

DFID Financial Sector Deepening Project Uganda

Work Plan 2006

Introduction and Organisation of this Document

This work plan describes the expected activities of DFID's Financial Sector Deepening Project (FSDU) during calendar year 2006.

Despite the achievements of the past decade, which were highlighted in the CGAP 2004 country review, there remain important challenges to pro-poor finance in Uganda. Information about such basic questions as the number and outreach of microfinance institutions is imperfect or lacking; poor people have few options for saving, and the options they have are often in unregulated, unsupervised institutions; "micro-finance" is frequently condemned in the press and by politicians as making poor people poorer; interest rates and fees are indeed quite high by international standards; consumers report that they do not understand the contracts they sign, while many admit that they withhold information from, or deliberate mislead, their financial institutions; the promise of the Micro-Deposit-taking Institutions Act – that of bringing regulated deposit-taking to large numbers of Ugandans – is slow being realised, as Bank of Uganda licensing and branch approval proves time-consuming and expensive, and, as a result, the Government, eager (and impatient) to increase outreach of financial institutions, has launched a new plan to create SACCOs across the country, despite the lack of sure regulatory or supervisory capacity.

In this dynamic environment, FSDU has positioned itself outside the mainstream of many donor interventions, which invest in strengthening individual MFIs. Rather, we are concentrating on addressing key sector-wide issues in pro-poor finance. Following FSDU's Midterm review in September 2004 and extensive consultations with partners in the industry, within the Government and within the donor community, we now focus on filling five principal gaps in the sector. In some cases, we have been pioneers, introducing ideas that were little known to the industry; encouragingly, these ideas are being widely accepted, and we are going forward in close partnership with other actors. We are confident that in each case, we can have a fundamental, positive effect on the lives of poor people within the extended lifetime of the project.

The five areas are:

1. Introducing the idea that consumers of financial services (i.e. ordinary Ugandans) are an important part of the chain of financial services, and that substantial benefit to both consumers and financial institutions can come from consumer education, protection and advocacy.
2. Reinforcing Tier 4 Meso, or support, institutions, through strengthening audit firms, support to UCSCU\ creation of a rating service for small MFIs, and eventually facilitating the expansion of credit reference bureaux.
3. Treating the very poor as a special market, by facilitating the creation of Village Savings and Loan Associations (VS&LAs) to serve the hundreds of thousands of people whose small financial transaction sizes keep them from being potential clients of MFIs.
4. Introducing the notion that various forms of managed consolidation, and particularly linkage banking, are both necessary and desirable, and vastly preferable to the alternative of sudden organisational failure. And linked to this: Coordinating the assistance of multiple donors to transforming MFIs through providing a Transformation Consultant working under the policy guidelines of a Transformation Steering Committee.

5. Obtaining and disseminating better information about financial markets, primarily through introducing the FinScope demand survey and carrying out a census of financial institutions.

While not abandoning the flexibility and responsiveness that have characterised FSDU, the project will now concentrate on these five areas to consolidate the gains it has made. In all cases, FSDU will continue to work with multiple other partners.

Increasingly, FSDU's attention will be on finding an orderly exit, either through institutionalisation of the activity, or simply documentation and broad dissemination of results. Broad outlines of the exit strategy are known for some of the activities; for others, identifying the long term institutional home and most effective means of handing over the activity will be a challenge that FSDU will face over the remaining two years of the project.

Explanation of Summary Table (p3)

The work plan is summarised by a table below, which divides the financial services industry into three segments, defined by type of financial institution: first, regulated financial institutions (Tiers 1, 2 and 3 in the Bank of Uganda's classification); second, semi-formal institutions with salaried staff, but without BOU supervision – Savings and Credit Cooperatives (SACCOs), Village Savings and Credit Institutions, money-lenders and non-transforming MFIs; and, third, institutions with no staff and no legal identity apart from local registration – ASCAs, VS&LAs and other Self-Help Groups. These institutional types correspond more or less with market segments from richest to poorest. However, the correspondence between institutional type and wealth or consumption levels of the population is not yet adequately understood, and there is a great deal of overlap in the market segments served by different institutional types.

Each segment is further divided into three levels of intervention – Macro (policy); Meso (support institution) and Micro (financial institution) levels.

Finally, a number of FSDU interventions are cross cutting or industry wide, particularly research and information dissemination activities. These are, almost by definition, macro-level.

