The State of Microfinance in Uganda

2012/13

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Ministry of Finance, Planning
and Economic Development

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David T. Baguma

FOREWORD

Since its inception in 1996, the Association of Microfinance Institutions of Uganda (AMFIU) has been promoting transparency in the microfinance sector as one of its key goals. Development of a central database and a standard reporting tool to feed the database was seen to be essential to the attainment of transparency. With support from stakeholders, the Performance Monitoring Tool (PMT) was developed by the microfinance industry and entrusted to AMFIU as a custodian. Over the years, different versions of the PMT have been developed with the current PMT 2009 fulfilling all international standards of financial reporting. Alongside, the Performance Monitoring System (PMS) was designed, on which this first Industry Report is based.

This report has been prepared by AMFIU in collaboration with the Rural Financial Services Programme (RFSP) and Gesellschaft für Internationale Zusammenarbeit (GIZ). The report is based on data collected from 95 institutions, of which 77 MFIs are using the PMT. The report identifies the main actors in the sector, describes the current regulatory framework for microfinance business, and the services provided by MFIs. While the report analyses the performance of MFIs at the general level, it goes further to analyse the performance of MFIs relative to their peer groups, and to the respective regions. This multi-level analysis is intended to inform MFIs about the overall market they are operating in and stakeholders on strategies to enhance sustainable growth of the institutions.

The microfinance industry in Uganda is dynamic, and there is still a big untapped market of un- or underserved clients. Uganda has a large, vibrant Tier IV sector which is not yet regulated despite the efforts to develop a regulatory framework which started over ten years ago. The report highlights the key achievements of the industry and points out recommendations for microfinance institutions, policy makers, and other stakeholders. Fortunately, the report comes out at a time when financial inclusion is high up on the national agenda. I am therefore optimistic that this report will contribute substantially towards the promotion of financial inclusion in Uganda, for which the development of the microfinance sector is crucial.

David T. Baguma
Executive Director AMFIU

ACKNOWLEDGEMENTS

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AMFIU would like to thank the participating Microfinance Institutions for sharing their financial data with AMFIU. All those institutions are reporting on a regular basis using the Performance Monitoring Tool (PMT).

Specifically AMFIU would like to thank the Ministry of Finance, Planning and Economic Development for its support through the Rural Financial Services Programme (RFSP). AMFIU and RFSP jointly supported institutions to improve performance monitoring through the usage of PMT. RFSP also supported the production of this report. Additionally AMFIU would like to thank the Gesellschaft für Internationale Zusammenarbeit (GIZ) for all the joint efforts towards setting up a functioning performance monitoring programme within AMFIU and a national database for performance data as well as their great contribution towards the preparation of this report. AMFIU further recognizes the cooperation with the Microfinance Information Exchange, MIX Market (www.mixmarket.org), in order to contribute to financial inclusion. AMFIU and the MIX Market are jointly working on collecting and publishing data. The MIX Market provided the map on financial inclusion.

For the preparation of this report, AMFIU would like to acknowledge the contribution of Kagaba J. Solomon, Julia Kirya, Stephen Bongonzya, Miriam Nanyonga, Jackie Mbabazi and Nathan Lenzin. Technical editing was done by Julia Kirya and Ntalaka Robert.

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ACRONYMS

AMFIU	Association of Microfinance Institutions of Uganda
ASCAs	Accumulated Savings and Credit Associations
BMZ	German Federal Ministry for Economic Cooperation and Development
Bn/b	Billion
BoU	Bank of Uganda
CERUDEB	Centenary Rural Development Bank
CGAP	Consultative Group to Assist the Poor
CI	Credit institution
CRB	Credit Reference Bureau
DCO	District Commercial Officers
DE	Debt to Equity
DFCU	Development Finance Company of Uganda
DFID	Department for International Development
FI	Financial Institution
FIA	Financial Institutions Act 2004
FINCA	Foundation for International Community Assistance
FORMA	Federation of Rwenzori Microfinance Associations
FSD	Financial System Development
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit GmbH
GNI	Gross National Indicator
GoU	Government of Uganda
IEE	Informal Information Exchange
IFAD	International Fund For Agricultural Development
MDI	Microfinance Deposit-taking Institution
MFF	Microfinance Forum
MFI	Microfinance Institution
MoFPED	Ministry of Finance, Planning and Economic Development
MSCL	Microfinance Support Centre Limited
MTIC	Ministry of Trade, Industry and Cooperatives
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
NSSF	National Social Security Fund
OER	Operating Expenses Ratio
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
PAU	Programme Administration Unit
PMS	Performance Monitoring System
PMT	Performance Monitoring Tool
PRIDE	Promotion of Rural Initiatives and Development Enterprise
RFSP	Rural Financial Services Program
ROA	Return on Assets

ROSCAs	Rotating Savings and Credit Associations
SACCA	Savings and Credit Co-operatives of Africa
SACCO	Savings and Credit Co-operative
SEEP	Small Enterprise Education and Promotion Network
SPM	Social Performance Management
UBOS	Uganda Bureau of Statistics
UCA	Uganda Cooperative Alliance
UCCFS	Uganda Central Cooperative Financial Services
UCSCU	Uganda Cooperative Savings and Credit Union
UGAFODE	Uganda Agency for Development
UGX	Uganda Shillings
US$	United States Dollar
USAID	United States Agency for International Development
VSLAs	Village Savings and Loan Associations

DEFINITIONS

Agricultural and rural finance: Rural finance refers to financial services provided in rural areas for agricultural as well as non-agricultural purposes. Agricultural finance, primarily a subset of rural finance, is dedicated to financing activities along the agricultural value chain. It can include a variety of products including credit, savings, insurance, and transfer payments.[1]

Financial inclusion: "The New Microfinance Handbook"[2] defines Financial inclusion as a multidimensional, pro-client concept, encompassing increased access, better products and services, better informed and better equipped consumers, and effective use of products and services.[3]

Financial institution: Any institution which provides financial services whereas the term Microfinance institution describes institutions providing microfinance services.

Financial literacy vs. financial education: Financial literacy is the ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a job loss, saving for retirement, or paying for a child's education. Financial education is the process of building knowledge, skills and attitudes to become financially literate.[4]

Formal versus semi-formal and informal MFIs: Formal microfinance institutions refer to those MFIs which are regulated by the Central Bank, semi-formal refers to the Tier IV MFIs/ SACCOs that are not regulated by the Central Bank, but registered at national level. Informal microfinance institutions are mainly community based savings and loans associations/groups.

Microfinance: Microfinance typically refers to a broad range of financial services including credit, savings, insurance, money transfers, and other financial products provided by different service providers, targeted at poor and low-income people.[5] Microfinance clients ideally use such financial services to run their businesses, build assets, smooth consumption, and manage risks. The most famous microfinance product is the microcredit, which typically refers to very small loans for unsalaried borrowers with little or no collateral.[6]

Outreach: In this report, outreach is restricted to breadth, whose measurement includes the numbers of clients, borrowers as well as depositors.
Product development: This comprises both the systematic development of new products and the refinement of existing products.

1 Ledgerwood: The New Microfinance Handbook, Chapter 10, 2013
2 Ibid.
3 Ibid.
4 Monique Cohen & Candace Nelson: Financial Literacy: A Step for Clients towards Financial Inclusion; Global Microcredit Summit Commissioned Workshop Paper, November 14-17, 2011 – Valladolid, Spain
5 CGAP: Microfinance Gateway: What is Microfinance? http://www.microfinancegateway.org/p/site/m/template.rc/1.26.12263/#2
6 CGAP: Microfinance Gateway: What is Microfinance? http://www.microfinancegateway.org/p/site/m/template.rc/1.26.12263/#2

Regions: In this report, Uganda has four regions namely: Central, Western, Northern, and Eastern.

Regulated institution: In this report, this is a financial institution which is supervised by the Bank of Uganda. Regulated institutions comprise: Banks (Tier 1); Credit Institutions (Tier 2); and Microfinance Deposit-taking Institutions (Tier 3).

Size of SACCOs: In this report, SACCOs with a loan portfolio above Shillings 1 billion shall be considered large SACCOs, midsized SACCOs have a loan portfolio between Shillings 500million and Shillings 1billion and small SACCOs have a loan portfolio below 500million.

Social Performance and Social Performance Management: Social performance is the effective translation of an institution's mission into practice. Social performance management is an institutionalized process which involves a) setting a clear social mission, goals and objectives and b) monitoring and assessing progress towards achieving these objectives, and c) using this information to improve overall organizational performance.

EXECUTIVE SUMMARY

This report assesses the performance of microfinance institutions in Uganda and aims at informing MFIs and stakeholders about performance trends of individual institutions and peer groups. It is further intended to inform policy makers and support organizations about strengths and weaknesses of institutions providing microfinance services.

The Ugandan Microfinance sector aims at contributing to the growth of the national economy as well as reduction of poverty. Microfinance service provider comprise of various regulated and unregulated institutions. The sector has been growing significantly in recent years, but there is limited profound knowledge about the performance of the institutions, especially in the unregulated sector.

This report gives an overview of the overall financial sector in Chapter II, and in Chapter III it portrays the state of financial inclusion in Uganda. In the same chapter, the individual actors of the industry are defined and the state of service delivery reviewed. Performance analysis is reviewed in chapter 4 and additionally risks, challenges and opportunities of the sector are summarized in the last chapter.

The performance analysis is based on data collected over a period of one year from 95 institutions, of which 77 MFIs are using the PMT. Although not covering the entire sector, we believe that the data collected is sufficiently representative in order for analysts to better understand some reasons behind good or bad performance of MFIs in Uganda. The report mainly focuses on mid-sized and large institutions. The general characteristics of the different institutions were described in the chapter III whereas the strengths and weaknesses of the institutions were summarized in chapter IV in the following categories:

Breadth of Outreach

- By the end of 2012, the Microfinance Industry in Uganda served 1,381,532 depositors and 553,326 borrowers.[7]

  From end of 2011 to end of 2012, there has been an increase in outreach to depositors by most actors of the sector, but very limited growth or even stagnation in terms of the number of borrowers, which is an indicator for increased competition while demand stayed constant. The loan sizes of regulated institutions are still slightly larger than the loans which are disbursed by institutions of the Tier IV sector.

- Outreach differs in the different regions of Uganda. Unfortunately, there is still limited outreach to potential customers in Northern and Eastern Uganda.

7 AMFIU PMT and AMFIU survey data

Portfolio Quality

- The analysis of portfolio quality shows that SACCOs still have the lowest portfolio quality and the lowest risk coverage ratio.
- Smaller SACCOs (with a loan portfolio below 500m) reported an average PAR of 16.3% and SACCOs with a higher portfolio reported a PAR of 8.5%.

Profitability

- In 2012, 86% of the institutions reported positive returns (after taxes and grants). The profitability is lowest among regulated institutions. SACCOs reported an average Operational Self Sufficiency (OSS) of 125% and unregulated MFIs of 148%.
- SACCOs from Central and Western Uganda performed better in terms of profitability than their counterparts from Eastern and Northern Uganda
- The majority of the SACCOs with a loan portfolio above Shillings 250million was able to have a Return on Assets above 5% which is an adequate rate but with room for improvement.

Efficiency

- The indicators under efficiency show, that the institutions could improve their management of costs and budget control. The Operational Expense Ratio of unregulated institutions was on average above the recommended maximum of 20%.
- Generally MFIs in Uganda keep their costs of funds low, but operational (especially personnel costs) are relatively high.
- Around 55% of the SACCOs in the sample had a “Portfolio as a percentage of Assets” ratio below 75% at the end of 2012, and therefore they are not making enough use of their assets.

Capital and Liquidity

- This sub-section evaluates the performance of capital adequacy, the level of external funding and donations as well as liquidity management. Among SACCOs, 59% of the institutions in the sample were currently serving a loan and 18% of the SACCOs received grants in 2012.

