

Deepening
The Monthly eNewsletter of
DFID's Financial Sector Deepening Project in Uganda
FSDU
Vol. 06, Number 1 – January 2006

Dear Friends and Colleagues,

Happy New Year, and welcome to this 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.fsd.u.or.ug.

Village Savings & Loan Associations

This month we moved much closer to a national roll-out of VS&LAs. Staff from DFID, CARE Uganda and FSDU are simultaneously:

- Negotiating the conditions under which CARE Uganda will take on the sizable task of managing up to ten subgrants to implementing partners who will do the actual work of creating and supporting VS&LAs. This support will be formalized by an accountable grant agreement between DFID and CARE. CARE will set up a technical unit whose working title is the Central Support Facility; this unit will consist of a director and trainers who will train implementing partners in VS&LA methodology, and monitor their progress in fulfilling the conditions of their grants, and centralize reports so that we have a global picture of the outreach and the health of the sector.
- Creating a VS&LA Steering Committee, to oversee the entire project, agree on common policy and best practices, liaise with the Government and other programmes, and carry out advocacy and public information campaigns. The Steering Committee will consist of institutions who are funding the creation of VS&LAs, a representative of the Government, and other stakeholders.
- Choosing the initial group of implementing partners. In response to a newspaper invitation to submit expressions of interest, we had close to 100 enquiries from potential partners, ranging from small community based organizations, through private companies, and including some international organisations. After a stakeholders meeting in November, we received formal expressions of interest from 25 firms. We narrowed these to a short list of six firms, which teams from CARE, DFID and FSDU visited in January to conduct rapid due diligence reviews. Two of the six candidates were eliminated (at least for this round). We invited the remaining four candidates to a workshop at CARE on 27 January to agree on the national programme's goals, and to inform them of CARE's requirements for format of the proposals, budgets and implementation plans; a more precise understanding of exactly what activities would be supported, reporting requirements; and next steps.

The four candidates are: Foundation for Urban and Rural Development (FURA) in Kasese district; International Rescue Committee (IRC) based in Kitgum; Karamoja Private Sector Development Promotion Centre; and South Eastern Private Sector Promotion Enterprises

Limited (SEPSEL). FURA and IRC already have experience in VS&LA promotion, and we propose to help them continue, expand and perfect their programs.

With luck and no unforeseen obstacles, we will finish negotiating a grant to CARE, hold the first meeting of the Steering Committee, and complete subgrants to the implementing organizations, all in the short month of February. As soon as that is all accomplished, we anticipate issuing an invitation to a second round of applicants.

We have long been convinced that VS&LAs represent one of the best ways, and in some cases perhaps the only way, to bring financial services to the very poor, and vulnerable populations in general. Our visits to the candidate institutions underlined this belief. In Kasese, where I went with Adrian Stone of DFID and Grace Majara of CARE, we encountered a VS&LA composed of persons living with HIV/AIDs. The group not only saved and made loans to members, but also had a modest program of encouraging seropositive people to speak openly about their condition, and take advantage of the various services and programs that are available to them. Many group members are extremely poor, and would not be viable clients of MFIs simply for that reason. However, another member, fluent in English and clearly better off than many of her peers, told us of the rejection that she had faced from MFIs, and MFI solidarity groups, when they learned that she was seropositive. This particular VS&LA had adapted its policies to address the high mortality rate among its members by encouraging people to bring their families to meetings, so that they could continue saving and repaying loans in case a member dies.

FinScope Uganda

On 19th and 20th January, Luke Okumu, FSDU's Research Coordinator, and I were in Dar es Salaam meeting with our colleagues at the Financial Sector Deepening Trust (FSDT), and representatives from FinMark Trust in South Africa, Steadman (the research firm selected to carry out the FinScope study in both Tanzania and Uganda, and a demand-side study in Kenya – not called FinScope), and Synovate, a market-research firm chosen by Steadmans to work with us to produce a segmentation or segmentations of the database.

After a day of round-table meetings with the entire group on 19th January, Luke and I split up the following day. At the gracious invitation of our hosts, Luke sat in on a meeting of Tanzanian stakeholders who were conducting a near-final review of their version of the questionnaire. I went out with colleagues from Steadman and Synovate to take a drive around Dar, through adjacent peri-urban areas, and briefly out into the countryside, to discuss market segmentation, while hopefully finding insights and inspiration looking at the variety of types of occupations and people that we were seeing.

