Uganda Microfinance Sector Effectiveness Review 2014

fsduganda
Financial Sector Deepening

TABLE OF CONTENTS

ACKNOWLEDGEMENTS

Financial Sector Deepening (FSD) Uganda expresses its appreciation to the professionals and practitioners who have contributed to the production of this report in one way or another. We specifically thank everyone who was interviewed or contributed documents that informed the analysis and reviews of events in the microfinance sector. The knowledge and commitment to the industry displayed by the different persons interacted with was highly impressive and gives assurance about the great potential that is available to develop and take the sector to greater heights.

In a special way, we than the team from Genesis-Analytics including Richard Ketley (team leader), Siobhan Lynch, Robert Lule Magala, and Sibabalwe Kasi, for the detailed compilation and analysis of the information contained in this report. The Department for International Development (DFID) is greatly appreciated for the financial and technical support.

Fred K. Muhumuza, PhD
Research and Advocacy Specialist
FSD Uganda

ACRONYMS

AMFIU	Association of Microfinance Institutions of Uganda
ATM	Automatic Teller Machine
BCF	Business Culture Fund
BN USH	Billion Ugandan Shillings
CBA	Commercial Bank of Africa
CGAP	Consultative Group to Assist the Poor
CGAR	Compounded Annual Growth Rate
CSCGS	Community Savings and Credit Groups
DFID	Department for International Development
FINCA	Foundation for International Community Assistance
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
GNI	Gross National Income
GIZ	Gesellschaft für Internationale Zusammenarbeit GmbH
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JPAL	Abdul Latif Jameel Poverty Action Plan
MCAP	Matching Grant Facility for Capacity Building
MDI	Microfinance Deposit-taking Institution
MFI	Microfinance Institution
MNOS	Mobile Network Operators
NGO	Non-Government Organisation
NPL	Non-Performing Loans
POS	Point of Sale
PROFIRA	Project for Financial Inclusion in Rural Areas
PRIDE	Promotion of Rural Initiatives and Development Enterprise
RFSP	Rural Financial Services Program
ROE	Return on Equity
SACCO	Savings and Credit Co-operative
T-BILL	Treasury Bill
UBOS	Uganda Bureau of Statistics
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union
UFT	Uganda Finance Trust

UGAFODE	Uganda Agency for Development
USD	United States Dollar
UMU	Uganda Microfinance Union
USHS	Uganda Shillings
VSL	Voluntary Savings and Loans
VSLAS	Village Savings and Loan Associations

EXECUTIVE SUMMARY

The Uganda Microfinance Sector Effectiveness Review for 2014 is an initiative of the Financial Sector Deepening (FSD) Uganda based on a similar review that was done by the Consultative Group for Assisting the Poor (CGAP) and published in 2004. The report bears resemblance to the first review but has added new dimensions given the developments in the sector over the last decade.

While some of the key drivers of the sector such as the involvement of the donors has remained constant, there have been some policy reversals that undermined the coordination and long-term strategy of building sustainability based on the market. In 2005, government intervened by injecting significant sums in the SACCOs as well as prescribing interest rates. Such actions are said to have undermined governance of beneficiary institutions and imposed a heavy political bearing on the free market forces. Accordingly, there was little left of the shared stakeholder vision.

Efforts to introduce appropriate regulation for Tier IV have not yielded final results although some significant progress was noted during the last two years of the review period. There are also parallel processes aimed at amending the Financial Institutions Act to introduce products and services that are critical for the microfinance sector. Notable among these is agency banking and micro insurance, which should provide cost-effective avenues of serving the low income groups with more formal bank products and services.

There has been limited activity in area of transitioning of financial institutions to the higher categories of financial institutions. Only a few institutions have joined Tier I and II. Some of the reasons cited refer to cost of compliance with higher regulatory requirements, competition with already established entities, and low profitability. Despite this, a few Tier 1 and II institutions that are leaning towards provision of microfinance, mainly Centenary Bank and Pride Microfinance, appear to be progressing well in terms of return on capital.

The introduction of mobile money in 2009 sparked a revolution of inclusion, at least as far as the service of money transfer is concerned. Since then, additional initiatives have been designed to leverage mobile money although a few of them have delayed due to regulatory approval. The mobile money regulations issued by the Central Bank have been instrumental in guiding the growth or mobile money, although there is need for a more comprehensive regulation given the multi-sectoral scenario.

The microfinance sector has impacted a large population especially in the area of increasing savings and access to credit. While there has not been a big impact on consumptions trends, there is reason to believe (based on global experiences) that the sector has helped to increase asset holding of low income people.

Going forward, there is need to improve data collection, regulation and monitoring of the sector. A strong and effective coordination frameworks should be revived to ensure a common shared vision for the sector. Donors and government have got to ensure that their injections are market building and do not in any way offer perpetual subsidies that undermine institutional development and sustainability. Finally, the sector will definitely advance faster and be more effective with more adoption of digital financial services. The technological advancements in the digital space offer efficiency in terms of speed, accuracy and building of software platform-based linkages between the different tiers of institutions.

1. INTRODUCTION

This report was commissioned by FSD Uganda as an update to a similar study on the "Effectiveness of the Microfinance Sector in Uganda[1]" report commissioned by CGAP and published in 2004. The purpose was to identify how the microfinance sector has evolved in the past decade and highlight areas for further intervention and support. The study was prepared with the support from Genesis Analytics, and reflects both the learnings from interviews with key stakeholders and a review of a range of public data sources and relevant reports[2].

As in the earlier study, we are concerned with the issue of the **effectiveness** of the micro finance sector. In particular, the 2004 report highlighted the effectiveness of donor actions and used the definition shown in the box. Unlike the previous report that focused mainly on donor interventions – this report also considers the effectiveness of interventions more broadly including those by the Government and by profit-seeking providers.

This report addresses the effectiveness of development interventions in three ways. First, the extent to which the provision of micro-finance products is making a significant contribution to increasing the number of low income households with access to financial services as well as the welfare of low income households. Second, the range, and sustainability, of the institutions that provide micro-finance products. Finally, the role of development interventions on the provision of such services at either the micro, meso or macro levels of the economy.

The 2004 report focused on the interventions to support the micro-finance sector that were largely targeted at "micro-finance institutions", which presumably met the criteria of providing "appropriate, client responsive financial services via sustainable institutions and mechanisms on a massive scale". Whereas that focus may have been appropriate at the time, it is clear that in 2014 a distinction had to be made between the provision and use of micro-finance products, and micro-finance institutions. For example, following the passage of the regulation in 2004, microfinance institutions now include micro-deposit taking institutions (MDIs).

> *Donor effectiveness:* Donor actions that contribute to the permanent availability of appropriate, client responsive financial services via sustainable institutions and mechanisms on a massive scale.

[1] CGAP, 2004, Uganda Microfinance Sector Effectiveness Review

[2] A list of interviewees is provided in the annex.

Furthermore, the period up to 2014 has seen many more people access a range of services including: mobile money, micro-savings accounts with Village Savings and Loans Associations (VSLAs), Savings and Credit Cooperative Organizations (SACCOs), and MDIs. In addition, many people have also received micro-loans[3] from Banks, for-profit MFIs, not for profit MFI's and MDIs, payroll lenders and money lenders. It is important to distinguish between providers of micro-credit for business development purposes (the traditional MFI role) and providers of payroll secured loans.

This report is largely concerned with institutions that provide micro-credit for business development to micro-businesses and individuals – whether they be for profit or not for profit, and are distinct from a SACCO or VSLAs. The report largely focused on the evolution of the wider range of micro-finance products as well as institutions that provide these products, and how this evolution of the market has been supported by interventions from various actors over the last ten years.

Lending at these rates may promote the sustainability of the institutions that provide the loans more than they contribute to the sustainability of their clients' livelihoods.

The last section of the paper considers areas for continued support given the changes in the sector that have occurred in the last decade.

2. MACROECONOMIC PERFORMANCE: IMPLICATIONS FOR EFFECTIVENESS OF MICROFINANCE

The performance of financial institutions, regardless of size and type, is closely linked to overall macro-economic conditions. This is largely in the area of economic growth, interest rates, inflation, investment and consumption. Countries with higher levels of financial development are associated with higher GDP growth and better resource allocation. Generally, the providers of financial services in Uganda have operated in a very supportive environment. Over the last decade, Uganda has experienced moderate growth in GDP, and modest inflation, except for a short period in 2011/12. Between 2004 and 2013[4] GDP growth averaged 6.9%, despite a slowdown in 2011/12. Inflation has also been contained well below 10%, and the positive real interest rates have created healthy margins in the financial sector.

In 2014, two important statistics were revised leading to new insights on how

[3] For the purposes of data collection, microloans in Uganda have been defined by MF T[3] transparency as loan amounts less than UGX15,000,000 or USD 5,700

[4] World Bank World Development Indicators

the economy had performed over the last decade.

To begin with, the provisional results indicate that Uganda has a population of 34.9 million people, which is less than earlier estimates of 37 million. Secondly, the size of the economy, GDP, was revised following a rebasing of the reference period to 2009/10. The new GDP figures show that the structural transformation of the economy away from agriculture to services and industry has not been as strong as previously reported. Specifically, the share of the agricultural sector in GDP increased from 23.6 percent to 26.2 percent; that of services increased from 45.5 percent to 48 percent; and that of industry declined from 24.9 percent to 18.4 percent over the reference period of 2010 to 2014. The bigger size of the agricultural sector has significant implications on the microfinance sector given the fact that many smallholder farmers are served by microfinance institutions.

Rapid economic growth has translated into rising incomes, with average per capital income (GNI PPP) rising from US$841 to US$1,370 between 2004 and 2013. The rebased figures for GDP indicate an average per capita of USS 706 for 2013/14, well above the previous estimate of US$ 510. As a result the proportion of the population living below the poverty line has fallen from 38% in 2002/03 to19.7% in 2012/13.[5] Growth in per capita income would have been significantly higher if it were not for the continued rapid growth in population – which rose from 24.5 in 2002 to 34.9 million 2014.

Growth has been accompanied by changes in the structure of the labor market. By 2009 76.4% of employed individuals were self-employed, with 23.6% in paid employment, compared with approximately 85%[6] and 15.2%[7] respectively in 2003. However the proportion of the population deriving its income from agriculture has hardly changed – 66% in 2013, compared to 69% in 2003. The close relationship between poverty and agricultural employment means that supporting the provision of financial products for people in rural areas should remain an important policy objective for Government and development partners alike.

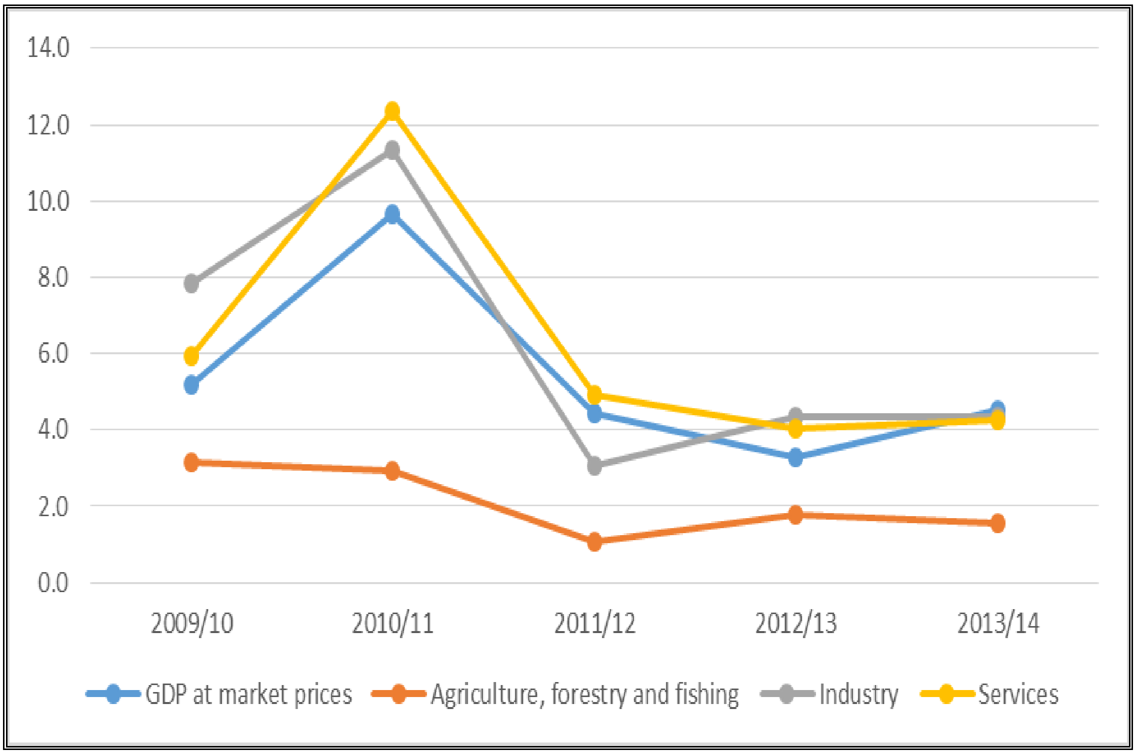
[5] World Bank World Development Indicators
[6] World Bank World Development Indicators
[7] Ministry of Gender, Labor and Social Development, 2006, Labor Market Information Status Report for Uganda

