

## Deepening

The Monthly eNewsletter of  
DFID's Financial Sector Deepening Project in Uganda  
Number 10 – 31<sup>st</sup> October 2005

Dear Friends and Colleagues,

Welcome to the tenth monthly 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, [www.fsdu.or.ug](http://www.fsdu.or.ug).

### Research Coordinator at FSDU

We are pleased to welcome Mr Luke Okumu as the full-time Research Coordinator at FSDU. Luke was formerly a Senior Principal Banking Officer in charge of the Agriculture Section of the Bank of Uganda, responsible for agricultural credit lines and programmes, and had previously been in charge of Project Monitoring and Evaluation. We were delighted to find someone for this important post with knowledge of quantitative and qualitative analysis techniques, and with a good understanding of issues in pro-poor finance.

Luke's principal tasks in the short-term concern the next two items in this report, the Census of MFIs, and FinScope Uganda.

### Census of MFIs

For some months we have been planning to work with the Ministry of Finance, the Department of Cooperatives, and the MicroFinance Outreach Plan to carry out a census of Tier 4 MFIs, that is, all the microfinance institutions that are not licensed and supervised by the Bank of Uganda. Data from this census will be combined with information already regularly collected by the BOU, to produce a comprehensive picture of the offer of financial services in Uganda. A similar study was carried out in 2001-2002, but that data is out of date, and there were some problems with the classification of some of the institutions encountered in the field.

The Ministry of Finance has taken the lead in creating a multi-agency Database Coordination Committee (DCC) consisting of government ministries, Apex organizations, and donors to organize this census. The DCC has met three times and created a technical working sub-group to move this project forward.

Members are working on a Memorandum of Understanding to spell the roles of all the members, and a questionnaire. The survey will be expanded to include locally-registered Accumulating Savings and Credit Associations, and will use GPS devices to pinpoint the

location of the institutions.

We believe the actual field work, which will be carried out in part by Financial Extension Workers, will begin in January 2006, and the report will be available by March or April.

Data from the Census will complement information from FinScope Uganda, allowing us to have a much clearer picture of both sides – supply and demand – of financial services in Uganda. If one had completely accurate and detailed supply and demand data, they would give the same information: the number of clients of, say, SACCOs, would be the same, whether one interviewed everyone in Uganda, or got accurate information on client numbers from each SACCO. Because in this case, we are sampling on the demand side and dealing with imperfect outreach numbers from institutions on the supply side, we expect only that the results from the two studies will be reasonably close, with “reasonably” still to be defined.

### FinScope Uganda

On 26<sup>th</sup> October, we held a meeting of the Advisory Committee of FinScope Uganda. At the meeting, we distributed the most current version of the Conceptual Map of the Questionnaire and requested comments from the members.

We again discussed the sample size. The projected sample size had been drifting upward, to allow us to seize information by regions of the country. Some reflection on this has led us to question whether this is necessary, or even desirable. Geographic segmentation can potentially fuel fruitless political rivalries; more important, it can obscure more informative distinctions. The small business owner in Nebbi, in the West Nile region, probably has more in common with the small business owner in Busia, in the East, than either has in common with the farmer down the road. One of FinScope Uganda’s largest potential contributions is to help illuminate the characteristics that make some groups potential customers or members of some sorts of institution, while not of others. If we can do that, we can help avoid investments in institutional forms based on hunches and ideology, and move to a more rational use of resources. To do this, we want to make sure that we are able to profile users of different institutional types: informal structures, particularly ASCAs; SACCOs; MDIs; and commercial banks. To profile them, we must have a representative sample of customers in each group; we have discussed at length with experts the question of what exactly constitutes a representative sample, and how to make sure that we have one for each institutional type among the respondents.

We are hoping to meet with similar projects being launched by the FSD projects in Kenya and Tanzania soon, to discuss both strategy and technical questions. In the meantime, we are reviewing a draft of the Kenyan questionnaire.

There have been repeated delays in actually signing a contract with the local research firm. With DFID’s useful involvement, we have moved closer to signature, and still hope to be signed in November.

### Rating Service for Small MFIs

As is the case with FinScope Uganda, this initiative was delayed as we tried to find the best

way to bring financial support to an innovative venture, while respecting principles of building a market while avoiding creating distortions as much as possible. Until last week, we had thought that FSDU would stimulate the creation of the rating service by issuing an RFP offering support to international rating firms, one of which would be chosen to create a branch office in Kampala, while our partners at SUFFICE would aid the demand side, by contributing to a local rating fund. Now it appears that it is more practical, purely for administrative efficiency, to reverse these roles. We expect to see the RFP very soon. In the meantime, FSDU is considering the best way to use this opportunity to buy ratings to build a hopefully sustainable market for this service.

