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.

In January we'll get come back to a comprehensive overview of the project, but this end-of-the-year issue is devoted to a short list of items that are at the front of my mind:

- The Plan for the **Coordination of Capacity Building**

- Progress with **FinScope Uganda**

- FSDU's **Annual Programme Review**

- An interesting case of **VSLA** promotion.

- For those who are interested, a brief report on a **survey of FSAs**.

- And, a special feature, **Five Predictions for 2007.**

Plan for the Coordination of Capacity Building

Over the last three months, I have worked with Francis Zikusooka to prepare a plan for the coordination of capacity building. The final report will soon be posted, and we have prepared a two-page flyer summarizing our recommendations.

Because SACCO failure results in loss of savings and shares to poor members, and contaminates the atmosphere around financial services, we argue that only Zero SACCO Failure should be acceptable to stakeholders. While Uganda is nowhere near that ambitious goal, it is possible to attain it, and we believe the following may be the elements of a strategy that will lead to Zero SACCO Failure:

1. Creation of an industry consensus on the Minimum Acceptable Standards for a SACCO. We propose a draft list of minimum acceptable standards as a starting point for discussion.

2. Agreement of Non-negotiable Precedents for Assistance, beginning with an informed membership committed to capitalizing the SACCO through saving, and a transparent competent Board.

3. Stakeholder agreement to use standardized assessment tools. The authors believe that Uganda already has adequate assessment tools, at least to begin with, namely the Light Due Diligence Tool and the local Rating Service.

4. Comparison of the Minimum Acceptable Standards and the individual SACCO assessments to produce a gap analysis of each SACCO assisted by any participating agency

5. Development of an assistance plan for each SACCO efficiently targeting the identified gaps and sequencing interventions, respecting the Non-negotiable Precedents for Assistance

6. Negotiation of assistance contracts with assisted SACCOs committing them to institute necessary reforms as a condition for additional assistance

7. Use of existing assistance providers to give training and TA to fill those gaps

8. Rigorous assessment of the performance of assisted SACCOs and of the efficacy of service providers.

Earlier efforts in Uganda at coordination have failed, and we suggest that this is because they lacked "**a Stick and a Staff**". We believe that the creation of a coordination mechanism, provisionally called the Capacity Building Steering Committee, is absolutely necessary. The Steering Committee should be composed of RFSP, MSC, SUFFICE, UCA and UCSCU, and as many of the independent bilateral and private assistance providers as possible. "The Stick" refers to the strong enticements needed to bring members to the same table, and to surrender some institutional autonomy despite historically differing agendas. "The Staff" refers to the need to supplement voluntary contributions of time with full-time professionals who oversee assessments, standards, reporting and evaluations.

The report proposes draft terms of reference for the Capacity Building Steering Committee, again, as a starting point for discussion.

While the creation and functioning of the committee will require an ongoing investment for staff and operations, this will be less expensive than the option of having a large number of agencies providing uncoordinated assistance, as this has been wasteful and ineffective.

FinScope Uganda

After two years of work, sometimes made more difficult than it needed to be because of our inexperience in managing such a complex study, we now have the preliminary results from the FinScope Uganda study. Last week Bob Currin from FinMark Trust in South Africa gave up his Christmas shopping so that he could meet here in Kampala with Virginia Nkwanzi from our local contractor Steadman Associates, and Luke Okumu and myself from FSDU, to review the preliminary data. After looking at the results of each question and some simple cross tabulations by region and gender, the experts (by which I mean everyone but me) were of the opinion that there were only very few detectable problems in the way the questions were understood by correspondents or in data entry. In other words, despite many worries about the difficulties of asking such a long questionnaire across the country in many local languages, we seem to have gotten good data. It is a bit too early to open the champagne, but I can't refrain from offering my thanks and congratulations to Luke, Virginia and all the folks at Steadman for getting us this far.

We are still sworn to secrecy about the results, however. Before we release even preliminary results, there are three steps we must take:

- First, the data must be cleaned – that is, we have to look closely at a couple of questions that seem to have anomalous answers, and if necessary go back to the original questionnaires or in extreme cases back to the respondents to check information.

- Second, the data have to be weighted – the sample deliberately over-sampled Kampala, so that we would have an adequate representation of this important market; however, before we can release national results, the Uganda Bureau of Statistics (UBOS) will weight the responses to compensate for this and other cases where the sample does not correspond exactly to the population distribution. This weighting is a largely mechanical but very important part of the process.

