Responsible Finance Market Overview: **Uganda**

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The MasterCard Foundation

AMFIU

Microfinance Sector in Uganda

Uganda's financial infrastructure has been expanding rapidly in the last decade. Financial institutions, which include commercial banks, credit institutions, deposit-taking micro-finance institutions (MDIs), non-deposit taking microfinance institutions (MFIs) and Savings and Credit Co-operatives (SACCOs) are classified into a four-tier system. Tiers one, two and three are supervised and regulated by the **Bank of Uganda** (BoU), while tier four, comprised of MFIs and SACCOs, remains unregulated. A bill to provide regulation of tier-four institutions has been under discussion for several years. Unlike the **MDI Act of 2003**, which the industry heavily lobbied for, the tier four bill is driven by an increase in client complaints and the government's desire to channel funds to disadvantaged groups through financial institutions.

A variety of institutions exist, including 25 banks, three credit institutions, four MDIs and over 1,000 unregulated MFIs and SACCOs as of 2012. The larger and more sustainable microfinance service providers—the regulated MFIs (tier three) and larger MFIs (tier four)—offer a relatively broad range of financial services. These institutions are also in fierce competition with each other, especially in urban areas. While institutions in tiers one through three are primarily concentrated in urban areas, they are expanding into rural areas where tier four institutions have historically had a stronger outreach. A few banks are downscaling their operations to reach lower-income clients as some MFIs scale up and diversify their portfolio. The majority of tier four MFIs remain small and rural, facing abundant operational and financial challenges.

Uganda is interested in carrying out a responsible finance agenda and has been implementing one progressively. The BoU recently adopted a financial inclusion strategy that has four pillars: i) financial literacy; ii) financial consumer protection; iii) financial innovation, including agent banking and mobile phone based services; and iv) financial services data and measurement. In 2011 the BoU, with funding from GIZ, commissioned a study to map financial literacy and financial consumer protection initiatives with the aim of developing a strategic framework. From this, the BoU issued the Financial Consumer Protection Guidelines (2011) for regulated financial institutions, which specified obligations towards clients and mandated complaints-handling systems. BoU staff has been trained on monitoring compliance with the guidelines and over 100 staff of regulated financial institutions have been trained.

The BoU also developed a national strategy for Financial Literacy (August 2013) and is coordinating its implementation. The strategy aims to:

- Improve client ability to manage personal finances;
- Equip people with the ability to protect themselves against fraud;
- Promote more high-quality initiatives to strengthen financial literacy;
- Use resources efficiently to strengthen financial literacy; and,
- Improve coordination and knowledge sharing around financial literacy.

The campaign's core consumer protection messages include avoiding fraudulent schemes and unnecessary debt, understanding the cost of borrowing and increasing knowledge on where and how to save, as well as how to evaluate the safety of deposits.

Sector Issues for Responsible Finance

- Legislative and regulatory reforms are needed to increase financial inclusion and address issues related to consumer protection, such as agency banking, regulation of mobile banking, money transfer services, Islamic banking, bank assurance and leasing legislation.
- The Microfinance Deposit-Taking Institution Act needs to be reviewed in order to address the restrictions on tier two and three institutions and to bring large SACCOS into tier 3.
- The BoU has limited means to fund the implementation of activities, making many components of the financial literacy strategy dependent on external funding.
- Reporting to and usage of the Credit Reference Bureau (CRB) is limited to formally regulated credit providers, due in part to high subscription prices.

Association of Microfinance Institutions of Uganda (AMFIU)

The Association of Microfinance Institutions of Uganda (AMFIU) was founded in 1996 to serve as a platform for Ugandan MFIs to have a common voice, Along with the Uganda Cooperative Savings and Credit Union (UCSCU) and Uganda Cooperative Alliance (UCA), it is one of three apex bodies for the sector. AMFIU has grown steadily in membership and now has 133 members, including 96 MFIs, 34 associate institutional members, and 3 individuals. A seven-member Board of Directors governs AMFIU and activities are managed from a secretariat based in Kampala.

AMFIU's Presence in the Sector

	Microfinance Sector (2012)	MFA Members (2012)
Number of legally registered MFIs	806	133
Number of persons benefiting from MFI services (members, borrowers, or depositors)	4,600,000 (estimate)	3,117,819
Market penetration rate (for total population)	27.8% of adult population (16+) have access to formal financial institutions	

Membership Ratio (Number of members vs. number of MFIs eligible for membership)	12.5%
Member Coverage (Number of members' clients vs. number of clients in the market)	75% (self-reported)

AMFIU's Responsible Finance Agenda

Objective: Strengthen the association's ability to promote better consumer protection practices and contribute to transparency in the sector through improved industry-wide performance monitoring and benchmarking reporting.

Steps toward better consumer protection practices

- ✓ Member of Smart Campaign for Client Protection Steering Committee and of the Board of Social Microfinance Foundation
- ✓ Participates in Social Performance Task activities
- ✓ Published a Consumer Code of Practice for members and holds regular CPP and financial literary trainings
- ✓ Manages a Complaint Redress System for clients, which is actively promoted by BoU, for which staff compiles and analyzes complaints, advises customers and concerned MFIs
- ✓ Publicizes complaints redress system in local languages
- ✓ Piloted a complaints handling system through mobile phones and mobile money agents
- ✓ Runs media campaigns to inform consumers of rights and responsibilities

Priority Actions

- » Carry out 10 MFI assessments using Smart Campaign methodology
- » Strengthen the complaints handling system to streamline procedures and provide regular feedback to MFIs
- » Train at least 30% of members on CPPs

Steps toward more transparent markets

- ✓ Publishes an MFI Directory every 2 years for the sector
- ✓ Publishes an MFI Census Report, which includes MFI interest rate calculations
- ✓ Strong social performance management (SPM) program

Priority Actions

- » Improve in-house reporting system: complete testing of the Performance Monitoring System (PMS) to build local capacity for handling internal IT issues
- » Provide training and technical assistance on the Performance Monitoring Tool (PMT)
- » Increase member reporting on social data by 30% and financial data by 60%
- » Establish a partnership with Mix Market for data exchange
- » Provide regular reporting to members: (individual and aggregated) quarterly PMT reports

The **Responsible Finance through Local Leadership** program is a partnership of **The SEEP Network** and **The MasterCard Foundation.** It seeks to build the organizational capacity of microfinance associations in Sub-Saharan Africa to deliver high quality, demand-driven services to local markets; create more transparent business environments; and promote the widespread application of consumer protection practices. The resulting knowledge and experience will be shared with associations across Sub-Saharan Africa to scale and sustain industry growth.