Growth and Trends

- Overall a strong growth trend can be observed among depositors, but less of borrowers. For SACCOs, only 56% of the institutions increased their loan portfolio size in 2012.
- A correlation between growth rates and institutional size could be observed in 2012. Large SACCOs (Loan Portfolio above 1b), increased their portfolio by 20.8% and their membership by 27.2%. Middle sized SACCOs (Loan Portfolio between 500m – 1b), reduced their loan portfolio by 6.4% and equally their membership by 0.6%. Small SACCOs similarly reduced their loan portfolio by 11.9%, but increased their membership by 9%. This trend could be related to the increased focus of wholesale lenders and support organizations to work with bigger institutions hence these kind of institutions attract more members and their loan portfolio grows. Another factor could be the increased trust

of people in larger institutions. This clearly shows the need for the regulation of larger SACCOs.

Overall, it could be observed that every kind of institution has different weaknesses and strengths. For the regulated institutions, the level of profitability is rather worrying, whereas their portfolio quality is showing a good performance. SACCOs, which are a lot smaller, are showing less professionalism in portfolio management. They also make insufficient use of general cost control measures.

The report recommends that the institutions need to review their outreach strategies, improve product development and invest into innovative outreach mechanisms. It further suggests policy makers and stakeholders should consider developing different and well adapted support and outreach strategies for the different regions and types of institutions. Coordination among stakeholders has to improve and should be intensified further in order to improve the performance of the MFIs. In general, the Ugandan microfinance market still provides various opportunities for investors and financial institutions. Many Ugandans are still looking for adequate financial services, especially for the agricultural sector.

The report finally concludes and reminds the industry to encourage regular performance reporting.

CHAPTER 1: INTRODUCTION

1.1 Background to the Report

Over the last decade, microfinance stakeholders have put strong emphasis on performance indicators and standards. The more microfinance institutions are able to monitor and measure their performance and report accordingly to their shareholders, partners, and regulators, the more transparent and attractive is the industry. With increased trust microfinance can indeed be an effective tool in the fight against poverty, as the Government, development partners and investors are concerned about the effectiveness, responsiveness, and sustainability of their technical and financial support to the industry.

As a national network and with the support of key industry stakeholders, the Association of Microfinance Institutions of Uganda (AMFIU) has been committed to building and enhancing transparency in the industry through promotion of a microfinance performance monitoring tool which is used by MFIs to voluntarily report on their financial performance. “The State of Microfinance in Uganda 2012/13” is the first comprehensive industry assessment which is based on self-reporting by microfinance institutions. This report gives an overview of the microfinance sector, its regulation, the current status and its performance in 2012. It also presents recommendations for individual institutions, policy makers and other stakeholders. The report was produced by AMFIU, the Association of Microfinance Institutions of Uganda, in collaboration with RFSP, the Rural Financial Services Programme, and GIZ, Gesellschaft für Internationale Zusammenarbeit.

1.2 Association of Microfinance Institutions of Uganda

The Association of Microfinance Institutions of Uganda (AMFIU) is an umbrella body for microfinance institutions in Uganda and was founded in 1996 to promote professionalism in the microfinance sector in Uganda. AMFIU has steadily grown to become a true voice of the industry. By the end of 2012, AMFIU stood at 131 members. These include 93 ordinary members comprising financial institutions with microfinance as a core activity, regulated or not, and 38 associate members comprising other stakeholders with interest in microfinance such as consultancy firms, education and training institutions, donors and wholesale lenders.

AMFIU is a key stakeholder in supporting the expansion of the microfinance industry in Uganda through promotion of sound practices. The network is committed to strengthening its role of co-ordination, advocacy, information and capacity building for the delivery of inclusive financial services in Uganda’s microfinance industry.

1.3 The Rural Financial Services Programme

The Rural Financial Services Programme (RFSP), under which the Government of Uganda (GoU) has been implementing its Rural Financial Services Strategy (RFSS) since 2004 has its roots in the Rural Development Strategy (RDS) which the GoU launched in the financial year 2005/06 with the aim of poverty eradication. The RFSP is jointly-funded by the GoU and the International Fund for Agricultural Development (IFAD). The RFSP aims at enhancing the ongoing efforts of the Government, its development partners and the private sector players to create a healthy and extensive rural financial system that could give the poor rural population opportunities to greater access to financial services. The RFSP ended on 30th June, 2013 following the amendment of the IFAD loan agreement.

The RFSP has been implemented through several agency organisations including the Association of Microfinance Institutions of Uganda, the Uganda Cooperative Savings and Credit Union (UCSCU), Uganda Cooperative Alliance (UCA), the Department of Cooperatives in the Ministry of Trade, Industry and Cooperatives (MTIC), and the Uganda Cooperative College, Kigumba.[8]

1.4 Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

The GIZ is the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH. One of the focal areas of technical cooperation between Germany and Uganda is Financial System Development (FSD). Since 1998, the FSD programme operates on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) to improve financial services for Uganda's poor population on a sustainable basis. One of the partners of the GIZ FSD programme is AMFIU. The partnership with GIZ and AMFIU aims at increasing the transparency of the microfinance sector.

1.5 Methodology

This report highlights the state of practice of the microfinance sector in Uganda, coupled with some highlights on the financial sector in general. It is based on data collected from 97 different institutions, including PMT data from 77 MFI/SACCOs representing 100% of the MDI-market, 80% of the microfinance market share served by SACCOs, and 36% of the clients reached by non-deposit taking MFIs (unregulated market).[9]

In Uganda, MDIs reach out to 4.85%[10] of the total population above 18 years. SACCOs, which were considered in this report, serve 2.51%, while MFIs serve 1.08% of the total population in Uganda.

The major source of primary data for this report was generated from PMT reports, and also information from face to face interviews with financial institutions and other stakeholders. Additional information was compiled from secondary literature that included audited accounts, portfolio reports and various reports from different organisations.

Performance indicators were calculated following the PMT guide (2009), which is consistent with the Consultative Group to Assist the Poor (CGAP) standards. Adjustments for inflation and subsidized funding were considered. Indicators were weighted and are based on quarterly averages.

8 RFSP: Background and History. http://www.rfspug.org/details.php?option=menu&sid=12&mid=4
9 Based on FinScope 2009, MDIs, unregulated MFIs (unregulated) and SACCOs serve each a share of 3% of the total population above 18 years.
10 According to the most recent FinScope Study, MDIs were serving 3% of the population above 18 years, according to AMFIU data from 2012 this percentage increased to 4.85%.

Box 1: Performance Monitoring In Uganda

The "Performance Monitoring Tool" or PMT is a software-based standard reporting tool adopted by the microfinance industry in Uganda. Financial reporting is a fundamental part to achieve transparency in the microfinance sector, and AMFIU, together with all main stakeholders in the industry, is promoting the usage of the PMT. Basing on the PMT, AMFIU has set up a national database called the PMS where all the data is collected. AMFIU uses the PMS to analyze and consolidate the data, and provide feedback on the performance of the reporting financial institutions. To encourage adoption of the PMT, AMFIU offers trainings and technical assistance in Performance Monitoring, and provides guidance and feedback to institutions that submit their PMT data to AMFIU.

1.6 Limitations of this Report

This is the first industry report based on the data collected through the PMT. Therefore the data is collected by self-reporting. The volume of data is still limited and the trend analysis is based on information for one year. In the next years it is expected that the data volume increases.
Additionally, the report evaluates the usage of financial products, but multiple usages of products or institutions cannot be measured.

CHAPTER 2: COUNTRY AND FINANCIAL SECTOR OVER VIEW

2.1 Country Overview

Uganda, which Sir Winston Churchill once called the "pearl of Africa", is home to 34.1 million people. Most Ugandans are based in rural areas, only 14.7% stay in urban areas such as the capital city Kampala.[11]

Nearly 7.5 million Ugandans, living in 1.2 Million households, were considered poor in 2009/10. The proportion of the poor population decreased from 31 percent in 2005/06 to 25 percent in 2009/10.[12]

The overall literacy rate among children aged 10 years and above was 73 percent in 2009/10. The majority of students enrolled in higher institutions were males.

In terms of employment, 79 percent of the working population (between 14 and 64 years) in 2009/10 were self-employed, and only 21 percent were paid employees. The agricultural sector engaged 66 percent of the working population.[13]

Table 1: Economic and development indicators for Uganda[14]

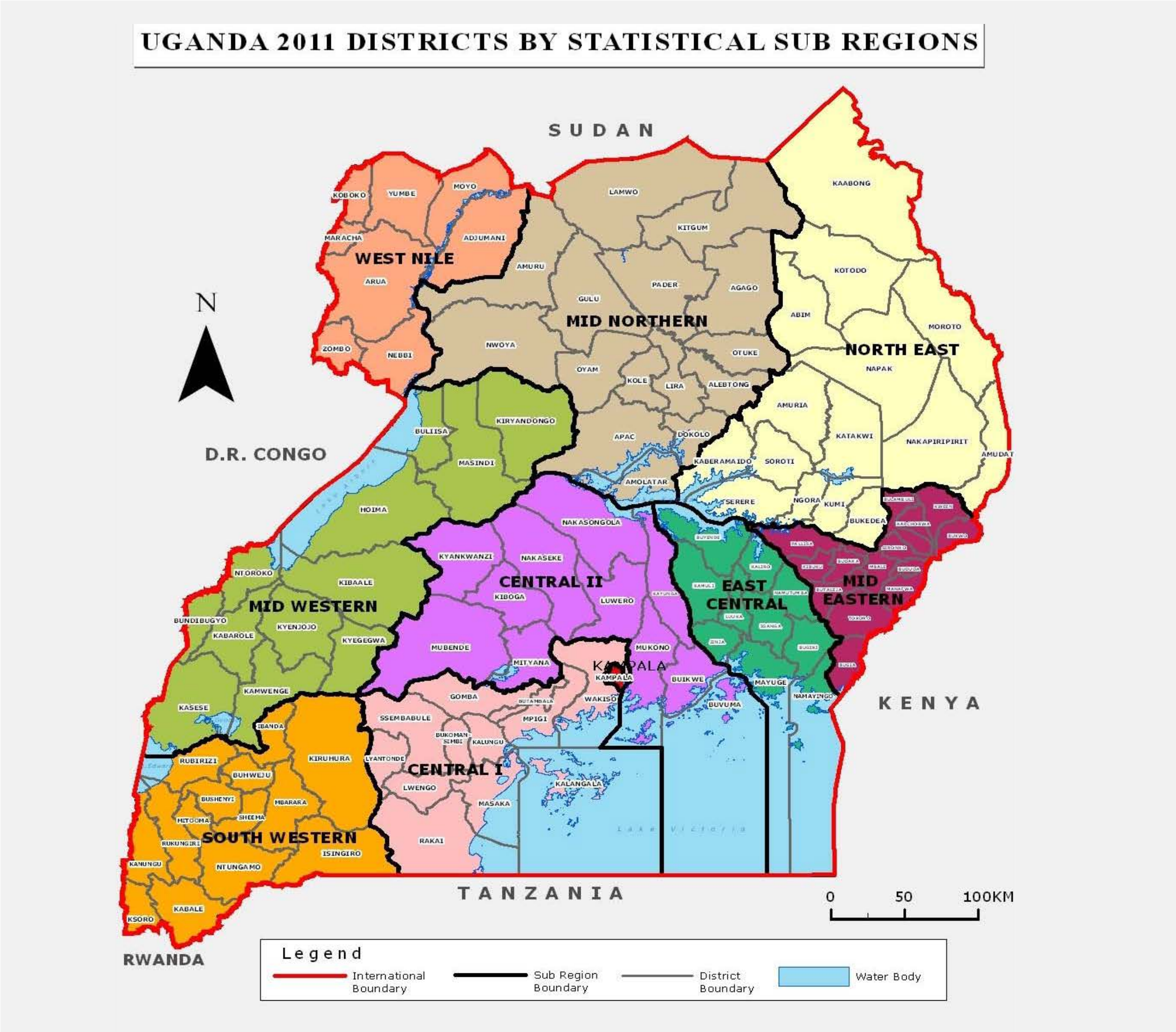
Indicator	2003	2006	2009	2011
Population, total	26,641,627	29,370,251	32,367,909	34,509,205
GNI per capita, PPP (current international $)	790	980	1210	1310
GDP (current US$)	6,336,696,289	9,977,209,199	15,803,499,657	16,809,623,489
GDP growth (annual %)	6.47	10.78	7.24	6.7
Life expectancy at birth, total (years)	48.38	50.95	53.07	54.07
Agriculture, value added (% of GDP)	26.14	25.59	24.68	23.41
Total surface area Land (minus water) Cultivated land (2005)	241,550.7 square kilometres[15] 199,807.4 square kilometres 99,018.4 square kilometres			

2.2 Financial Sector Overview

2.2.1 History of the Financial Sector in Summary

The formal financial sector has evolved from the first commercial bank established in 1906 – the National Bank of India which later became the Grindlays Bank and is now Stanbic Bank,

11 UBOS; Statistical Abstract, 2012
12 Ibid.
13 UBOS; Statistical Abstract, 2012
14 http://data.worldbank.org/country/uganda
15 UBOS: Statistical Abstract 2012



Source: UBOS

to the current 24 commercial banks, four credit institutions and four Microfinance Deposit-taking Institutions(MDIs). The formal sector has been characterized by closures, mergers and acquisitions. Alongside, there is a rapidly-growing semi-formal and informal financial sector providing a range of microfinance and other financial services.