Detailed Description of Work plan: Output by Output (pp 4-15)

After the table, there is a description of FSDU's planned activities, organised by Project Log frame Output. For each output, an introductory section briefly describes the background and justification, and then in turn each of the existing grants and contracts, proposed new initiatives, both those that will require grant or loan funding and those that will require only the time of FSDU staff. It shows the relationship of the planned interventions to FSDU output areas, and activities by six-month period. It reflects the culmination of the shift in orientation of FSDU's operations away from support to key financial institutions, to strategic interventions designed to fill gaps necessary to strengthen the sector; provide public goods, particularly information, that are broadly available; provide services to the roughly one-third of Ugandans who are largely invisible to formal institutions; and treat customers of financial services as a key part of the financial sector, and the therefore worthy recipients of capacity building and protection.

Principal FSDU Activities 2006			
Type of financial institution	Regulated	Semi-Formal	Informal
Market segment	Most assets and income, often urban	Working poor	Least monetised, poorest, most remote
Cross cutting (all macro level)	<ul style="list-style-type: none"> • Research: “Finscope”; Census and GIS map • Other publications & studies • Presentations (IIE & specials) • Website and <i>Deepening</i> 		
Macro	Transformation Steering Committee	Assistance to UCSCU Tier 4 Committee Audit & Accounting WG	VS&LA Steering Committee
Meso	Transformation Consultant MicroSave support	<ul style="list-style-type: none"> • Consumer specialist, education, protection • Rating small MFIs • Consolidation Challenge Fund • DFS expansion • Audit training 	VS&LA Central Support Facility at CARE
Micro	<ul style="list-style-type: none"> • U-Trust • Faulu • 	Consolidation and Linkage Banking deals	VS&LA creation and support

Output 1: Better Informed and Protected Microfinance Consumers

Background and Justification

Uganda has been a leader in espousing a market orientation for the provision of pro-poor financial services, and there is no question that effective financial systems require professionally-managed institutions that keep an eye on their financial results. It is possible however that Uganda is relying too heavily on the financial performance of financial institutions as the indicator of success, without adequate consideration of how well customers are being served.

Realising that informed consumers are a necessary link in any market-driven service delivery system, that simple use of a product is no more a measure of social benefit for micro-debt than it is for cigarettes or alcohol, and that power and information asymmetries can allow the exploitation of poor people by financial institutions, FSDU has piloted three pro-consumer initiatives: a pilot project of consumer education; assistance to AMFIU to develop a Code of Practice for its members; and a hotline for MFI clients, run through by Uganda Consumer Protection Association.

Financial institutions, apex organisations, and donors have embraced the consumer initiatives to a remarkable and satisfying extent. The challenge for the rest of the project will be to scale up initiatives nationwide, and to find institutional homes for the various activities.

Consumer protection presents a larger challenge than consumer education. According to the Executive Director of the Uganda Consumer Protection Association, there are no laws specifically protecting consumers in Uganda, and although a model law has been drafted by Parliament, it is unlikely that it will come before Parliament soon. This is regrettable in the case of the microfinance industry, in which some practices are common and not at all in the interest of consumers. Among them are:

- Lack of transparency about the costs of financial products; loans are expressed in terms of “flat” interest rates; charges are not always made explicit. In a consumer knowledge, attitudes and practices study conducted before the consumer education strategy workshop in June 2004, in a sample of 300 consumers, 58% of current clients said they had not been made aware of all the interest and fees that they had to pay prior to obtaining loan money. Both rural and urban customers voiced this concern.
- Harsh recovery techniques. The use of auctioneers to sell assets used to guarantee loans is common. Generally, worldwide best practice is that selling assets should be a last resort, should not deprive people of their means of livelihood, and should not result in depriving people of assets worth substantially more than the amount of the debt. These principles are not always respected in Uganda.
- Reckless lending. South Africa’s Micro Finance Regulatory Council has led the way in defining and prohibiting “reckless lending”, or lending done without regard to ones ability to repay the loan, with the likely result of rescheduling or asset seizure. Much microfinance lending in Uganda, including group lending relying on the expectation that members of a group will all take progressively larger loans, is, by that definition, reckless.