Table 1: Key macroeconomic figures[8]

Indicator	2004	2006	2010	2013
Population	27.77m	29.71m	33.99m	37.58m
GNI per capita (PPP Current international $)	840	990	1240	1370
GDP (Current USD)	7.94bn	9.94bn	16.03bn	21.48bn
GDP growth (%)	6.8%	10.8%	5.8%	5.8%
Agriculture employment (% total employment)	68.7%[9]	71.6%	65.6%	65.6%
Inflation	8.6%	7.3%	3.9	5.5%
Lending rates	18.9%	18.7%	20.2%	23.2%

Source: World Bank, World Development Indicate

Figure 1: GDP and sector growth rates (percentages), using rebased data



Source: Uganda Bureau of Statistics

[8] World Bank World Development Indicators
[9] World Bank Development Indicators figure, 2003

Recent trends in the global and national economy point to a number of challenges that the financial sector, and the microfinance sector in particular is likely to face in the years ahead. While the sector is able to provide finance for a segments of the corporate sector and groups of individuals, there is scarcity of term and agricultural finance, which are critical for growing the rural economy. The increase in domestic borrowing is putting pressure on interest rates, which is crowding out some private sector credit extension, and may soon raise the overall credit profile of the country. In the case of MFIs that depend on borrowing from the banking sector, the cost of borrowing has remained high and is expected to remain unfavourable until the macro-economic outlook improves.

According to the IMF[10], the economic outlook was subject to significant downside risks originating from an early start of the electoral cycle. In addition, the increased domestic finance is related to the ambitious infrastructure programme and is therefore not likely to abate in the near future. This can negatively impact the scope of government to address fiscal slippages more so with the political aspirations attached to infrastructure projects and the related reluctance to increase tax revenues.

Other notable challenges include: prolonged instability in neighbouring countries; weaker-than-anticipated project grants and non-concessional lending; changes in donors' sentiment toward Uganda; possible reversal of foreign exchange flows due to lower economic stimuli in advanced economies; and weak implementation capacity constraints for government projects."[11]

In view of the above, this review happens at a time when political, regional and global decisions and trends in the macroeconomic arena are likely to impact the future effectiveness of the microfinance sector. Increases in debt stress and related loan loss provisioning by larger financial institutions can easily trickle down to the MFIs by way of increased borrowing for onward lending, as well as limited opportunities for the general population that was beginning to increase its savings culture.

The political leadership that sets both the development policies and actual implementation trends is a crucial

[10] IMF Letter of Understanding with the Government in July 2014

[11] IMF, 2014, Uganda, Second review under the policy support instrument and request for modification of assessment Criteria—staff report; press release; and statement by the executive director for Uganda, July, available at http://www.imf.org/external/pubs/ft/scr/2014/cr14195.pdf

element in determining an environment that enables the microfinance sector to grow in a sustainable manner. The short- and long-term goals ought to be aligned for consistent signals to both actors on the demand and supply sides of microfinance in the country.

3. EVOLUTION OF MICROFINANCE POLICY AND REGULATION

This section looks at the evolution of policies that have influenced the provision of micro-finance products and services since 2004. These include the launch of the MDI regulations, Government's "Prosperity for All" program, the introduction of credit bureaus and regulations governing mobile money operations. Finally we consider the ongoing reforms towards the regulation of Tier IV financial institutions. Among others, the Tier IV Bill is intended to facilitate the microfinance industry to promote recursive goals of social and economic development, as well as apply prudential standards to microfinance institutions in order to safeguard the deposits of persons and prevent financial system instability.

Broadly, the microfinance policy stance in Uganda has been liberal aimed at allowing the sector to grow and integrate into the formal financial sector system. Accordingly, the policy provides for both regulated and the unregulated institutions to co-exist as well as formal and informal institutions. Many of the village level small savings and loan associations are not registered in any formal way although a growing number is taking up governance structures such as having a management committee.

The policy before 2005, was focused on integrating MFIs into the financial sector, allowing them to graduate into deposit taking institutions in order to increase their stock of loanable funds and role in promoting savings mobilization. This policy approach was, this far, thought of as 'state-of-the art' by development agencies, having been shaped by some widely acknowledged members of the MF practitioner community[12]. The policy stance between 1999 and 2005 had attracted several MFIs run by Non-Governmental Organizations (NGOs) to transform into or seek transformation towards Microfinance Deposit taking Institutions (MDIs).

In 2005, the government fundamentally shifted the direction of the microfinance policy towards increasing access through increased provision of savings and credit cooperatives (SACCOs). However, the government focus is said to have been more politically driven is alleged to have severely affected the operations of existing and new SACCOs. Schmidt (2012) reported that that the shift of policy direction served the objectives

[12] Oliver Schimidt (2012). Uganda's microfinance policy regime: An exploration Through a political-economy framework. Mountains of the Moon University

of politicians against the hopes of special interest groups – particularly development agencies – who had chosen a strategy based on information and financial contributions.

The CGAP report of 2004, reviewed and categorised the growth of micro-finance into two phases: the emerging and the growth market phases.

The emerging market phase (1995 to 2000) was characterised by efforts of the donor community to fund the development and training in micro-finance best practices, which resulted in the emergence and growth of a large number of micro-finance institutions. Initiatives such as the Micro Finance Forum resulted in a high degree of co-operation and coordination between emerging institutions, donors, Government policy makers, and regulators. During this phase, problems of state owned financial institutions such as the Co-operative Bank and Uganda Commercial Bank, which are involved in the low end of the market, reinforced the belief and hence contributed to the belief that financial service provision would be best managed by the private sector. This argument contributed to the partial withdrawal of the Government from the broader financial sector[13], but also extended the philosophy to the micro-finance sector.

The end of this period saw the formalisation of a four tier regulatory approach in which micro-finance is a line of business that could be pursued by institutions at any of the four levels. Most non-deposit taking MFI business belonged to the very "lightly regulated" Tier IV group of institutions. This groups was dominated by private sector providers who had strong support from a wide range of donors that ranged from faith based groups to both bilateral and multilateral donors.

The growth period (2000-2003) saw many micro-finance institutions grow and commercialise in a broadly supportive market and regulatory environment. The commercialisation was reflected in a great use of commercial credit lines from the banking industry, even though the donors continued to provide partial guarantees to facilitate the process. Commercial banks became more active in the provision of micro-finance products – both in lending (largely Centenary Bank), and modernisation of the savings/transactional services. The purchase of Uganda Commercial Bank in 2002, by Stanbic Bank was a key development in the liberalisation of the sector and contributed to trigger wide-ranging modernisation of the sector. There was a proliferation of access points outside banks such as ATMs, which significantly reduced the

[13] CGAP, 2013, Uganda Microfinance Sector Effectiveness Review, Pg. 5

cost of access. This process also improved the convenience of conventional banking for many Ugandans, but also raised the bar for emerging MDIs.

The decision to develop a legislative framework for MDI's reflected the emerging view of the importance of securing savings for clients of micro-finance institutions and the desire of these institutions to reflect such savings on the balance sheets. The focus on MDI's, however, meant that relatively little attention was paid to the development of a regulatory framework for non-deposit taking micro-finance and related institutions.

The period after 2003 has seen a number of significant developments including re-entry of the state, growth of mobile money, and the need for policy harmonization and coordination.

The Re-emergent State was noted in the CGAP report, where it was pointed out that, by 2003, the Government had already indicated a desire to engage more directly with the microfinance sub sector and to establish a "MFI/SACCO" in every parish. In addition, the government planned to channel a greater degree of state support to rural Ugandans through such institutions. In 2006 Government launched a new initiative entitled "Prosperity for All" (PFA), commonly known as "Bonna Bagaggawale". One of the pillars of the PFA involved establishment of SACCOs in every Sub country as a means of increasing financial access at the grassroots.

The Rural Finance Support Programme (RFSP), which was an ongoing government project, was redirected to start of the implementation of the PFA component on financial services. The first phase of the RFSP covered the period 2004 -2007 and focused on enabling regulated financial institutions and large MFIs to extend their services into rural areas. This was implemented through two funds: the Matching Grant Facility for Capacity Building (MCAP)[14] and the Business Culture Fund (BCF)[15]. The second phase, which ran from 2008 to 2011, shifted focus towards the creation and strengthening of SACCOs.

In addition, the Microfinance Support Centre Limited (MSC) Limited was set up under the African Development Bank Rural Microfinance Support Project, in 2001, to provide loans to institutions for onward lending to their clients. Following the change in policy in 2005, the (MSCL) was re-organised into a Government owned facility for channelling support to the SACCOs. The loans were to support legal entities engaged in trade and services, and agricultural related value chains. In

[14] The MCAP project assisted different types of MDIs, MFIs, SACCOs and NGOs that demanded capacity-building support and met specified criteria to expand their services to rural areas

[15] The BCF was a project that trained communities to form enterprise-based groups, which were thereafter assisted to join or become members of financial institutions.

2012 Government restructured its Board and Management of MSCL to increase focus on meeting the political agenda of increasing production, productivity and household incomes.

The specific institutions targeted by the MSC Ltd include: SACCOs, Area Cooperative Enterprises (ACEs), MFIs, Cooperative Unions, Producer and Marketing Cooperatives, and Small and Medium Enterprises (SMEs). In readiness to roll out its agenda, the MSC Ltd established twelve (12) zonal offices to support fair provision of financial services. Some of the services are highlighted in Text Box 2.1 below.

Selected Services by the MSC Limited

i. Agricultural Loan for supporting productivity enhancement, asset acquisition, bulk purchasing and construction of farms.
ii. Environmental loans. To support environment and clean energy products i.e. production of solar, biogas, and energy-saving stoves and agroforestry.
iii. Special Interest group Loans are extended to youth, women and persons with disabilities. This is in addition to elderly persons and weak SACCOs.
iv. Commercial loans funding is expended to institutions for onward lending to their members engaged in trade and service activities.
v. Small and Medium Enterprise (SME) loan is given to business with minimum annual sales turnover of UGX 50 million for agricultural related SMEs and up to UGX 70 million for non-agricultural related SMEs.

Source: MFPED, BMAU, 2014

Government involvement increased the flow of funds

As most Ugandans, including the poorest, continue to reside in rural areas there is no doubt that effective mechanisms to promote rural development lie at the heart of Uganda's development challenge. Thus, increasing resource flows to the rural areas is a critical component of the government's development agenda. The impact and effectiveness of loans notwithstanding, the re-emergence of the State as a direct source of finance to MFIs increased the stock of money channelled through SACCOs to the communities. The ability of government to mobilise domestic and foreign finances through loans and other domestic allocation provided a significant amount of money for the microfinance sector. For example, from September 2010, the MSC Ltd begun to implement a 5-year flagship project – the Rural Income and Employment Enhancement Project (RIEEP) – worth US$ 27 million.

Following what has been determined to have been a successful RFSP[16] and the need for continued state presence

[16] IFAD, 2013, End of Programme report

in the sector, the Government, in conjunction with IFAD, have established a successor program to RFSP, the Project for Financial Inclusion in Rural Areas (PROFIRA). This project will continue to support the SACCOs and related institutions for five years. PROFIRA has a special focus on the large portion of the rural population that has little or no access to financial services and on supporting SACCOs and Community Savings and Credit Groups (CSCGs).

Compromise of the governance and sustainability

However the process by which the PFA was implemented had a number of unintended outcomes. As with many other Government-led efforts for rural development, the Government SACCO/MFI support programs became prone to political agenda. The governance aspects were undermined while the main focus of management teams was directed at securing Government funding. Reports also indicate that poor governance and management practices due to incompetence and fraudulent practices of Board Members of some institutions that accessed government money undermined supervision of financial flows leading to low recoveries.

Many SACCOs often did not feel obliged to repay loans from Government-led programs[17]. Even when government funding is supposed to be provided at a low cost, there are reports citing political interference whereby certain politicians encouraged borrowers not to pay back – as the money was 'free'[18].