The commencement of significant microfinance services can be traced in the establishment of Uganda Women's Finance and Credit Trust (UWFCT) in 1984,, which is now the Uganda Finance Trust (MDI). However, informal savings and credit schemes are known to have operated earlier than this date. With the emergence of PRIDE Microfinance, FINCA (both MDIs), and Uganda Microfinance Limited (UML) (which later became an MDI and was subsequently acquired by Equity Group of Kenya), the microfinance sector embraced best practices and entered a period of professionalization, eventually culminating into commercialisation and integration in the formal financial sector. Alongside these institutions, other microfinance programmes emerged in early 1990s.

The sector has also witnessed the operation of donor and Government programmes, which have evolved from direct provision of credit – for example the Entandikwa scheme to using alternative mechanisms such as the Microfinance Support Centre (MSC). Like the formal financial sector, the microfinance sector has also been characterised by policy development and reforms, failures16 and consolidation as evidenced in the formation of regional SACCO Unions17.

2.2.2 Composition of Uganda's Financial Sector

The financial sector in Uganda consists of the banking, microfinance, insurance, and investment sectors, as well as the Uganda Securities Exchange and the Capital Markets Authority, among other players. Generally, the sector is categorized into formal, semi-formal and informal institutions. The formal institutions are supervised by Bank of Uganda (BoU) and include Commercial Banks, Credit Institutions, and Microfinance Deposit-taking institutions. Other formal institutions are not supervised by BoU and include Insurance companies, Development Banks, Pension Funds and Capital Markets. The semi-formal institutions are registered at the national level but are not regulated by the BoU, and include Savings and Credit Cooperatives (SACCOs) and other microfinance institutions. The informal category combines all other community-based associations, including Village Savings and Loan Associations (VSLAs), Accumulated Savings and Credit Associations (ASCAs), and Rotating Savings and Credit Associations (ROSCAs).[18]

2.2.3 The Banking Sector

The banking sector dominates the financial sector, with twenty four (24) commercial banks licensed as at 10th April 2013.19 Most of the banks are foreign-owned, and include major international institutions such as Stanbic Bank, Citibank, Barclays, and Standard Chartered, which operate alongside a number of locally-owned banks including DFCU Bank, Crane Bank and Centenary Rural Development Bank (CERUDEB). Only few of these Commercial Banks, one of them being Centenary Bank, have a traditional microfinance component. However, more banks are developing outreach mechanisms to tap into the microfinance market. For example, Barclays Bank and PostBank have developed products for linking VSLAs and other initiatives to deepen outreach including mobile banking.

Bank operations are a key driver to the general performance of the financial sector in Uganda. For example, bank growth in the intermediation of funds, the expansion of the branch network and the development of new products has enabled the financial sector to generate average real growth of 10 percent per annum since 1999/2000, making it one of the fastest growing sectors of the economy since this period.[20]

The banking sector has experienced tighter Bank of Uganda (BoU) supervision, more stringent requirements and higher capital requirements with the passing of the Financial Institutions Act

16 Notable, mature MFIs which have failed include: The Foundation for Credit and Community Assistance (FOCCAS); Support Organisation for Micro Enterprise Development (SOMED); and Teso Rural Development Trust (TERUDET)
17 See Table in Annex.
18 ABC Capital Bank Limited, 2012; and AMFIU/SEEP/Citi Foundation, 2008: Uganda Microfinance Industry Assessment, p.13
19 BoU, April 2013
20 BoU, Louis Kasekende, Deputy Governor's Speech at the Uganda Institute of Banking and Financial Services Annual Dinner, Kampala, 1 March 2013

in 2004 and the Financial Institutions Regulations in 2005. This has facilitated a quick recovery of the sector following the closing of several domestic banks in 1998 and 1999.

Based on key performance indicators, the banking sector is generally growing, profitable and adequately-capitalized. By the end of 2012, banks' lending to the private sector as a share of gross domestic product (GDP) had risen to 15 percent from 6 percent at the end of the year 2000, which is in real terms a fivefold rise over this twelve years period. By the end of 2012, bank branches totalled 495, a fourfold increase from 129 bank branches in 2000. In the last five years, on average 60 new branches were being opened per year. Banks have also been expanding operations throughout the country, and as at 1st March 2013, there were 270 bank branches outside of Kampala. [21]

According to BoU, in 2012 the banking sector registered a strong growth and the capital adequacy ratio was 18.8% at the end of the year. [22] The banking system is profitable, with an annual return on assets of around four percent. [23] Unfortunately this trend cannot yet be observed among the Tier III institutions.

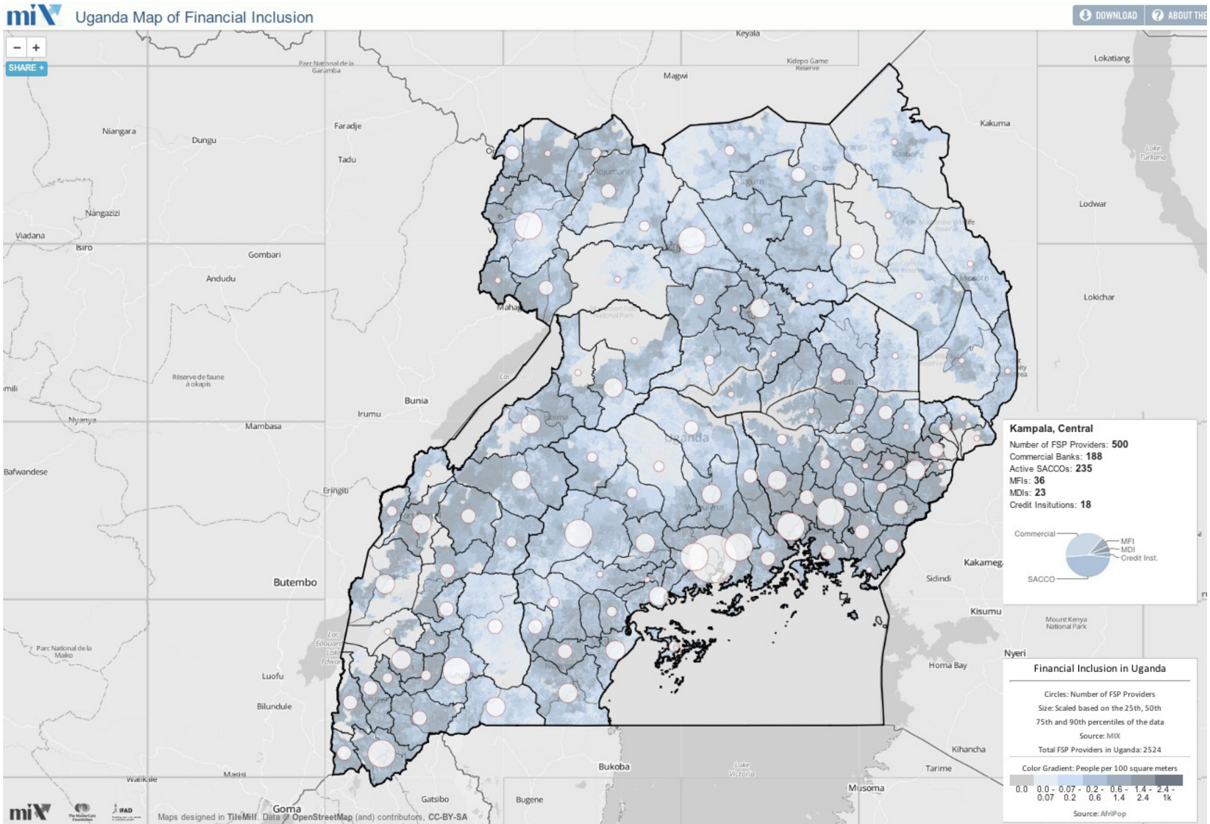
2.2.4 The Microfinance Sector

Microfinance has been the most important financial sector for the low-income households in Uganda. The focus of the sector is to ensure financial inclusion of all Ugandans. In the last years, the sector has been experiencing significant growth.

The microfinance sector is the most complex component of the financial sector. One provider of Microfinance services are in the category of Tier I, two are in Tier II and currently, there are four MDIs in Tier III. Additionally, SACCOs and unregulated MFIs serve the microfinance market. These institutions are broadly captured as Tier IV institutions.

Uganda has a long history of informal savings and credit groups. These groups are either independent, or they are linked to a financial institution. Independent groups are the majority, and they range from ROSCAs, ASCAs to VSLAs.

21 BoU, Louis Kasekende, Deputy Governor's Speech at the Uganda Institute of Banking and Financial Services Annual Dinner, Kampala, 1 March 2013
22 Bank of Uganda: Annual Supervision report, December 2012
23 BoU, Louis Kasekende, Deputy Governor's Speech at the Uganda Institute of Banking and Financial Services Annual Dinner, Kampala, 1 March 2013



MIX is the premier source for objective, qualified and relevant microfinance performance data and analysis. Committed to strengthening financial inclusion, MIX, in partnership with The MasterCard Foundation and the International Fund for Agricultural Development (IFAD), developed the Uganda Map of Financial Inclusion, which displays a comprehensive picture of financial inclusion by layering geo-coded data from financial service providers (FSPs) against a backdrop of socio-economic information. http://maps.mixmarket.org/uganda/