One cannot be anti-consumer and pro-poor. Increasingly (subjectively, at least) one hears more and more accusations that microfinance is leaving people poorer. FSDU will continue to take concrete actions that will help challenge that perception, while working with consumers and MFIs to change the underlying reality.

Activities

1.1 Consumer Education Project

The pilot phase of the consumer education project was completed in late 2005. Reports from knowledgeable independent observers, notably a recent World Bank mission to Mbarara, have reported that the program is visible, appreciated, and useful and a positive result was confirmed by the independent study of changes in

consumers' knowledge, attitudes and practices. The GoU's Microfinance Outreach Plan (MOP) has embraced consumer education as a principal activity of the Financial Extension Workers (FEWs), and specifically requested that the FSDU expand into all the regions where the FEWs are working. MFIs in the project zone have put up consumer education posters in their offices. Other regions of the country have requested the program. Finally, radio call-in shows have underlined the fact that consumers of financial services lack basic information about the private sector nature of MFIs, about how they operate, and about their own rights and responsibilities as consumers.

The challenge in early 2006 is to chart a way forward to build on the successful pilot. Based on discussions with the Association of MFIs in Uganda (AMFIU), it is likely that the programme will be split into two channels:

First, the Mass Market Channel, that is, messages that are not easily delivered by MFIs. These messages are designed to reach all consumers, not only present clients of MFIs. Some of the messages are not consistent with the immediate commercial interests of MFIs, such as messages urging customers to shop around, or avoid unnecessary debt. (AMFIU cited a loan officer of one of their members who said in an AMFIU workshop, "I know I can't tell my customers to shop around, so we need you to do that.") These universal messages, essentially those of the pilot phase, will be delivered through channels including print and radio spots, and hopefully continued implication of the FEWs. The Microfinance Outreach Plan suggests that the Rural Business Culture component could be strongly involved, in this effort. We will have to be vigilant to avoid politicisation of the messages especially around election time, because consumers and voters are the same people. In the first quarter, FSDU will organise a consultative committee to oversee the Mass Market Channel, and administer it through local contracts. The committee will have the charge of helping to determine messages, and identify an exit strategy. We anticipate launching an RFP to local firms to disseminate these messages no later than February 2006.

Second, the Client Education Channel carried out by the MFIs themselves. This service is strongly demanded by AMFIU members, and this delivery mechanism is consistent with some worldwide trends. We would draw on the pioneering work in customer financial education that has been done by Microfinance Opportunities, a US based firm, in four MFIs, in four countries, on four continents. This programme could continue to be managed by AMFIU, with assistance from local and international consultants. This channel would be integrated with AMFIU's on-going consumer protection campaign. We plan a visit from MicroFinance Opportunities in mid-March to meet with AMFIU and other stakeholders and plan the way forward.

The KAP study showed that radio spots and call-in shows were effective and efficient channels for communication. We will therefore budget for substantial purchases of radio time. However, the Ugandan FIT-SEMA project has argued convincingly that simple purchases of radio time undermine independent investigative reporting and provide no incentive for media outlets to educate themselves or their public. Therefore, we will work with FIT-SEMA to help develop a strategy that effectively involves the media channels, and produces the greatest sustainability of the messages. This may involve workshops or trainings for media outlet staff.

We will carry out an independent mid-term review of both channels in the last quarter of 2006; given the international interest that this project has attracted and the growing world-wide interest in consumer education in pro-poor finance, we will also contract an international consultant to evaluate and document impact and lessons learnt towards the end of the project.

1.2 Consumer Interests Included in Conception of Best Practices

FSDU has contributed to a growing acceptance of the importance of including a consumer point of view in the Ugandan conception of best practices. FSDU will continue to use its frequent public appearances, in Uganda and internationally, to stress this theme.

1.3 AMFIU Consumer Specialist and Consumer Code of Practice

The FSDU-supported consumer specialist at AMFIU began work in December 2004. She has proven herself an articulate, independent and effective advocate of consumer issues, and is advancing both the consumer education and consumer protection programmes. We propose to extend her contract until the end of the project.

FSDU continues to support AMFIU in defining and promoting a code of practice for MFIs, initially limited to AMFIU members but potentially capable of being generalised. AMFIU has shown good initiative in drafting the code and holding a series of regional workshops to introduce the code to its members. It is presented the draft code to the AMFIU AGM in July 2005. It still must gain formal acceptance of the code by its members.