Secondly, the recommended interest rates were so low that that the collections could not allow SACCOs to cover the costs of loan management and supervision. As noted in the CGAP Report of 2004, President Museveni was keen on having low interest rates to ensure access by the masses. While this objective may have been achieved, the trend could not be sustained as the SACCOs soon run out of money either due to low collections or failure to receive more low-cost funding from government.

In view of the above, the MSCL has had a mixed record in loan recovery associated with i) limited skills, ii) poor Governance and culture leading to insider lending (particularly with MSC funds), iii) politicised creation of SACCO's, and iv) political pressure to

[17] IFAD, 2013, Project for Financial Inclusion in Rural Areas, Project Design Report, Appendix 1 describes how the Government in the run up to the 2011 elections "returned to its emphasis on channelling credit, putting pressure on MSC to lower its standards and to introduce a "start-up" loan for SACCOO's that did not meet its criteria of operation.

[18] MFPED (2014). Microfinance Support Centre's provision of Institutional loans: Why is uptake declining? BMAU Briefing Paper No. 10/14.

lend to weak SACCOs[19]. At the broader market level, the re-entry of the state undermined the focus on sustainability of MFIs/SACCOs as the loans provided under the programme were below market rates.

Besides, many MFI/SACCOs, which did not receive government funding, also suffered problems of weak capitalization and sustainability as it was difficult to compete with a free or discounted resources from the State. In response to the government interventions, many donors withdrew their support for the Governments programme, or switched their programmes to focus on other areas of budget support.

Nonetheless an end of program evaluation of the RFSP found that, in general, the program had been a success in that individuals participating in SACCO's were better off than in a control group[20], In addition, almost 40% of the supported SACCOs had achieved financial sustainability, thus proving their appropriateness as a vehicle for rural financial inclusion.

[19] IFAD, 2013, Project for Financial Inclusion in Rural Areas, Project Design Report, Appendix 1 pg. 38

[20] It should be noted that the "control group" was only 20% of the size and included members of SACCO's who had not borrowed from the SACCO. These results although suggestive thus fall short of a full randomised control trial.

Policy on Coordination

By 2004, Uganda had made remarkable progress towards improving the coordination of the microfinance industry. A clear national-level framework was in place and the key industry stakeholders were not only aware but played their roles. The stakeholders included: microfinance service providers, support service providers, development partners, the government, and apex organisations. The apex organizations included the Association of Microfinance Institutions of Uganda (AMFIU), Uganda Cooperative Alliance (UCA), and Uganda Cooperative Savings and Credit Union (UCSCU), which were co-ordinated through the Micro Finance Forum.[21]

However, there was still a considerable debate as to what should be the appropriate role and responsibility for Apex financial institutions in the sector. Furthermore, the degree of cohesion was undermined by the direct intervention approach Government had adopted under the PFA program. Increasingly the government focus on co-ordination shifted to the MSCL and the implementation of Government-led programs and the Micro Finance Forum ceased to function.

[21] AMFIU

It was not until 2012 that Government fully reconsidered the need for the private sector (market driven approach) to manage the MFI sector and that the PFA programme had been of limited success.[22] There are increasing efforts to revamp and enhance the coordination of various institutions in the sector, more so in light of the increasing role of digital financial services (DFS). The introduction of DFS has come with the entry of Mobile Network Operators (MNOs) as new actors in a significant way. This development underlies the need for greater coordination and regulation as operations have outgrown the confines of the traditional financial sector.

Regulation of the sector

The period since 2003 has been an important testing ground for the MDI segment of the financial sector market. The MDI Act, 2003 2003 enabled a number of larger MFIs to transform into MDIs. However, most of these institutions have not expanded particularly rapidly, although some of them have subsequently transformed into banks. Perhaps the greatest remaining elephant in the room, is the regulation of Tier IV Institutions.

Tier IV regulation

Defining an improved regulatory framework for the wide range of Tier IV institutions has been on the policy agenda since 2003 and until recently little progress had been made. Currently, there is little effective supervision of non-deposit taking MFI's, Payroll lenders, VSLA's or SACCOs[23]. Although UCSCU was chosen by the Government as the main apex entity for all SACCOs in the country, it currently lacks the capacity to provide effective support across the country.

The Draft Tier 4 Microfinance Institutions Bill, 2014 has now been finalised and the Ministry of Finance and Economic Planning (MFPED) is planning to present the draft to Parliament in 2015. If approved, a new Tier IV Act will allow for all MFIs and many of the large SACCOs to be formally regulated and supervised under a new regulatory Authority which is to be known as the Uganda Microfinance Regulatory Authority which will be an autonomous body under the supervision of the MFPED. The Act will also establish a SACCO Stabilisation Fund, a Savings protection Scheme and provide for a Central Financing Facility for the channelling of State Funds.

The draft Bill makes provisions for SACCOs and MFIs to be registered and licenced under three different categories dependent on institutional capital size, as well as the level of

[22] IFAD, 2013

[23] World Bank, 2009, Making Finance Work for Uganda

voluntary savings within the SACCO. This is to ensure that systemically important SACCOs are regulated and supervised under the Central Bank – ensuring prudential stability within the financial system. Further, the Draft Bill provides for minimum requirements of the SACCO in terms of liquidity and capital (which will be set and established by the Regulator once the Act is enforced).

This Stabilisation fund will provide financial assistance to SACCOs that are insolvent and to minimise the risk of insolvency through conducting educational and technical advisory programs. Further, the fund will advance loans to those SACCOs that need financial assistance. How such support can be delivered without creating adverse incentives remains to be seen.

The long genesis of the bill reflects both the complexity of the issues and the conflicting views of the role of Government in the market over the last ten years. There remain important discussions on how the Bill will address both market conduct and prudential issues, how to differentiate between the regulation of SACCOs and MFIs, and how to create the appropriate regulatory and supervisory capacity to cover these issues, if it is not to create unfunded mandates. Ensuring the bill strikes the right balance between improving prudential monitoring and supervision, market conduct, and the cost of supervision will play a key role in the future evolution of the microfinance industry.

Regulation of Mobile Money

Creating an effective space for mobile money is another area that requires affirmation of appropriate regulation. The entry of the major MNOs into the provision of mobile money services is proving to be as transformational in Uganda as it has been in Kenya, and is principally responsible for the very rapid rise in financial inclusion. Mobile money is now widely available and widely used. This was enabled by the Regulator's adoption of a similar approach to Kenya, in which the MNOs were allowed to register and launch mobile money services, provided they had an appropriate relationship with a bank, and the bank was able to honour the integrity of any transaction on the mobile money platform.

4. ACCESS TO FINANCIAL SERVICES IN UGANDA

A major component of access to financial services is related to growth of the institutions in terms of capital, governance, branches, and level of operation in the vertical hierarchy. The period under review saw a drastic change in terms of institutions spreading out but also changing from one category or tier to another. There were buyouts, mergers and new births across the sector – something that makes it difficult to exactly compile accurate data for the assessment. For example, Uganda Finance Trust (UFT) converted to a bank at the end of 2013 while Faulu Uganda was purchased by Opportunity International in 2006 and officially become a Tier 2 institution (Opportunity Bank) in 2008.[24] Despite the increasing range of reports and surveys, the data on the sector remains limited and fragmented.[25] Thus, one can only obtain an approximation of actual usage of micro-finance products.

In view of the above, progress in financial access during the last decade was reviewed using multiple data sets and reports such as the FinScope surveys, the survey of micro-finance conducted by the Ugandan Bureau of Statistics (UBOS) in 2010, and reports by the Association of Microfinance Institutions of Uganda (AMFIU) and Mixmarket. The report combines the most recent information on usage, as described above, and adopts other sources to triangulate and get a reasonable estimate of progress and effectiveness of the sector. For example, for the purposes of comparison UMU was treated as an MFI focused Bank (Equity) in the data from 2003, while UFT was included in the data for both 2003 and 2013 even though it converted to a bank at the end of 2013. Faulu Uganda was purchased by Opportunity International in 2006 and officially become a Tier 2 institution (Opportunity Bank) in 2008[26].

The table gives a picture of the evolution of financial access, from 2003 until 2013, with a particular focus on micro-finance products. It highlights many of the key developments in the sector that are explored in more detail in this report. In the table, Opportunity Bank Uganda is classified as a "Bank MFI".

[24] Opportunity Bank Uganda Website, 2014

[25] There remain quite significant difference in the numbers of clients reported as using different financial products when demand side sources are used (FinScope, UBOS) and supply side (Mix market and AMFIU). Improving the reporting thus remains an important policy objective, and in particular a reconciliation between the demand data reported in FinScope and institutional data is urgently needed. Given inconsistencies in the reporting of the FinScope data we have placed more emphasis on the institutional data.

[26] Opportunity Bank Uganda Website, 2014

Table 2: Microfinance sector customer numbers

	2003		2013		% change in depositors	Depositor CAGR
	Depositors	**Borrowers**	**Depositors**	**Borrowers**		
Adult population[27]	13 585 464		19 393 907		43%	4%
Banks[28]	700 000	190 060	3 000 000	1 163 634	329%	16%
Bank MFIs[29][30]	378 198	67 277	1 500 000	200 000	297%	15%
MDIs[31]	288 462	201 066	550 000	154 931	91%	7%
MFIs[32]	132 830	70 000	379 514	200 000	186%	11%
SACCOs[33]	36 324	15 175	775 505	366 042	2 035%	36%
Other[34]	71 890	33 902	379 912	120 000	372%	18%

[27] Adult population calculated from WDI data

[28] Bank customer figures from Genesis market estimations

[29] Bank MFI figures are of made up of Centenary Bank, Equity Bank and Finance Trust Bank estimations

[30] Bank MFIs are those banks that are seen to have a focus on the MFI sector

[31] MDI figures are sourced from the original CGAP report for 2003 (with the exclusion of Uganda Microfinance Union/Equity) and 2013 figures are a combination of annual reports and Mixed Market data

[32] MFI figures are estimates sourced from the CGAP report for 2003. For 2013, the UBOS 2010 survey puts the number of MFI borrowers at just under 75 000, the AMFIU 2013 proportion of MFI borrowers yields a result of approximately 150 000, Genesis then slightly inflated this number to 200 000 to take into account non-AMFIU MFIs but this number still falls short of the 800 000 quoted in the IFAD PROFIRA Project Design report (which Genesis was unable to verify). Therefore the number chosen for borrowers in 2013 is 200,000 and the number of depositors was established by using the same borrower/depositor ratio that was present in 2003

[33] SACCO figures are estimates sourced from the CGAP report for 2003 and 2013 uses the SACCO figures found in the UBOS 2010 report, projected forward to 2013 using annual growth rates

[34] Other comprises of all other institutional forms and figures are estimates sourced from the CGAP report for 2003 and 2013 uses the AMFIU 2013 report to estimate market proportion

At the highest level approximately 54% of the adult population (10.5 million) had access to formal financial institutions (bank and non-bank formal) in 2013, which is a significant increase from 2009 when only 28% of the adult population had access to formal financial institutions[35]. Much of this growth can be attributed to the use of mobile money, though it is also clear that many more Ugandan's are using formal financial products[36]. By contrast the 2004 report estimated that MFIs and SACCO's reached around 900,000 savers and 350,000 borrowers, while formal banks had an additional 700,000 savers, and less than 100,000 borrowers. This was out of the total population of 24 million (or an adult population of around 11 million)[37].

There was an overall growth in the usage of general bank products much as this was not the main focus of the sector. Estimates suggest that, whereas the adult population has grown by around 3.6% per year, the formally banked population (Tier I and Tier II) has increased at a rate of over 15% per year. A large proportion of this growth came from banks with a specific focus on the low income market. However, even when these banks are excluded, the formal bank customer base for the rest of the banking sector has expanded at around 14% per year over the last ten years. Specifically, the growth in the customer base of the micro level focused banks has been equally impressive, though it is largely dominated by the very rapid growth of Centenary Bank one of the leading microfinance focussed banks.

The progress in the MDI segment has been less impressive as the sector has been affected by some major MDIs becoming banks (Uganda Micro-finance Union and Uganda Finance Trust). For example, Faulu Uganda was purchased by Opportunity International in 2006, and officially became a Tier II institution – Opportunity Bank – in 2008.

