

THE MICROFINANCE FORUM

This chapter presents the findings on the MFF. It describes the birth of the MFF, its mandate, how it operates, its achievements to date, lessons learnt, and challenges.

2.1. The Birth of the MFF

Against the background of closure of formal commercial banks, especially in rural areas, in Uganda, the Microfinance industry started thriving in the early 1990s. The major growth of the industry was registered in urban areas and in most cases financing commerce and trade. Even then, there was lack of coordination to register significant impact both in rural and urban areas.

The gap in the provision of financial services in the rural and urban areas, lack of industry coordination, and other challenges associated with Microfinance forced Microfinance practitioners to come together under the guidance of the Ministry of Finance Planning and Economic Development (MFPED) to form a Microfinance coordination committee in 1997. This committee was later named the 'Microfinance Forum' (MFF). Broadly, the committee aims at enhancing the effective coordination and contribution to the professionalism of Microfinance in Uganda.

In terms of composition, the MFF is comprised of the MFPED, (Chair), Ministry of Gender Labor and Social Development (MGLSD), Ministry of Trade and Industry (MTI), Key donors in Microfinance, Microfinance Practitioners, Bank Of Uganda (BOU) representatives, Capacity Building Providers in Microfinance, and Microfinance Apex institutions including AMFIU, Uganda Cooperative Alliance (UCA) and Uganda Cooperative Savings and Credit Union (UCSCU). Participation in the forum is open and some times consultants and technical assistants searching for information in Microfinance attend.

The MFF has mainly operated through three committees; the Lobby committee, Apex committee and Data committee. The MFF meets monthly and committees meet when there is business to discuss. The committees organize quarterly informal exchange meetings that discuss trends and issues in Microfinance.

2.2 Mandate of the MFF

Under the Poverty Eradication Action Plan (PEAP), Government encourages the implementation of programmes that are geared towards poverty eradication through partnership mechanisms. Where the civil society or private sector has been found to have a comparative advantage, they have been encouraged to appropriately spearhead implementation. Under this arrangement, the MFF has been recognized by Government as an advisory policy organ for the Microfinance industry that is responsible for national coordination and dialogue. The primary mandate of the forum includes the following:

- ❑ To recommend an institutional mechanism for promotion of appropriate coordination of Microfinance institutions at different levels.
- ❑ To facilitate and advise on developments within the industry for the regulatory and legislative policy for the Microfinance industry
- ❑ To identify capacity building needs and recommend on the most appropriate mechanism for establishing a national capacity building framework in Uganda.
- ❑ To propose the most appropriate mechanism for delivering financial resources to expand and reach the poor and to propose an appropriate incentive structure that would support Microfinance institutions in delivering financial services to the poor.
- ❑ To advocate and lobby on behalf of the Microfinance industry with a view to creating a positive image.
- ❑ Provide a platform for a wider stakeholder participation in the Microfinance Industry and other policy-making processes.

2.3 How the Microfinance Forum Operates:

2.3.1 The Committees

(i). The Apex Committee:

This committee has been responsible for most of the policy issues in Microfinance. It has not only debated but also designed and or participated in the design of Microfinance policies. These include among others; the Outreach Policy (Rural Finance), Capacity Building policy and Funding Support mechanisms for MFIs. The Apex committee has now been constituted into two committees

- ❑ The Finance sub-committee
- ❑ The Capacity Building sub-committee

The sub-committees are responsible for discussing and approving appropriate issues under their areas of jurisdiction for recommendation to the MFF.

(ii). The Lobbying Committee

This committee is responsible for lobbying Government and other stakeholders on issues that affect the Microfinance industry. It was instrumental in lobbying government before the MDI Act 2003 was enacted. The committee was involved in lobbying donors, parliament and civil society on issues of interest rates, Microfinance credit methodology among others.

(iii). Data and Statistics Committee (Surveys and PMS)

The committee is responsible for providing guidance on data collection and information dissemination. The committee gave guidance on the countrywide survey on Microfinance undertaken by the MFPED in conjunction with AMFIU. It was also

instrumental in the development of the Performance Monitoring System (PMS) undertaken by AMFIU.