FSDU are willing to invest in an admittedly experimental effort to develop a segmentation model that will reflect the nature and complexities of financial markets in countries like Uganda, where 80% of people work in agriculture, where much production is not monetized, where poverty is rampant, and where salaried jobs are the exception. In Uganda, as in Tanzania, a wide variety of financial institutions - from informal village-level associations, through SACCOs and MFIs, and up to commercial banks – compete to serve, or to find new markets among, a large group of people sometimes lumped together under the name *the poor*. It appears to us that this group is not terribly well understood as a market or markets for financial services. Institutional types that have been successful in some regions or among some populations are pushed out into other areas, without, we believe, sufficient understanding of the characteristics of those areas. In Uganda, the semi-nomadic cattle herder, the *matooke* farmer, the internally displaced person living in a camp in the North, or the former refugee farming arid lands in West Nile may want and need radically different types of financial services. None of us – certainly not FSDU – know enough to say exactly

what those financial services are, or how they can best be delivered. We hope that FinScope Uganda's segmentation model will take at least a small step towards clarifying this question.

In later meetings with Steadman, we agreed to a revised, ambitious and rigorous timetable for rolling out the study. Luke and I, and Virginia Nkwanzu of Steadman, met for a day and a half last week to go through our latest draft questionnaire, question by question, to come up with our final draft. To gain time, Steadman is sending this draft to be translated into the seven local languages in which it will be printed. Simultaneously, the questionnaire is being circulated widely:

- We are sending the questionnaire to the Advisory Committee and to a larger group of stakeholders to get their final inputs.
- Steadman will hold focus group discussions to help make sure that we are asking questions and using terms that can be understood by local respondents.
- We will ask FinMark Trust to make sure we have included the core questions that will allow comparability of results with other studies conducted by FinMark or the World Bank.
- We will ask Synovate for their review, to be sure that we are gathering enough information to allow segmentation of the results.
- Steadman will ask the Uganda Bureau of Statistics for their comments and validation of the questionnaire.

After receiving feedback from all these groups, we will adjust the translations to incorporate any changes, and Steadman will begin to pre-test the questionnaire. We still intend to be in the field shortly after national elections being held on February 23rd.

Census of Tier 4 Institutions

This project has advanced thanks to the hard work of our Research Coordinator and our partners.

We signed contracts with the eleven District Private Sector Promotion Centres around the country, to carry out the first phase of the field work, which consists in producing lists of known (or suspected) MFIs. FSDU has so far received reports from eight of the eleven Centres.

The lists were verified at two levels – District, and Sub County – and then given to the first wave of researchers, who are now in the field, armed with GPS devices, and talking to every institution and determining if it meets our criteria of “active” and has a fixed physical location, and if so, ascertaining its GPS coordinates. These interviewers are working under a contract with the Institute of Environment and Natural Resources at Makerere University.

Finally, the district centres will recruit, train and send interviewers to visit each institution, and collect data on its legal and regulatory status, history, products, outreach and performance, using a standardized questionnaire.

FSDU and the Micro and Small Enterprise Policy Unit (MSEPU) at the Ministry of Finance have essentially agreed on the terms of a Memorandum of Understanding to spell the roles of all the parties and hope to sign the document this week.

We plan for interviewers to be in the field in March, after the national elections.

Group to Individual Lending Study

During the month, we welcomed Jill Burnett who came to carry out a study on the transition from group to individual loans, based on the experience of three Ugandan financial institutions which have traveled down that road: Commercial MicroFinance, FINCA, and Uganda Finance Trust. This study is being conducted with MicroSave's valuable technical input. We are waiting for her draft report with great anticipation, and will of course make it widely available, once it is in its final form.

Transformation and Consolidation

On 26th January, Lloyd Stevens, FSDU's Transformation and Consolidation Consultant, and I took a small plane to visit Agaru SACCO in Pader District, accompanied by Moses Opio-Ogal, the director of the Uganda Institute of Bankers, who actively supports the SACCO as a way of helping the region, one of the areas the most troubled by the long war in Northern Uganda.

Agaru Savings and Credit Cooperative began operations in 2002 in Kalongo, one of two principal trading centres in Pader District. With 1800 accounts and total assets of 1.3 billion shillings (over half a million dollars), Agaru purports to be the largest financial institution operating in Pader District. We have had many conversations with Moses over many months about possible ways of collaborating under the Consolidation Challenge Fund; we had simply not found a time to visit earlier.