It is important to have realistic expectations about what this effort can accomplish, especially at first. Given AMFIU's limited membership and lack of enforcement capability, it will at most give the rest of the industry a good example to follow. However, good examples are often the first step in fundamental, systemic change. Late in 2006, after the Code of Conduct has been adopted by many AMFIU members, we will work with AMFIU to assess the actual changes in the behaviour of participating MFIs and the impact, presumably positive, that this will have had on their relations with their clients. Documentation of this impact will provide a support for extension of the programme to other MFIs outside of AMFIU, presumably voluntarily.

1.4 Financial Services Consumer Relations Hub

The Financial Services Consumer Relations Hub was launched by Uganda Consumer Protection Association in May 2005. Performance and demand so far have been disappointing, and FSDU and UCPA are working on changes that will increase knowledge of the service among consumers of financial institutions. We will make a decision in the second quarter of 2006 whether to continue this activity with UCPA, discontinue it, or find a new home.

1.5 Consumer Affairs Sub-Committee

This committee will continue to hold meetings about every other month. After getting the sub-committee started and serving as chair for the first year, FSDU's Manager has passed his responsibilities to the AMFIU Consumer Affairs Specialist, while maintaining an active role on the committee.

1.6 Credit Reference Service

FSDU hosted a presentation of the Bank of Uganda's policy statement and plan for putting in place a Credit Reference Bureaux. An international firm is now being chosen to carry out this activity. A Credit Reference Service remains an important priority for the Ugandan financial sector, and FSDU remains ready to invest in building the capacity of MFIs to participate in the CRS. We cannot move forward on this until we have more clarity from the BOU and the chosen implementing firm on the way forward, which we expect by mid-2006.

Output 2: Improved Monitoring, Supervision, and Regulation of Tier 4 MFIs

Background and Justification

Ugandan microfinance is characterised by a large gap between the regulated institutions and the unregulated ones. The designers of the Microfinance Deposit Taking Institution (MDI) Act acknowledged the need to provide some sort of regulation for at least the largest Tier 4 institutions, but deferred that task to an uncertain future, suggesting that AMFIU or a future self-regulatory organisation might do the job. Finally the government acted, creating a plan to increase rural outreach of microfinance. This plan assigns and as-yet unspecified role to UCSCU in the supervision of SACCOs. While FSDU is sceptical of some elements of the

government's plan, we are fully committed to working with them to help bring the best possible financial services to the unserved poor.

Activities

2.1 Assistance to UCSCU

As this is written, FSDU and UCSCU are in the middle of discussion about possible assistance to UCSCU to strengthen their ability to oversee and support their SACCO members. Possible assistance is likely to include support for training and capacity building to a few dozen larger SACCOs. We are working with UCSCU to make sure that these efforts are integrated with other industry initiatives.

2.2 Rating Service for Small MFIs

FSDU and the EU's SUFFICE programme have worked together over the last several months to conceptualise and contract for a rating service for smaller MFIs, to be based in Uganda, which will be able to carry out fifty or more ratings a year. The ratings will include assessments both of the MFIs' financial performance, and social performance.

After circulating a concept paper to stakeholders, receiving their comments, and commissioning a scoping mission, SUFFICE put out a request for proposals to international firms to set up the local rating service. As this is written, SUFFICE and FSDU are making the final decision on the choice of firm.

The rating service will be housed at SUFFICE, as will a local rating fund, supported by FSDU, SUFFICE and perhaps others, which will support MFIs seeking ratings to make the price affordable.

FSDU and SUFFICE are collaborating closely with the CGAP EU Rating Fund, which sees this initiative as a positive step to their objective of encouraging rating firms to diversify their products and markets and increase their volume of sales.

2.3 DFS Generalisation

FSDU will continue to disseminate and popularise training and assessment materials for the Decentralised Financial Systems project in Kenya. DFS was launched by MicroSave, and has worked to collect tools from around the world, and adapt them to the East African environment.

2.4 Audit and Accounting Working Group

A number of the better rural Tier 4 institutions make the substantial investment in annual external financial audits. Regrettably, most or all of these audits are of poor quality, in particular, having inadequate treatment of loan portfolios. FSDU has driven the creation and activities of an Audit and Accounting Working Group, which has looked at standardising the accounting systems of Tier 4 institutions, and at the provision of affordable audit services.