Source: http://maps.mixmarket.org/uganda/

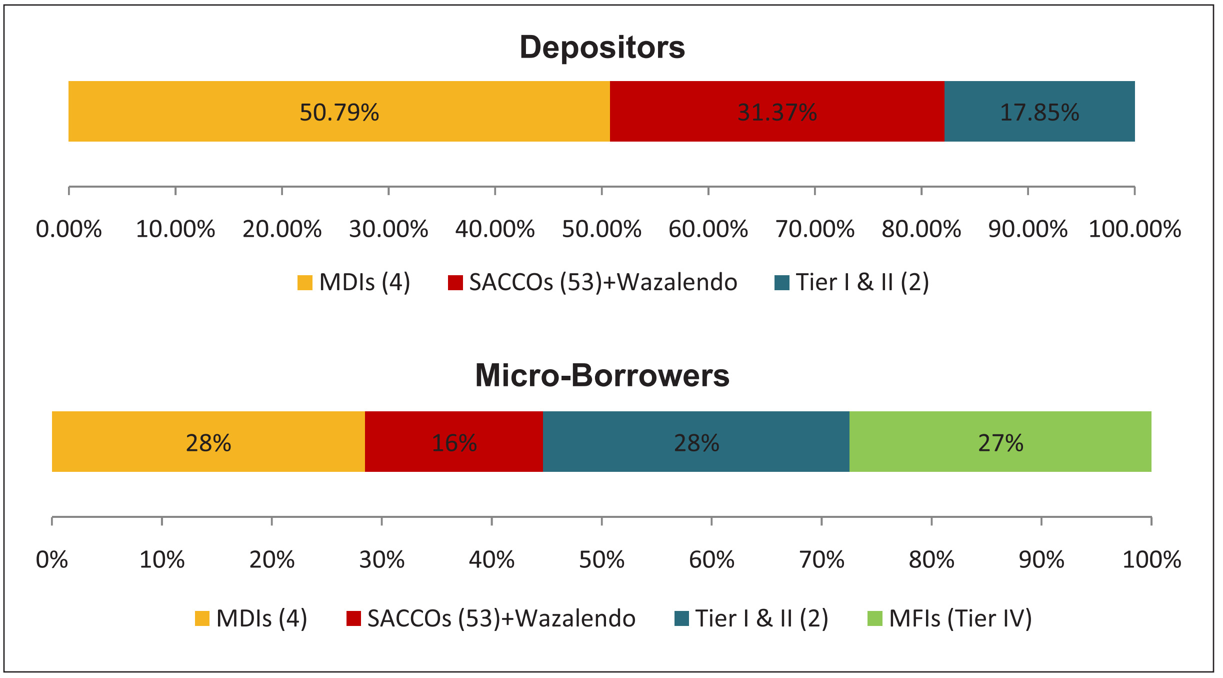
Formal, regulated institutions, which serve 20%24 of the rural population, are less prominent in rural areas than urban areas. This is mainly lack of the appropriate infrastructure, which is required to open up a branch. Most unregulated institutions are based in rural areas and mainly serve the rural population. Even then, the Uganda National Bureau of Standards (UBOS) Census established that most MFIs, except SACCOs are located in the urban areas. Sixty percent of the SACCOs are based in rural areas compared to eleven percent of MDIs.[25]

According to AMFIU information, the market of borrowers and depositors is almost equally shared by formal and semi-formal institutions. MDIs cover a market share of 53% of the depositors, Tier I and II (excluding Centenary Bank) cover 18.79% and SACCOs 27.72%.

24 The Global Findex Database World Bank
25 UBOS, 2010: MFI Census Report, Figure 2.1

Unregulated MFIs are not allowed to take deposits, but among borrowers their share is 27%, almost equal to MDIs (28%) and Tier I and II MFIs (28%). The share of SACCO is the lowest with around 16%. The graph below illustrates the market share of the different players.

Table 2: Market share of 95 institutions according to AMFIU information[26]



2.2.5 Mobile Money Sector

Mobile Money in the Ugandan context refers to financial services which can be used with the help of the mobile phone. These services include mainly a) money transfers and b) mobile payments, for example, for paying bills. Additionally, there are upcoming c) "Mobile Banking" services which describe a mobile money account that is connected to an account at a regulated financial institution. This enables a regulated financial institution to partner with a mobile phone company to allow the institution's customers to use their mobile phones to access various types of services from the institution itself, ranging from the simple monitoring of customer account balances to effecting transfers to other accounts.

Mobile money services (money transfer and payments) were introduced to the Ugandan market in March 2009, and the sector has attracted the participation of all[27] the mobile telecommunication companies in Uganda. The mobile money sector has significantly complemented the traditional commercial bank and other payment services. There are currently over 8.9 million[28] registered mobile money customers in Uganda, more than one quarter of the entire population. This number of mobile money accounts exceeded the 4.9 million bank accounts as at December

26 AMFIU PMT data
27 MTN mobile money, WARID Pesa, Uganda Telekom M-Sente, Orange Money, Airtel Money
28 BoU, Deputy Governor's Speech at the Uganda Institute of Banking and Financial Services Annual Dinner, Kampala, 1 March 2013

2012.[29] Mobile money transactions totalled Shillings 11.7 trillion in 2012, a 211 percent increase over the total in 2011[30].

By June 2012, the Bank of Uganda had licensed four Mobile Money network operators to offer mobile money services.[31] As the mobile money transfer service grows, the risks have also grown. It is reported that the Central Bank is working with the Uganda Communications Commission to draft a law aimed at regulating the service.

Surveys have indicated that in rural areas, some Ugandans are using mobile money accounts as a form of savings account and for settling bills like school fees.[32] Also, many SACCOs, acting as agents of mobile telecommunication companies have added mobile money to their services.

29 http://www.theeastafrican.co.ke/business/Uganda-mobile-money-users-hit-9m/-/2560/1841814/-/w48caa/-/index.html
30 BoU, Deputy Governor's Speech at the Uganda Institute of Banking and Financial Services Annual Dinner, Kampala, 1 March 2013
31 Budget Speech for the Financial Year 2012 – 2013 delivered by the Minister of Finance, Planning and Economic Development, p.5
32 UIB-AMFIU: The Microfinance Banker, Vol. 11 Issue 1, 2012, p. 27

CHAPTER 3: THE STATE OF MICROFINANCE IN UGANDA

3.1 Financial Inclusion in Uganda

Access to financial services is fundamental to the development of individuals; access to savings accounts helps communities to save their money for future investments; loans support individuals and businesses to generate income, and insurance services can provide a safety cushion for various kinds of emergencies. According to the CGAP, Financial inclusion means that households and businesses have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably, in a well regulated environment.

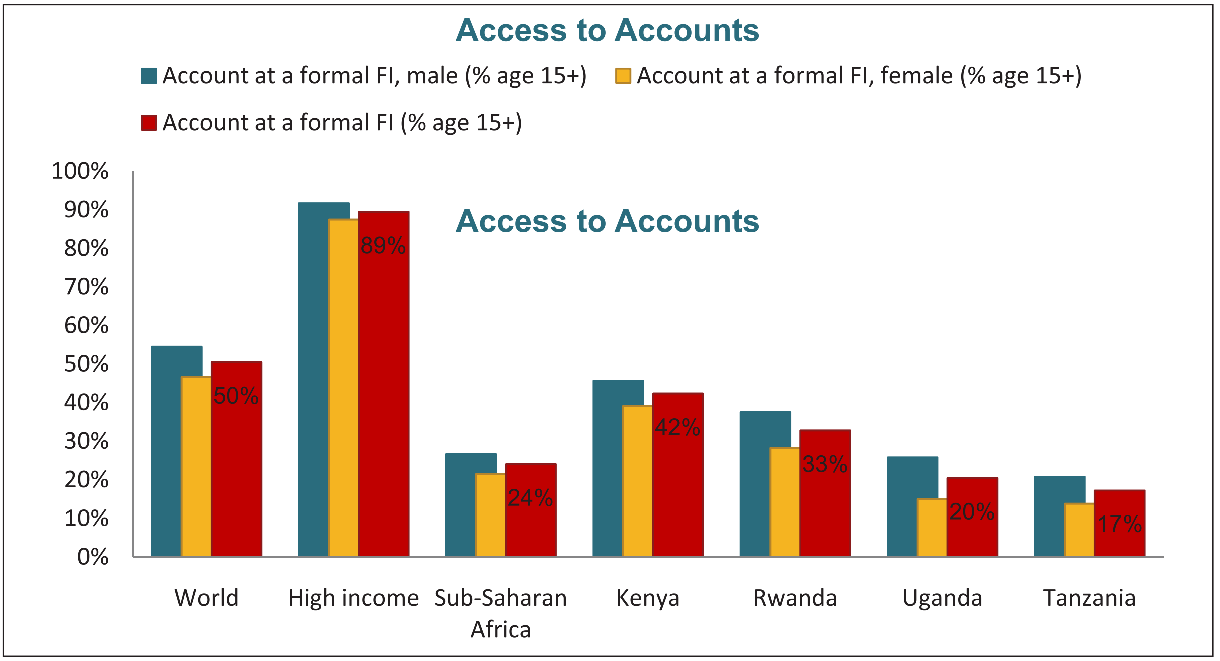
A typical bank customer in Uganda, would be male, based in an urban area, earning a salary and would be above 25 years old.

Worldwide, only 50% of the total population has access to any form of formal financial services but in Uganda, the rate is even lower. According to the World Bank (Findex Database), only 20% of the adult population has an account with a formal financial institution (male: 26% and female 15%).The chart below shows the state of financial inclusion of Uganda compared to other parts of the world and East Africa.

From the bottom 40% of the Ugandan population, only 8% have an account in a regulated financial institution, and 6% access loans or savings facilities.33 The "economically active poor" are the primary target group for Microfinance Institutions, as they not only represent the most fragile section of the population, but also have the highest demand for microfinance services. The table below compares the inclusion of the population (bottom 40%) with other countries, and it shows that Uganda scores far below average of Sub Saharan Countries (13%).

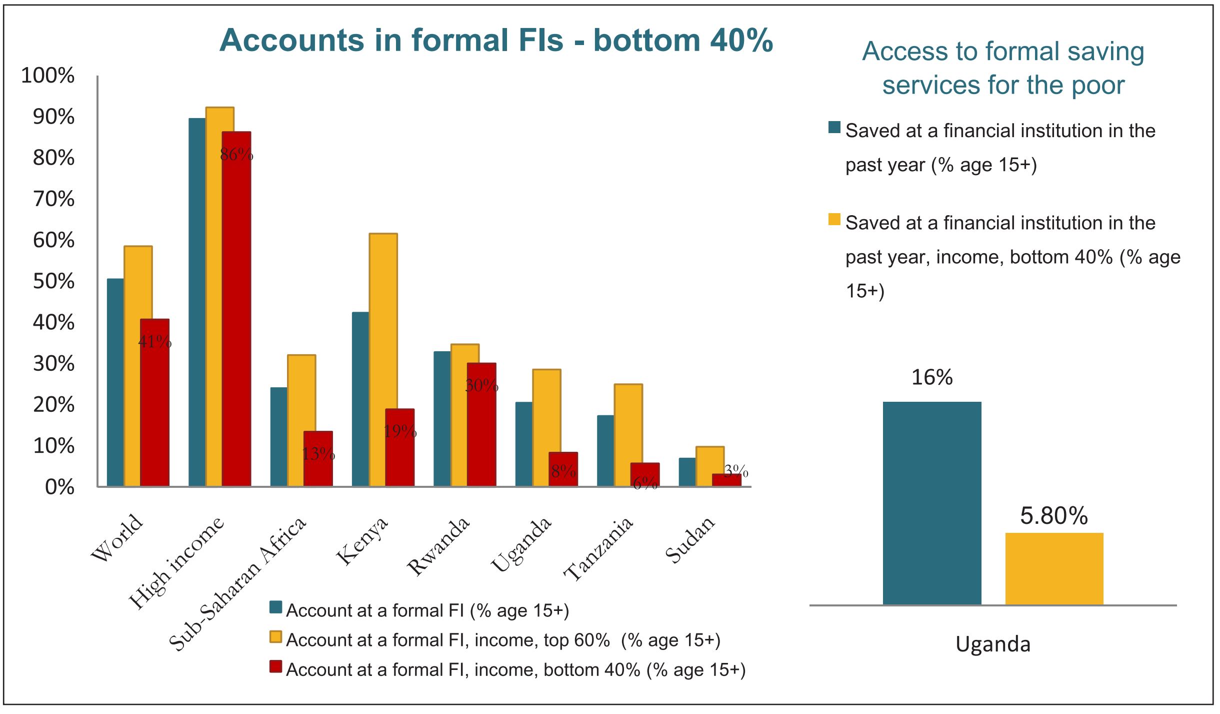
33 The Global Findex Database World Bank

Table 3: Access to Accounts in Formal Financial Institutions[34]



The access to formal financial services for the poor is still low.

Table 4: Accounts in formal Financial Institutions for bottom 40%[35]



34 The Global Findex Database", World Bank
35 The Global Findex Database, World Bank

3.2 Regulatory Framework

On July 12, 1999, Bank of Uganda (BoU) issued a Policy Statement on Microfinance Regulation. The Statement spelt out microfinance as a business, under which microfinance business would be regulated under a four-tier framework. BoU commenced to supervise the first, second and third tiers comprised of Banks, Credit Institutions and Microfinance Deposit-taking Institutions (MDIs) respectively.36 Consequently, Commercial Banks and Credit Institutions are regulated under the Financial Institutions Act (FIA), 2004, while MDIs are regulated under the Microfinance Deposit-taking Institutions (MDI) Act, 2003.

