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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New Minister of Microfinance, and a Microfinance Forum

On June 21, the new Minister of State for Micro Finance, General Caleb Akandwanaho, presided at the first Microfinance Forum meeting held in Uganda in many months. FSDU applauded the importance that the Government attached to the Forum, as evidenced by the Minister's presence. We also appreciated the General's fresh look at old problems, and the frank exchanges that ensued. Some of the comments made by participants included the reminder that poor people want and need secure savings as much or more than credit. FSDU also stressed the role that informal structures like ASCAs and ROSCAs already play, often quite successfully, in meeting the needs of the poor.

Rob Martin Report on SACCO Regulation

On June 28th, Robert Martin, a Senior Policy Advisor to the Credit Union Central of Canada, made a presentation in the Uganda Cooperative Alliance boardroom to a number of the key players in SACCO support and promotion. He reported on his consultations with Ugandan stakeholders on options to supervise SACCOs more efficiently.

This newsletter is not the place to address the technical aspects of the solution he proposed, and we will be happy to forward his recommendations to anyone interested. I did however leave the meeting with reinforced feelings about the SACCO regulation challenge. There are a number of possible solutions already advanced, in Rob Martin's paper, in Steven Staschen's paper of two years ago, and in recommendations made by WOCCU. Certainly none is perfect, but, as I find myself saying more and more frequently, *the perfect is the enemy of the good*. Uganda has sufficient expertise to come up with a solution, and in fact there were numerous experts sitting around the table during Rob's presentation. The need is clear. What is missing, I believe, is the political will for diverse organisations, each with its own institutional interest, to sit down together, negotiate and compromise. If we cannot do that, we should all begin to feel the heavy responsibility for the lack of effective supervision of SACCOs and the continued and avoidable risk that this presents to poor people's savings.

FOCCAS and FINCA

For a long time, I have had particular personal fondness for the credit-only MFI FOCCAS, which has worked in nine districts of Eastern Uganda since 1996, and has about 16,000 clients. FOCCAS was one of the first MFIs I visited when I came to Uganda in 2002. I appreciated it for its approach, which combines credit with basic education in health, financial management, and other topics. I also admired it for its commitment to work with an extremely remote population, as proven by the jarring long roads that visitors like myself must traverse to visit its clients. Finally, I congratulated FOCCAS for being one of the first Ugandan MFIs to commission a rating, in October 2003.

That rating, however, accurately pointed out the challenges that many of us knew that FOCCAS faced. The rating gave it very low scores in "efficiency and profitability", and "financing and liquidity". The report noted, "Overall profitability is constrained by high operating costs and a lack of scale economies." The rating report said that for FOCCAS to succeed, it needed to attract significant new donor and commercial funding; continue to improve staff productivity; strengthen risk management, financial analysis and planning; and improve the operating expense ratio.

The ensuing two and a half years did not bring sufficient progress, and finally FOCCAS and its international partners reviewed their operations and decided to disengage from direct delivery of microcredit. Accordingly, FOCCAS arranged with FINCA Uganda to move into most areas covered by FOCCAS. FINCA, as a regulated micro-finance deposit taking institution, can offer a range of secure savings and credit products. The institutions agreed that FOCCAS clients with outstanding loans will continue to make payments to FOCCAS as usual. Those who have completed paying up their loans will apply to get new loans from FINCA. FINCA and FOCCAS staff will be visiting clients at their normal locations to explain the transition to them, and with assistance from FSDU's Consolidation Challenge Fund, the two institutions have launched a campaign to inform customers and prepare FOCCAS staff for the transition.

The coming months will see FOCCAS take on the difficult tasks of assuring that their staff, customers and creditors are treated as fairly as possible. It is premature to begin to document the important lessons that will be drawn from this experience, except to say that there is something almost quaintly old-fashioned about credit-only MFIs, just as there is about the entire concept of micro-credit. I am old enough to remember dedicated word processors, desktop machines that could only process text. When desktop computers appeared, users quickly saw that for the same cost, they could also run spreadsheets, email, browsers, and other programs. In a short time, the dedicated word processors disappeared.

Similarly, with all due respect for the great work that has been done by credit only institutions like FOCCAS, I cannot imagine how they can survive once full-service institutions like Uganda's MDIs begin to offer savings to the same customers. Study after study shows that customers value secure savings more than access to credit (most recently CGAP's excellent study of the savings sector in Uganda, available at http://cgap.org/docs/uganda_assessment.pdf).