Functioning in the name of the working group, FSDU has contracted with local firms to train MFI financial managers and local audit firms in accounting and audit standards for MFIs. During 2006, FSDU plans to modify the training programme, and roll it out to other regions.

A larger challenge will be to develop a market for the improved audit capabilities, perhaps by working with donors and MFIs to negotiate a reduced price with audit firms, in exchange for a guaranteed amount of business. FSDU has begun to draft a concept paper about how to do this.

Output 3: Improved Product Delivery and Development

Background and Justification

FSDU believes that it is desirable and increasingly possible, that every Ugandan can have access to the four basic financial products of secure savings, appropriate credit products, affordable (and therefore very modest) insurance, and affordable money transfers. There are very positive trends now for each of these products, and we will continue to work with other actors to move towards this happy outcome.

However, there is a larger problem that will not be solved by the diversification and improvement of products offered by formal institutions: many Ugandans are simply so poor that their typical financial transaction sizes put them far below the level at which they are a feasible market for any formal institution, no matter how efficient, or how committed to increasing outreach to the un-served. To address this problem, FSDU is helping establish Village Savings and Loan Associations (VS&LAs), self-help groups that remarkably have nearly no administrative overhead, and offer secure savings, small loans, and a type of insurance.

Activities

3.1 VS&LAs

In July 2005, FSDU commissioned a three-week external midterm review of the VS&LA pilot project in Moyo and Yumbe districts. Two international researchers, a local financial analyst, and four enumerator/translators reviewed records and conducted group and individual interviews at the project site in West Nile. The consultant noted many aspects of the program that needed to be improved but overall was positive about the effort. On the basis of the MTR, FSDU feels confident in proposing a large expansion of the programme. We therefore initiated conversations with CARE International about creating a common approach, and have agreed with them in principle to create a VS&LA Steering Committee and a Common Support Facility. These organs will be co-financed by FSDU and CARE, and housed at CARE. Through an MOU with CARE, we will subcontract with a number of local institutions to form, support and monitor VS&LAs. We are now working on the details of this partnership and on the choice of participating institution.

FSDU expects to attend a conference on VS&LAs organised by CARE in Nairobi in March, and is planning a mission to Niger with the Decentralised Financial Services Project in Kenya to visit the MMD project there, to assess their longterm experience with these groups.

3.2 MicroSave III

We will continue our cooperation with this programme, to leverage FSDU's investment to the greatest benefit of the Ugandan sector. Presently identified areas of collaboration include the following:

- Action Research Partners (ARPs): We were gratified at the very positive perceptions of the value of the MicroSave ARP status by our grantee CMFL, which has taken the technical assistance offered by MicroSave to heart and has applied their tools broadly and effectively.
- Training: We collaborated with MicroSave and the EU SUFFICE programme on the identification of additional Ugandan "Senior Service Providers" (consultants trained in use of MicroSave tools and techniques) and provided partial scholarships for their participation in the Nairobi workshops. We are planning to work with FSD-K and FSD-T to develop a common approach to providing assistance for people wishing to profit from training, education and workshops in finance, some of which funding will likely be used to attend the MicroSave School of Advanced Microfinance (SAM).

- Studies: We are now carrying out a study of lessons learned as Ugandan MFIs have shifted their portfolio from group to individual loans that will form part of a MicroSave toolkit on individual loans. The original TOR for this study were developed by MicroSave and we are happy to be able to participate with them in this.

Output 4: Top End Sector with Smaller Number of Large Regulated Financial Institutions Serving the Needs of Poor Clients

Background and Justification

No one knows the ideal number of larger institutions for the Ugandan market, the sweet spot at which competition is great enough to push institutions to innovate, look for new markets, and cut costs, while allowing them to grow large enough to support strong R&D functions, MIS and internal control departments, attract serious investors, and gain economies of scale. However, as the majority of Ugandan institutions serving the poor have far fewer than 10,000 customers, and few are experiencing rapid growth, it is reasonable to think that there are already more than enough MFIs. If as expected transformation to MDI status will bring more competitive advantages than costs to large MFIs, the simple hard fact is that many of the non-transforming MFIs are likely to fail.

FSDU has introduced the notion that pre-emptive consolidation is vastly preferable to institutional failure, and should be actively supported and encouraged, and it is fair to say that key people in the donor community and in the concerned government agencies understand and accept this idea.

