub-themes: Segmentation, Client Costs and Risks, Financial Institution Costs and Risks, Value Chain Analysis and Financing, Innovations, and the Contribution of the Public Sector. The conference programme is almost final, and we were pleased and a bit overwhelmed by the number of offers we have received from people wanting to read papers or conduct workshops.

With best wishes,

Paul Rippey

Manager

FSDU