

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.

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 at www.fsdu.or.ug.

The author of this newsletter was away on vacation for a month during the period covered by this issue and decided to combine two months into one, hence, July-August.

Study of the Effects of Wholesale Lending to SACCOs

The team carrying out the Study of the Effects of Wholesale Lending to SACCOs completed its field work. Our intern and Principal Researcher, Alexandra Fiorillo, drafted a report which she presented to a large group of interested stakeholders on 21st August, after which the report was discussed by a panel made up of representatives of MicroFinance Support Centre Ltd, Uganda Cooperative Alliance, Uganda Credit and Savings Cooperative Union, and the manager of Panyimur SACCO in Nebbi, one of the participating institutions. There were many good questions and, I thought, excellent comments, which Alex is incorporating in the report now. The final version will be out in a few weeks. But it's not too soon to share an abbreviated version of the findings of the report:

- 1) External funds will not help a weak SACCO become strong. In fact, weak institutions that access wholesale credit for on-lending sometimes become still weaker as a result of the external loan.
- 2) The injection of wholesale loans into a SACCO can impact the savings culture of the institution positively or negatively. However, changes in a SACCO's savings rate are more dependent on management and governance than on external funds.
- 3) SACCOs can be quite successful without accessing external funds. Success among non-borrowing institutions comes from dedicated management and governance teams, sensitized members, strong financial policies, and consistent capacity building and training.
- 4) There is considerable anecdotal evidence of a lack of coordination among service providers leading to inequalities in the amount of technical assistance, redundancies and overlaps, contradictory messages, a mismatch between needs and assistance given, a lack of planned sequencing, lack of accountability and conditionality among recipients, and a disconnect between institutional assessments and assistance given.

- 5) Requirements placed on borrowing SACCOs by wholesale lenders can lead to improvements in management practices, of great value to the SACCO. While these requirements are not always appreciated by management, many SACCOs have improved monitoring and evaluation systems as a result.
- 6) SACCOs that sensitized their clients about the source of the external credit and the need for the SACCO to repay the loan were more successful in maintaining high repayment rates. On the other hand, some SACCO members were negatively influenced by being told that external funding was a grant from the government.

The collaboration among AMFIU, Canadian Cooperative Association, FSDU, GTZ/SIDA, MicroFinance Support Centre Ltd. (MSC), Uganda Cooperative Alliance (UCA), Uganda Credit and Savings Cooperative Union (UCSCU), Rural SPEED, Stromme Foundation, and SUFFICE, all of whom contributed significant human resources to the study, was as good as collaboration ever gets. It was Ugandan Microfinance at its best. I particularly acknowledge MSC Ltd, which was consistently helpful and transparent, in the face of repeated requests for information from the research team.

Finally, I trust I speak for all my colleagues in expressing our appreciation to Alexandra Fiorillo. Alex was consistently energetic, tactful, professional, perceptive, and agreeable. We wish her great happiness and good fortune.

Tiers 4 Census

We now have received completed questionnaires from all of the 1248 outlets that were interviewed as part of this census. Some questionnaires in some regions had missing information and we had to send them back to the interviewers, who complained of rain, long distances, recalcitrant respondents, and low pay, but overall did a good job of collecting information from a dispersed and diverse group of institutions

We now have a very good picture of the distribution of Tier 4 Institutions in Uganda, including GPS coordinates for them, and complete questionnaires for each of them.

We are now working on three remaining tasks: data entry and cleaning; supplementing the Tiers 4 information with updated outreach information from the institutions regulated by the Bank of Uganda; and preparation of a map of the institutions. These tasks are all underway.

FinScope Uganda

As this is written, our contractors Steadman Group are conducting a week-long training session for fifty interviewers (from the Kampala area) and field supervisors (from all of Uganda). We have agreed on the final questionnaire, had it translated into seven languages, and are completing independent back-translations into English. We have contracted independently with the Uganda Bureau of Statistics to update the household listings in the enumeration areas that have been chosen for the study.