When FSDU recently produced a flyer on Linkage Banking – one form of consolidation that we support – we were gratified to find the wide willingness to endorse the concept publicly. Two other programmes, SNV and Rural SPEED, have recently launched linkage banking promotion efforts, and linkage banking was a keynote theme at the July 2005 AMFIU Annual General Meeting.

FSDU will continue to promote consolidation, transformation, and increasing professionalism among the larger MFIs.

Activities

4.1 Assistance to transforming MFIs

FSDU continues to fund a part-time Transformation and Consolidation Consultant (TCC), to oversee FSDU assistance to transformation, and those of other donors, notably the IFAD funded/WB assisted Microfinance Outreach Plan. As his title suggests, the TCC also manages activities of the Consolidation and Restructuring Challenge Fund. The TCC also serves as secretary to the Transformation Steering Committee (FSC), which agrees on common policies for assistance to transforming MFIs. Finally, he assists TSC members in programming and managing their assistance to transformation, under non-binding Letters of Mutual Understanding. FSDU considers the TSC and the TCC to be a successful and replicable model for donor collaboration, and it is grateful to its development partners who have worked to develop this model. Lloyd Stevens, who has been our TCC, is completing his contract and we are working with him on TOR for a replacement.

While the TCC works with all transforming MFIs, our particular interest is the two that we support directly, U-Trust and Faulu.

U-Trust has an MDI license, and is making reasonable progress towards having all of its branches certified by the BOU, and improving the professionalism of its staff and operations.

Faulu is at an earlier stage in its transformation process. They will likely request that we reprogram some funds to allow it to keep their transformation manager longer than the original 12 months, and FSDU would look favourably on that request. We remain cautiously optimistic of Faulu's long-term prospects.

We do not anticipate a second round of MDI candidates during the life of FSDU, but certainly do not rule out the possibility. We would consider participating in coordinated support to such institutions.

Given the importance of transformation to pro-poor finance, the central role in effective donor coordination now being played by FSDU, and the desirability of not making significant changes to a process which is working well, if slowly, we propose to stay involved in transformation until the end of the FSDU project. Given that substantial other donor funds are available for transformation, however, we do not foresee any other direct FSDU investment in transforming MFIs, other than offering the continued presence, to the end of the project, of the TCC.

4.2 Consolidation & Restructuring Challenge Fund and Linkage Banking Initiative

Linkage Banking has gained currency in the thinking of the microfinance community, and we have had a spate of enquiries about assistance through the Consolidation & Restructuring Challenge Fund to investigate linkage banking deals, some of which have led to assistance contracts already. We remain open to supporting good candidates for linkages, while recognizing that the initiative must ultimately come from the firms themselves.

It is impossible to know in advance all the solicitations we will have for this fund. In the first quarter, we expect to complete studies done under the fund with UWESO and BUTO; one or both may lead to further assistance. We have had a couple of enquiries that may lead to substantial consolidation deals during the year, or may come to naught. To publicise the fund, we continue to hold periodic "Consolidation Road Shows" at which we present the fund to MFIs up-country, and review the various forms of consolidation that we can support.

4.3 Completion of assistance to CMFL

Over the last two years, FSDU has provided technical assistance to Commercial MicroFinance Ltd., a Tier 2 institution. The assistance ended at the end of 2005 and we will write a completion report on this partnership in the first quarter of 2006.

Output 5: Increased Dissemination of Relevant information to Microfinance Policy Makers and Practitioners

Background and Justification

FSDU has become increasingly visible and respected for its technical advice and leadership. FSDU is using its credibility to propagate a number of new ideas, and plans to invest substantially in producing and disseminating quantitative and qualitative information about supply and demand within the financial services sector.

Remarkably, millions of dollars of donor funds from many sources have been invested in private firms on the basis of inadequate information about the potential market. It has been an article of faith among donors and government that there is a large, homogenous and untapped market for the standard loan products of microfinance. In fact, there are early warning signs of saturation in the traditional markets of the MDI candidates (flat growth rates in urban areas, and increases in arrears), and the failure rate of SACCOs remains anecdotally high. There is a lack of accurate market information.

