

TRENDS AND ISSUES IN MICROFINANCE - INFORMATION EXCHANGE MEETING

HELD ON MONDAY 27TH October, 2003 AT FAIRWAY HOTEL

The theme of this quarter's Information Exchange meeting was "**Alternative Models for Supervision and Support of Rural MFIs**". The meeting was attended by 24 participants. Mr. Lance Kashugyera, Head of Micro/Small Enterprises Unit, Ministry of Finance, Planning and Economic Development, chaired the meeting. He represented the Chairman for this forum, Mr. Keith Muhakanizi, who was unable to attend.

Three informative presentations were made and are attached as .pdf files to these minutes.

Highlights:

1st Presentation: "FSA Evolution in Uganda 1996 - 2003"
By Dr. Ahmad Jazayeri, Managing Director, FSAIU

Dr. Jazayeri reviewed the evolution of the Financial Services Association concept (FSA) from inception in 1996 to the present. He discussed the role of FSAIU in the supervision and control of the FSAs, the challenges and solutions including the possible formation of a public liability company. Visit the website for more details: www.fsa-international.com

Discussion

Q: Who will supervise the FSAIU Plc?

A: Initially it will have to be the donors and possibly government but subsequently if the public liability company acquires an MDI license then BoU will supervise it.

Q: How will the FSAs be represented on the FSAIU Plc board?

A: Each regional centre will elect board members to sit on the FSAIU Plc board. FSAs will have 50% control.

Q: What would be the role of the FSA Annual General Meetings?

A: FSA AGMs would continue to elect branch board members, approve branch accounts but would not be able to change the business from financial services to say selling shoes.

Q: What are the rights of the FSA preference shareholders?

A: They elect representatives to the FSAIU board and control 50% of the vote.

Q: If FSA branch liabilities are distinct and separate from FSAIU, how will the tax liability if the FSAIU Plc be handled?

A: The FSAIU Plc would file a consolidated tax return and any liability would be apportioned accordingly to the FSAs that would be liable to tax. KPMG have advised on this.

Q: Is the FSAIU Plc format acceptable to the FSAs?

A: Yes, there is strong support for the FSAIU Plc.

2nd Presentation: “Supervision & Support of Village S&C Institutions” by *Patrick Mbonye, MSE/MFI Component Manager, MFPED*

Mr. Mbonye went over the background of the UNDP funded Village Bank program. He reviewed the issues and challenges facing the program in its delivery of services to the Village Savings & Credit Institutions.

Discussion

Q: What is the methodology of the program?

A: UNDP and the Government provide funding and facilities for the training of Board members, Managers and staff as well as Members. Other funds are used to build the capacity of the institution through computerization etc.

Q: Some of the Village S&C are limited liability companies having in excess of 500 members. Isn't this illegal?

A: These are some of the challenges that the program is trying to address. Already one such company has been assisted to transform into a SACCO.

Q: What influence does the program have over the leadership selection or change?

A: The program cannot appoint or fire the Leadership as the institutions are totally independent. It can however advise the members.

Q: What is the minimum size of institution that can be supported?

A: There is no minimum size. One of the smallest institutions consists of nomadic Karimojong warriors in Nakapiripirit.

Q: What is the impact of the supervisory services and the sustainability of the training?

A: No assessment has been carried out.

Q: How do you rate the performance of the VSCIs on a scale of 1 – 5 with 5 being the best?

A: 20+% would be considered above 3
40% would be considered around 2-3
20% would be at 1

Q: What recourse exists when the VSCI breaches the Memorandum of Understanding?

A: Courts of Law or Arbitration.

3rd Presentation: “Link Banks & Others”
By *Paul Rippey, Investment Manager, DFID/FSDU.*

Mr. Rippey presented 3 interesting models from Guinea (Conakry), Cameroon and Morocco which demonstrate that Banks can link into SACCOs and other tier 4 institutions. Additional details can be obtained from the following websites:

<http://www.microcreditsummit.org/newsletter/armsiap3.htm>

http://finsol.socioeco.org/documents/66rtf_Tchepannou.rtf

http://www.bp.co.ma/Sitelibre/LiensUtiles/Fondation_det.asp?id=13#a

Discussion

Q: *How can the Banks in Uganda be encouraged to become more involved in social lending as they are doing in Morocco, Cameroon and Guinea?*

A: Banks in Uganda are already spending money on social objectives to promote their corporate identity.

Q: *With so much money in subsidies, how do the institutions continue?*

A: The subsidies are mainly for the start up phase and these are reduced as the institutions grow.

Mr. C. Ongura-Mong of UCSU made closing remarks as follows:

- Cooperative leaders from over 18 countries met recently in Uganda and they discussed many of the issues that had been mentioned in the 3 presentations.
- Over 1090 SACCOs have been created from various initiatives including responses to needs for financial services, political initiatives etc.

He listed the major problems of SACCOs as:

- Weak regulation, supervision and compliance
- Poor accounting and weak internal controls
- Inadequate liquidity

The Chairman, Mr. Kashugyera, summed up by thanking the presenters for their openness in discussing their institutions. He stated that there were good intentions however a lot of further discussion, policy work and coordination was needed to fix the shortcomings in the models that had been presented.

Brief from the “Microfinance Pin Board”

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The next Trends and Issues in Microfinance – Informal Information Exchange meeting will take place a week earlier on **Monday 19th January 2004 at 2.30 pm** as 26th January is a public holiday. The theme for the quarter will be advised later.

Best Regards

Christopher Musoke
DFID/FSDU Project