

## Deepening

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

Welcome to the sixth 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).

### Financial Markets Monitoring

Following the visit last month of two consultants from FinMark Trust in South Africa, who came on a scoping mission for the Ugandan iteration of the FinScope market research instrument, I traveled this month to London for two meetings addressing the issue of Financial Markets Monitoring.

On Tuesday, 14<sup>th</sup> June, I participated in a teleconference between the World Bank and DFID targeting the development of “headline” indicators for outreach of financial services. In health, people agree on the importance of indicators such as the fertility rate or the HIV prevalence rate. In education, there is general agreement on the importance of measuring the percentage of school age children enrolled in school. What are corresponding indicators for measuring the success of interventions designed to increase outreach of financial services, or for inter-country comparison? How does one distinguish between usage and access? Are some financial services more important than others? Some of us think that the number of people with secure deposit or savings accounts is perhaps the most basic and important financial service, but if so, how “secure” is secure enough, and what is an “account” in a world where new financial instruments are being rolled out all the time? Does money stored on a cell phone and used for some transactions qualify as an “account”? How about savings in a small cooperative institution – if so, do we distinguish between countries, based on the relative security of cooperatives? Who makes that decision, and how?

I raise the questions here without suggesting the answers, but simply to give a warning that the headline indicators in finance may not be as simple and obvious as they seem to be in other fields.

On Wednesday, 15<sup>th</sup> June, I participated with DFID in addressing strategies for bringing standardized measurement of financial markets to more African countries. Again, this is an issue filled with complexity and no easy answers.

Over the next three weeks, we will ignore all this complexity, and simply prepare the way for launching FinScope here in Uganda. We will invite key people to be on a consultative committee, and issue an RFP to the local consultants who will carry out the work.

## Savings and Loan Associations

On June 2, FSDU hosted a meeting for other groups working in financial services to the vulnerable poor. The meeting validated our plans to generalize the SLA methodology through a number of partnership agreements with implementing institutions, which we would support financially and technically. We plan to recruit a consultant to manage the subgrants, and provide technical assistance to spread best practices in the SLA methodology, help put in place monitoring and evaluation systems, and provide support for cross learning through visits, documentation, and a website. We plan to issue a request for proposals for partnership in August.

The mid-term review of the West Nile Savings and Loan Associations is underway as this is written. Our Chief Consultant, Hugh Allen, reports by phone from West Nile that he is getting “interesting results”, which we optimistically assume means that things are going particularly well. We have asked Hugh to present his findings on July 6 to potential partners and other interested parties, followed by an informal discussion of best practices in financial services to vulnerable groups around the world.

## Consolidation

Transformation & Consolidation Consultant Lloyd Stevens finished his latest five week in country consultancy on 10<sup>th</sup> June, and will return on 25<sup>th</sup> July. He left behind a growing portfolio of consolidation dossiers in various stages of advancement, which were reported on in the last issue of this newsletter. We now have four consolidation/linkage banking studies either in progress or in the late stages of negotiations.

Given the importance of Linkage Banking in Uganda, the growing interest in it, and the upcoming Annual General Meeting of the Association of MicroFinance Institutions of Uganda (AMFIU) which has made linkage banking its principal theme, we prepared a flyer outlining the sorts of relationship that we think qualify as *linkage banking*. The flyer (available at [http://www.fsdu.or.ug/pdf/linkage\\_banking\\_flyer\\_small.pdf](http://www.fsdu.or.ug/pdf/linkage_banking_flyer_small.pdf)) gives contact information for programmes supporting linkages in Uganda, notably (in addition to ourselves) the Dutch SNV programme and USAID Rural SPEED project.

Also, Lloyd and I were invited by the management of the Bunyoro-Tooro Rural Development Company Ltd. (BUTO), to visit their network of financial outlets in the Kabarole region. BUTO is a company limited by shares established in late 2003 to provide affordable and sustainable financial services to rural poor through associated community-based intermediaries, called *Sub-county Integrated Development Associations* (SIDA). The shares of BUTO are at present owned by the five districts in which it operates. BUTO traces its history to the Hoima Rural Integrated Development Programme, an IFAD/GOU funded programme begun in 1994.

Lloyd and I were both impressed with the staff of BUTO and of the SIDAs we visited, by the high degree of standardisation of systems and procedures, and by the professional and constructive working relationship between SIDAs and BUTO. With 63 outlets and 3 billion shillings in assets, the network has sufficient scale to become financially sustainable and potentially be able to succeed in the face of stiff competition from MDIs, SACCOs and Commercial Banks. We are discussing the provision of assistance in the form of an initial institutional assessment, followed eventually by assistance in strategic planning.

## Consumer Education

Zainab Assimwe, the FSDU-supported Consumer Specialist at AMFIU, organized regional workshops with the theme “Consumer Education as a best practice for MFIs” for AMFIU members in Soroti and Hoima districts. We are gratified and encouraged by the extent to which AMFIU members embrace the concept. Participants in the workshops discussed issues including making local language translations of contracts available to customers before loan agreements are signed; the importance of transparency on the part of MFIs which expect the same from their clients; and issues around over-indebtedness. Concerning the proposed consumer Code of Practice for MFIs, which AMFIU has drafted, there was strong support for developing such a code in a consultative fashion, and extending it beyond AMFIU members.

The Consumer Education Pilot Project is coming to an end, and our consultants CDFU have requested bids, due tomorrow, for the planned assessment of changes in Knowledge, Attitudes and Practices of consumers in the test districts. This assessment will guide our plans for expansion of the project, later this year.

## Financial Analysis and Audit Training

This week, AMFIA organized and FSDU sponsored two trainings in Mbarara, both designed to help build a market for higher quality audits of financial institutions. The first training, in financial analysis, was intended for financial managers of AMFIA member organisations. The second, which is happening as this is being written, addresses audit procedures and standards for financial institutions, based on CGAP training materials. It is being attended by local private accounting firms, staff of the Uganda Cooperative Alliance and of the Department of Cooperatives, and audit committees of AMFIA members. The trainings are being led by ACLAIM, a Kampala-based firm, and will hopefully serve as prototypes for a nationwide effort over the next months.

## Bagamoyo Workshop

Chris Musoke and I attended a workshop on member-based financial institutions in Bagamoyo Tanzania, organized by the World Bank. During the debates, we argued that stand-alone SACCOs are not likely to be viable, and were not surprised that the success stories presented during the conference all concerned unions of SACCOs with external support and supervision.

## Rating Service for Small MFIs

In partnership with the EU SUFFICE programme, we invited three rating firms to bid on a mission to carry out a “reality test” on the concept paper ([http://www.fsd.u.or.ug/pdf/Concept\\_Paper\\_Rating\\_Service\\_small\\_MFIs.pdf](http://www.fsd.u.or.ug/pdf/Concept_Paper_Rating_Service_small_MFIs.pdf)) for a rating service for small MFIs. We are in discussions now that should lead to a contract for the reality test mission, in August.

Kind regards to all,

Paul Rippey  
Manager