FSDU will continue its leadership role in producing and disseminating more information about demand and supply of financial products. It will also carry out occasional other studies, co-host the quarterly Informal Information Exchange (IIE) meetings, and continue to be resolutely transparent about its own activities.

Activities

5.1 FinScope Uganda

Our flagship research effort will be the replication in Uganda of the FinScope market research tool developed by the DFID funded Finmark project in South Africa. FinScope provides information on offer and use of financial services across the country, by wealth, geographical area, activity and other categories. The Uganda version of the survey will be noteworthy for the amount of information about use and demand for a wide range of agricultural finance products, and will be useful to the FinScope team in helping to tailor the questionnaire to economies in which the majority of economically active people are small-holder farmers, as distinct from those in Southern Africa, where the majority are wage earners.

In addition, we are including questions designed to inform the Consumer Education Campaign, and questions about ASCA usage.

We are working closely with colleagues in Kenya and Tanzania to share approaches and draft questionnaires, and anticipate that there will be an East African flavour to our questionnaire, different from the Southern African version.

As this is written, we nearly have a draft questionnaire that we can circulate widely for comments, and hope to have interviewers in the field soon after the elections.

5.2 T4 Census and updated Outreach Map

FSDU is working closely with the Ministry of Finance, MOP, AMFIU and other stakeholders to carry out a nationwide census of Tier 4 institutions, determining their exact locations with GPS devices, and interviewing them about their legal status, products, outreach, financial performance and other characteristics. This effort draws on the experiences and lessons learned in the 2001-2002 study which resulted in the Outreach Map now displayed in many offices, and will produce the most accurate picture yet of outreach of MFIs. The GPS work is being done as this is written. We expect the surveys of the firms to occur before elections and the final report and map should appear in the second quarter of 2006.

5.3 Other Research

FSDU is delighted that Luke Okumu has joined our team as Research Coordinator. Since he came, Luke has been working full-time on FinScope and the MFI census, but as these two activities settle down, he will devote his time to a number of other studies in the pipeline, including possibly two studies on interest rates:

One study will look at trends in interest rates. Anecdotally, some MFIs have lowered rates. Also, there is considerable evidence of a movement of customers towards institutions with lower rates. If as seems to be the case, a greater percentage of borrowers are in less expensive institutions, then the average rate paid has decreased, apart from any lowering of rates. A second study will examine whether and why rates really are high in Uganda by world standards.

Also, FSDU expects to have the services of an experienced intern from Columbia University during the summer, Ms Alexandra Fiorillo, and is planning with her a study on the long-term impact of external lending on the balance sheet and culture of member-based, savings-led institutions. This study would be complete in the third quarter.

5.4 Information about FSDU

The 2004 midterm review of FSDU found that while the project is perceived to be a highly collaborative, its structure, mission, and relation to DFID were not fully understood by other actors, some of whom questioned the transparency of some of the funding decisions. In response, FSDU will continue its efforts to publicise its work programme through an annual half day workshop to present the 2006 work plan and solicit comments, and to share information about FSDU and its plans.

We will also continue to send out the monthly email newsletter, *Deepening*, and keep our website periodically updated.

5.5 Informal Information Exchanges

The informal information exchange meetings have been well attended, and are a good way to introduce new ideas into the community. As always, we appreciate suggestions and comments on these gatherings.

5.6 Capacity Building Initiative

FSDU, along with its sister FSDs in Kenya and Tanzania, is planning a small scholarship fund to help build a unified East African market for sustainable, high quality education and training in microfinance. Coupled with the scholarship fund, we will conduct a survey of East African institutions, and disseminate the findings.

5.7 International Linkages (CGAP, Uganda Martyrs, List Servs, Training, Conferences)

FSDU staff continue to invest some of their time in international linkages. We expect to attend a conference on VS&LAs in Kenya in March, and will probably teach courses at the invitation of Uganda Martyrs University.

5.8 Cross Cutting Corporate Citizenship

FSDU will continue to serve on the Capacity Building, Credit Reference Service, Curriculum Development, Tier 4, Transformation, Consumer Affairs, Apex, Lobby, Audit and Accounting, and Financial Services committees, sub committees and working groups. FSDU is also of course a member of the Microfinance Forum.