According to the UBOS MFI Census, 2010, only 0.3 percent of the institutions providing microfinance services are regulated and supervised by BoU. [37]

Table 5: Summary of Microfinance Regulation in Uganda[38]

Tier	Category of Institutions	Regulation/Registration
Tier I	Banks	Regulated by the Bank of Uganda; Financial Institutions Act 2004
Tier II	Credit Institutions	
Tier III	Microfinance Deposit-Taking Institutions	Regulated by the Bank of Uganda; MDI Act 2003
Tier IV	MFIs and SACCOs	Only Registered as: ✓ The Companies Act, 1961 ✓ The NGO (Amendment) Act 2006 ✓ For SACCOs, the Registrar of Cooperative Societies (MTIC) under the Cooperative Societies Act (Cap. 112) ✓ No clear regulation for other savings and credit schemes

3.3 Key Actors in the Microfinance Sector in Uganda

The principal actors in the microfinance sector are financial services providers and their clients. Complementary actors include government agencies, development partners and other support organizations.

3.3.1 Microfinance Clients

Microfinance clients are defined in various ways across the globe. According to CGAP, “Typical microfinance clients are poor and low-income people that do not have access to other formal financial institutions”. Microfinance clients are often self-employed, household-based entrepreneurs. Their diverse “micro-enterprises” include small retail shops, street vending, artisanal manufacture, and service provision. In rural areas, these micro-entrepreneurs are engaged in small income-generating activities. These activities could be food processing and trade; but most of them are small scale farmers and considered as the ‘economically active poor’.[39]

36 Governor: Uganda’s Experience in Regulating Microfinance Deposit Taking Institutions. Paper presented at the International Conference on Microfinance Regulation. http://www.mra.gov.bd/conference/images/speakers/justine%20bagyenmda-%20uganda.pdf. 2010
37 Uganda Bureau of Statistics: Report on Census of Microfinance Institutions in Uganda, 2010
38 Adaption from different sources
39 http://www.microfinancegateway.org/p/site/m/template.rc/1.26.12263/#1

Microfinance is considered to be an instrument which is specifically designed to serve people without access to other financial services. Therefore one of the target group of microfinance services is women.

3.3.2 Government Agencies

The key government and policy making bodies in the Microfinance sector are:[40]

- Ministry of Finance, Planning and Economic Development (MoFPED): The MoFPED is mandated with the management of Government treasury, policy level oversight of the financial sector, and promotion of inclusive financial services, including administration of programmes such as the Rural Financial Services Programme (RFSP).41 There is a department for microfinance under this ministry with the political head being a Minister of state in-charge of microfinance.
- Bank of Uganda: The Bank of Uganda is responsible for regulation of the financial sector to ensure orderly and safe growth, as well as stability of the financial system. Since 1999, the Bank has become active in the regulation of the microfinance sector, culminating into the development of the 4-Tier system under which the sector is regulated.
- Ministry of Trade, Industry and Cooperatives (MTIC): The Department of Cooperatives in MTIC is responsible for policy, registration and supervision of SACCOs alongside other cooperatives. Some of the functions of the Department are exercised through the District Commercial Officers (DCOs) working in the respective District Local Governments in Uganda.

3.3.3 Providers of Microfinance Services

Providers of microfinance services can be categorized as follows:

- **Commercial banks and Credit Institutions (CIs):** To the microfinance sector, commercial banks provide traditional banking services of deposits, credit, foreign exchange services, local and international payments, etc. CIs provide loans and in some cases, savings services.
- **Microfinance Deposit-Taking Institutions:** These are mature MFIs which transformed and are supervised by the Bank of Uganda under the MDI Act, 2003. They offer a range of loan facilities, savings products and payment services.
- **Tier IV MFIs:** These are the un-regulated providers (mainly SACCOs and MFIs) of retail financial services to microfinance clients. The main services include loans, savings and payment services.
- **Microfinance wholesale lenders:** Their principal product is loans to MFIs which can be used for on-lending to microfinance clients, but some also provide equity investments, guarantee services, and capacity-building to MFIs.
- **Insurance companies:** These provide insurance services for personnel, loans and other assets of microfinance institutions.
- **Money lenders:** These include individuals and firms providing loans, usually at high interest rates.

40 AMFIU: The Uganda Microfinance Directory, 2011/12
41 More information on RFSP has been given in Section 1.3

- **Mobile money service providers:** Mobile money services are offered by mobile telecommunication companies and are describing mainly the transfer of money with the help of the mobile phone. MFIs can become agents for mobile money services.

3.3.4 Providers of Microfinance Support Services

The main providers of microfinance support service providers include:

- **Apex organizations:** There are three main national umbrella organizations, and their membership is voluntary. AMFIU is the apex organization for all Microfinance providers; UCA is the apex for co-operatives; while UCSCU is the apex for SACCOs.
- **Regional apex organizations:** Currently there are six regional unions in Uganda, namely FORMA Co-operative Union, Sheema SACCOs Union, Wakiso SACCO Union, Kigezi SACCO Union and Ntungamo Union[42]
- **Credit Reference Bureau:** Credit reference bureau services became available to Uganda's formal financial services market following the licensing of the first Credit Reference Services provider (Compuscan CRB Ltd) in 2008.[43]

3.3.5 Development Partners

Development partners have provided support to the microfinance sector since the 1990s, focusing on capacity-building, policy support, and coordination. The mode of operation varies significantly; while some work directly with partner MFIs, others work through Government or non-Government-related programmes and organisations like AMFIU, UCA, and UCSCU. Development partners have contributed significantly towards the development of the sector.

3.4 Commercial Banks and Credit Institutions (Tier I & II)

3.4.1 Regulation of Commercial Banks and Credit Institutions

Commercial Banks and Credit Institutions (CIs) are regulated under the Financial Institutions Act (FIA), 2004, which succeeded the Financial Institutions Statute, 1993. FIA 2004 is operationalized by the Financial Institutions Regulations of 2005 and related Instruments. Overall, the FIA Act, 2004 sets standard guidelines in such aspects as: licensing; shareholding in financial institutions; capital requirements; prohibitions and restrictions; accounts and financial statements; and corporate governance. Other aspects provided for are: supervision; corrective actions; receivership; liquidation; the deposit protection fund; and amalgamations, arrangements, and affected transactions.

In respect to the regulation of the microfinance industry, the FIA 2004 applies to two broad categories of financial institutions namely, banks and non-bank financial institutions (NBFIs)[44]. Banks include: commercial banks; post-office savings bank; merchant banks; and mortgage banks. Commercial banks have remained the dominant players in this category of banks, numbering twenty four as at April 2013. Currently, out of the 24 licensed commercial banks,

42 Table of details in the annex
43 Bank of Uganda: Speech by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the launch of the Credit Reference Bureau, Bank of Uganda, Kampala, 3 December 2008
44 Lawrence Bategeka& Luka Jovita Okumu; Banking Sector Liberalisation in Uganda; Process, Results and Policy Options (2010), p.16-17

CERUDEB has the largest retail microfinance portfolio with Uganda Shillings 98.9 billion[45] as of 31st December 2012.

In the category of non-bank financial institutions are: credit institutions; acceptance houses; discount houses; and finance houses. Although some of these FIs offer a range of savings and loan products, they do not offer cheque or current accounts, and are not members of the clearing house at the Bank of Uganda. Credit institutions, numbering four as of April 2013 also dominate this category. Two of them are providing microfinance services, PostBank Uganda and Opportunity Bank.

3.5 Microfinance Deposit-Taking Institutions (Tier III)

3.5.1 Regulation of Microfinance Deposit-Taking Institutions

Microfinance Deposit-Taking Institutions (MDIs) are regulated under the MDI Act, 2003. The MDI Act 2003 caters for mature microfinance institutions that transformed from non-governmental organisations (NGOs) and/or companies limited by guarantee/shares.[46]

The MDI Act 2003 covers :a) licensing, which includes minimum capital requirements, on-going capital adequacy requirements, and minimum liquid assets; b) restrictions on certain transactions and dealings; c) ownership; d) corporate governance; e) supervision; f) receivership; and g) liquidation. It also provides guidelines on the MDI Deposit Protection Fund, branches, and other operational aspects.

3.5.2 Operational Microfinance Deposit-taking Institutions

Since 2004, only five MDIs have been licensed47and one of them (Uganda Microfinance Limited) was later acquired by Equity Bank, Kenya, and therefore moved to the Tier I category. Currently, there are four MDIs. The table below gives an overview on the current MDIs.

Table 6: Licensed Microfinance Deposit-taking Institutions in Uganda (MDIs)[48]

Name of MDI	Year of Licensing	No. of Branches
FINCA Uganda Ltd (MDI)	2004	25
Pride Microfinance Ltd (MDI)	2005	30
Uganda Finance Trust Ltd (MDI)	2005	29
UGAFODE Microfinance Ltd (MDI)	2011	12

Outreach

As at 31st December 2012, the four MDIs covered a market of 157,599 borrowers and 701,660 savers. In total, Shillings 185.97b were outstanding in loans. According to the information provided by the four MDIs, both male and female clients are receiving loans, with the percentage of female borrowers at 47%.[49]

45 Centenary Annual Report 2012
46 AMFIU: Draft Tier IV Regulation Report, 2008, p.4
47 AMFIU/SEEP/Citi Foundation, 2008; Uganda Microfinance Industry Assessment, p.15
48 AMFIU data
49 AMFIU PMT data

Staff and Branches

The four MDIs employed 1,495 staff at the end of 2012; of which 45% are loans officers. Among the total staff, 80.3% are based in one of the 96 branches countrywide. The table below shows the regional distribution of branches. It shows the over-representation of the central region which is probably due to the role of Kampala as a commercial business hub. However it also indicates that the east and the west are quite well served, while the North is being neglected by the MDIs.

Table 7: Regional distribution of MDI branches, end of 2012[50]

	Total	West	Central	North	East
Branches MDIs	96	24	41	10	21
Percentage		25%	43%	10%	22%
Distribution Population		25%	26%	23%	26%

3.6 Financial Institutions not Regulated by the BoU (Tier IV)

3.6.1 Regulation of Tier IV

Tier IV Institutions vary in terms of background and type and are therefore associated with varying legal status. For example, Savings and Credit Cooperatives (SACCOs) fall under the Cooperative Societies Act (Cap. 112), whose origin is the Cooperative Societies Statute 1991 and is operationalized by the Cooperative Societies Regulations, 1992. NGOs, which are providing financial services, fall under the Non-Governmental Organizations (Amendment) Act 2006 and the NGO Registration Regulations, 1990. Other financial institutions are registered as companies and the Money Lenders Act, 1952 (Chapter 273) is applicable.[51]

There are many community-based organizations which are not registered on a national level, but operate with licenses from the District Local Governments where these organizations operate.

After the passing of the MDI Act in 2003, various stakeholders expressed their concern on the safety of the funds of microfinance clients in the tier IV sector. Consequently, in the second half of 2007, the Ministry of Finance, Planning and Economic Development (MoFPED) drafted a “SACCO-specific law”, which was intended to address the unique characteristics of SACCOs that are not adequately addressed by the generic Cooperative Societies Act. Alongside, it drafted a non-SACCO Tier IV credit-only MFI legislation. However, the move to have separate legislations for SACCOs and non-SACCO Tier IV MFIs was dropped, paving the way for stakeholder consultations on developing a Tier IV Regulatory Framework that covers all Tier IV financial institutions.