The MFI segment had a very modest growth with an annual average of rate of 11%[38]. The reasons for the slow growth include the uncoordinated public sector support for the SACCO's, and the increased competition transition of many of the larger MFIs into MDIs and Banks[39], which created competition between MFIs and other segments of the financial sector. The significant growth in SACCO membership and usage during the period under review partly reflects Government intervention in the

[35] FinScope, 2013
[3636] FinScope, 2013
[37] CGAP Report, 2004

[38] This result was obtained by excluding, from the sample, all MFIs that became MDIs, but uses data from UBOS and AMFIU to triangulate usage of MFIs. AMFIU indicated that their data captured about 95 percent of the MFIs that report to them.
[39] We discuss the reasons why some MFIs have chosen not to transform in a later section.

subsector but which may have crowded out other forms of micro-finance. The government intervention, however, has not proved to be particularly sustainable due to weaknesses in the governance of many SACCOs[40]. Nevertheless, with measurable membership of the SACCOs at around 500,000 they are still an important source of financial access for many Ugandans in rural areas.

Whereas FinScope notes that the usage of informal savings and lending remain pervasive, with 74% of the adult population participating in some form of informal financial institutions, the recorded use of supported VSLA's and other informal channels was much lower – less than 400,000 individuals. This further explains the paucity of data on the sector and the need to improve record keeping as well as increase surveys for better understanding, planning and regulation of the sector.

A final observation is that most of the data sources provide little coverage of the rising phenomena of payroll and payday lending. Yet, this has become an important source of credit to the formally employed and is often informally intermediated to support their own family, relatives, and entrepreneurial activities by way of evening out irregularities in their general cash flow. It is clear from other markets that such credit can become a source of over-indebtedness[41] and the aggressive lending strategies that are often adopted in this practice need to be monitored.

Evolution of Mobile Money

The most dramatic change shown in the table is the growth in the use of mobile money that rose from nothing at its inception in 2009 to over 5 million in 2013[42]. An additional development is that people are increasingly using their mobile money accounts as a store of value (savings) and safety against theft of cash. Unfortunately, this type of savings account is not formally recognised as a financial product and hence does not pay interest to the holders who simply use it as a convenient and safe store of value However, it is worth noting that some other savings accounts held by the poor, say in SACCOs and VSLAs do earn interest. Given the increasing use of mobile money as both a transactional and savings facility, the utility of mobile money accounts to the

[40] It has been argued that a large number of the new SACCOs formed were in response to the promise of Government funds, and are thus do not represent a sustainable commitment by the members to promote collective savings. The IFAD RFSP final report highlighted sustainability issues among many of the newly formed SACCOs

[41] South Africa has suffered from a very rapid rise in consumer indebtedness as a result of the activities of the payroll lenders, which are known as micro-lenders.

[42] 56% of adults were estimated to be using mobile services however only 34% were formally registered with the service providers

low income people can be enhanced through formal legislation and greater integration of MNOs and FIs. This is very important to the future evolution of MDI's and banks serving the low income end of the market.

Mobile money has the potential to have an equally transformative impact on the provision of financial services, although the long term impact on the structure of the financial services industry is yet to be seen in either market. On the positive side widespread access to mobile money has potential to dramatically reduce the cost and complexity of collections and disbursements for any number of financial service providers (especially MFIs). On the negative side some retail banks elsewhere in East Africa have reduced their plans to provide services to the low income market as they have found it difficult to compete with the reach and convenience of mobile money.[43] Instead, many banks have focused their attention on enabling clients to push value to and fro between their mobile and bank accounts. Most of these benefits are yet to be realised by many Ugandans as the regulation and product development are still being refined.

[43] Interviews with Retail Bank Managers at international banks operating in Uganda and Tanzania

5. STRUCTURE AND PERFORMANCE OF THE SECTOR

The regulatory framework in Uganda splits financial service providers into four distinct tiers as shown in the table below.

The institutions that have been licensed under the MDI Act include FINCA Uganda (2004), PRIDE Microfinance (2005), Uganda Microfinance Union Ltd (2005) and Uganda Finance Trust (2005). In 2008 Uganda Microfinance Union was acquired by Equity Bank and in 2013 Uganda Finance Trust transformed into a Bank.

There are a number of important points to note from the structure of the sector:

- The number of banks and bank branches has almost doubled since 2003, although the concentration has note reduced significantly.
- There are only two credit institutions which play a relatively limited role, partly because of lack of any specialized service or market segment that would provide them with a specific segment. Accordingly, they are left to compete along with the commercial banks and other institutions.

Table 3: Regulatory Structure of Financial Institutions and Relation to Microfinance

	Regulatory instrument	Regulator	Number of financial institutions	Key Institutions providing microfinance	Number of branches
Commercial Banks	Financial Services Act (2004)	Bank of Uganda	24	Centenary Bank, Equity Bank,	146[44]
Credit Institutions	Financial Services Act (2004)	Bank of Uganda	2	Post Bank Uganda, Opportunity Bank	62
MDIs	MDI Act (2003)	Bank of Uganda	3	FINCA, Pride Microfinance, UGAFODE	70
MFIs and other	Only registered as: *The Companies Act *The NGO (Amendment) Act *SACCOs with the Registrar of Cooperatives under the Cooperatives Societies Act	None[45]	Several hundred	*Vision Fund, BRAC Uganda, Habitat Uganda amongst other MFIs *WAZALENDO, Ysave amongst other SACCOs	

Source: Bank of Uganda, 2014

- The MDI sector has remained relatively limited.
- The bulk of the non-bank MFI sector is lightly or not regulated at all as it does not fall under the market conduct or prudential ambit of the Central Bank. The proposed Tier IV regulation will seek to address this regulatory gap.

Performance of major market players

The financial performance of the different tiers has also diverged, both from the perspective of customer numbers but also in financial performance as outlined in Annex 2. The Annex presents key statistics for the main providers of micro-finance products from 2006 to 2013. The information confirms the strong performance of Centenary Bank during the period, from the perspective of balance sheet growth, profitability and customers.

---

44 Only micro-finance banks

45 SACCOs are currently registered by the Ministry of Trade, Industry and Cooperatives and coordinated by multiple apex bodies such as AMFIU, MSCL and UCA.

Although Opportunity Bank and Equity Bank have had similar growth in their balance sheet, they continue to operate at a much smaller scale, and have not achieved similar commercial rates of return. Centenary Bank had a balance sheet size of more than 6 times that of the closest MFI, indicating a possible growth of market concentration in this market segment.

The MDIs have also not registered very good financial performance with the exception of Pride Microfinance, which achieved commercial rate or return, but, with lower overall growth of the balance sheet. The largest MFIs (BRAC and Vision Fund) have had reasonably strong growth in their balance sheets, but have not achieved high levels of profitability, partly because of their social mission. The growth in the balance sheet, therefore, is partly due to additional injections by the promoters.

It is worth noting that MFIs have achieved significantly higher growth rates than their regulated MDI counterparts. The featured MFIs have experienced balance sheet growth approximately ranging from 30% to 50%, while MDIs have only managed balance sheet growth of between 17% and 30%. This gap in performance though does not seem to hold when it comes to income growth, where MDIs demonstrated strong performance.

It is clear that MDIs may be performing better than the MFIs in some aspects but are experiencing much slower balance sheet growth, possibly because of closer competition with commercial banks. . This may partly reflect the regulatory model that requires higher capital adequacy relative to Banks, and offers MDIs lower rates of return on passive assets that are invested with Banks rather than directly in the T-Bill market. They also face higher operating costs given the complexity of handling deposits. In the words of the former CEO of Uganda MicroFinance "we felt that the cost of operating as a MDI exceeded the benefit, and felt that the transformation to a full commercial bank would be more advantageous"[46]. The general trend in income growth of MDI is lower than that of the banks, which suggests that their "safer" and regulated book is not yielding the same levels of return.

It follows that conversion into a regulated institution (MFI to MDI) or moving even further up the regulation tiers (MDI to bank) appears to have mixed results. Centenary Bank and Pride are becoming masters of their respective domains while other market participants appear to be drifting along or even struggling financially. This suggests an imbalance in the market and that strategy, marketing, funding and "first mover" advantage could have long lasting impact on financial performance of individual institutions.

[46] Interview with Rodney Schuster former CEO of UMU

The relatively modest growth in the sector suggests that being an MDI has not changed the performance of MFIs significantly through access to low cost deposits as operating costs may have increased more than the relative decrees in funding costs. Some of the reasons for this observation is the growing competition from Commercial Banks and Government supported programs. Additionally there is an increased cost of compliance which increases both fixed and operational costs.

The relatively limited scale of the MFI's despite the very large share of the population that continued to be self or informally employed probably suggests deeper challenges with scalability of the MFI business model given the prevailing cost structures. The analysis suggests that the largest MFIs (as well as the MDIs) continue to be focused on smaller loans to low income individuals, which translate into low profitability. Accordingly, they have not generated sufficient re-investible resources to expand their operations.

Given that the MDIs will soon have been in operation for almost ten years it may be opportune to review whether the regulatory framework has provided an appropriate balance between risk mitigation and market opportunity.

6. RECENT INITIATIVES

The period under review has largely been characterized by the introduction of mobile money and payroll lending as some of the most dominant new initiatives in terms of scale and impact on the population. The advancement of the mobile telecommunications technology and its spread to the population has offered a great opportunity to provide financial services in ways that could not be imagined a decade ago. The potential, however, has come with challenges by way of regulation, development of stable effective partnerships and crime.

Mobile money

Since it was introduced in 2009, the use of mobile money has surpassed the usage of other financial services in Uganda. The mobile money providers had over 18.8 million registered customers and 79,000 agents across the country by the end of 2014[47]. There are currently four mobile money providers in Uganda, with MTN holding the largest market share in terms of number and value of transactions although Airtel has more registered mobile money customers. The discrepancy is largely explained by a large number of registered but inactive phones that are estimated at over 2 million.

[47] Bank of Uganda internal monitoring reports, 2014

Although mobile money already serves as a very valuable transactional service, especially for long distance remittances, it still has a great untapped potential when one compares with the developments in neighbouring Kenya. Mobile money can be used as a means of payment for goods and services, as a store of value (savings),[48] and potentially as a mechanism for delivering credit. Each of these additional services has potential to enhance the financial experience of the users. However, there are a number of challenges related to evolution of the entire ecosystem in terms of integrating the financial sector with other sectors of the economy to complete the flow of payments and receipts. For example, most low income persons do many small transactions and yet have no access to point of sale (POS) services.

Of equal importance (and as yet probably not fully realised) are the benefits that financial institutions of all sizes will achieve from the linkage of formal accounts with mobile money, and by allowing mobile money users to push and pull funds from their bank accounts. These solutions provided by banks, such as Opportunity Bank and Centenary Bank, effectively use mobile money as an additional channel and aid outreach into areas where formal infrastructure may be lacking. In some ways mobile money accounts represent less of a threat to SACCO's than Banks as individuals understand that their savings contributions.

Regarding the delivery of savings and credit services, the case of M-Shwari in Kenya (see text Box 1, below) underlies the significant benefits to the population. The provision of instant, credit scored and unsecured small loans to mobile money users is certainly micro-finance in nature and could have a significant impact on the micro-finance industry.

However, the M-shwari type product still faces some regulatory issues in Uganda – for instance the requirement that a credit reference bureau check is done on all loans, and that lending be collateralised.

[48] Mobile Money remains a store of value for money that can be accessed to resolve emergencies. But can also serve as a store of value persons keep two sim cards. For example, it was indicated during the interviews that some individuals store money on their mobile money account and keep the sim card related to that account under the bed (or in safe keeping) as if it were actual cash.

Text Box 1: Case of M-Swari Savings and Credit Product in Kenya

M-Shwari, a joint venture between Commercial Bank of Africa (CBA) and Safaricom provides savings and credit facilities over the M-Pesa payment platform. Users can save money as well as obtain small quick loans. Six months from the launch, CBA had opened over five million accounts, and is now handling over 33 000 loan transactions a day. This expansion is unprecedented in the Kenyan market.

Although M-Shwari currently provides loans averaging US $16 and has reached more people in six months than the microfinance sector reached in 15 years. Although these are small loans compared to the average microfinance loans of US$ 200, the ease and frequency of getting them represents a major contribution towards making financial markets work for the poor. Most M-Shuari loans are for one month and about 7% interest charge. More so, as CBA develops greater confidence in running the model one would expect an increase in the value of the loans.

What is perhaps most significant about the M-shwari innovation is the inversion of the business model. Traditionally micro-finance provides small very expensive loans using a costly labour intensive delivery mechanism. M-shwari delivers similar loans, through a very low cost delivery channel that involves greater use of technology. Thus it is clear that we are probably only seeing the start of the transformative role of mobile money in the market. This "transformation" already covers person to person payments, but may soon spread to act as a "store of value" (as the account limit is set at approximately the annual GDP per capita figure[49] it can more than cater for most Ugandan's saving needs), and as a source of credit.

