

Deepening
The Monthly eNewsletter of
DFID's Financial Sector Deepening Project in Uganda
FSDU
Vol. 06, Number 3 – March 2006

Dear Friends and Colleagues,

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.fsdu.or.ug.

The month of March saw an inordinate amount of travel and meetings, as we attended conferences in Kenya and South Africa, and also squeezed in a week-long consultancy from MicroFinance Opportunities; during the first week of April, we stepped out of a meeting of East African Central Banks on Thursday in Kampala, into a meeting of a Village Savings and Loan Association on a windy hilltop in Kasese District, near the border with the Congo, on Friday. All of these trips and meetings left our head spinning with some serious cognitive dissonance, which (by no coincidence) is the theme of this issue of *Deepening*.

Cognitive Dissonance

cog-ni-tive dis-so-nance n a state of psychological conflict or anxiety resulting from a contradiction between a person's simultaneously held beliefs or attitudes

FSDU works at many levels, from the industry dialogue around the role of government agencies in prudential regulation and the Tier 4 supervision challenge, to collaboration with non-governmental apex organizations. We have provided assistance to large regulated institutions with millions of dollars of assets, to semi-formal institutions, and informal village level institutions with dozens of dollars of assets. While we work directly with financial institutions, we also encourage their customers – “consumers” – to shop around, read their contracts carefully, and avoid unnecessary debt. And we are involved in cross cutting initiatives in information collection and dissemination, and inviting institutions to consider consolidation options.

I suspect FSDU is not the only agency to experience cognitive dissonance these days. In conferences and workshops over the last few weeks, the differences in the ways our various colleagues talk about pro-poor finance have been striking. While some people feel compelled to take an advocacy position for customers of financial institutions, others work to assure the security and stability of the financial system, and still others fret about the financial performance of particular institutions. Some see the regulated institutions, which hold perhaps eighty percent of the resources of the financial system, as being its pillars, and for that reason worthy of donor investment. Others see informal and semi-formal institutions, which serve perhaps eighty percent of the population, as being the elements we should support. Some see credit as *the* developmentally important financial product, while others rank credit last on the list of needed products, after savings and money transfers.

One of the important services that projects like FSDU can provide is to bring people from different financial worlds together, whether through conferences, lunches, or visits. The diversity of institutional forms, of markets, and of need, is so great that there is room for every approach, and no single approach will satisfy all the need.

Village Savings & Loan Association Expansion Project

On 14th March, agencies promoting VSLAs held the second meeting of the VSLA Steering Committee. We discussed progress on the first round of grantees, and an approach to the second round. We also agreed on the wording of the Letter of Mutual Understanding which will formalise the VSLA Steering Committee, subject to final ratification in some cases by senior staff of the participating agencies.

The objectives of the Steering Committee, as expressed in the Letter of Mutual Understanding, are to:

1. Agree on and articulate a policy for supporting VS&LAs in Uganda, consistent with Government of Uganda objectives and market demand.
2. Define and promote best practices in VS&LA creation, support and monitoring, and modify them as needed based on Ugandan and international experience.
3. Achieve efficiency and efficacy in using resources, and avoid duplication of funding.
4. Provide a single point of access for institutions seeking support, to facilitate their access to funds and reduce arbitrage of funding sources.

CARE has now signed sub grants with the four first-round implementing partners. These are listed below, with the districts they will work in, and the projected number of members in the groups to be created:

FURA
Kasese District
7000 members

SEPSPEL
Busia and Bugiri Districts
16,875 members

IRC
Kitgum District
15,050 members

Karamoja Private Sector Centre
Kotido, Kaabong, Nakapiripirit and Moroto Districts
5000 members

While the cost-per-group-formed varies little among three of these grantees, it is much higher for the fourth, Karamoja. In their case, the large area they propose to cover, the low population density, some very real security concerns, and the fact that VSLAs seem particularly well adapted to this unique region, which is largely devoid of other financial services, seems to us to justify the high cost.

