

TRENDS AND ISSUES IN MICROFINANCE INFORMAL INFORMATION EXCHANGE MEETING

HELD ON MONDAY 25th April, 2005 AT FAIRWAY HOTEL

The theme of this quarter's Information Exchange meeting was "**Regulation of Member Based Financial Institutions: A Panel Discussion**" Mr. Henry Mbaguta of the Ministry of Finance, Planning and Economic Development chaired the meeting on behalf of Mr. Lawrence Kiiza, who was unable to attend due to other pressing duties. Mr. Christopher Musoke, Deputy Manager, DFID Financial Sector Deepening Uganda Project (FSDU), facilitated the meeting, which was attended by 48 participants.

Mr. Mbaguta opened the meeting by welcoming Mr. Branch. He stressed the importance of the Information Exchange meetings and thanked DFID – FSDU for the support provided. He mentioned that the meeting was part of a major effort to consider ways in which Tier 4 Institutions can be regulated.

Mr. Brian Branch, Chief Operating Officer and Interim CEO of the World Council of Credit Unions made a presentation on "**Best Practices in SACCO Regulation**"

This was followed by a panel discussion with presenters from key stakeholders including;

- Ms. Robinah Nakato, Supervision Department, Bank of Uganda
- Mr. Patrick Mbonye, Microfinance Outreach Plan
- Mr. Richard Pelrine, Rural SPEED

Mr. Fred Mwesigye, Registrar of Cooperatives, MTTI and Mr. Leonard Msemakweli were unable to attend due to other commitments.

Mr. Branch's presentation as well as the International Credit Union's Governance, Operating and Safety & Soundness Principles are posted on the FSDU website www.fsdug.or.ug

Questions by Panelists and other participants

Q. *Where is the boundary between the Internal Bye-laws and external laws (Regulations)?*

Q. *How large does a SACCO have to be, to be regulated?*

Q. *Who incurs the cost of supervision?*

Q. *How should the regulations be enforced?*

Comments by Panelists and other participants

- SACCOs are limited geographically and cannot increase outreach.
- There are several challenges facing Tier 4 institutions including but not limited to; lack of incentives for the members and board; Supervision committees are elected but are not necessarily qualified; the legal system is weak in contract enforcement; the regulation and supervisory function falls under too many diverse bodies;
- Supervision should not only be policing but should also include advisory services and should be paid for.

Response by Brian Branch

- How large is too large? If the institution has professional management, then there is an agent – principal relationship. This would require supervision.
- All the approximately 1500 SACCOs in Uganda cannot now be regulated. However, regulation and supervision must start somewhere, where the risk is highest!
- Who pays for regulation & supervision? In South America, the cost of setting up the regulator is borne by the Government while the running costs are paid by the institutions.
- The Supervisory body should be an external, objective third party.
- Who can supervise? Ideally – Bank of Uganda for All financial Institutions

2nd Best – Bank of Uganda for some of the cooperative financial institutions

3rd Best – A special SACCO regulatory body with the Bank of Uganda participating

4th Best – Bank of Uganda delegates to an Apex (These have a conflict of interest)

- Recent worldwide trends are, rather than creation of new SACCOs, consolidation of existing SACCOs or expansion of SACCO branch networks.
 - SACCOs form networks which require certain prudential and non prudential standards to be joined.
 - WOCCU used to be opposed to all on-lending to SACCOs, but now agrees that it is useful for strong SACCOs making longer loans to borrow up to 15% of their assets, to avoid a maturity gap between their savings and loans.

The formal meeting ended but participants continued the discussions over cocktails

Brief from the “Microfinance Pin Board”

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The next Trends and Issues in Microfinance – Informal Information Exchange meeting will take place on **Monday 31st July 2005 at 2.30 pm**. The organizers wish to satisfy the desires of the microfinance community for information and therefore invite suggestions for the theme for the next meeting. People with ideas for future presentations should communicate them to SUFFICE (hmutabazi@suffice.or.ug) or to FSDU (chris@fsdu.or.ug). FSDU invites other institutions that would like to sponsor the Trends and Issues meetings to contact us.

Best Regards



Christopher Musoke
DFID/FSDU Project