

Deepening
The Monthly eNewsletter of
DFID's Financial Sector Deepening Project in Uganda
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Dear Friends and Colleagues,

This is the fifth monthly issue of Deepening, the email newsletter of DFID's Financial Sector Deepening Project in Uganda - FSDU.

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Financial Markets Monitoring

From May 17th to 19th, two consultants from FinMark Trust in South Africa, Anne-Marie Chidzero and Bob Currin, visited Uganda on a scoping mission to prepare the way for rolling out the FinScope financial market assessment process in Uganda. During their visit, the consultants and FSDU visited the Uganda Bureau of Statistics, potential market research firm subcontractors, and potential donor partners. We held a public workshop on 19th May attended by a variety of financial institutions, government officials and donors, to explain the FinScope approach and gather information about data needs of different players in the financial sector, and about the possibility of collaboration. Over the next several weeks, we will be working with the FinMark consultants to assemble a consultative group in Uganda to help us define the information that will be gathered, develop terms of reference for the survey research firm, recruit a local long term consultant to help us oversee the process, finalise a contract with FinMark, and launch the FinScope exercise.

Savings and Loan Associations

The scheduled mid-term review of the West Nile Savings and Loan Associations project had to be postponed for reasons beyond our control, and is now rescheduled for the period June 19 to July 11. To avoid setting back the proposed expansion of the programme that we anticipated after the MTR, we are holding a lunch meeting with other groups working in financial services to the vulnerable poor on June 2. This meeting will help us better understand both the need and the possibilities of expansion, so that if, as expected, we decide on a national roll-out after the MTR, we will have a better idea of how to structure that, and of who potential implementing partners would be.

Consolidation

Lloyd Stevens finishes his current five week consultancy as this is being written, and will return on 25th July. He leaves with a growing portfolio of consolidation dossiers in various stages of advancement. As always, we respect the confidentiality of consolidation candidates unless they have given us permission to mention their names:

- A consultant was chosen to carry out a feasibility study for a linkage banking arrangement between PostBank and the MFI FOCCAS. He began work on 23rd May on this study, funded under the Consolidation Challenge Fund (CCF).
- Two MFIs completed a feasibility study for a merger, and are waiting for the final report.
- We met with and prepared draft terms of reference for an institutional assessment for a network of rural financial institutions that are examining institutional options including merger.
- We had multiple conversations with a social NGO with a large credit and savings programme which is spinning off the financial operations into a wholly-owned MFI. We suggested that the NGO set performance benchmarks for the MFI, and if things do not go well, explore having clients pay off existing loans and transferring the clients' credit histories to another MFI which would continue to serve them, to preserve the remaining assets.
- We visited and explored options for collaboration with BUTO, an apex organization in Kyenjojo District. BUTO has a network of 63 credit and savings outlets called SIDAs, and has put together a promising system which balances the advantages of local ownership with the necessity of centralized management, standardization, and internal audit. FSDU assistance is likely to take the form of an institutional assessment, strategic planning, and a limited amount of capacity building.
- Finally, Lloyd led a workshop in Mbarara on 27 May, organized by the Ankore Microfinance Institutions Association (AMFIA) with 75 representatives of AMFIA members. He presented consolidation options, including linkage banking, amalgamation, divestiture and programme merger to the members. A number of institutions indicated interest in some of these options, particularly amalgamation, and Lloyd has scheduled a follow-up visit for August. This workshop was requested during a presentation to AMFIA in February of the "Consolidation Road Show".

Transformation

The Transformation Steering Committee, made up of those agencies actively supporting transforming MFIs, met on May 10 to review progress being made by the assisted MFIs under their negotiated work plans. During March, the two grantees of FSDU, U-Trust and Faulu, received grants from the Microfinance Outreach Plan. These funds, primarily for infrastructure, complement the FSDU funding that is exclusively for technical assistance.

Consumer Education

Zainab Assimwe, the consumer education specialist at AMFIU, carried out monitoring visits to

the consumer education project pilot sites of Masaka and Mbale. She verified the continued high level of interest in the consumer education messages, the good work of the Financial Extension Workers, and the gratifyingly high acceptance of the importance of consumer education by the MFIs, particularly in Mbale, where MFIs are prominently displaying posters in their branches. A SACCO in Masaka told her that customers were demanding more information about their contracts, a new phenomenon that the SACCO management viewed very positively.