While I had heard a great deal about the situation in the North of Uganda, I had never been to the most unsettled regions before, and our brief visit had an emotional impact. Much of the population lives in camps for internally displaced persons, awaiting the end of an insurgency that has been going on for decades. While mortality and suffering in the camps are high, the greatest human tragedy seemed to me to be the slow destruction of a culture, as the daily tasks of farming and building shelter and decision making are replaced by idleness and dependency. The hierarchy of generations has collapsed, as young and old alike are equally fed by the same relief agencies, and parents and children do not have the traditional complex need for each other, nor for a rich, ancient culture that has been passed on for generations.

Moses and his colleagues are creatively looking for ways to address this challenge, and realize that the provision of simple financial services alone will not be enough. This seems to be a case where it is necessary to abandon the orthodoxy of minimalist financial services, and encourage integration with social programs of various kinds. In further discussion with Agaru after our visit, we agreed that we would begin to collaborate by co-financing an institutional assessment and audit of Agaru SACCO, pending their submission of an acceptable proposal.

Lloyd is completing his contract as Transformation & Consolidation Consultant, and during his mission here we developed terms of reference for his replacement, and a short list of highly qualified candidates to replace him. Lloyd and the members of the Transformation Steering Committee met on 2nd February to review progress of the MicroDeposit Taking Institutions and the one applicant still without a license, Faulu.

Faulu has asked FSDU for a small amount of additional support to extend the contract of their FSDU-funded Transformation Manager for three months, through June 2006. Faulu has done much of the hard work to get ready for transformation but still faces many challenges. We see their request as a way to protect our investment in an institution that we hope will bring

something a bit unique to the existing MDI community. We vetted this request with the Steering Committee, and, in the absence of any objection, are requesting DFID to add the additional funds to Faulu's Accountable Grant.

Local Rating Service

On 12th January, we met with the European Union's SUFFICE program, in their office, to open the bids submitted by international rating agencies. A panel of four people, three from SUFFICE and one from FSDU, examined the submitted bids and met to discuss them in detail. The panel's recommendations were forwarded up the administrative ladder where a final contracting decision will be taken, hopefully very soon. Stand by for more information as soon as it is available.

Reminder that SUFFICE will contract directly with the rating agencies, and FSDU will contribute to a local rating fund, that will work to complement the International CGAP-European Union Rating Fund, to bring down the price so that large numbers of small Ugandan MFIs can have the benefits of professional ratings.

Informal Information Exchange

On 30th January, we hosted the quarterly Informal Information Exchange, with two good presentations followed by the usual lively debate.

Our consultant Jill Burnett shared some preliminary findings from her study on the transition from group to individual loans, and showed parts of films she had made dealing with product design.

Henk van Oosterhout, Director of the SUFFICE program, gave an engaging and sometimes provocative overview of his new book "Where does the money go?" which explores the gap between what donors and financial institutions assume about their clients and beneficiaries, and how people actually behave and use financial products.

Annual FSDU Public Programme Review

On 31st January, we held our annual public presentation at which we presented our 2005 annual report and 2006 workplan. About 30 participants from various institutions attended, asked good questions and gave us useful feedback, for which we are grateful. The annual report and workplan, as well as a summary of comments from the participants, are, or soon will be, available on our website. During the review, I stressed that FSDU has entered its final two years, and that we wanted to spend this time being as useful as possible to the pro-poor financial community, so we open our door widely to potential partners to take advantage of FSDU's experience, core competencies and portfolio of programmes, and to help us develop or perfect our exit strategies.

UCSCU

Over the last few months, we have had a series of discussions with Wilson Kabanda, the General Manager of the Union of Credit and Savings Cooperatives of Uganda (UCSCU); with their consultant Monnie Biety; and, most recently, with Brian Branch of WOCCU, here to meet with UCSCU and officials of the Government. UCSCU has been designated by the Ministry of Finance to be in charge of supervision of SACCOs, and they are working with the

Government and with other stakeholders to find the best way for this to happen. We are simultaneously talking to UCSCU about how we can support them in this task. We are awaiting a proposal from them, and will vet it widely with other stakeholders when it arrives.

With best wishes for a happy, prosperous, 2006,

Paul Rippey
Manager