Other members of the VSLA Steering Committee are funding VSLA support in other districts: CARE through other partners in Gulu, Pader, Kabale, Kanungu and Kisoro Districts, and PLAN International through local partners in Tororo, Kamuli and Luwero districts. At

least two other institutions are also working in Uganda on VSLA promotion and we plan to invite them to the table with us over the next few weeks to coordinate activities, whether or not they share resources.

FSDU had the honor of being invited to participate in CARE's worldwide conference on VS&LAs, in Nairobi, March 6-10, and participated in that week-long workshop along with colleagues from CARE Uganda. I send my sincere thanks to CARE for the invitation.

The discussions among participants from a dozen countries reminded me of the early days of micro-credit, before practices had coalesced into what came to be known as "best practices". The language used to describe the village savings and credit groups in different countries varies along a continuum from quite social and developmental on one hand, to very financial on the other. This dichotomy is reflected in the genesis of the groups: some are formed as social groups and include financial services as one activity among many, while others are formed as financial groups, and after mastering the financial aspect, gradually come to serve as platforms for training members in other areas, such as business formation or health.

It was encouraging to see the excellent work that had been done by Hugh Allen and his associates in developing a standard MIS for VSLAs. This will make life easier for groups, for implementing partners, and for nationwide programmes such as ours.

National Consumer Education Roll-out

From 20th to 24th March, FSDU was pleased to host Danielle Hopkins, a consultant from MicroFinance Opportunities, a Washington DC-based firm which has done important practical research and development of modules in consumer financial education.

With AMFIU, we held a series of workshops and discussions while Danielle was here to refine the approach to the next phase of Consumer Education. In addition to in-depth tripartite discussions with AMFIU, FSDU and MicroFinance Opportunities, we held a series of special sessions:

1. On Tuesday 21st March, we held consultations with specialists in Member-Based Institutions on the content of a potential module devoted to strengthening SACCOs and other member-based financial institutions. We thank the participants from Uganda Cooperative Alliance (UCA), Uganda Credit and Savings Cooperative Union (UCSCU), Canadian Cooperative Alliance, CARE and Rural SPEED for their valuable insights.
2. On 22nd March, we held a discussion about possible delivery channels, which involved representatives from Communication for Development Foundation of Uganda (CDFU), Straight Talk Foundation (STF), MicroFinance Outreach Plan (MOP), and Friends Consult (future fund manager of the Rural Business Culture component of the MOP).
3. Finally, we held a public half-day workshop on 23rd March to discuss the way forward and garner industry feedback and buy-in. The meeting, attended by fifty people from MFIs, projects, and government bodies, showed the high level of support for consumer education. I confess to having underestimated the enlightenment of the MFIs, which support the idea of consumer education to a remarkable degree, and are willing to play an important role in delivering it.

We expect to release a report on the conclusions of that workshop, and a description of the way forward, soon.

In the meantime, we are negotiating the details of a grant request from a consortium made up of CDFU and STF to carry out an expanded programme of consumer education, building on the successful pilot phase. The expanded programme will include the messages and media of the first phase, but would add additional languages, much greater geographic coverage, new print media, new audiences (young people), and new messages, including the member-based institution module.

FinScope Uganda

On 27th to 29th March, Luke Okumu and I participated in a conference in South Africa organized by FinMark Trust, to discuss the roll-out strategy for demand-based studies that FinMark are supporting, and a number of technical issues from questionnaire design to the dissemination of findings. At the kind invitation of FinMark Trust, I made two presentations, arguing first for a finer differentiation of informal sector institutions, and second for a finer differentiation of that large group of people called “the poor”.

In the first presentation, I argued that the regulated financial institutions in Uganda will only slowly grow their market share from the perhaps 15% they are now able to serve, and that it does make a real difference to the welfare of poor people what sort of alternative institutions are available to serve them. Exercises like FinScope Uganda will work to capture the practices and preferences of people in the bottom 80% of the market among the various sorts of semi-formal and informal institutions. I encouraged FinMark Trust to play a leadership role in developing standard questions and definitions around informal groups for use in financial access surveys across Africa from Senegal to Kenya, absent which, individual countries like Uganda will do their best to address this important question.