FSDU is negotiating a small add-on budget with AMFIU to enable them to carry the programme into the five new districts that were added to the original two districts at the request of the MicroFinance Outreach Plan.

During the month, we received reports from Mbale and Masaka of more questions phoned in by consumers to the call-in radio shows. A list of all questions received will soon be posted on the FSDU website, and, in response to several requests, the consumer education posters have been scanned and are now on the FSDU website.

Consumer Hub

Uganda Consumer Protection Association (UCPA) has put in place the consumer hub, through which consumers can complain or request information. UCPA will work to resolve problems amiably in all cases if possible; it will also log all calls, and analyse them to look for trends in complaints that reflect an underlying persistent problem. A copy of the English Language poster for the hub is available on the FSDU website.

SACCO Financial Management Training

From May 16th to 20th, AMFIA organized and FSDU sponsored a training for managers in fundamentals of accounting. The training, presented by Friends Consult, was attended by 17 participants. This training will be followed by a second training in financial analysis from June 27th to 29th, and a third training for local auditors from the 29th June to 1st July. The intention of this series is to build a market for higher quality audits of financial institutions.

Other Activities

Following are other activities of FSDU during the very full month of May:

- Had a series of meetings with Gerhard Coetzee and Bill Grant of ECIAfrica in mission to Kampala, including a working session with other key players to share ideas about support to Tier 4 institutions, primarily SACCOs. Following that meeting, FSDU drafted a “Roadmap” for a healthier Tier 4, which was circulated to the Tier 4 working group, and is being combined with existing documents to help produce a concept paper indicating next steps that government, donors and apex organizations could take to strengthen and rationalize the SACCO sector.
- Attended a working session held by our sister project FSD Kenya to discuss the financial markets monitoring system that they are putting in place. We appreciate the thorough work done to prepare for that meeting, and the careful examination of all the options for getting better information about financial markets.

- Met with the Decentralised Financial Services (DFS) Project in Kenya. DFS has developed a set of tools for strengthening financial groups, whether ASCAs, SACCOs or other groups; early users of these tools in Kenya are enthusiastic about their impact on their groups, and FSDU and DFS plan to bring these tools to Uganda.
- Attended (Lloyd and Paul) parts of the bi-annual MicroSave Action Research Partners CEO's workshop, also in Kenya, and appreciated the organized visits to Equity Bank and PostBank, and the many informal conversations with the exceptional group of leaders of financial institutions who were present.
- Received delegations from the Namibian Central Bank and from the Kenyan Apex institution SAGA, both on study tours to Uganda. SAGA has developed an ingenious and apparently effective model for outreach and supervision of remote member-based institutions. We believe we can learn a great deal from them, and there will no doubt be further mention of SAGA in future issues of this newsletter.
- Led (Chris and Paul) two one-day courses at the annual residential session of the Microfinance programme of Uganda Martyrs University. It was noteworthy to see the steady increase in enrollment in this programme, and to realize that many, probably more than half, of the 147 participants pay their own way, a truly rare market-led phenomenon in this high-donor-density country.
- Attended a thought-provoking presentation in Kampala by Andrew Obara and David Porteous about the relationship between competition and interest rates, testing ideas that will appear in a forthcoming CGAP study. International data from the financial and other sectors indicate that competition will indeed eventually drive down interest rates, but that in the short term, the main drivers determining client's choices of institution will be products and services, and not price.
- Collaborated with SUFFICE to write a concept paper for an in-country rating service for smaller MFIs, and terms of reference for a scoping mission to provide a reality test of the concept paper. The TOR were circulated to possible bidders on 31st May. The Rating Service, to be hosted initially by SUFFICE, would not only assess financial institutions as potential commercial investments, but would also include social indicators, including corporate citizenship, transparency, and customer friendliness. The Rating Service Concept Paper is being posted on the FSDU website on the Consumer Education and Protection Page.

Kind regards to all,
 Paul Rippey
 Manager