In June 2013, the Cabinet approved the principles for regulation. Therefore large Tier IV institutions will be placed under prudential regulation, while others would fall under non-

50 Ibid.
51 Table 2.2, MFI Census UBOS, 2010

prudential regulation. An important element in the proposals is that large Tier IV institutions will be placed under prudential regulation and probably be accommodated under an amended MDI Act.[52] Additionally small and medium financial institutions, which are currently not regulated, will be supervised by a Microfinance Regulatory Authority.[53]

3.6.2 Tier IV MFIs and SACCOs

SACCOs -are member-owned, member-governed and member-managed cooperative financial institutions. They provide savings, credit and other financial services to their members. SACCO membership is based on a common bond, a linkage shared by savers and borrowers who belong to a specific community, organization, religion or place of employment. SACCOs pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital. By 2009, the Ministry of Trade and Cooperatives reported that in Uganda a total of 2417 SACCOs are fully registered.[54]

Non-SACCO Tier IV MFIs in Uganda are registered as companies, either limited by guarantee or shares. These companies usually have a social background and evolved from either a national or an international NGO. Some few institutions were directly initiated as companies. These institutions are different from common moneylenders as MFIS have a social mission and vision. Overall, AMFIU recognizes 30 institutions in the category of unregulated MFIs as their members. Of these, 16 institutions have included Social Performance Management into their operations.

- **Outreach**

According to the last national Microfinance Census in 2010 by the Uganda Bureau of Statistics, there were more than 2,257 MFIs in Uganda, of which 2,065 are SACCOs.55

AMFIU, as the apex organization for Microfinance Institutions, recognizes seven regulated institutions and 69 unregulated institutions as its members and providers of microfinance services. Of these 69 institutions, 30 are unregulated MFIs which are registered as companies. The other 39 institutions are SACCOs.

AMFIU's own database proves the existence of 88 operational SACCOs56 and UCA reaches out to 431 SACCOs.57 Around 95% of these SACCOs have a loan portfolio of above 100 Million UGX. However, there are more SACCOs in Uganda, with most of them operating as small enterprises at the village level and most of them with limited technical skills to run their institutions. In summary, the discrepancy in terms of numbers (AMFIU vs. the Census) could be explained by the following:

- Most SACCOs with total assets below 100 Million were not captured for this assessment
- Some SACCOs are not operational anymore

52 AMFIU: Presentation by Mr. Benedict Sekabira of Bank of Uganda to AMFIU's pre-AGM Conference, 2012
53 Mrs Kiwanuka, Minister for Finance, opening remarks during the AMFIU Conference on 20th June 2013
54 Ministry of Trade, Industry and Cooperatives: Overview of cooperatives in Uganda
55 UBOS: Report on Census of Microfinance Institutions in Uganda, 2010
56 100 PMT users and additionally 11 SACCO members of AMFIU which are not yet using PMT
57 UCA data

Of the 88 SACCOs (Including the biggest SACCO in Uganda), the total number of borrowers was 89.641 while the total number of depositors was 433,335 as of December 2012. These 88 SACCOs reach out to 3% of the total population above 18 years. This industry assessment recognizes 71 SACCOs, which have been regularly reporting to AMFIU. The total borrowers of these SACCOs amount to 59,092 and depositors amount to 243,327.58 Any further analysis of SACCO data in this report shall be based on the 71 SACCOs.

- **Staff and branches**

SACCOs in this industry assessment report count a total of 693 employees of whom 36% are based in one of the branches and 26% of the total staff are loan officers. On average, every SACCO in this sample has 9.7 employees and 1.13 branches (in addition to the headquarters). The unregulated MFIs employ a total of 1620 people. 93% of the personnel of unregulated MFIs work in a branch rather than the headquarters and a total of 55% of the staff are loans officers.

3.7 The Wholesale Market

The main actors in this category include the Microfinance Support Centre (MSC), Stromme Microfinance East Africa, Oikocredit, and Uganda Central Cooperative Financial Services (UCCFS). Other institutions such as Rabobank Foundation, are giving out loans to institutions in Uganda, but they are not based in the country and data is currently not available. With the exception of UCCFS – which serves cooperatives only, other microfinance wholesalers operate through a range of partner organisations, SACCOs inclusive.

Table 9: Outreach by Wholesale Financial Institutions

	Date	Number of Borrowers	Loan Portfolio Outstanding	Average Loan outstanding per borrower
UCCFS[59]	July 2012	102	1,425,945,383	13.7 Million
Stromme Microfinance[60]	December 2012	18	14,640,364,052	813 Million
MSC[61]	June 2013	867	49,685,151,901	57.3 Million

3.8 Services of MFIs

Microfinance services are financial services for poor and low-income clients. These services differ in size and methodology, but their target group is similar. CGAP lists various characteristics of microfinance services which were developed in the last 30 years, among them a) little or no physical collateral, b) very small loans, c) alternative security mechanisms such as group liability and pre-loan savings requirements, and gradually increasing loan sizes.

58 Excluding WAZALENDO as the biggest SACCO
59 UCA: Annual Report 2011/2012
60 Stromme Microfinance East Africa Limited: Annual Report 2012
61 AMFIU PMT data

3.8.1 Financial Service Provision

MFIs in Uganda offer a range of financial products. Still, the most common microfinance service provision is the extension of credit. In addition, deposits are offered by all MFIs which are legally allowed to collect such deposits. Micro-insurance schemes are still an exception. With the help of mobile money, more and more MFIs also offer money transfer services. Therefore, there are four main categories of microfinance services: Savings, Credit, Insurance, and money transfer.

Per definition of the Microcredit Summit (2-4 February 1997), microcredit programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.62

Microfinance is extended either through the group lending methodology to individuals, or directly to individuals using what is commonly called the individual methodology. Most MFIs and MDIs have well-documented products which are specifically designed to suit the needs of individuals organized in groups; over 50% of the institutions report to have financial products for groups. SACCOs extend 30%63 of all their outstanding loans with the help of the group methodology. This rate is quite low which is mainly due to the product design and definition of target groups by SACCOs. Most SACCOs treat groups as an additional target group for their product range, even when it should only be an outreach methodology. Almost all SACCOs in Uganda register groups as a single shareholder, which makes it difficult to ascertain the actual numbers served. In conclusion, many microfinance institutions, including SACCOs in Uganda provide financial services using the group methodology, but SACCOs still have a gap in their understanding of the functionality of groups and the corresponding product design.
Loans64

Average loan amount per client - In 2012, the average disbursed loan from MDIs to an individual client amounted to Shillings 1,655,592, unregulated MFIs gave out loans worth Shillings 923,394, while SACCOs disbursed loans of Shillings 1,216,139 on average. The average outstanding loan amount at the end of 2012 was Shillings 1,180,031 for MDIs and Shillings 883,082 for SACCOs. Among unregulated Tier IV MFIs, the average outstanding amount was Shillings 793,025.

Pricing-Through the interest rate and fees, MFIs need to cover all operational costs, costs of funds, loan losses, as well as inflation and should finally also generate some surplus for the institution. The interest rates charged on micro-loans range between 24% - 36% per annum. This applies to both regulated and unregulated institutions.

Products- According to the definition of the Microcredit Summit, microcredit is supposed to be used for the business of the borrower. In Uganda, 93% of the MFIs in the sample offer credit for commercial purposes and 91% for agriculture. The loans for agriculture vary in their description; but most institutions have general agri-lending loan products and/or products to finance marketing efforts or assets (e.g. animal traction) used for agriculture.

62 http://www.grameen-info.org/index.php?option=com_content&task=view&id=32&Itemid=91
63 AMFIU PMT data
64 Ibid.

In addition to business loans, most MFIs offer a range of "consumption loans", with 69% of all MFIs providing credit for education which clients can use to pay the school fees of their children. Another 58% of the institutions give out loans for "emergency", which usually attract a higher cost to the client, but the transaction time is shorter and the money can be used according to the needs of the borrower. Loans for emergency are usually used for health-related expenses and burials.

MFIs have also been providing loans for household equipment, including solar and rainwater harvesting for some time. 49% of MFIs currently offer these loan products. Some of these products are provided under projects supported by development partners or the Government, since the features of such loan products often make them unattractive for MFIs if they are to use their own funds for lending. In the past few years, housing microfinance loans started appearing on the market, with Habitat for Humanity Uganda taking the lead. Currently, 20% of the MFIs offer housing microfinance loans.

A salary loan is a credit product which is not defined by the purpose, but by the mode of repayment and collateral. The conditions of the loan depend on the employment contract of the client. 57% of all MFIs/MDIs offer this product, but SACCO clients can only access the product in 17% of the institutions. The difference is due to the nature of the loan, and is related to the location of the institutions. SACCOs usually operate in rural areas whereby the number of members with formal employment is very low.

Deposits

Amount- Savings-accounts are offered by MDIs and SACCOs to their clients and members. On average, every depositor at an MDI had an amount of Shillings116,473 on their savings account by the end of 2012. Members of SACCOs had on average saved at total of Shillings118,412.

Pricing- MDIs pay an interest on savings deposits ranging from 2% to 5% per annum and on fixed deposits (e.g. 1 year) 5%-15% pa. Most SACCOs in Uganda have savings products in place with a fairly high interest rate on savings (up to 12% pa), but the overall interest paid in 2012 was on average only 2% per annum. Overall MDIs paid 4% of the overall deposits as interest on savings in 2012.65

Products–Savings products can be even more powerful for the development of clients than loans. A well-designed savings product can help the poor to become independent from external funds. Naturally, all SACCOs and MDIs offer savings products. Also, some unregulated MFIs take compulsory savings as a kind of collateral before clients can access a loan.

All MDIs and SACCOs offer an ordinary savings product (most SACCOs call it voluntary savings). These savings can usually be accessed at anytime. Fixed-term deposits, which are offered by 57% of the MDIs and SACCOs in Uganda, attract a higher interest rate depending on the amount and period. With fixed-term deposits, the client can only access the deposits

65 PMT data

after a pre-agreed period of time, or else the client may forfeit accumulated interest as a penalty.

With a very influential and growing group of the young population, MFIs increasingly offer savings products for the youth and children, which are either operated by the minors themselves or through their parents/guardians. 33% of all MDIs and SACCOs already target this group with savings accounts and offer products such as "Junior Accounts".

Commitment or target savings is one of the newest products on the Ugandan market. This kind of deposits allows the client to save for a specific purpose, and access the money only after a prior agreed upon condition occurs. This condition can either be a) specific amount, whereby the client saves until he/she has reached the agreed amount or b) time, whereby the client saves and can only access the money at a specific time, for example on Christmas or a wedding. 20% of the regulated institutions and 17% of the SACCOs are already offering this savings product.

Insurance

Insurance services for microfinance clients are still underdeveloped in Uganda. The most common insurance product among MFIs is the credit life insurance. This fund covers the principal loan amount and interest payment in case of the death or permanent disability of the borrower. The way this fund is maintained varies. Regulated institutions and most MFIs collect the premium and pass it on to an external insurance company which manages the insurance claims. Some SACCOs retain the money and build up a fund of their own.

Some institutions offer health care or catastrophe insurance schemes. Other insurance schemes are not yet very common.

Money Transfers

This service used to be mainly for receiving foreign remittances through international money transfer systems and mobile money. MFIs have engaged in this business in partnerships with international firms or telecommunication companies. Currently, money transfers through the mobile telephone have become an attraction to many MFIs.

3.8.2 Agricultural Finance

The agricultural sector (in 2009/10) employs 66% of Uganda's working population[66], hence provides the principal source of livelihood to this population. While the agricultural sector recorded annual growth of 3.0% during the Financial Year 2011 – 2012,[67] the contribution of the agricultural sector to Uganda's GDP has been declining over the years. The extension of financial services to the sector has been identified as one of the most critical success factors. Reforms have been made to the policy and legislation related to warehouse receipts[68],

66 UBOS; Statistical Abstract, 2012
67 Budget Speech for the Financial Year 2012 – 2013 delivered by the Minister of Finance, Planning and Economic Development, p.3
68 Uganda Commodity Exchange Limited: http://www.uce.co.ug

alongside capacity-building in this aspect. Consequently, new loans and advances to agriculture by supervised financial institutions grew by over 60% in 2011, which is considered a rapid growth although from a small base. Correspondingly, the overall contribution of agricultural lending to total formal lending increased from 7% in 2010 to 9% in 2011 (from Shillings 353 billion in 2010 to Shillings 566 billion in 2011).[69] The growth in lending was mainly due to financing post-harvest activities and purchase of equipment. The government established the Agricultural Credit Facility which provides loans for farming activities and is managed by the BoU.