2.4 Achievements to Date

(i) The Policy and Regulatory framework:

The MFF gave good guidance to the formulation of the Microfinance Policy that was passed by Cabinet in 1999. Through the Lobby Committee of the MFF that was chaired by AMFIU, significant guidance and input was made in the passing of the MDI Act 2003. The MFF was used as a technical backstopping group, looking at the details of the clauses and giving feedback to AMFIU for lobbying purposes. Some times consensus was made in the MFF since the Central Bank was represented. Feedback was also received through the MFF on the cabinet decisions that needed to be worked on.

(ii). The Capacity Building Framework:

The MFF started and accomplished the task of developing a national capacity building framework, which serves to address the various needs of the Microfinance Industry in Uganda. The framework is known as the Uganda Capacity Building Framework (UCAP) and is built on the basis that the private sector need to participate in capacity building of institutions while the demand side gets the best in the market. UCAP also recognizes that technical advisors and consultants in Microfinance popularly known, as service providers need to have their capacity upgraded. Implementation modalities for UCAP were also worked on using a team of consultants culminating into the capacity building component of the outreach plan implemented by the SUFFICE programme. With the guidance of the capacity building sub-committee, it is expected that the implementation of capacity building interventions by all parties under UCAP will go a long way to addressing the capacity building needs of the Microfinance industry.

(iii). Monitoring the Performance of the Microfinance Sector:

Through the data and statistics committee, the MFF gave guidance to the Microfinance survey that yielded statistics on the Microfinance industry in Uganda. On the recommendation of the MFF, the statistics have been triangulated by the Uganda Bureau of Statistics making the statistics more credible. Equally important was the technical guidance given to the development of the PMT Tool and the development of the Performance Monitoring System for AMFIU.

(iv). Designing the Strategic Plan for expanding the Outreach

During the last 3 years, it has been recognized that there is low capacity and lack of coordinated effort and therefore lack of impact of Microfinance on the target

clientele. In order to address the above issues, the apex committee designed the outreach plan with the primary aim of creating convenient access to sustainable Microfinance services for all economically active poor Ugandans. The main objective is to coordinate efforts to ensure that well-managed, professional MFIs expand their services to cover currently underserved areas in the country within the next 3 years.

The Outreach Plan has the following components:

- ❑ Capacity Building Unit for Outreach
- ❑ Matching Grant Facility (MCAP)
- ❑ Performance Monitoring Systems for Tier IV MFIs
- ❑ District Microfinance Committees and Kick off workshops
- ❑ Recruitment and Role of Financial Extension Workers (FEWs)
- ❑ Data collection and Updating of the Outreach Map
- ❑ Winding up of Government Credit Schemes.

(v). MFF Information exchange:

Through the GOU/EU supported SUFFICE programme the MFF supported the information exchange meetings. The main objectives of the meetings are to allow sufficient time in an informal forum to receive presentations from different Microfinance institutions, programs and other stakeholders on important issues and new developments in the Microfinance industry.

(vi). MFF Field visits:

To encourage lateral learning processes, the MFF has to date successfully organized field visits to some of the MFIs in rural areas. The visits have been informative with respect to some of the challenges faced by the MFIs. The lessons learnt from visits have also informed the policy formulation processes in the country. Some of the districts visited to-date includes Nebbi, Arua, Masaka, Soroti, Lira, Mbale, Kabale, Hoima and Masindi.

2.5 Major Lessons Learnt

Experience drawn from the MFF brings out the following issues as lessons that have been learnt since inception of the forum:

- (i) It has been demonstrated that coordination of Microfinance issues is possible and a lot of progress can be made with such an arrangement at district level.
- (ii) The forum and its sub-committees have thrived under a strong leadership. The MFPED together with other stakeholders have heavily supported the

forum. Such leadership is important and is a prerequisite for survival of the District Microfinance Committees.

- (iii) The forum has been running on a voluntary basis. The level of commitment and dedication has played a big role. The motivation for the individuals who have been participating has been to professionalize the industry while at the same time attaining individual professionalism. These are expected to be expressed at the district level.
- (iv) The MFF represents such a good public-private sector partnership working arrangement and if replicated at the district level can enhance access of financial services at the lowest level efficiently.

2.6 Challenges

- (i) Where as the forum, has registered appreciable performance and impact; it has not been possible to address fully the challenge of agricultural and rural financing.
- (ii) The next challenge is to maintain the level of cohesion and coordination in the industry
- (iii) Because the MFF challenges policy decisions at government, donor, and client levels, controversial issues can not be resolved without hurting at least one of the parties leading to conflicts