

TRENDS AND ISSUES IN MICROFINANCE - INFORMATION EXCHANGE MEETING

HELD ON MONDAY 26TH April, 2004 AT FAIRWAY HOTEL

The theme of this quarter's Information Exchange meeting was "**MFI Transformation: Process and Implication**". The meeting was attended by 62 participants. Mr. Lance Kashugyera, Head of Micro/Small Enterprises Unit, Ministry of Finance, Planning and Economic Development, chaired the meeting. He represented the Chairman for this forum, Mr. Keith Muhakanizi, who was unable to attend.

There were two presentations followed by the sharing of experiences to date by a panel of transforming MFIs. This was followed by a session of questions and answers with the panel taking priority in asking the questions.

Highlights:

1st Presentation: "The MDI Act – Ownership and Timing of Applications"

By Ms Robinah Nakato, Senior Principal Banking Officer, Bank of Uganda.

Ms. Nakato made a detailed explanation of the ownership requirements under Sec 21, and subsections of the MDI Act. She confirmed that the Regulations would be gazetted soon and applications for MDI licenses could be made thereafter.

2nd Presentation: "KREP Bank – The challenges of transformation"

By Mr. Aleke Dondo, Managing Director, K-Rep Development Agency

Mr. Dondo gave a brief history of K-Rep from its inception in May 1994. He then discussed the transformation challenges that K-Rep faced and how they were overcome. These included:

- Educating the Central Bank – The Central Bank was not knowledgeable about microfinance and transformation of institutions.
K-Rep arranged for the Governor and Head of Supervision to visit Bolivia to see examples of successful transformed institutions.
- Stringent regulations meant for mainstream banks – The regulations were made in a way that only a few institutions could qualify for a license.
K-Rep negotiated with the Central bank to relax some of the regulations such as lending without collateral and location of branches
- Turbulent Financial Landscape – Several Banks and Building Societies collapsed at the time when K-Rep was preparing to apply for a license
K-rep had to be patient while Central Bank brought calm and order in the financial landscape before they could get their license
- Capital Requirement – The Central Bank increased the minimum capital requirements from Kshs. 75m in 1994 to Kshs. 500m by 1998 to keep out sham financial institutions.
K-rep had to get deep pocketed investors to raise meet this requirement
- Identifying suitable investors – K-Rep wanted investors that shared their mission, could counter political interference, and had adequate funds to put in the institution
A list of 10 desirable attributes was drawn up and was used to solicit for investors. Institutional investors were preferred to individual investors.

Panel of Transforming MFIs

The panel was made up of:

*Mr. Charles Nalyaali, Chief Executive Officer, Uganda Microfinance Union
Mrs. Harriet Mulyanti, Deputy General Manager, Uganda Women's Finance Trust Ltd
Mr. Alex Kakuru, General Manager, Faulu Uganda Ltd
Mr. Fabian Kasi, General Manager, Finca Uganda
Mr. Moses Kimuli, Company Secretary, Pride Uganda*

The panelists shared the challenges that their institutions are facing in the process of transformation. These are summarized as follows:

- Getting funds to finance infrastructural changes
- Complying with the ownership and operational regulations
- Balancing transformation and operational activities
- Changing the institutional culture
- Attracting the right investors

Question and Answer Session

The panel as well as other participants fielded questions to Ms. Nakato (RN) and Mr. Dondo (AD). These are recorded below with the relevant answers:

Q: Can an NGO own more than 30% of an MDI during the 2 year transitional period?

RN: Yes it is permissible for a local or foreign NGO to own more than 30% of an MDI during the transitional period. However, the application must clearly demonstrate how the ownership will be diluted by the end of the two year period so that it can comply with the regulations.

Q: Can a letter be sufficient to demonstrate the commitment of an investor in an MDI?

RN: A non revocable letter of intent could suffice but other tests would be made regarding the investor i.e. do they pass the test of a reputable company?

Q: Can the Bank of Uganda make a check list to for applicants to use.

RN: The regulations are comprehensive and applicants can make their own checklists.

Q. Why can't the MDIs intermediate the collateralized savings?

RN: This is a legal requirement to reduce risk. Subjecting LIF to risk (being lent out) increases the overall risk to the institution.

Q: How did K-Rep manage to balance the transformation and operational activities?

AD: The senior management was divided into two, those to run the operational activities (financial services), and those to manage the transformation. The Deputy Managing Director run the financial services while the Managing Director run the transformation process. A Board committee on transformation was formed.

Q: Has K-Rep come out with a list of Dos and Don'ts of Transformation?

AD: Dos - Work very closely with the Bank of Uganda, make them your friends, have development Partners who are willing to fund the process, take your time, seek for investors who share the vision.

Q: Is the door open to negotiate on the Regulations?

RN: The MDI Act came out of a long process of negotiation with all the stakeholders. MDIs should first implement what is in place before asking for concessions.

Q: What about Tier 4 institutions?

RN: Member based organizations can use their own members' savings. Any other institutions that are receiving deposits must either be licensed as MDIs or they close as they would operate illegally.

Q: Can the date of the gazetting of the Regulations be made the effective date instead of 5th September 2003?

RN: The effective date is set under the provisions of the Act. This can only be changed by Parliament as Bank of Uganda is only an implementer of the legal requirements.

Q: Can the transforming MFIs work together in their negotiations with Bank of Uganda?

RN: Informal networks of transforming MFIs are permissible. Licensed MDIs can set up their Association similar to what the Banks have.

The Chairman thanked Ms Nakato, Mr. Dondo and the panelists for their participation in a very informative and lively meeting. The meeting was closed at 5.20 pm and participants proceeded to the cocktail.

Brief from the "Microfinance Pin Board"

Procedure for subscribing to MF LIST SERVE

MF-Uganda is now linked to the CGAP Gateway! To subscribe, send an email to: mf-uganda@syberhut.com typing the word subscribe in the subject line. You will receive a confirmation mail from the list serv. Reply to this mail, not changing anything in the subject line, and you are subscribed. You will receive all postings to the list, and can post information, announcements and discussion topics.

There will be a meeting of the MFF at the Ministry of Finance Planning & Economic Development Boardroom at 09.30 am on Friday 30th April to hear a presentation by Professor G. K. Coetzee of the University of Pretoria. Topic: Non prudential Credit Regulations in South Africa

The next Trends and Issues in Microfinance – Informal Information Exchange meeting will take place on **Monday 26th July 2004 at 2.30 pm**. The organizers wish to satisfy the desires of the microfinance community for information and therefore invite suggestions for the theme. People with ideas for future presentations should communicate them to SUFFICE (hmutabazi@suffice.or.ug) or to FSDU (chris@fsdu.or.ug). FSDU invites other institutions that would like to sponsor the Trends and Issues meetings to contact us.

Best Regards



Christopher Musoke
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