- Finally, UBOS will compare the responses we obtained on certain questions to information obtained in other UBOS studies, in particular the National Household Survey; we asked some of the same questions as the NHHS. The percentage of homes with, say, a bicycle, or running water, should be approximately the same in FinScope Uganda as in the NHHS.

Provided there are no serious problems at any of these three steps, we will soon be able to release information from the study. The raw data were fascinating. We were struck in particular by the level of utilization of different types of financial institution, the reasons people borrow and save, some of the psychographic information about people's attitudes, and people's experience with agricultural finance. But… I can't say more now. (I so hope this teaser makes you want to see the results!)

We will hold a meeting of the FinScope Uganda Advisory Committee in January, and will propose to the members that they evolve into a real Steering Committee, especially to oversee the dissemination of information. To guide this process, we will propose a draft Dissemination Strategy to them for discussion.

Annual Programme Review

From November 20 to December 1, we had the pleasure of hosting Tillman Bruett and Sukhwinder Arora, who conducted the Annual Programme Review of FSDU. We have received and commented on a first draft of their report, and await the final version. The Annual Programme Review is an internal requirement of DFID, but in our case it has always led to useful advice for improving our programme. (For instance, an earlier APR pointed out that many people didn't know fully what FSDU was doing, which led directly to this newsletter.)

Because FSDU ends in September 2007, much of the focus of this review was on institutionalizing FSDU's activities, and the draft APR contains much useful advice. We will be working with many of our partners over the next months to find ways to get lasting value out of FSDU's activities. After our first APR, on the excellent advice of Adrian Stone of DFID, we began the tradition of holding an annual stakeholders meeting, in January, to present and discuss out annual report for the year just finished, and to discuss and get input into our workplan for the following year. This year, we will hold the stakeholders meeting on 29th January, and as always, all partners are invited – if you do not receive an invitation, please contact Christopher Musoke or myself for details.

At that meeting, we will distribute a number of recent studies and reports, including the Plan For Coordination of Capacity Building, the report on the Census of Tier 4 institutions, the Survey of the FSAs two years after the end of technical assistance , a new brief report on a study on the transition from group to individual loans, and a new VSLA flyer. If we move very fast, we may also be able to present the most exciting information about pro-poor finance in Uganda, the preliminary results of the FinScope Uganda Study.

VSLA Promotion

On December 6 and 7, I visited the VSLA programme run by UWESO – The Uganda Women's Effort to Save Orphans – in Masaka. While short visits to three hand-picked groups do not an assessment make, I came away with the strong impression that UWESO has done an impressive job of starting a large VSLA program quickly, with minimal technical assistance. There are some rough spots in their implementation that they are aware of and working on, but overall the groups I visited had the essential elements: the members were committed to mobilizing their own resources, operating in total transparency, and respecting their procedures. Repayment is reported to be so far 100% on-time, a claim I could not verify. Loans in the groups I visited were between 10,000 and 50,000 shillings (roughly USD 3 to USD 30), with most being 20,000 or 30,000 shillings.

Many of the members were formerly in the UWESO loan scheme, which has been spun off into an MFI. When asked to compare the two approaches, one woman said the VSLA was better for four reasons:

- She did not have to go to Masaka to do her transactions, but could instead do them in the village.
- She could take a loan when she needed one, and not when the lender told her it was time to do so.
- Poor people could take small loans.
- The other program "sucked the money out of the village".

UWESO's VSLA program has grown rapidly, and now has 409 groups with about 13,000 participants in the districts of Ibanda, Bushenyi, Rukenjeri, Mbarara, Mokono, Wakiso, Tororo, Mbale, Kumi, Soroti, Lira and Apac. The program is now expanding into Katakwi and Kabaramaido.

CARE is hosting a three day workshop from 9th – 11th January 2007 intended to bring all the Ugandan VSLA implementers and promoters together to reflect on how the methodology is working in terms of approaches and value addition through sharing experience. We are looking forward to this important event, and congratulate CARE for hosting it.

FSA Survey

Readers of this newsletter who remember the Financial Services Associations (FSAs) and the large grants to FSAIU from DFID and other donors to support this network of member-based, SACCO-like institutions, will be interested in the results of a comprehensive survey of the former FSAs ("Two Years Later: A Survey of FSAs after the end of FSAIU Support", by John K. Beijuka and William Mukasa).

Donor funding ended in 2004, and FSAIU closed its doors soon after. The FSAs all registered as Savings and Credit Cooperatives (SACCOs) except for a couple which closed before they could complete their registration.