The Payroll lending

Since 2003 a number of payroll lenders have entered the market, and an increasing number of MFIs and banks providing payroll loans. Such loans are by definition targeted at those with formal salaries, and, since the loans are not tied to any business need, they are thought to principally support consumer spending, or the meeting of short term emergency such as health or school fees. The term of such lending is increasing and now covers periods of two years or more, which implies that borrowers may be using such loans for more long-term development objectives such as asset acquisition.

[49] Account balance limit of UShs 5 million MTN Mobile Money, which equates to approximately only $1 850

Using Apps to support VSLAs

FSD Kenya has supported the development of an "app" for VSLA's that enables any group with access to a smartphone and 2.5G mobile data connection to securely capture and monitor group savings and lending. This has considerable advantages. Once developed, any number of groups can download the app and use the platform at zero cost other than the data cost. As the app solves many of the basic accounting identities and ensures all accounts balance it overcomes most group maths literacy challenges. As data is stored in the cloud, as long as a group knows its login details, data can be retrieved, and any edits to the data can be tracked.

In other markets in Africa, particularly South Africa and to a lesser extent Botswana and Namibia, payroll lenders have been accused of very aggressive lending practices and creating an unsecured lending bubble, prompting regulatory intervention. As a result it is important that the regulators in Uganda increase their focus and awareness of this sector to ensure that appropriate codes of practice are established and excessive borrowing curtailed.

Village Savings and Loan Associations (VSLAs) and Linkage Banking

The VSLA movement is increasingly recognized as an important player in development of the microfinance sector and is attracting considerably more attention in Uganda. There is considerable discussion of "linkage banking" in Uganda. In general such "linkages" are focused on expanding the distribution of formal service providers, and ensuring that access to such channels enables informal or small scale financial service providers to operate with lower levels of risk as deposits can be "secured" and

Clearly the widespread adoption of mobile money and the huge number of agents involved represents an important opportunity for many informal and small scale service providers to "formalize" their deposits. There are also attempts by formal financial service providers to use savings groups to distribute insurance products – such as Care Uganda program linkage with Barclays Bank and Jubilee Insurance. Centenary Bank, supported by GIZ, are also in the nascent stages of implementing linkage banking with VSLAs and SACCOs, in areas of Karamoja and Soroti Districts.

7. SUSTAINABILITY AND CAPACITY BUILDING SUPPORT

Sustainability of the microfinance sector is still constrained by limited profitability and poor governance of many of the institutions. The high cost associated with managing small loans and deposits undermines the returns that would accrue from economies of scale. In most cases, operations of lower level MFIs such as SACCOs and VSLAs are limited by geographical scope and few member with limited collections. Accordingly, they ca only be sustained by voluntary contributions of members in terms of governance and administration costs. Across the board, many SACCOS are still facing governance challenges more so given the big influence of politically-inclined institutions that were created with government support.

A significant portion of the growth and transformation of the wider environment for the promotion of the micro-finance sub sector continues to be supported by the donor community. Annex 4 shows some of the major multilateral and bilateral programmes that are involved in supporting the sector through various projects and programs. The total value of the support is around US$490 million, and if disbursed according to schedule would generate a flow funding of $50 million per year[50].

The current level of donor support described above presents a very significant level of funding and is a massive (tenfold) increase from 2003. At that time, the CGAP report identified donor programs worth $40 million (or a flow of disbursements of around $ 8 million per year between 1998 and 2003[51]). If our indicative figures suggest between 3 and 5 million Ugandans benefit from the activities of MFIs, MDIs, and SACCOs, then this amounts to around $16 of support per account holder per year. The figure could increase if dormancy is taken into account. According to the Gates foundation[52] this is about as

The changing role of AMFIU - AMFIU was established as a member based organization to act as a mouthpiece for the member and play a coordinating and development role in the MFI industry.

Its mandate included:

- Advocacy
- Data collection and reporting
- Member capacity development
- Development of standards / codes of conduct.

With the development of Tier IV regulation a policy priority, advocacy remains as important as ever, but the role of data collection is likely to shift to the regulator. The market is increasingly delivering capacity development. Codes and standards of conduct remain important, but increasingly need to apply across a wider range of institutions. In keeping with the growing diversity of institutions that provide micro-finance products, the time may have come for AMFIU to become a chapter of the Banking Association

[50] Evaluating the rate of disbursement and whether all these projects would all go ahead is out of the scope of this report.
[51] Discussions with market participants suggests that this figure was probably a significant underestimate
[52] Fighting poverty profitability: Transforming the economics of payments to build

much as it costs to provide a full range of payment services on a mobile platform, suggesting that the targeted institutions are in one way or another almost totally underwritten by donor support.

What is clear from the programme level data and an inspection of the institutions financial reports is that many of the MFIs, MDIs, and VSLAs identified in this report continue to receive relatively high levels of support from private and public donors of one sort or another, despite their very different mandates and objectives. The study was not able to identify any relevant or comprehensive analyses of the extent to which the activities of these different organizations have had a significant impact on the poor. However, a detailed analysis of the FSRP is available and focuses on the impact of SACCO membership[53]).

In the absence of recent local evidence it is probably safest to assume that their "impact" in Uganda, if measured, would align with findings in other parts of the world. JPAL used randomized trials to measure the impact of the expansion of credit for the poor in developing countries and found

sustainable, inclusive financial systems (Bill and Melinda Gates Foundation, 2013)

[53] The FSRP end of program evaluation found generally positive impact from SACCO memberships with those that had borrowed from a SACCO experiencing an increase in earned income (from business rather than agricultural activities), a higher level of investment in agricultural equipment, increases in savings and land purchased or rented.

strikingly consistent results. It was reported that microcredit was having a positive, albeit small, impact as millions were not being lifted out of poverty. Results did indicate, however, that, although there was no increase in consumption or household income, access to microcredit can help borrowers cope better with risk and shocks by helping smooth consumption and retain assets. There was also some limited evidence of increased investment in enterprise. These are important and positive outcomes."[54]

In addition, JPAL pointed out that transaction costs, market failures, and behavioral constraints limit poor people's ability to save. Facilitating access to formal[55] savings accounts can increase savings and investment while commitment savings devices can help people to save more in accordance to their own goals. Helping people to save their way out of poverty can be much cheaper and less risky than helping people borrow their way out of poverty."[56]

Institutional Sustainability

At a macro level, Uganda has already achieved many of the appropriate "pillars" of a functioning (safe and

[54] Dean Karlan, 2014, Innovation, inclusion and trust: The role of non-profit organizations in microfinance,
, January, JPAL

[55] Added emphasis

[56] http://www.povertyactionlab.org/finance-microfinance

robust) and inclusive environment for financial regulation. The Tiered structure of regulation has enabled a relatively smooth graduation of institutions from MFI to MDI and Bank. The system also accommodates institutions with both social and commercial mandates, and is in line with international best practice as it regulates financial activities by function not institution. It has also created an enabling environment for mobile money and supported the functioning of the credit market through the establishment of a credit bureau.

The approach to introducing the credit bureau was highly directive but seems to have achieved the desired adoption in the industry. The role and usage of the credit bureau will be greatly extended with the Financial Institutions Act amendment bill. The Bill will, among others, introduce Islamic banking, bancassurance, agency banking, free up credit reference services and formalize mobile money regulation.

Where little progress has hitherto been made is in the regulation and supervision for Tier IV institutions. Ensuring an appropriate level of engagement, and access to international best practice during the development and implementation of regulation and supervisory structures for Tier IV will be critical over the next couple of years. A number of programs exist to support the further development of the regulatory process and other macro interventions. Whether this is sufficient to achieve the desired outcomes requires a more detailed study.

In 2004 CGAP highlighted the importance, at a macro level, of a clear vision for the sector. In 2014 as the sector fragments, what seems more important is that there is a clear vision of the remaining challenges and how to co-ordinate activity between Government and the donor community to address these challenges. Mechanisms for donor co-ordination in Uganda are now relatively robust. A survey of areas of support suggests that there is a reasonable consensus on the remaining challenges – specifically inclusive agricultural development.

The relative maturity of the sector is reflected in the fact that meso level interventions, although adequately supported, get less funding than direct support to underlying institutions. Many of the needs of the industry identified in, for instances, AMFIU's vision are being met either by the market or increasingly by the regulator. Critically the donor community needs to establish effective means of engagement with institutions involved in the development and execution of the agricultural development strategy. Considerable attention is being focused on promoting financial inclusion in rural areas through support to the FSIP, Agriculture Cluster Development Project and PROFIRA and to strengthening SACCOs and the development of an integrated agricultural development policy.

PROFIRA which is the successor project to the RFSP seeks to continue to find ways of continuing to supporting the SACCO movement. As the RFSP final report noted, although the program has demonstrated that SACCOs provide a viable means of supporting rural development, there are still important challenges in that many of the SACCOs are not financially sustainable, and equally USCU is still a long way away from being a sustainable Apex financial body.

At the micro-level institutions continue to receive considerable support for both innovation and general operational support. Innovation support is clustered on mobile money, agriculture and product and channel developments. Given the wide range of support available it is increasingly difficult to distinguish between social and commercial objectives. For instance, Centenary Bank has a strong social mandate, and has been successful at providing micro-finance services. Although it is largely self-funded and has principally social investors (Catholic Church and Affiliates, and donors) it is now diversifying into "Private" and "Corporate Banking"[57]. It is also difficult to distinguish between those institutions that are good at fundraising and those that are good at providing financial services. Given the amount of donor support, there is a constant danger that repeated funds for harnessing innovation to achieve organizational transformation can become a regular source of income.

Although it broadly makes sense for Donors to target specific innovations and transformations, at an institutional level this can result in considerable complexity, that reduces the overall efficiency of the institutions involved. This danger is more pronounced when each grant has its own reporting requirements, and involves specific commitments that then achieve undue prominence in the planning process.

Whereas the CGAP 2004 report highlighted the danger of mission drift and MFIs increasing their loan size and drifting to upmarket to achieve commercial sustainability, the study found little evidence of this in the data[58]. The table below considers average loan size per institution in relation to GDP per capita, and indicates no significant change in size of loan relative to income levels across the market. What the table does indicate is the relative "pro-poor" orientation of the different institutions - if one assumes that those with

[57] Centenary Bank Annual Report, 2013

[58] This undoubtedly occurred in the SACCOs in response to the availability of Government funding.

smallest loans target the poorest borrowers.

Table 3: Average loan size as a proportion of GDP per capita for 2006 and 2013

Loan size proportion of GDP per capita	First year (2006 unless otherwise stated in footnote)	2013 (unless otherwise stated in footnote)
Centenary Bank	358%	342%
Equity Bank	139%	109%
Opportunity Bank	88%	89%
Pride Microfinance	92%	78%
FINCA	53%	53%
UGAFODE	119%	137%
BRAC Uganda	24%	32%
Vision Fund	54%	39%

Source: World Development Indicators, Bank Annual Reports and MixMarket Data

There is thus a significant need for donors to pay considerable attention to the evaluation of the effectiveness of their support. Donors and other sponsors need to develop appropriate methodological framework to understand the extent to which support props up institutions with either weak business models or low levels of "pass through" of support to target groups.

A similar challenge is experienced in the SACCO sector with considerable debate in the final RFSP report on the extent to which support should be targeted at start up or established SACCOs. The new PROFIRA programme is targeted at "stronger and intermediate" SACCO's and seeks to strengthen the SACCOs through training interventions targeted at board members, management and members as well as supporting the formation of VSLAs.

8. FUTURE SUPPORT AND DIRECTION

This review has highlighted a number of important features of the evolving micro-finance sector in Uganda that need to be considered in the design of future policies and programmes of support to the market. It has also highlighted how different the sector looks today to how it looked in 2004.

The 2004 CGAP report was a call for action, which assumed that the sector's success could be accelerated by:

a) Significant donor funding,

b) A shared stakeholder vision for the sector,

c) Active government support for the vision,

d) Continued improvements in skilled human resource,

e) Intensive collaboration among major stakeholders.

This report argues that not all of these objectives were achieved, and that the level of financial inclusion has probably risen due to other factors rather than because of an achievement of this vision. Although this report found that the level of donor support has continued to increase, as has Government support, there has not been a shared or common vision for the sector, and as a result the level of collaboration has probably reduced. Despite this, in 2014 there is probably a wider and deeper commitment to a creating an inclusive financial sector, at the highest level of Government (the Ministry of Finance and Economic Planning) and the Bank of Uganda. There is also a wide range of development partners providing both budgetary and direct support.