Not today or tomorrow perhaps, but soon, it seems to this observer that the credit-only MFIs must face the prospect of divesting their credit operations, merging, or transforming.

Study of the Effects of Wholesale Lending to SACCOs

This study, supported by 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, completed its planning phase, by developing interview guides and data collection instruments that teams will use during visits to participating SACCOs. The partners collaborated to develop separate instruments for board members, management and financial teams, and SACCO members. A description of the study design is available on our website.

Alexandra Fiorillo, an intern at FSDU who is spearheading the study, oversaw the selection of participating SACCOs.

On July 5th and 6th, a team made up of Dickson Turyahabwe from UCSCU, Henk van Oosterhout from SUFFICE, Ms Fiorrillo and myself, plus Isaac Galiwongo, an expert consultant in conducting focus groups, began field work. We visited two SACCOs: Kijura in Kabarole District, and Ikongo in Kasese. I am grateful for the hospitality and transparent sharing of information from both SACCOs. The interviews with boards, management and customers were very instructive and held a number of surprises… but I will stop there, Dear Reader, hopefully leaving you curious and eager to see the results of the study in two months.

Local Rating Service

The Local Rating Agency selected by SUFFICE and FSDU, Planet Rating, is expected to open its office in Kampala in August, and will begin soon after to offer ratings at a fast and accelerating pace to Ugandan MFIs. The members of the Local Rating Steering Committee want to make sure that there is a steady and consistent demand for ratings, and so on 7th July, Henk van Oosterhout, SUFFICE Programme Manager, and Agnes Mugwanya, Administrator/Rating Fund Manager, and I made a presentation on the Local Rating Service to 21 participants from ten small financial institutions in the meeting hall at PRICON, the Private Sector Promotion Centre in Fort Portal. It was a lively meeting that re-affirmed our belief that the Local Rating Service will find strong demand from MFIs, and will make a fundamental difference in the sector.

Coordination of Capacity Building

It is increasingly obvious that we donors need to follow the advice we give to MFIs: we must work harder to communicate and be transparent, to coordinate our activities, and to make the best use of our resources. This fact was made clear during my visit during the Lending-to-SACCOs study to the medium-sized SACCO of Ikongo, situated in the far west of Uganda four kilometres from the Congolese border. Ikongo has affiliations with nine separate donor projects and apex bodies, all of which offer them advice, technical support, training, consultancies, or such. The partners – AMFIU, Kasese District Microfinance Committee, MSC Ltd, PRICON, Rural SPEED, SNV, SUFFICE, UCA, and UCSCU – all have a mission of Capacity Building.

The Ikongo board graciously appreciates the assistance it receives from all of these agencies, and I know most of the partners well enough to be certain that they have something valuable to offer. However, it is surely a substantial task for Ikongo's small staff simply to manage relations with all of them.

Several of these agencies have made sincere efforts to set up coordination mechanisms, but so far, there is no widely accepted mechanism to make our assistance more efficient and less burdensome to recipients. I continue to believe that Improving Capacity Building Coordination is one of the most important things we can do to strengthen the microfinance sector.

There remain three things necessary for the industry to coordinate technical assistance:

First, we must have reliable assessments of the assistance that institutions really want and need. The Rating Service will help by providing professional, objective, and readily available assessments of what institutions actually want and need.

Second, agencies must have the willingness and flexibility to sit around a table (a large one!) and formalise the coordination of capacity building assistance. The Transformation, VSLA, and Rating Steering committees have shown that efficient donor coordination is possible, and in fact, works better in Uganda than anywhere else I have seen or heard of. We need a new structure, yet to be created or even defined, that I will call, for lack of a more original name, a *Capacity Building Steering Committee*.

Finally, that Committee will have to translate assessments from the Ratings or elsewhere into multi-agency action plans, which spell out the role that each provider of capacity building assistance will play. The plans must take into account the needs of recipients and the specialisation and donor constraints of each provider. This will require full time professional staff, reporting to the Steering Committee, dedicated to analysing the supply and demand of technical assistance, and negotiating with providers and recipients to parcel out assistance according to transparent criteria, with reasonable conditionality attached, sequenced in logical ways, and tailored to the needs of each recipient.

This difficult task can be accomplished. We have the resources. We lack only the will and the hard work.