Though some financial institutions have increased their engagement in agriculture, the overall lending rate is still low. A study[70] carried out by AMFIU in 2010 indicated that while MFIs claim to offer agricultural loans, their design is not much different from the traditional commercial, working capital loan product. While the commercial loan is suitable for clients involved in trading and other highly-liquid activities throughout the value chain, it is not suitable for activities with irregular cash flows, or those with a long gestation period. Even within agricultural production itself, financial institutions are attracted more to the quick-maturing crops, where other factors including good markets for agricultural produce can be reasonably predicted. Hence, financing to agricultural production, and financing for long-term crops remain significantly inadequate.

The current thinking is to address agricultural finance through a value chain approach. At the same time, efforts have been made to address structural issues which have impeded successful agricultural lending in Uganda. The achievements recorded in agricultural finance are also a result of the support from development partners. These include: the World Food Programme; Danida Programmes, including aBi; GIZ, USAID programmes (ACDI/VOCA, LEAD); the Kilimo Trust; KfW; the World Bank; IFAD; and African Development Bank.

3.8.3 Non-Financial Services

While the core business of MFIs is financial services, many MFIs also provide non-financial services. However, MFIs usually report less on non-financial services than financial services. Non-financial services may be offered at a fee charged separately, or as part of a financial product. For example, some MFIs offer training in basic entrepreneurship skills to potential borrowers before they receive loans.

One aspect of non-financial services, which is gaining significance, is financial education71, components of which are delivered in various ways by MFIs. It is also known that SACCOs often carry out trainings before or during their AGMs. Data from AMFIU SACCO members shows that some SACCOs provide custodial services for clients' valuables; others offer training in SACCO matters and consultancy in SACCO affairs, while others provide training in personal finance management.[72]

69 GIZ/BoU/PMA/aBi Trust: Agricultural Finance Yearbook 2011, p.13
70 AMFIU: Microfinance Product Catalogue, 2010, p.3
71 More information on financial literacy in Chapter 5.1 'Financial Inclusion'
72 AMFIU: The Uganda Microfinance Directory 2011/12

3.8.4 Outlook on Products

The products offered by Microfinance Institutions differ slightly, but most institutions offer similar services, with less concentration on systematic product development but with more of a "copy and paste" approach. **Diversification and innovation levels are still low and clients' needs are rarely considered when introducing new products**.

Additionally, a **lack of recognition of traditional microfinance practises** among Ugandan MFIs, especially in the unregulated sector could be observed. Only a few institutions use the graduation principle (stepped loans); most unregulated institutions focus on individual membership instead of groups; and almost all institutions require their clients to secure loans through physical collateral.

However, with technology and competition, MFIs are likely to undertake more systematic product development, enabling them to offer a wider range of services to their clients. Already, there are efforts by development partners to promote product innovation and several institutions have consequently developed new products which are reportedly performing well.

One of the upcoming products is **microleasing**, which simply means that a client acquires a (micro – small) productive asset which is financed by a financial institution (lender), and after acquiring the asset the client pays periodic instalments to the lender, until all costs are covered and the ownership of the asset moves from the financial institution to the client. In Uganda, Microleasing is still a relatively new product which is being introduced by Swiss Foundation for Technical Cooperation. The concept of microleasing is based on the common leasing practices, which were adjusted to the needs of microfinance clients. Microleasing has several benefits including: a) the asset pays for itself through its production over a given transaction period, that is, it is cash flow-driven; b) ownership is transferred at the end of a given transaction period, that is, the asset acts as collateral; c) the client is trained on asset utilization; and d) the asset is insured.

The market provides opportunities for institutions to create linkages with informal financial groups. According to the FinScope study 2009, 38% of the overall population above 16 belongs to an informal financial group.73 These groups can be ASCAs, ROSCAs, VSLAs, investment or savings clubs. This indicates that the financial institutions have not yet fully utilized these groups. Although these 38% are accessing services from these groups, very few groups are linked to formal financial institutions. Even then, it is only the suitability of the services provided by MFIs to informal groups that will help sustain the linkage. Nevertheless, well-defined savings products could help individuals in informal groups to keep their money in a formal institution where it is kept more safely.

73 FinScope Uganda 2009: Demand, Usage and Access to Financial Services in Uganda, October 2010.

CHAPTER 4: PERFORMANCE ANALYSIS

4.1 Introduction

This section of the report analyses the performance of individual financial institutions, peer groups and the industry as a whole. The data on microfinance in this chapter is based on self-reporting of MFIs to AMFIU. Most institutions are using the PMT for standard reporting. For this evaluation, AMFIU considered only the institutions which have been consistently reporting for a minimum of one year. Specifically for co-operative societies, this industry assessment mainly focuses on SACCOs with an outstanding loan portfolio (end of 2012) of a minimum of Shillings 100 million and a maximum of Shillings 5 billion UGX.[74] Among Tier I and II, only providers of microfinance services have been considered. The report portrays the performance of five regulated institutions and 73 unregulated Tier IV MFIs/SACCOs. [75]

4.2 Institution Type, Characteristics and Size

This section of the report compares three types of Ugandan institutions: an MDI, an unregulated MFI and a SACCO.

On average, an MDI in Uganda has an outstanding loan portfolio of around Shillings 46b; an unregulated MFI has Shillings 29b, and a middle sized SACCO manages loans of about Shillings 0.93b. MDIs and unregulated MFIs can be considered as large institutions, while most SACCOs are small and mid-sized institutions which operate in a limited regional area. The table and the chart below show and compare the average size of an institution (figures are in Billion UGX).

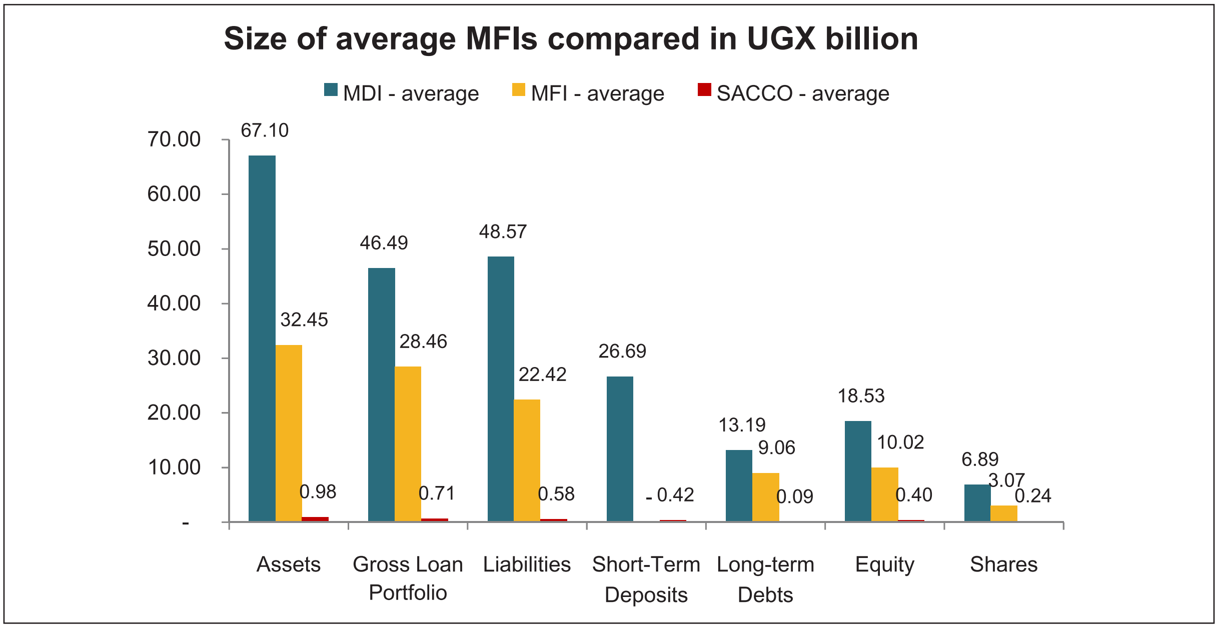
Table 10: Comparison of MDIs, MFIs and SACCOs (in UGX billion)

	MDI - average	MFI - average	SACCO - average
Assets	67.10	32.45	0.98
Gross Loan Portfolio	46.49	28.46	0.71
Liabilities	48.57	22.42	0.58
Short-Term Deposits	26.69	n/a	0.42
Long-term Debts	13.19	9.06	0.09
Equity	18.53	10.02	0.40

74 The maximum threshold was set because there is one big SACCO in Uganda with a loan portfolio of above Shillings 55 Billion; the SACCO was included under "MFIs" because it is not representative for an average SACCO. The minimum threshold was set, because very small SACCOs of a loan portfolio below Shillings 100 Million usually serve not more than one village or parish. These SACCOs have below 60 borrowers and usually maintain a manual book keeping system. There is no clear and updated information about the number of these small SACCOs.

75 Annex I

Chart 1: Comparison of Average size of MFIs



SACCOs

Size - Most SACCOs are mid-sized SACCOs with a loan portfolio between Shillings 100 and 500m.76 On average, a SACCO had 3,427 members by the end of 2012. The table below shows the size of the SACCOs who participated in the sample. 7.5% of the sample SACCOs managed to move from the 'small SACCO' cluster (Loan Portfolio below Shillings 500m) to the cluster of mid-sized SACCOs and again 7.5% of the SACCOs captured under mid-sized institutions grew to be captured in the cluster for large SACCOs (above Shillings 1b).

Table 11: Size of SACCOs

Cluster	Beginning of 2012	End of 2012
Portfolio below 500m	40	37
Portfolio 500m – 1b	19	19
Portfolio above 1b	12	15
Total	71	71

Region – Most of the SACCOs in this sample were from Western Region (63%), followed by the Central Region (17%) and SACCOs from Northern and Eastern (equally 10%).

Years of operation - Most of the SACCOs were founded in the 2000s, 19% of the SACCOs in this assessment were registered before 2000, 64% were registered between 2001 and 2005 while 17% were registered after 2005.[77]

76 Three SACCOs had a Loan Portfolio slightly lower than Shillings 100m
77 AMFIU PMT data

Table 12: Sample SACCOs and their years of registration

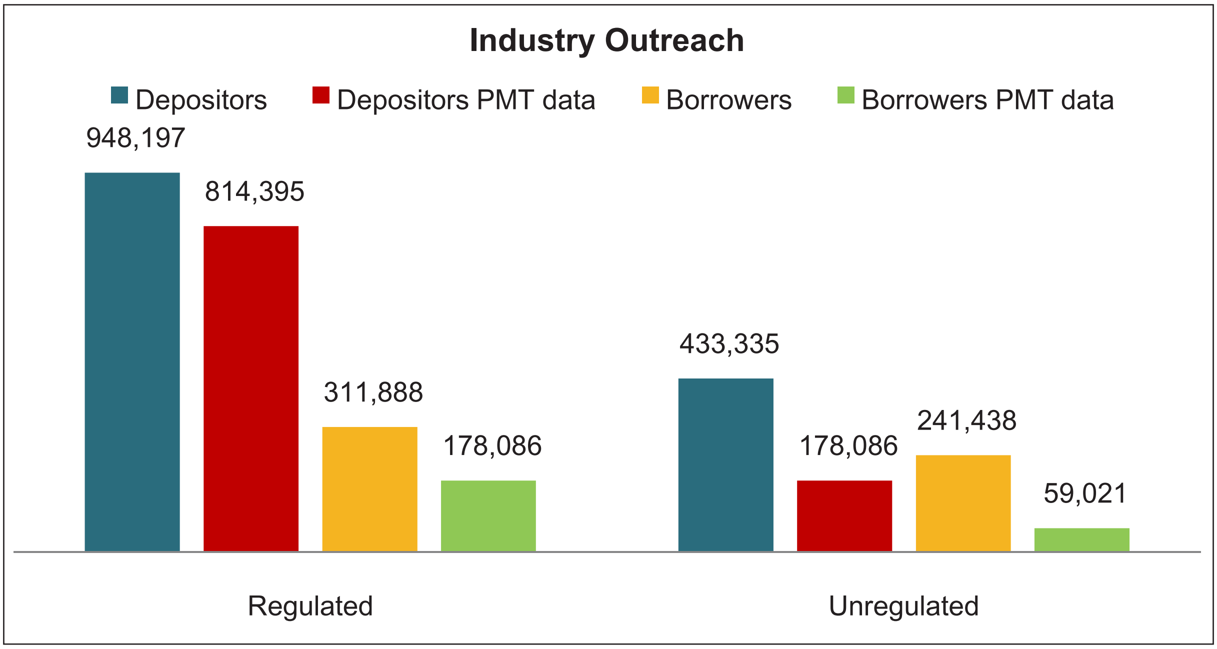
Year of Registration	SACCOs
before 2000	19%
2000-2002	23%
2003-2005	41%
after 2005	17%

4.3 Breadth of Outreach

Microfinance aims at extending financial services to people which don't have access to the traditional banking sector. Indicators to measure the breadth of outreach include the numbers of clients, borrowers as well as depositors.

