

Deepening
The Monthly eNewsletter of
DFID's Financial Sector Deepening Project
Number 3 – 30th March 2005

Dear Friends and Colleagues,

Welcome to the third monthly issue of Deepening, the email newsletter of DFID's Financial Sector Deepening Project in Uganda - FSDU. Thanks to the many people who have sent in encouraging words about this mailing.

I think we are finally learning to manage a large mailing list. If you did not receive an earlier issue and would like to do so, please just send a return email. Similarly, if you would like to be added to or removed from the list, let us know.

I am happy to announce that FSDU has a website, or will have very soon. The address is <http://fsdu.or.ug/>. If it doesn't work, wait a day or two. This is very new, and we welcome your comments and suggestions. Thanks to my colleague Chris Musoke for overseeing that process and having a very broad vision of what the site could contain. Also, thanks to Chris and our consultants Computer Frontiers International for keeping the site clean and fast loading.

This month's newsletter will focus primarily on FSDU's activities in two key areas: progress towards the creation in Uganda of a financial markets monitoring system; and various pro-consumer activities.

Facing the gaps in our knowledge of financial markets in Uganda

Background: FSDU and its partners in Uganda are increasingly aware that the financial industry is sometimes forced to make important strategic decisions on the basis of insufficient data. In particular, the extent of outreach, the degree to which demand for various financial services is being satisfied, the efficacy of different types of financial institutions in meeting the needs of different segments of the population, are all insufficiently understood.

CGAP carried out a review of the microfinance sector in Uganda in 2004. This valuable study (available on our website!) helped Ugandan microfinance stakeholders understand market segmentation here better, and we now see the usefulness of examining four market segments separately:

- Traditional microfinance, short term loans and small savings accounts for working capital, small investments and often consumption needs
- Small and medium enterprise finance
- Agricultural finance
- Assistance to vulnerable groups

It is important to understand the size, the needs, and the degree to which those needs are now being satisfied for each segment, as well as the geographical distribution and overlap of the segments. This information will be necessary both for financial institutions seeking new markets, while trying to avoid competition in already saturated markets, and for government programmes and donors trying to make strategic decisions about where and how to allocate their assistance.

While resources exist within Uganda to develop a research plan that would satisfy our information needs, we think that this is one wheel that has already been invented, and we are looking to the South to profit from the experience of the countries that have carried out versions of the Finscope approach (<http://www.finscope.co.za/>). Importing these skills will let us draw on a team with experience in questionnaire design and adaptation to local needs; determination of sample size and sampling techniques; presentation (and marketing) of the approach to stakeholders and potential purchasers of information; data analysis; and information dissemination.

In addition, *Finscope* is a brand growing in visibility and credibility. It offers the promise of eventually benchmarking individual national performance in attaining outreach against international standards.

There remain many questions on the way forward, which we look forward to addressing in May when we hope to host simultaneous visits of David Porteus, formerly with FinMark Trust and one of the architects of the Finscope idea, and Anne-Marie Chidzero, working with Finscope in South Africa.

While Finscope will measure demand, we are also helping to increase industry knowledge of supply. This month we provided GPS devices to enumerators from the Ministry of Finance who were surveying microfinance institutions in Mbale and Bugiri districts. The test worked well, producing maps that placed the position of the financial institutions over existing road maps of the districts. This successful initiative helped share the idea and power of the GPS technology. Now, however, we expect to step aside if as we believe USAID's Rural SPEED project can offer similar or better resources to the Ministry.

Also, we have supplied a computer (and promised a second one) to the Registrar of Cooperatives, to allow them to computerize the list of some 1500 Savings and Credit Cooperatives (SACCOs). (This information now exists in handwritten form in seven large volumes.) We were pleased to see during a recent visit to the Registrar that the laborious data entry task is proceeding well and quickly. This is an essential first step in compiling outreach data on SACCOs, which make up the largest number of Tier 4 financial institutions, those that are unregulated by the Bank of Uganda. The next step will be the challenging task of systematically verifying the existence, location, activities and portfolios of the Tier 4's.