As most providers of micro finance products in 2004 fell outside the regulatory ambit of the Bank of Uganda it was hardly identified as a stakeholder. By 2014 with the most used micro-finance products being provide by institutions that are regulated by the Bank of Uganda, it is very significant that the Central Bank has added the promotion of financial inclusion to its ambit of operations and has established a Financial Inclusion Unit. The Unit is responsible for cross cutting programmes (such as financial literacy, and collection of financial inclusion indicators), but also the establishment of internal and external co-ordination structures on matters affecting financial inclusion.

The Financial Inclusion Unit can also acts as an internal voice for promoting regulatory reform that balances prudence with access[59], and for setting out the policy and approach for consumer protection. Under the envisaged Tier IV regulatory regime larger SACCOs will be brought within the regulatory ambit of the Bank of Uganda and potentially treated as MDI.

Immediate concerns and actions

In the more fragmented environment of 2014 there are nonetheless ways of improving the effectiveness of the sector. A few of these are highlighted here below.

a) Despite the investment in FinScope, compiling comprehensive and accurate data on the sector remains un-necessarily challenging to assemble. Greater attention needs to be placed on ensuring the consistency and availability of data from the supply and demand side. Given the considerable investment in FinScope, more needs to be done to validate the data and a supply side survey would be a relatively easy sense check on the findings.

[59] It is the Bank of Uganda not the Ministry that is the signatory to the Maya Declaration

Future FinScope surveys need to ensure appropriate coverage of emerging consumer credit products – such as payroll and pay day lending. Stakeholders need to support the development of comprehensive data on the sector. Such data can support the generation of information required to steer the sector to greater heights. Better information on the challenges of financial inclusion, that combines both supply and demand side data and project evaluations, can play an increasingly important role in designing interventions. It can also guide institutions and their supporters to make the appropriate decisions without the need for a formal industry co-ordination mechanism.

b) Considerably more focus needs to be applied to the monitoring and impact of development programmes at a micro-level and to continue to widen and deepen the understanding of best practice in such evaluation.

c) With the fragmentation of the industry between an increasing number of providers of different and distinct products, donor support needs to become much more focused and tied to the achievement of specific objectives. The objectives should be the ones that the market is unlikely to deliver, rather than general support to institutions who have a loosely defined "micro-finance" vision. There is a need to move away from a simple mantra of "sustainability" to deep consideration of whether the purpose of an institution should always be to serve those that cannot be served by commercial providers.

Efforts should be made to avoid providing larger loans to improve "sustainability", which, by blending donor with commercial funds, crowds out private investment in the sector. However, the relatively modest performance of many of the MFIs and MDIs in Uganda suggests room for both of these strategies – greater focus on institutions that reach the very poor and more support for innovative business models that achieves scale and commercial returns. This is evident in many of the new programmes, but needs to be closely monitored to ensure that an endless supply of "innovation grants" does not become a source of on-going funding.

d) Although there remain gaps in the range of services provided by commercial entities in urban areas, such gaps are much more severe in rural areas. Therefore, there is need to continue focussing on overcoming the challenges of rural development, and in particular the old challenge of matching finance to the crop-cycle, and overcoming the cost of operating in small villages and more remote areas. Although, this study did not included a geo-location of the points of distribution[60] of the different types of financial service providers, it is increasingly evident that secondary towns have a sizeable number of bank branches. The challenge, therefore, is to find sustainable operating models beyond these locations.

While recognising that the increasing availability of mobile money platforms creates real opportunities to achieve a breakthrough in reaching distribution levels that benefit a wide range of formal and informal service providers, there are still challenges of sustainability of agents in the rural areas. Much as the MNOs are already addressing this deficit through their distribution network, it seems that the FIs will have less ability to develop competing agents given the likelihood of a more restrictive regulatory environment similar to what is in Kenya. There are no doubt important opportunities for Uganda to review the emerging risks and benefits of the model that was adopted in Kenya. There is a danger that support for innovation becomes overly focused on mobile payments as opposed to leveraging the wider benefits of increasing network coverage.

e) It seems reasonably clear that most MFIs/MDIs lack the capacity to play any serious role when it comes to technology innovation, but have ample room to continue to innovate in how they deliver and manage services using platforms provided by MNO's or payment associations. There are also significant opportunities for them to continue to innovate in product design and management of risk and in the systematisation of customer insights using low cost and scalable "cloud" based solutions given the increasingly speed and availability of internet access. Stakeholders should continue to find ways to assist such organisations in achieving lower cost and more efficient operating models designed for a connected world.

f) If, as the randomised trial data suggests, savings interventions appear to have greater benefits to users than borrowings, it is also clear that the nature of the opportunity to meet these savings needs has changed significantly. Encouraging behavioural change is

[60] See Bank of Uganda: Geo-Spatial Mapping of Financial Service Cash In/Cash Out Access Points, 2013

clearly best achieved through "high touch" group based interventions. While mobile money platforms have a compelling cost, availability and ease of use advantage over bank products, the need to boost savings will still be achieved through FIs. Thus continuing to support savings should be a key part of a financial inclusion strategy.

g) With the proliferation of different institutions the co-ordination of the sector is becoming more complex. In addition to sector-wide forums combining all actors across the divide, stakeholders should also strive to ensure learnings within key areas of intervention. For instance, lessons from mobile money agents can be shared with the FIs intending to ride on agency banking and build linkages to mobile money programmes.

h) It is also clear that the next couple of years will be extremely challenging for many smaller micro-finance institutions. For those institutions that rely on market funding the cost of funding will probably rise, just like the level of NPLs. For those institutions seeking to raise retail deposits, the competition for such deposits from the mobile money platforms will intensify. These challenges will force the supporters of many institutions to think more deeply as to whether the institution can credibly become sustainable, or whether they need to continue to focus more clearly on development activities which can continue to be supported by philanthropic investors. Equally importantly will be the control of costs through focussing on core competencies and establishing partnerships to manage non-core capabilities.

i) The MDIs will continue to face challenges, with rising competition for deposits from both banks and MNOs. In particular the lack of a fully interoperable payment system places such institutions at a distinct disadvantage in the market for bankable savings[61]. There is an urgent need to re-invigorate the development of an inter-operable payments systems supported by the appropriate structures to manage the switching infrastructure, the payment stream rules and pricing structures. As is the case elsewhere in East Africa, stakeholders in Uganda should work towards achieving inter-operability between not only the banks, but different payment system participants including the mobile payment providers. As FSD Kenya has shown considerable investment is required to achieve this outcome, and the slow

[61] Several smaller banks have implemented their own switch but it currently lacks scale in operations.

progress achieved in Uganda since a National Switch was first proposed in 2002, suggests that without external support and informed consensus building little progress will be made.

j) Interviews with industry participants suggest that increasingly capacity building is being delivered commercially within the market and that conventional micro-finance skills are generally available. However, the MFIs interviewed indicated that many of their good staff quickly get poached by more formal financial institutions.[62] This could be a result of their business model (which would become less viable if they pay higher wages to keep their staff) as well as the low level of capacity building in the market. The PROFIRA provision of training and capacity building support for SACCOs and VSLAs is not likely to resolve this challenge as it is being faced by higher level MFIs. Given the "churn" of staff between financial institutions, continued investment in training will probably make a positive contribution to the sustainability of smaller institutions, and support the competitiveness of the sector.

k) At a Meso level an early and important area for engagement is with respect to the development of a new legal framework for Tier IV financial institutions and its effective implementation. As always a balance needs to be struck between the ability to supervise, and the degree of regulation, and setting principals and guidelines that balance the interests of consumers with the sustainability of product providers. Ensuring appropriate technical support to the process and facilitation of dialogue with affected providers is an important near term objective, as is finding the appropriate institution setting for this dialogue.

A framework for co-operation to reach the next million

With rapid improvements in the level of financial inclusion, defining the next million people who can benefit from access to formal financial services becomes increasingly difficult. In Uganda it is clear that the next million will be in rural areas, will probably have access to mobile money, participate in a VSLA or SACCO and receive some form of credit to promote their farming and business activities. The biggest challenge remains, as it was in 2003, to ensure that the savings and credit products are delivered responsibly – through a combination of regulation, social transfers and appropriate governance.

[62] Poaching of good staff is also widespread amongst Tier I financial institutions

In the introduction to this report we set out to answer three questions that would allow us to achieve a view on the effectiveness of the micro-finance sector.

The firstly question was whether the provision of micro-finance products is making a significant contribution to the welfare of low income households. Our interviews and research has shown that there is surprising little information to answer this micro-level question. What is however clear is that the number of people using some sort of micro-finance product from a formal institution has increased very significantly since 2003. More so, there is some evidence to suggest that those that participate in contractual savings structures have benefited in terms of asset accumulation, income and welfare. Thus the fact that 54%[63] of Ugandans now use a financial product from a formal provider suggests that they achieve some utility that is welfare enhancing.

The second question concerned the range and sustainability of the institutions that provide micro-finance products. The findings highlight the very rapid growth in the range of institutions involved in providing micro-finance products, specifically the growth in banks that offer micro-finance products (particularly Centenary), SACCOs, MNOs and VSLAs. However it is unclear whether most players in the MDI and MFI sector have achieved true financial sustainability.

This links to the third question regarding the level of support for the sector which was found to have expanded significantly, but is probably not unrelated to the issue of the financial sustainability of the institutions that receive the on-going support. It should however be noted that from a numbers perspective, the expansion of Centenary Bank and the rapid growth in mobile money have been relatively light beneficiaries of official support (either Government or Donor).

> *Donor effectiveness:* Donor actions that contribute to the permanent availability of appropriate, client responsive financial services via sustainable institutions and mechanisms on a massive scale.

Thus, to return to the definition of effectiveness (restated for convenience in the box) – micro-finance products are increasingly available on a massive scale, and donor support has clearly played a crucial role in achieving an enabling environment in which innovation such as Mobile Money can flourish. Whether MFIs can be sustainable in Uganda remains to be seen.

The report has emphasised that whereas the enabling environment has been generally appropriate, the failure to address issues of regulation and supervision in the Tier IV financial

[63] FinScope 2013

institutions has been a major failing of the last ten years, and an important challenge for the coming years. As always the challenge will be to ensure that the regulatory framework is "appropriate" – and that neglect does not get replaced by a level of compliance and intervention that is even more suffocating to financial inclusion.

9. SELECTED BIBLIOGRAPHY

Association of Microfinance Institutions of Uganda (AMFIU). "The State of Microfinance in Uganda 2012/2013". Kampala, Uganda: AMFIU, 2013

Bill and Melinda Gates Foundation, "Fighting poverty profitability: Transforming the economics of payments to build sustainable, inclusive financial systems". Seattle, United States: Bill and Melinda Gates Foundation, 2013.

Centenary Bank. "Annual Reports (2003-2013)". Kampala, Uganda: Centenary Bank, 2003 – 2013.

CGAP. "Uganda Microfinance Sector Effectiveness Review". Washington, DC: CGAP, 2004. http://www.fsdu.or.ug/pdf/Uganda_Review_A4_Format3_final.pdf [Accessed: 16 October 2014]

DFID Uganda. "Uganda Financial Services Inclusion Programme Business Case". Kampala, Uganda: DFID Uganda, 2012.

FinScope Uganda. "Uganda 2013 FinScope III Survey Report Findings: Unlocking Barriers to Financial Inclusion". Midrand, South Africa: FinScope Uganda, 2013. https://www.bou.or.ug/opencms/bou/bou-downloads/Financial_Inclusion/FinScope-Report-2013.pdf. [Accessed: 16 October 2014]

Grameen Foundation. "Mobile Money & Financial Inclusion: Usage of Mobile Money by Microenterprises; Lessons from Uganda". Kampala, Uganda: Grameen Foundation, 2014.

IFAD. "Project for Financial Inclusion in Rural Areas (PROFIRA): Project Design Report". Kampala, Uganda: IFAD, 2013.

IFAD, "Donor Matrix 2014". Kampala, Uganda: IFAD, 2014.