To publicise the rating service, the various partners hurriedly produced a preliminary Rating Flyer. It is not bad for a first effort, but will, we hope, be replaced in a few months by a better version with more current and precise information about the rating fund, pictures of MFIs which have actually been rated, and the logos of still more participating agencies. The preliminary version is available on our website.

Tiers 4 Census

The Tier 4 Census interviewers are now out in the field, interviewing all (hopefully) of the 1246Tier 4 microfinance outlets that have been identified and mapped by GPS. To assure data quality, FSDU and its partners are making surprise control visits to the field. To support this effort, I went to Mbarara on 29th July to make an unannounced visit to two research assistants, review their questionnaires, and visit two of the institutions they had surveyed to verify the accuracy of the data they collected. On the basis of what I saw myself, and similar observations from Luke Okumu, our Research Coodinator, we know that the interviews will fall short of perfection. However, we are very confident that the Census will provide by far the most accurate and comprehensive information ever collected on the supply of rural financial services in Uganda.

Village Savings & Loan Association Expansion Project

We held a meeting of the VSLA Steering Committee at FSDU on 19th June. CARE reported on their steady progress in expanding the project. As of this writing, we are in the following Districts, working with the following partners:

Kitgum IRC
Gulu District Farmers Assoc., Diocese of Northern Uganda, Volunteer Initiative Services Organisation
Pader Church of Uganda

Kotido Karamoja Private Sector Centre
Kaabong Karamoja Private Sector Centre
Moroto Karamoja Private Sector Centre
Nakapiripirit Karamoja Private Sector Centre
Yumbe CREAM
Moyo CREAM
Nebbi West Nile Private Sector Centre
Arua West Nile Private Sector Centre
Adjumani CREAM
Kasese FURA
Kabale CARE
Kanungu CARE
Tororo PLAN International
Kamuli PLAN International
Luwero PLAN International
Busia SEPSPEL Private Sector Centre
Bugiri SEPSPEL Private Sector Centre
Soroti District Farmers Association
Iganga District Farmers Association
Kabarole District Farmers Association
Kibaale District Farmers Association, Kabale Business Development Services
Kyenjojo District Farmers Association
Lira District Farmers Association
Palisa District Farmers Association
Kisoro Kabale Business Development Services
Kanungu Kabale Business Development Services

Please note that FSDU is only one donor among many: Plan International will fund other implementing partners still to be identified in the three districts of Tororo, Kamuli and Luwero, and other CARE partners are providing funding in Gulu, Kibaale, Kabale, Lira, Kisoror and Kanungu Districts.

Altogether, these efforts foresee creating 4000 groups with about 105,000 members by the end of 2007. Other agencies – Save the Children, UWESO, PRIME West and CRS – are also working in supporting VSLAs. We want to include all implementers in the Steering Committee, to learn from each other and to avoid duplication of effort. We are also urging CARE to accelerate creation of institution-level MISs and a national MIS to facilitate management of the project and to report nationally on the rapidly increasing outreach of the VSLAs.

For many months, we have discussed with our friends at the Decentralised Financial Services Project in Kenya, and our sister Financial Sector Deepening Kenya, the possibility of studying an older VSLA project, one in which the implementing agency has left the groups to function on their own. The study is intended to test the claim that groups become self-sufficient and independent of donor assistance. As I have repeatedly and unabashedly made that claim myself (in the absence of any hard evidence that it is true), I appreciate the scepticism and the spirit of scientific enquiry of my colleagues.

It is difficult to find a programme where the hypothesis has actually been tested, because in most cases, the implementing agency stays around, continuing to provide various services to the groups it trains. After many email exchanges, we identified Zanzibar as the best test case; CARE started an apparently successful programme there, and then turned it over to a local NGO, controlled by the groups themselves. We are now going ahead with the study. DFS is managing the study, FSDU is contributing some financial support, and Chris Musoke will be joining the research team in Zanzibar from the 16th to the 21st of July.

Finally, FSDU commissioned a cartoon by a talented local artist Arnold Burungi. The cartoon has something to do with VSLAs, but I won't tell you more: when we launched this email newsletter, we vowed not to inconvenience readers with slow connections by burdening it with graphics, so I honour that promise and refer you to our website where interested readers may view and download the cartoon (if not now, then very soon).

With best wishes,

Paul Rippey
Manager