Activities by investment or activity, and by quarter, 2006

	January – March 06	April – June	July- September	October - Dec
1.1 Pilot Consumer Education Project	Pilot project ends. KAP study	PMC proposal for generalisation	Monitor sub-grants	Monitor sub-grants International evaluation
1.2 Consumer Interests included in conception of best practices	Public presentations Discussions with Rural Business Culture component MOP			
1.3 Consumer Specialist at AMFIU and development of Code of Practice for MFIs	Code of Practice Generalised within AMFIU PMC proposal to extend contract		Assessments of changes in behaviour of MFIs	Possible expansion beyond AMFIU
1.4 Financial Services Consumer Relations HUB	HUB in place, reports on complaints	Monitoring Assessment and decision on continued assistance	Monitoring	Monitoring
1.5 Consumer Affaires Sub-Committee	Bi-monthly meetings	Bi-monthly meetings	Bi-monthly meetings	Bi-monthly meetings
1.6 Credit Reference Service	Possible assistance to MFIs to access CRS after implementing firm in place			

	January – March 06	April – June	July- September	October - Dec
2.1 Assistance to UCSCU	Proposal from UCSCU and possible PMC submission	Implementation and monitoring	Implementation and monitoring	Implementation and monitoring
2.2 Rating Service for Tier 4 MFIs	Contract with international firm, MOU with SUFFICE, and creation of local rating fund	Ratings and monitoring	Ratings and monitoring	Ratings and monitoring
2.3 DFS Generalization				
2.3 Audit & Accounting Working Group				

	January – March 06	April – June	July- September	October - Dec
3.1 VS&LAs	MOU with CARE, creation of Steering committee and Central support mechanism PMC proposal for Generalisation re-submitted Contracts to sub grantees	Possible additional sub grantees Monitoring Possible visit to Niger	Monitoring	Monitoring International evaluation and documentation
3.2 MSA III	Study on transition to individual loans.			

	January – March 06	April – June	July- September	October - Dec
4.1 Assistance to transforming MFIs	Support to Faulu, U-Trust. Management of post transformation assistance RFP.	Support to Faulu TCC	TCC	TCC
4.2 Consolidation Challenge Fund and Linkage Banking Initiative	Completion UWESO and BUTO studies Other deals depending on demand	Consolidation Road Show Other deals depending on demand	Consolidation Road Show Other deals depending on demand	Consolidation Road Show Other deals depending on demand
4.3 CMFL	Completion report			

	January – March 06	April – June	July- September	October - Dec
5.1 Finscope	Questionnaire agreed on Field work begins	Field work complete. Data entry and analysis. Phased reporting of findings	Phased reporting of findings	Planning for second iteration

	January – March 06	April – June	July- September	October - Dec
5.2 T4 Census and updated Outreach Map	GPS and other field work Data entry	Final report and new outreach map		
5.3 Other Research	Group-to-Individual study	Other studies to be determined	Impact of external lending on member-based MFIs	Other studies to be determined
5.4 Information about FSDU	Website & <i>Deepening</i>	Website & <i>Deepening</i>	Website & <i>Deepening</i>	Website & <i>Deepening</i>
5.5 Informal Information Exchanges	IIE	IIE	IIE	IIE
5.6 Capacity Building initiative		Survey of East African Institutions Creation scholarship fund	scholarships	scholarships
5.7, 5.8 International linkages and cross-cutting corporate citizenship	As opportunities present themselves and as meetings are scheduled	As opportunities present themselves and as meetings are scheduled	As opportunities present themselves and as meetings are scheduled	As opportunities present themselves and as meetings are scheduled

Abbreviations used in this Document

AMFIU	Association of Microfinance Institutions in Uganda
ARP	Action Research Partner
ASCA	Accumulating Savings and Credit Association
BOU	Bank of Uganda
DFID	Department For International Development
DFS	Decentralised Financial Systems Project in Kenya
FEW	Financial Extension Worker
FSDU	DFID's Financial Sector Deepening project in Uganda
IIE	Informal Information Exchange
KAP	Knowledge Attitudes and Practices
MDI	Micro Deposit-Taking Institution
MFI	MicroFinance Institution
MOP	Microfinance Outreach Plan
SACCO	Savings and Credit Cooperative
SAM	School of Advanced MicroFinance
TCC	Transformation and Consolidation Consultant
TSC	Transformation Steering Committee
VS&LA	Village Savings and Loan Association
VSCI	Village Savings and Credit Institution