IMF. "Financial Access Survey". `Washington, DC: IMF, 2014. http://fas.imf.org/. [Accessed: 16 October 2014]

IMF. "Uganda: Second review under the policy support instrument and request for modification of assessment
Criteria—staff report"; press release; and statement by the executive director for Uganda, July 2014. http://www.imf.org/external/pubs/ft/scr/2014/cr14195.pdf. [Accessed: 16 October 2014]

Karlan, Dean. "Innovation, inclusion and trust: The role of non-profit organisations in microfinance. Cambridge, USA: JPAL, 2014

MicroFinance Transparency. "Transparent Pricing Uganda". Lancester, USA: MicroFinance Uganda, 2014. http://www.mftransparency.org/microfinance-pricing/uganda/. [Accessed: 16 October 2014]

Ministry of Gender, Labour and Social Development. “Labour Market Information Status Report for Uganda”. Kampala, Uganda: Ministry of Gender, Labour and Social Development, 2006

Mix Market. “Uganda Market Profile”. Washington, DC: Mixed Market, 2014. http://www.mixmarket.org/mfi/country/Uganda. [Accessed: 16 October 2014]

MTN Uganda. “MTN Mobile Money Rates”. Kampala, Uganda: MTN Uganda, 2014. http://www.mtn.co.ug/MTN-Services/Mobile-Banking/MTN-MobileMoney-Rates.aspx. [Accessed: 16 October 2014]

Plaut, Martin. “Uganda donors cut aid after president passes anti-gay law”. London, UK: The Guardian, 25 February 2014. http://www.theguardian.com/global-development/2014/feb/25/uganda-donors-cut-aid-anti-gay-law. [Accessed: 16 October 2014]

Pride Microfinance Limited. “Annual Reports (2008 – 2013). Kampala, Uganda: Pride Microfinance Limited, 2008 – 2013.

Uganda Bureau of Statistics (UBOS). “Reporting on Census of Micro Finance Institutions in Uganda”. Kampala, Uganda: Uganda Bureau of Statistics, 2010. http://www.rfspug.org/downloads/Microfinance%20Census%20Report%202010%20-%20UBOS.pdf. [Accessed: 16 October 2014]

World Bank, “World Development Indicators 2014”. Washington, DC: World Bank, 2014. http://data.worldbank.org/data-catalog/world-development-indicators. [Accessed: 16 October 2014]

Annex 2: Table Key statistics for the key players in Microfinance for 2006 and 2013

Classification	Name	Category	Unit	First year (2006 unless otherwise stated in footnote)	2013 (unless otherwise stated in footnote)	Growth (% change)
Banks	Centenary Bank	Balance Sheet	Bn Ush	270.0	1 451.0	23.4%
		Total Income	Bn Ush	55.0	275.6	22.3%
		Equity	Bn Ush	37.3	253.3	27.1%
		RoE	%	23%	25%	
		Branch numbers	#	26.0	56.0	10.1%
		Active borrowers	#	66 113.0	135 852.0	9.4%
		Loan portfolio size	Bn Ush	145.0	688.0	21.5%
		Average loan size	Ush	2 193 214.6	5 064 334.7	11.0%
		Number of depositors	#	559 161.0	1 240 077.0	10.5%
		Value of deposits	Bn Ush	215.1	965.9	20.7%
	Equity Bank	Balance Sheet	Bn Ush	37.2	154.7	60.8%
		Total Income	Bn Ush	11.5	39.0	50.2%
		Equity	Bn Ush	9.6	41.0	62.2%
		RoE	%	13%	-8%	
		Branch numbers	#	22.0	42.0	24.1%
		Active borrowers	#	30 235.0	58 011.0	24.3%
		Loan portfolio size	Bn Ush	25.8	93.5	53.6%
		Average loan size	Ush	853 328.7	1 611 049.4	23.6%
		Number of depositors	#	42 798.0	325 125.0	96.6%
		Value of deposits	Bn Ush	9.8		
	Opportunity Bank	Balance Sheet	Bn Ush	11.9	63.1	23.2%
		Total Income	Bn Ush	3.1		
		Equity	Bn Ush	1.7	23.6	38.9%
		RoE	%	-31.8%	-23.4%	
		Active borrowers	#	12 133.0	27 117.0	10.6%
		Loan portfolio size	Bn Ush	6.5	35.6	23.6%
		Average loan size	Ush	537 540.0	1 312 801.9	11.8%
		Number of depositors	#	19 032.0	151 279.0	29.6%
		Value of deposits	Bn Ush	2.6	-	

Classification	Name	Category	Unit	First year (2006 unless otherwise stated in footnote)	2013 (unless otherwise stated in footnote)	Growth (% change)
MDIs	Pride Microfinance [64]	Balance Sheet	Bn Ush	66.1	147.4	17.4%
		Total Income	Bn Ush	26.6	52.1	14.4%
		Equity	Bn Ush	15.1	46.9	25.4%
		RoE	%	16.0%	25.0%	
		Branch numbers	#	29.0	31.0	1.3%
		Active borrowers	#	60 276.0	69 532.0	2.9%
		Loan portfolio size	Bn Ush	51.0	80.3	9.5%
		Average loan size	Ush	845 287.2	1 155 123.7	6.4%
		Number of depositors	#	186 322.0	350 411.0	13.5%
		Value of deposits	Bn Ush	13.8	52.7	30.7%
	FINCA	Balance Sheet	Bn Ush	22.2	69.2	17.6%
		Total Income	Bn Ush	9.4	26.2	15.8%
		Equity	Bn Ush	4.6	25.8	27.9%
		RoE	%	11.6%	-0.9%	
		Branch numbers	#	8.0	22.0	15.5%
		Active borrowers	#	46 236.0	54 788.0	2.5%
		Loan portfolio size	Bn Ush	15.0	42.8	16.1%
		Average loan size	Ush	324 360.5	780 290.2	13.4%
		Number of depositors	#	31 612.0	115 069.0	20.3%
		Value of deposits	Bn Ush	7.1	23.2	18.5%
	UGAFODE [65]	Balance Sheet	Bn Ush	7.1	27.2	30.8%
		Total Income	Bn Ush	3.3	8.7	21.4%
		Equity	Bn Ush	3.4	6.1	44.3%
		RoE	%		7%	
		Branch numbers	#	9.0	12.0	5.9%
		Active borrowers	#	5 967.0	10 126.0	11.2%
		Loan portfolio size[66]	Bn Ush	6.5	20.5	25.9%
		Average loan size	Ush	1 087 386.0	2 025 763.4	13.3%
		Number of	#		38 220.0	

[64] Pride Microfinance figures start in 2009
[65] UGAFODE figures start in 2009
[66] UGAFODE 2013 figures for loan portfolio size is based on the CAGR of previous years forecast forward

Classification	Name	Category	Unit	First year (2006 unless otherwise stated in footnote)	2013 (unless otherwise stated in footnote)	Growth (% change)
		depositors				
		Value of deposits	Bn Ush		7.5	
MFIs	BRAC Uganda	Balance Sheet	Bn Ush	2.9	73.2	49.7%
		Total Income	Bn Ush	0.8		
		Equity	Bn Ush	0.8	31.6	58.3%
		RoE	%		2%	
		Branch numbers	#	13.0	130.0	33.4%
		Active borrowers	#	5 808.0	129 104.0	47.4%
		Loan portfolio size	Bn Ush	0.9	60.9	70.5%
		Average loan size	Ush	146 721.4	471 591.2	15.7%
	Vision Fund	Balance Sheet	Bn Ush	2.5	19.3	29.1%
		Total Income[67]	Bn Ush	1.8	3.7	9.4%
		Equity[68]	Bn Ush	-2.9	1.7	
		RoE	%	602%		
		Active borrowers	#	5 748.0	21 622.0	18.0%
		Loan portfolio size	Bn Ush	1.9	12.4	26.4%
		Average loan size	Ush	331 238.5	572 577.4	7.1%
		Number of depositors	#	4 373.0	21 622.0	22.1%
		Value of deposits	Bn Ush	1.4	2.6	8.1%

Source: Bank Annual reports where available, MixMarket data

[67] Vision Fund 2013 figures for total income and equity are based on the CAGR of previous years forecast forward

[68] Vision Fund 2013 figures for total income and equity are based on the CAGR of previous years forecast forward

Annex 3: List of key informants

Name	Organisation	Designation	Organisation Category
Donors/ Multilateral Agencies			
Jackie Wakhweya	USAID	Private Sector Unit Leader	Donor/Multilateral Agency
Lawrence Lin	USAID	Special Advisor for Economic Growth	Donor/Multilateral Agency
Robert Ochaya	GiZ	Advisor	Donor/Multilateral Agency
Mawanda Robert	National Project Coordinator	ILO National Coordinator	ILO Youth Entrepreneurship Facility
Chris Bold	DFID	Growth and resilience team leader	Donor/Multilateral Agency
NGOs with micro-credit components			
Rebecca Nyonyozi	Care International	Project Manager/Deputy Program Manager	NGO-VSLAs
Government Bodies			
Henry Mbaguta	Ministry of Finance and Planning	Assistant Commissioner at Ministry of Finance, Planning and Economic Development	Government
Lance Kashugyera	Ministry of Finance and Planning	Rural Financial Services Programme	Government
Colin Agabalinda	Ministry of Finance and Planning	Rural Financial Services Programme	Government
Fred Mwesigye	Ministry of Trade and Industry	Retired, Commissioner of Cooperatives	Government
Johnson Abitekaniza	Commissioner of Trade	Ministry of Trade, Industry and Cooperatives	Government
Wholesale Institutions			
Tania Haidara	SwissContact	Country Director	Wholesale

	Uganda		
Asiimwe Carol	SwissContact Uganda	Project Officer	Wholesale
Aloysius Kiribaki	SwissContact Uganda	Project Manger	Wholesale
Matovu Isaac Ismaeil	SwissContact Uganda	Project Officer	Wholesale
John Sssenyonga	SwissContact Uganda	Senior Project Facilitator	Wholesale
David Sengozi Keyeyune	SwissContact Uganda	Project Manager	Wholesale
Commercial Banks TIER 1			
Fabian Kasi	Centenary Bank	Managing Director	Financial Institution
Credit Institutions TIER II			
Jimmy Adiga	Opportunity Bank	Executive Director	Microfinance Financial Institution
MDIs TIER III			
Julius Omoding	FINCA Uganda	CEO	Financial Institution
Wilson Twamuhabwa	UGAFODE	CEO UGAODE	Financial Institution
SACCOs			
MFIs TIER IV			
Geoffrey Kitakule	Letshego	CEO	MFI (and payroll lender)
James Balya	Uganda Cares	Programme Officer	MFI
Stephen Nnawubu	Vision Fund	CEO	MFI
Associations			
David Baguma	AMFIU	Executive Director	Network
Money Lenders			
Leornard Mutesasira	Rapid Advisory Services		

Annex 4: Uganda Donor Mapping – Financial Inclusion and Rural Finance (Compiled by IFAD)

Title	Focus	Geographical area / scope	Partner Institution Implementation Agency	Total Budget *estimate*	Time-frame	Status
Bill & Melinda Gates Foundation (Financial Services for the Poor- FSP)						
To expand Mobile Money services	To expand access and encourage uptake of Mobile Money services amongst poor rural populations in Uganda, with emphasis on increasing participation of women, and to partner with financial service providers to reach poor people cost effectively		MTN	USD 3M	2011-2014	
Uganda Mobile Money Accelerator	To encourage partnerships between financial service providers and MTN to use the Mobile Money platform to deliver financial services more efficiently and conveniently, and create new, client-centric products to increase financial inclusion		Grameen Foundation (App Lab)	USD 4.2M	2011-2014	
		Contact: Camilla Nestor cnester@grameenfoundation.org				
RFP – Rural Finance for the Poor	Promoting uptake and usage of digital financial services (meso-level). Making new investments (directly and/or with existing donor partners) to seek increased access and use of digital financial services amongst poor households and families in Uganda.		TBD	USD 5-8M	2012-2017	
GIS Mapping	Geo-tagging and analysis: Spatial Dev has been providing partner access through web-based tools, and providing technical input to how geospatial mapping can further help accomplish FSP goals. Recent work in Uganda includes evaluating an early release of the Afripop Demography dataset and its application for financial analysis and scoping for a data collection pilot to help set the stage for future in-country collection efforts. Future work involves: expanding the types of analyses supported; -implementing the means for sustaining the financial access point surveys in-country; -providing ad hoc support to FSP partners as they initiate their own		Spatial Dev Brand Fusion	USD 200,000	4 months	Finalized March 2013
		Contact: Todd Slind: tslind@spatialdev.com				

	geospatial mapping efforts.					
DANIDA						
aBi Trust Agribusiness and private sector support (part of U-Growth I)	Independent Institution (Trust establish by Deed) created as a vehicle for channeling technical and financial support to the agribusiness sector. The Trust has 2 primary areas of focus: 1-Value chain development (maize, coffee, oilseeds, pulses, horticulture and dairy) 2-Financial services development providing capital to financial institutions (banks, MDIs, SACCOs). Lines of credit are provided and a loan guarantee facility is in place.		MFPED + bilateral donors (Belgium, Sweden, USAID, KfW, EU, DFID). Netherlands at end-2012	USD 57M	Endin g 2013	
aBi Trust Agribusiness and private sector support U-Growth II	*Same as above with expanded operations*		MFPED + bilateral donors (USAID, Netherlands, DFID, KfW, EU (2M)), More partners might join	USD 96M	2014-2018	Design ongoin g
	Contact: Mette Bech Pilgaard:metpil@um.dk					
DFID						