The study is behind schedule, due above all to the many re-writes of the questionnaire. The delays, though, have an unanticipated benefit. Our questionnaire is structured in part around a distinction among formal, semi-formal, and informal, institutions and asks a number of questions about each category. We expect FinScope Uganda to produce some of the best country-level information on informal institutions ever collected anywhere. It can be extremely difficult, in some cases, for respondents to distinguish between semi-formal and

informal institutions, particularly in the case of member-based institutions, because the largest ASCAs and the smallest SACCOs are operationally very similar. It is important to do this, however, because we have built a classificatory fence between the two categories, with ASCAs being considered informal, and SACCOs semi-formal. We do not expect many respondents to know the registration status of their institution. Fortunately, we have just completed listing all the semi-formal institutions for the Tier 4 Census, and will furnish interviewers with the list of all the semi-formal institutions in their area. They will have simply to ask for the name of the institution, and see if it is on the list.

VSLA expansion programme, and the Zanzibar Study

The VSLA Steering Committee held its regular meeting on 1st August 2006. The meeting was enriched by the presence of new members:

- The Microfinance Outreach Plan, participating as an observer;
- Catholic Relief Services, which is implementing a VSLA programme in Kasese, Bundibugyo and Kyenjojo districts. CRS calls their version of VSLAs “SILC”, for Savings & Internal Lending Communities, and pronounced like the fabric;
- American Refugee Committee, working with VSLAs in IDP camps in Gulu.

At the meeting, we reviewed the steady progress that CARE and the implementing partners are making. Perhaps the largest challenge now is some delay in installing the MIS so that we can have accurate and timely centralised information on performance. This problem will soon be rectified.

Chris Musoke from FSDU travelled to Zanzibar from 16 to 21 July, to take part of a study being carried out by the Decentralised Financial Systems project in Kenya. The study addresses what happens to VSLAs once the donor or agency which formed them leaves. Zanzibar was chosen for this study in part because it is one of the very few cases where donors in fact have left; it is much more common for donors to remain present and in contact with the VSLAs they have formed, even though their relationship with the VSLAs changes and, usually, decreases.

We are pleased to be participating with the excellent team that DFS has assembled for this study, and look forward with great anticipation to seeing the draft report – we will withhold Chris’s initial perceptions of the situation until later issues, to heighten your curiosity.

Local Rating Service

The Local Rating Agency team has arrived in Kampala. We welcome the two full time rating experts who will reside in Uganda, and be supported by missions from PlaNet Finance: John Gutin brings experience in Microfinance both with DAI and with CGAP. Samuel Ssenyimba has worked for Centenary Bank as an agricultural loan officer, and holds his Masters Degree in International and Rural Development from the University of Reading.

Informal Information Exchange

On 31st July 2006, FSDU hosted the quarterly Informal Information Exchange, with the provocative title, “Institutional Structures that respond to the bottom 80% of Ugandans”. It

featured presentations by Grace Majara of CARE, on their Village Savings and Loan Association Programme; and by Luke Okumu of FSDU on the Preliminary Results of the Census of Tier 4 MFIs in Uganda.

Transformation Steering Committee

The Transformation Steering Committee held its regular quarterly meeting on 16th August. In addition to the usual review of the progress of the MDIs, the TSC decided to solicit expressions of interest from large MDIs which intend to work for transformation. There are no funds committed to assist these institutions at this time; the desire of the committee is simply to gain a clear idea of the number and nature of potential transformation candidates.

Linkage Banking Proposals

FSDU is about to solicit candidates among regulated financial institutions to submit proposals to work with consultants to identify gaps and challenges in the provision of financial services in Central and Northern Uganda. The consultants will work closely with the financial institutions to undertake feasibility studies for interventions geared at addressing the identified gaps and challenges. The work will place particular emphasis on linking with Tier 4 Institutions in a commercially sustainable manner. The selected financial institutions will be expected to co-fund the work, which will take place over a ten-month period this year and next.

“No Microfinance Here”

A recurrent theme for the last several issues of this newsletter has been the extraordinary number and variety of informal financial institutions in Uganda. These institutions are very important, and little understood and appreciated (except by their members!)

They are important because they serve many times the number of people served by formal and semi-formal institutions. However, we don't know how well they really perform. We don't know the outreach of these institutions, or what the trends in outreach are. We don't have a universally accepted taxonomy for them. And, most important, we don't know whether we are adding or subtracting value by trying to help, change, register, or replace them.

As mentioned last issue, we have published a cartoon that seeks not so much to answer questions about informal finance, as to draw attention to the questions.

This can be found at http://www.fsdu.or.ug/pdf/No_Microfinance_here.pdf

With best wishes,

Paul Rippey
Manager