

EXPERIENCES ON LEGAL, REGULATORY, SUPERVISORY AND MONITORING CHALLENGES OF MICRO FINANCE INSTITUTIONS.

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Background

- GOU with support from UNDP initiated the establishment of Village Savings and Credit Institutions under CCF1 (1997 – 2000) and has continued to do so during CCF 2 (2001 – 2005).
- 17 Village Savings and Credit Institutions (VSCI) have been established and supported in different parts of the Country where District Private Sector Promotion Centres (DPCs) are operational.
- Many more communities have adopted the VSCI model in various parts of the country, having seen the power of such institutions in social economic development. These access the same support though on a cost recovery basis.
- Support to these VSCIs has been formalized and is done through Memoranda of Understanding between the institution and the DPCs
- All supported Institutions (VSCIs) are in tier four
- Today, DPCs are receiving numerous requests for support from communities to help them develop VSCIs.

PROGRAM SUPPORT

- Providing advisory, performance monitoring and evaluation services to the VSCIs on a full time basis using our Micro Finance Officers (MFOs) stationed at the 11 District Private Sector Promotion Centers (DPCs) located around the country. The MFOs have been and still are undergoing continuous training on the latest developments in the micro finance industry worldwide and are well equipped with “micro finance best practices” as well as financial and economic analysis tools on micro finance.
- We also provide the institutions with technical backstopping when making applications to potential funding agencies, for their operations.
- 100% subsidy on costs involved in training them in “best practice” micro finance. This subsidy is gradually reduced as the institution grows in strength and capacity to cover some of these costs.

Emerging Issues

- The majority of these VSCIs are registered as Saving and Credit Cooperative Societies (SACCO) or Companies e.g Busia Rural Development Trust, Padhola Rural savings and credit institution in Tororo.
- There are also FCBOs involved in savings and credit at the lower levels, registered at the districts.
- There are a number of development partners in the field working with some VSCIs e.g. MSCL, SUFFICE, ADF, DPCs, etc
- While the Cooperative Department is supposed to supervise the SACCOs, Companies have to resort to courts of laws to settle their differences.
- The VSCIs are not empowered to effectively manage the affairs of the dynamic business. This cuts across the Board, committees and management structures in place.
- Most of the VSCIs are using manual systems while the supporting agencies are using IT systems.
- The Performance Monitoring Tool developed by industry stakeholders is now being used by the VSCIs. Trainings on the use of the PMT has been conducted for 15 out of the 17 pilot VSCIs.
- A poor repayment culture by members of VSCIs affects the performance of the institutions. Some of these institutions have loan arrears over two years.

Challenges

- VSCIs look at themselves as autonomous institutions, which would not want interference in their affairs.
- Some VSCIs are working with a number of development partners. They tend to be more responsive to those partners that give direct credit delivery rather than those that give general capacity building support.
- Governance and management systems in most VSCIs is still very poor.
- Most VSCIs have manual management information systems and thus information flow is slow and usually not easily accessible.
- Only a few members of the governing boards or even the general membership can effectively understand and interpret reports generated by the Management Information System (MIS) in place.
- While the Performance Monitoring Tool (PMT) has been developed and is very useful, most of the VSCIs lack computers to generate the information on their own.
- There is general lack of computer skills by VSCI management.
- Some VSCIs lack electricity or solar energy to run their computers yet many cannot afford to buy computers.

Conclusion

Despite the above challenges, MFIs remain a strong solution towards increasing access to financial services for the active poor.

If such institutions are adequately supervised and supported by the various development partners in Micro finance, the depth and breadth of the financial sector is bound to increase significantly and the achievements so far made will be greatly enhanced.

THANK YOU FOR LISTENING
TO ME

GOD BLESS YOU