In the second presentation, I suggested that existing segmentation models did a poor job of distinguishing among different sorts of poor consumer of financial services. I said that in Uganda, these people already fall into widely recognized intuitive categories, which I illustrated with photographs in my presentation. It is plausible that these groups – “Traditional Farmers”; “Modern Farmers”; “Contract Farmers”; “Rural Industries”; and so on – will group themselves in the survey database into clusters with similar behaviours in relation to financial services. I said that if we are able to identify a market segment that corresponds with what people identify as, say, Modern Farmers, and we can say how many there are, and what their needs and desires are, then we will have gone a long way towards informing both financial institutions and policy makers of the way forward. I argued that such a simple finding would be more immediately useful in a country like Uganda (and I suspect in most African countries) than more arcane classifications.

Luke and I both feel the frustration of FSDU’s delays in launching the actual fieldwork. While our contractor Steadman Associates is working closely with the Uganda Bureau of Statistics on pre-testing and sampling procedures, and their translators have already pre-translated parts of the questionnaire, we have not yet agreed on the precise content of the questionnaire. After working to include questions that will provide the headline indicators of financial access desired by the World Bank; the segmentation model that is dear to FinMark Trust; the agricultural questions that GTZ wants to include; information on remittances desired by the Bank of Uganda; and questions on consumer knowledge and practices and use of informal structures that we at FSDU want to ask, we have a questionnaire that is almost certainly too long. Darrell Beghin of FinMark Trust is coming to Uganda during the week of 17th April, and together with stakeholders, we will make the hard decisions necessary to decide on a final questionnaire.

Old Friends in New Roles

On 24th March, the Matching Grant for Capacity Building (MCAP) programme was launched in an all-day workshop. This element of the MicroFinance Outreach Plan has put in place procedures for assisting MFIs in product development, strengthening their rural outreach, and building their capacities. We look forward to collaborating with MCAP in at least two ways:

First, by participating in efforts to use commonly accepted institutional assessments as the basis for developing coordinated, need-driven, and logically-sequenced institutional strengthening plans that can call upon the many different providers of technical assistance to work together.

Second, by working in a systematic way to match the needs that FinScope Uganda and the Tiers 4 Census will identify, to the opportunities offered by the entire spectrum of financial institutions, from VSLA to Commercial Bank.

Congratulations and best wishes to Dorothy Katantazi and the MCAP team.

Finally, we are delighted to welcome Godfrey Ssebukulu to FSDU as the new Transformation and Consolidation Consultant (TCC). Godfrey is well known to FSDU, having already carried out two assignments for us under the Consolidation Challenge Fund. Godfrey brings wide experience in different institutional environments, including government agencies (the Bank of Uganda and the Privatisation Unit of the Ministry of Finance); private sector institutions (PRIDE and his own consulting firm Frontline Associates); and a donor project (SPEED). He has consulted widely, and holds an MBA in Finance from Vanderbilt University, among other degrees and certificates. As TCC, Godfrey will serve as technical assistant to the Transformation Steering Committee, and also bring his considerable creativity to the challenge of consolidation and restructuring MFIs.

Among Godfrey's first challenges will be guiding us on our response to a proposal from PostBank Uganda to establish two mobile banking units. This proposal was submitted subsequent to a visit to Kenya by FSDU and representatives from PostBank Uganda to visit the impressive mobile banking operation of Equity Bank.

Godfrey replaces Lloyd Stevens as TCC; after a very successful sojourn in Uganda, first as the Transformation Manager at U-Trust, then as TCC at FSDU, Lloyd has accepted a position with Deutsche Bank in New York. We join his many friends in Uganda in wishing him success and happiness.

Best wishes to all,

Paul Rippey
Manager