The consultants found that one third of the FSAs have closed or, in the colorful image of the consultants, are "on the second bottle of drip", and one third are "functioning but weak" with any income immediately spent for recurring costs. The remaining third, however, have shown strong growth since the closure of FSAIU, to such an extent that the total loans outstanding and the total savings from the entire network have increased substantially. The consultants give three reasons for this. First, the FSAs in many cases effectively discouraged the collection of savings by charging fees on deposits, while the new SACCOs actively encourage their members to save. Second, at least seven of the well-performing SACCOs have received loans from the

Microfinance Support Centre Ltd, which they have lent out to members. Finally, several of the remaining SACCOs have been receiving technical assistance through Plan International, UCSCU, and the District Promotion Centres, which is leading to improved performance.

In two regions, the membership of the ex-FSAs has become markedly more masculine, as women have left and men have joined the new SACCOs. In Kampala, the international partner, Plan International, deliberately promotes female membership and Kampala is the only region with more women members than men.

The complete report and a two-page flyer with summary findings are available on our website.

Five Predictions for 2007

Where are we going in the year *after* Dr Yunus and Grameen Bank win the Nobel Peace Prize? Your guess is as good as mine, and I'd love to hear your guess. Here are my predictions of the most important trends in Ugandan microfinance in 2007:

1 MDI's come of age. The year and a half after the MicroDeposit Taking Institutions received their licenses has been disappointing for many observers, as the MDIs went through continual internal re-adjustments, learning to become banks. That difficult period is coming to an end. Deposits have been growing steadily and are now at 26% of total portfolio; they will grow to 50% by the end of 2007, which will mean lower cost of funds and the ability to expand portfolios at lower cost to borrowers. At the same time, the MDIs will work better with the Bank of Uganda in identifying and limiting risks, so that they can begin to get outreach into new markets.

2 Understanding VSLAs. Village Savings and Loan Associations remain mysterious to many people, who continue to think they should be something different than what they are. During 2007, rather than wanting to link them, transform them, consolidate them, re-train them, upgrade them, add value to them, or otherwise tinker with them, people will begin to understand that VSLAs work well and provide a useful service to poor and remote populations, not *despite* their simplicity, but *because* of their simplicity, and the best thing to do with VSLAs is celebrate their existence and leave them alone.

3 SACCO legislation. 2007 will see the passage of a law establishing a regulatory framework for Savings and Credit Cooperatives in Uganda. My wish list for the law includes the following elements: first, legislation should hold SACCOs up to high standards of transparency and performance, but in the realities of Uganda's SACCOs, legislation must give SACCOs a reasonable time-frame to comply (the Central African SACCO legislation gave SACCOs five years to meet minimum requirements); second, we should take this opportunity to include elements of prudential regulation, particularly concerning transparency in interest and fees, prohibitions against reckless or predatory lending, and liability in case of malfeasance; third, the legislation should reflect the varying sizes of SACCOs, being more rigorous for larger institutions.

4 Differentiation of "the poor". Often in our minds we have grouped low-income people together into one vast category called "the poor". This thinking loses important distinctions among groups with special opportunities and needs. In fact the poor in Karamoja may want and need very different financial services than the poor in West Nile, or Ankole. Two things will lead us to understand these differences better: First, FinScope Uganda, will develop statistically generated market segments sharing characteristics that differentiate them from other segments; and, second, as implementers - whether bona bagaggawale, MDIs, Stanbic, or others - expand across Uganda and encounter differences directly, we will be led to a widespread understanding of field realities.

5 Carbon and finance. As global climate change becomes a worldwide concern, the implications for Uganda are vastly different from those for Europe or North America. Uganda like all agricultural countries has more to lose as the Earth gets hotter, but Uganda also has unique opportunities to participate in carbon trading and offsets, both because of Uganda's ability to lock up carbon in tree plantations, and because of its immense potential for hydro-electricity. These threats and opportunities will begin to impact all areas of our lives, including pro-poor finance, in ways that we are only beginning to understand. Climate change will require our best ideas and best collaboration.

That's my list of predictions for the coming year – I'd be delighted to hear yours

On behalf of my colleagues Christopher Musoke, Godfrey Jooga Sebukulu, Luke Okumu, Sarah Roberts, Robert Ssetuba and Grace Ninsiima, best wishes for a fulfilling and productive 2007,

Paul Rippey

Manager