During the month, we also received expressions of support for the rating service from the International Multi-Donor Rating Fund, and from the African-Development Bank supported Microfinance Support Centre Ltd. We also talked with the incoming management team of the Matching Fund for Capacity Building (MCAP) about how the local rating service could become a catalyst for better donor coordination around capacity building.

The ratings will serve many purposes. In addition to providing vital information to investors, regulators, consumers and management, they can also provide a roadmap to the choice of capacity building inputs directed to MFIs here, including their duration, intensity, sequencing, and conditionalities. We have been discussing this idea, of using ratings to coordinate technical assistance, with partners over the last months, and are working on what we hope will become a concept paper with wide buy-in.

### Village Savings & Loan Associations

FSDU placed a solicitation of expressions of interest appeared in the local press at the end of October, inviting potential stakeholders to a meeting on 4 November. There was a remarkable turnout of over fifty institutions, ranging from large well-known (to us) NGOs, to much smaller CBOs, largely a new world.

At the Stakeholders Meeting, Grace Majara of CARE presented the SLA concept, and FSDU answered questions about bidding. We sent out extensive notes of the meeting to every institution that had expressed interest in the project. We also distributed a short two-page form inviting applicants to fill it out with information about their institution, so that we could give them feedback about whether we thought they should go to the trouble of filling out a full proposal. We also used the form to enable us to choose nine institutions that we invited to visit existing VS&LA programmes in Uganda, so that they would have a better idea of how VS&LAs work.

Simultaneously, we have continued discussions with CARE International and with the contracts office at DFID about how best to create a common support facility for this programme, hopefully on the model of the successful Transformation Steering Committee, through which diverse donors agree to common assistance policies and coordinate their funding.

### Consumer Education

We have circulated the report of the KAP study to key stakeholders in consumer education,

and are planning to meet next week with AMFIU and key players to plot the way forward on this project.

We discussed the Consumer Education Pilot Project with the Straight Talk Foundation, an internationally recognized programme which among other activities produces radio shows for youth in eleven languages and for adults in four languages, traditionally focused on reproductive health. Straight Talk has increasingly been aware that poverty contributes to poor reproductive health and vice versa, and reports:

*“STF is beginning to address poverty more and more in its radio shows. Listeners need strategies and need to know what services are available in the districts - especially financial and agricultural services - that can begin to lift them out of poverty. We will be interviewing NAADS workers and FEWS especially.*

*Women in particular rely on sexual relationships, often outside of marriage, to supplement their income. This is not a strategy that improves their economic welfare in the long run and often worsens it through family breakdown or contraction of HIV.”*

### Consolidation and Restructuring

We are awaiting the final report of the assessment of the Bunyoro-Tooro Rural Development Company Ltd. (BUTO), to investigate options for its future restructuring.

The institutional assessment of UWESO is complete, and the financial audit is underway.

The final report from the linkage banking study for PostBank and FOCCAS is complete. Because of the interest in this possible linkage, which would include a mobile banking unit, we held an informal working session with other donors on October 25 who support either institution to gauge their interest in forming a donor coalition to come up with the large investment that would be required. This meeting came about in the context of a Linkage Banking Steering Committee that is being created under the impetus of Rural SPEED.

### Transformation

Uganda Finance Trust received its license under the Microfinance Deposit Taking Act on 12 October 2005, thereby joining FINCA, UMU and PRIDE, and becoming the fourth Ugandan MDI.

At the request of the Transformation Steering Committee, we have commissioned a physical map showing the location of the branches of the five institutions supported by the TSC (the four mentioned above plus Faulu). On the map, symbols representing branch offices are proportional in size to the numbers of savings and credit clients, and are superimposed over a layer showing population density. The map makes visually obvious the unsurprising fact that most branch offices are placed where there are a lot of people; it also shows, however, that there are pioneer branches of some of the MDIs reaching out into much less populated zones.

## External Studies

During the period of this report, two teams of consultants came to Kampala to look at different areas of the pro-poor finance sector.

CGAP carried out a Savings Sector Review here from October 24 to 29, looking at constraints to mobilizing safe savings among, especially, rural people; their study is one of a series of country studies carried out under the CGAP Savings Initiative, which also included Mexico, the Philippines, Benin and Bosnia.

Also, USAID sent a team to look at the impact, administration and modalities of loan guarantees to MFIs, particularly USAID's own DCA programme, but wisely comparing it with other similar initiatives from other sources.

We look forward to seeing both reports.

Kind regards,

Paul Rippey  
Manager