Uganda Financial Services Inclusion Programme - FSIP	Target: Financial inclusion of 1M people (50% women – 50% men) Key aspects: Making Markets Work for the Poor (M4P) approach which is facilitative. - Resources will be allocated to the macro, meso and micro levels to address market failures -Technology will be harnessed in innovative ways to facilitate delivery of financial services to the poor -DFID initiated two pilot activities under FSIP in 2012 to gain early experience: i) Promoting the Village Savings and Loans Association (VSLA) Model to Augment Cash Transfers (CAST) - with Care International ii) Promoting Financial Inclusion in Uganda (PFIU) - with Opportunity Bank Uganda Limited *Design phase includes designing a special purpose vehicle (SPV) either a company limited by guarantee or a trust to carry out programme activities beyond 2017*		Investment committee likely to include reps from MFPED, BOU, possibly Insurance Regulatory Authority Service Provider KPMG East Africa/ Nathan Associates London engaged to design/potentially implement the programme	£17M	2012-2017	Design through October 2013. Implementation anticipated early 2014
	Contact: Chris Bold: c-bold@dfid.gov.uk					
European Union						
Northern Uganda Agriculture Livelihood Recovery Project (ALREP)	VSLAs support Up scaling, financial literacy, product development		FAO, CARE, PFSU (North Region)	EUR 1 M (part of a 20M EUR)	2012 - March 2015	
		Contact: Celine Prud'Homme Madsen: celine.prudhomme@eeas.europa.eu				
Small and Medium	Private sector development, agricultural finance.		IFAD, NFSS	EUR 15	2013-	Design

Agribusiness Development Fund (SMADF)	Provide support to the development of small and medium agribusinesses (SMA) by improving access to Business Development Services and to long term finance (equity and quasi equity instruments)			M	2017	at final stage
		Contact: Bogdan Stefanescu: Bogdan.stefanescu@eeas.europa.eu				
German Development Cooperation (GIZ)						
Financial System Development (FSD)	1-Enabling Environment for the financial sector (establishment of the credit reference bureau, regulation of mobile banking and new outreach instruments such as agencies, regulation of Tier 4 Operators, Revision of the MDI Act, deposit protection fund for MDIs) 2- Access to Agricultural and Rural Finance 3- Financial Literacy and Consumer Protection (BoU national strategy of financial inclusion)	Country-wide with focus on the north	BoU and various partners	EUR 6.8 M	2011-2014	Implementation on-going
Agricultural and rural finance (AGRUFIN)	1- Enabling environment for the financial sector (further development of the credit reference bureau, regulation of mobile banking and agency banking, regulation of Tier 4 Operators, review of the MDI act) 2- Supporting the development of a consistent agricultural finance policy 3- improving access to agricultural finance and rural finance through capacity building and support for product development for financial institutions 4- Supporting the implementation of the BoU strategy of financial inclusion and the guidelines for financial consumer protection	Country-wide	BoU and various partners	EUR 8.97 M	Expected to start June 2014-May 2017	Under preparation
Digital agri-finance	Providing financial services to smallholder farmers: usage of smartphone devices to capture farmer KYC and value chain transactions to provide digital payment, loan and savings products	Western, Central and Eastern Uganda	SAP, UCFA, others	EUR 0.41 M (upscaling to EUR	2013-2015	Implementation on-going.

				4 M under preparation)		Unpscaling in progress
Access to financial services in Karamoja	Improving access to secure financial services for and financial literacy of the rural population in Karamoja region trough establishment of 2 bank branches and the development of linkage banking	Karamoja region	Centenary bank	EUR 0.47 M	Oct 2012-Sept 2014	Implementation on-going
Bachelor in banking and development finance (BBDF)	Supporting Mountains of the Moon University (MMU) to position its BBDF programme as a standard for financial sector professionals	Uganda (particularly Kampala (bank and MDI HQs) and rwenzori region (MMU location))	Deutsche bank, MMU, FIs (currently MoU with FINCA, KCB)	EUR 0.2 M	2012-2014	Implementation on-going
Banking on financial literacy	Develop, test and pilot innovative financial literacy tools for bank staff, clients and the wider public	Country-wide	Stanbic Bank	EUR 0.3 M	2014-2016	Under preparation
	Contact: Dr Dirk Steinwand: dirk.steinwand@diz.de					
German Development Cooperation (KFW)						
Rural Finance Enhancement Programme	RURAL CHALLENGE FUND (EUR 8M) - Provides matching grants to qualifying financial institutions for innovative products enhancing access to financial services in rural areas - Targets financial institutions providing financial services to SMEs, farmers, small agricultural and agro processing enterprises in rural areas.		International consultancy Company ABI Trust	EUR 14M	2012-2015	

	REFINANCING (EUR 6M) -Provides market-oriented refinancing in local currency to financial institutions for on-lending to the target group in rural areas to support roll-out of products identified by the Rural Challenge Fund					
Agrifinance Refinancing Line	Wholesale refinancing for FI in order to increase agrilending portfolio (11.5m EUR), Special refinancing of investments in the field of biodiversity (7m EUR)			EUR 18.5M		Design Ongoing
AATIF - Africa Agriculture and Trade Investment Fund (KfW)	Financing of investments in Agriculture and Trade through private entrepreneurs. Support agricultural value chains. Fund Products: loans through intermediaries (financial institutions and other enterprises), direct investments (through loans and/or equity). This is a pan-african programme that up to now does not have any investments in Uganda.					
	Contact: Birgit Holderied-Kress: Birgit.holderied-kress@kfw.de					
IFAD						
RFSP (Rural Financial Services Programme)	1-SACCOS establishment, strengthening and outreach (735 SACCOs) 2-Strengthening of APEX institution and Regional Networks 3-Regulation and Supervision		MFPED, MTIC UCSCU, UCA UCCK, AMFIU	Loan to GoU USD 20M	2004-2013	Project closed. studies on-going
PROFIRA (Programme for Financial Inclusion in Rural Areas)	1-SACCO Strengthening and Sustainability (500) 2-Developping a sustainable SACCO union 3-Facilitating establishment of new Community-based financial Services (15 000) 4-Strenghtening mature Community-based financial Services (3 000) 5-Support policy, regulatory and institutional support		MFPED, MTIC, BoU Services Providers	Loan to GoU USD 29M + USD 1 M Grant	2014-2021	Awaiting parliamentary approval
	Contact: Line Kaspersen: l.kaspersen@ifad.org					

JICA						
NORWAY / NORAD						
Financial Services	- Support to Stromme Foundation (support to microfinance clients -loans, grants and TA) - Support to BRAC Uganda (loan funds for microfinance)		Stromme Foundation BRAC Uganda	USD 5.6 M USD 5.6 M		
Combating Gender-Based Violence and Enhancing Economic Empowerment of Women	- VSLAs formation and support - Unconditional cash transfer to selected women beneficiaries.	Northern Uganda Acholi (Amuru, Nwoya) and Lango (Otuke)	**ACF** – Action Against Hunger - International	USD 5,2 M	2011-2014	On-going; possible renewal
Direct support to NGOs	Plan, CARE…					
	Contact: Mary Mabweijano: mary.mabweijano@mfa.no					
Sweden / SIDA						
UNDP						
	At exploratory stage of a possible project on inclusive finance for 2015 or later.					
	Contact: Luna Nagatomo: Luna.nagatomo@undp.org					
UNCDF						

<table>
<tr><td rowspan="2">MicroLead Expansion Programme
Support to savings-led microfinance market leaders to enter underserved Countries</td><td rowspan="2">Increase sustainable access to financial and non-financial products and services for low-income clients with a focus on savings mobilization.
Global Programme Outputs: (1) Sustainable Financial Service Providers (FSPs) providing access to demand-driven, responsibly-delivered, savings-focused financial and nonfinancial products and services to low income people in underserved areas; (2) Knowledge generated and disseminated among FSPs, Technical Service Providers, policy makers, donors and other stakeholders related to savings mobilization, Greenfield operations and technical assistance provision.
USD 1.2 M grant to MEDA for technical assistance to UGAFODE (MDI in Western Uganda) to improve savings mobilization / link savings groups supported by Catholic Relief Services, CRS, to banks. Expected to establish new 2-3 new branches.
Supported by MasterCard Foundation.</td><td></td><td>MEDA
UGAFODE</td><td>USD 23M (USD 1.2 M for MEDA/Ugafode project)</td><td>2013-2017</td><td></td></tr>
<tr><td colspan="5">Contacts:
Ivana Damjanov: Ivana.damjanov@uncdf.org
Pam Eser: pamela.eser@uncdf.org (New York)
MEDA: Sa-Eun Park spark@meda.org</td></tr>
<tr><td rowspan="2">YouthStart</td><td rowspan="2">Increase access to financial services for young people between 12 and 24 years old in Sub-Saharan Africa (USD 12 M). Working with 11 FSPs in Sub-Saharan Africa including 2 in Uganda (Finance Trust and Finca)
UNCDF regional initiative supported by MasterCard Foundation.</td><td></td><td>UNCDF FIPA
FINANCE TRUST
FINCA</td><td>USD 1,5 M</td><td>2011-2013</td><td></td></tr>
<tr><td colspan="5">Contact : Maria Perdomo maria.perdomo@uncdf.org</td></tr>
<tr><td rowspan="2">CleanStart
Access to clean energy for the poor through microfinance</td><td rowspan="2">Joint global programme to expand poor people's access to cleaner energy through microfinance, supported by a sustainable energy supply chain and enabling policy environment.
USD 26.1 million over 6 years globally with a view to support at least 2.5 million people to move out of energy poverty by 2017. Uganda is one of the pre-identified pilot countries.</td><td></td><td>UNCDF FIPA
UNDP</td><td>USD 26 M</td><td>2012-2017</td><td></td></tr>
<tr><td colspan="5">Contact : Vincent Wierda : Vincent.wierda@uncdf.org</td></tr>
</table>

Mobile Money for the Poor	Programme to support the development of digital financial services through support to the overall ecosystem. Focus on training, supporting pilots around rural agent development and product development, regulatory improvements. *Supported by the Bill & Melinda Gates Foundation*		UNCDF FIPA	USD 4.8 M	2014-2016	Start-up
		Contact : Tillman Bruett : tillman.brue@uncdf.org				
USAID						
Development Credit Authority (DCA)	US Treasury loan portfolio guarantee facilities designed to stimulate competition among local commercial and microfinance banks to enter the agricultural finance market and provide credit to MSMEs, Producer Organizations and SACCOs in the agriculture sector (Bank of Africa, Centenary Bank, Opportunity Bank)		Livelihoods and Enterprises for Agriculture Development (LEAD) project…	USD 15M	4-years	
Feed the Future Partnerships Innovation Fund	The fund leverages private sector resources, technology, experience and expertise through public-private partnerships and by replicating sustainable and scalable business approaches.		Private Sector Resource Partners	USD 17.1M	2012-2015	
Feed the Future Enabling Environment for Agriculture	Technical support to reduce policy and regulatory constraints to agricultural production, processing, marketing, trade and climate change adaptation; strengthen GOU, private sector, civil society institutions to facilitate and contribute to policy decisions.		MAAIF, MOTIC, MEACA, MoFPED, MoWE, Private Sector, Civil Society	USD 20M	2013-2018	
Africa Agricultural Capital Fund (AACF)	Provide complementary business development and management support to the AACF portfolio companies. The fund's objective is to deliver high social impact and strong returns by investing in and growing SMEs serving small holder farmers in the agriculture sector.		Pearl Capital	USD 1.5M	2012-2016	
	Contact: Jacqueline Wakhweya: jwakhweya@usaid.gov					
World Bank						

Agrifin Project *With the support of the Gates Foundation*	Promote and enhance development though microfinance to agricultural value chains especially farmers, agribusinesses and MSMEs in rural areas		Centenary Bank	USD 1M		
Agriculture Cluster Development Project	Enhancement of the warehouse receipt systems particularly to be used as an instrument to access bank and microfinance credit		MAAIF MTIC	USD 30M	2013-2018	
	Contact: Moses K. Kibirige: Mkibirige@worldbank.org					