Consumer Education Expansion and other pro-Consumer Initiatives

Background: FSDU and its partners recently launched a six month pilot project in Masaka and Mbale districts to test the usefulness of educating consumers of financial products in their rights and responsibilities, and about the types of products and institutions that are available to them. At the request of the Microfinance Outreach Plan (MOP), we agreed to expand the programme into five additional districts, (Bugiri, Mbarara, Kabale, Nebbi, and Kabarole). These are the districts in which the MOP has placed Financial Extension Workers (FEWs); the FEWs are the principal means of disseminating the consumer education messages of rights and responsibilities,

and knowledge of available choices of products and institutions. They are supported by a variety of printed materials in English and local languages, and in two of the districts by radio spots and call-in shows.

We have also helped The Association of Microfinance Institutions of Uganda (AMFIU) recruit a full-time consumer affairs specialist. Finally, we are working with Uganda Consumer Protection Association (UCPA) on a number of pro-consumer initiatives.

On March 4th and 5th, we traveled to Mbale to launch the consumer education programme, orient the FEWs in the use of the printed materials, and plan the expansion of the consumer education programme with District Microfinance Officers who had come in from the other districts in which there are FEWs.

In my remarks at the launch of the project, at which we were honoured to have the District Chairman (LC5) preside, I said that survey data belied the widespread belief that Ugandans lack a savings culture. In fact, in our field research, respondents valued access to secure and liquid savings substantially more highly than access to credit. I suggested that the problem was more that the microfinance institutions themselves lack a savings culture. Most of them make their income from loans, not from mobilizing deposits, so they naturally assume that what people want and need is a loan, not a chance to deposit money in a secure account. As the saying goes, “If your only tool is a hammer, then all your problems look like nails”. In spite of the demonstrated demand for secure savings, some institutions and programmes continue to concentrate on on-lending to SACCOs, potentially under-cutting the advantages of their savings-led approach.

On 28th March, representatives from FSDU, UCPA and AMFIU’s new Consumer Affairs Specialist, Ms Zainabu Asiimwe, traveled to Mbarara to present the consumer education programme to the eight FEWs from that district, and also to deliver posters, handouts and flyers newly translated into the Runyakore language. During a very lively work session, we went over the content of the campaign, and communicated some principles of adult education, to the FEWs. They embraced the campaign eagerly, and showed their understanding and commitment by carrying out lively role-plays.

We were hosted in Mbarara by AMFIA, the Ankore MicroFinance Institutions Association. This regional membership-based institution continues to impress us with visionary leadership that recognises the value to its member institutions of a strong pro-consumer stand. To show our appreciation, we placed a newspaper advertisement in one of the local papers congratulating AMFIA members for agreeing to calculate interest using the declining balance method. In the ad we said:

“Declining balance calculations (as opposed to “flat” calculations)

- Are easier for consumers to understand*
- Facilitate comparison among products and institutions*
- Help market forces work*
- And, ultimately, save money for consumers*

AMFIA members join commercial banks and some leading MFIs including Uganda Microfinance Union (UMU) in using declining balance interest rates, a global standard for transparency among financial institutions.”

Finally, the Uganda Consumer Protection Association is about to launch the long-awaited Consumer Relations Hub, and has recruited Mr James Sekatawa to manage it. The Hub will provide a national phone number and email address through which consumers can address complaints about their microfinance institutions, only in the case where resolution at the local level appears impossible. The Hub will have no enforcement powers, and indeed there is little pro-consumer legislation in Uganda to enforce. Rather, it will seek to resolve problem amiably, collect information on systematic problems, and produce summary reports for the Microfinance Outreach Plan, AMFIU, and other key stakeholders.

In closing I will mention a meeting I had in Kampala with a group of ten American philanthropists. This was a delightful group of people who were taking their personal giving programmes seriously, wisely investing the time and effort to educate themselves so they could make informed contributions. They were on a learning mission to Uganda and Tanzania. I had the pleasure of spending an hour with them, and presented what I hope were cutting edge issues in pro-poor finance, especially product diversification and services for people with very small transaction sizes, the vulnerable and the very poor.

And on the subject of very small transaction sizes: this issue of *Deepening* is a day early, because I am leaving tomorrow morning to West Nile to visit our project there where we are helping vulnerable people form savings and loan associations. I am pleased to be accompanied by friends from two institutions that are potential partners if, as we expect, we soon move to an expansion of the programme. Stay tuned for information on that programme in the next issue!

Best wishes, wherever you may be,

Paul Rippey
Manager