In total, AMFIU's data shows that the Microfinance Industry in Uganda serves 1,381,532 depositors and 553,326 borrowers.78 The graph below shows the distribution of micro-depositors and –borrowers according to the different types of institutions: Regulated (Tier I – III) and Unregulated (Tier IV). Both individual and members of groups were considered. The data in the graph is clustered into two groups. One cluster indicates the data which was captured through the PMT and the second group represents institutions reporting to AMFIU in general (with and without the PMT).

Chart 2: Industry Outreach



78 AMFIU PMT and AMFIU survey data

Depositors

Both MDIs and SACCOs increased their outreach to new clients in 2012. The number of depositors of MDIs grew by 26.3% in 2012, while the value of savings increased by 19.51% in the same year. At the end of 2012, 701,660 Ugandans had savings accounts in MDIs. Out of these depositors, 43% are female.

SACCOs increased the number of depositors by 4.4% and the total savings amount grew by 7.58%. The performance among SACCOs differed in the different institutions. 64% of the SACCOs in the sample increased their short-term deposits while the savings deposits of 36% of the institutions decreased. A total of 233,913 Ugandans are served by SACCOs reporting to AMFIU. The increase of members was higher than the number of depositors; SACCOs reported an increase of 13.5% on membership. The same SACCOs reported that 29% of the depositors are female. Among SACCOs, there is a strong regional concentration of depositors in Western and Central Regions.

The average account balance in an MDI was Shillings116,473 and of a SACCO client Shillings 118,412 by the end of 2012.

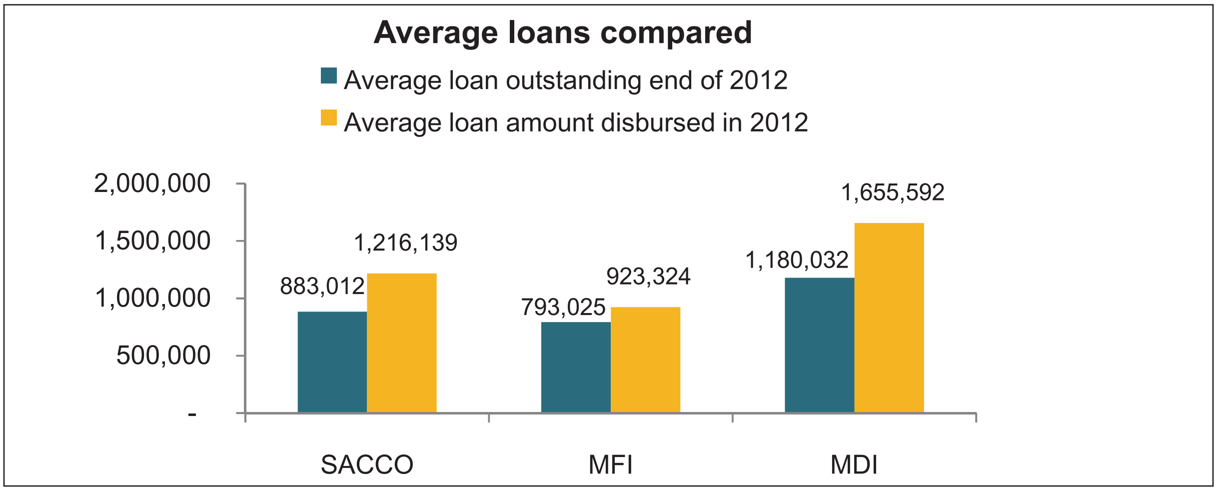
Borrowers

By the end of 2012, the overall outstanding loan portfolio of MDIs was 185.9b UGX, serving a total of 157,599 borrowers. In MDIs most clients receive their loans in groups, only 35% of the clients received loans as individuals in 2012. The number of borrowers from MDIs did not grow in 2012 (growth rate of 0.002%). SACCOs reported a joint portfolio of 50.4b which was distributed among 57,400 mostly individual borrowers. For both, SACCOs and MDIs, close to a quarter of their depositors also serve a loan.

In terms of average loans outstanding, a client of an MDI had on average 1.18m outstanding, whereas a client of a SACCO had 0.88m and a client of an unregulated MFI had 0.79m outstanding. The average loan amount disbursed in 2012 for MDIs was 1.65m, for SACCOs 1.22m and for unregulated MFIs 0.92m.

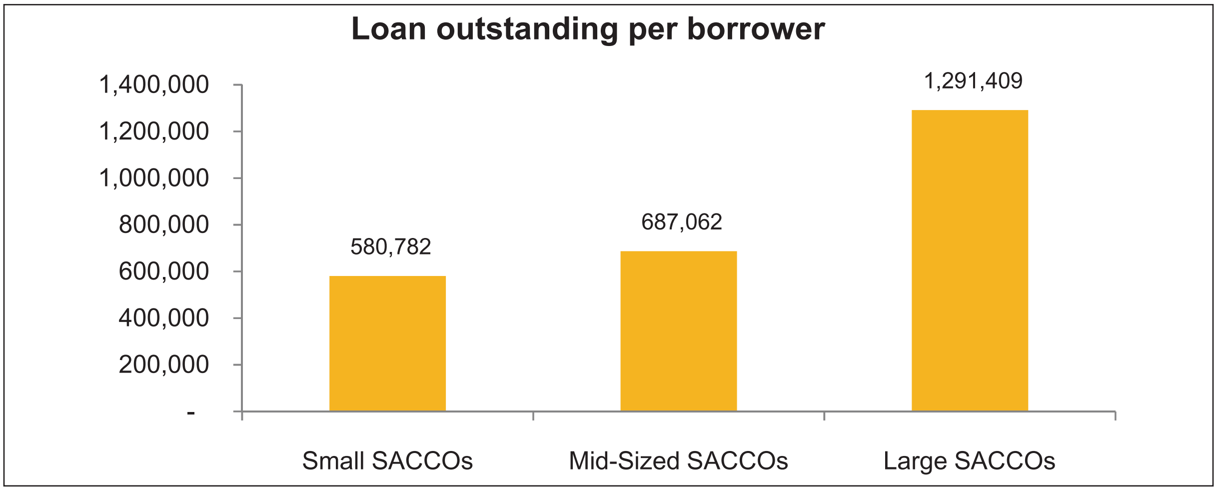
The table below compares the average loan disbursed in 2012 with the average loan outstanding by the end of 2012.

Chart 3: Average loan amounts compared



Among SACCOs, the average loan size differs according to the size of the institution. The graph below shows the average loan outstanding per borrower for the three peer groups: Small SACCOs (below 500million Loan Portfolio), mid-sized SACCO (Loan Portfolio between 500million and 1b) as well as large SACCOs (Loan Portfolio above 1billion)

Chart 4: Average loan sizes for different SACCO peer groups



Regions

For SACCOs, the average loan amount disbursed varied in the four geographical regions. The average loan outstanding from SACCOs in Northern Uganda is Shillings 380,154, which is a big difference compared to Shillings 1,157,803 from SACCOs in Central Region.

The SACCOs from Eastern Uganda have an average loan amount per client of Shillings 875.524, and Western' SACCOs of Shillings 957,525.

The distribution of MFIs according to the different sub regions shows, that by the end of 2012 almost half of all MDI branches (43%) are located in the Central region whereas 63% of the reporting SACCOs are located in the Western Region. The Northern Region has the lowest percentage of MDI branches (10%) and, together with Eastern Uganda, the lowest percentage of operating SACCOs (10%).

Among SACCOs, only 10% of the SACCOs are located in the Eastern Region and these SACCOs hold only 4% of the overall loan portfolio and represent 7% of the members. On average, the SACCOs from the Eastern Region have a loan portfolio of 310m. The SACCOs in the Northern Region represent equally 10% of the sample SACCOs, 8% of the total loan portfolio and 9% of the members. SACCOs in Northern Uganda had on average a loan portfolio of 553m.

17% of the SACCOs in the sample are located in the Central Region, but they represent 21% of the overall loan portfolio and even 24% of the total SACCO members. The SACCOs in Central Region are the largest in terms of average loan portfolio (885m), followed by SACCOs from the Western Region (749m). SACCOs in Western region represent 63% of the sample, 67% of the loan portfolio and 60% of the members.

Table 13: Distribution of Sample SACCOs and MDI branches

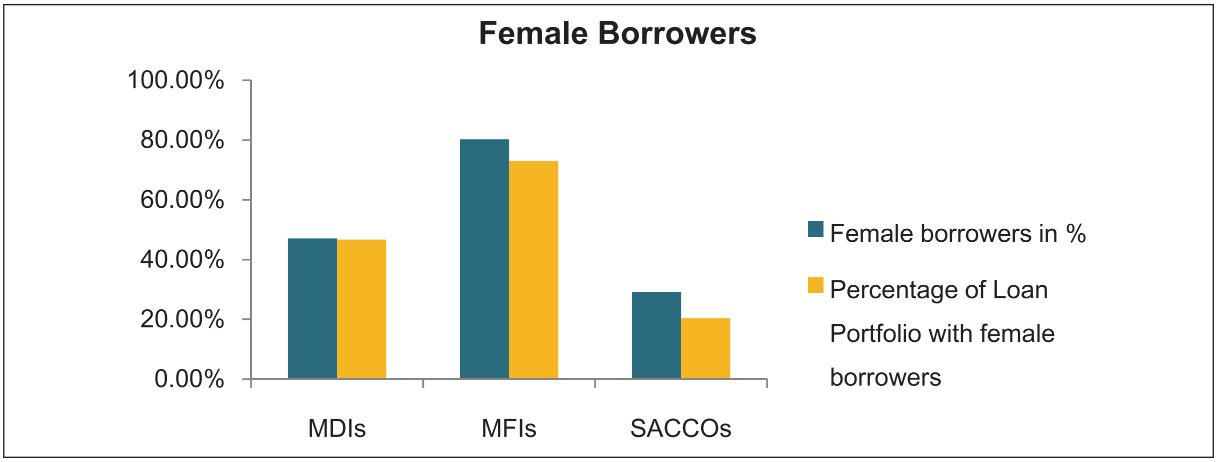
SACCOs	Distribution of Sample SACCOs	Branches of MDIs
Northern	10%	10%
Western	63%	25%
East	10%	22%
Central	17%	43%

Gender

Female borrowers represented 47.1% of all the total borrowers in MDIs, 80% in unregulated MFIs, and 29% in SACCOs. This shows that the Ugandan microfinance market targets both women and men. Unregulated MFIs seemed to have a strong focus on serving women. Among SACCOs there is still a gap in terms of serving female borrowers. One of the reasons could be that female members usually are more likely to be members of savings & credit groups than individual members of an institution. MDIs and unregulated MFIs are specifically applying the group methodology to reach out to their clients. Some SACCOs also use the group methodology but most of the SACCOs don’t capture the data on group membership.

Despite the positive developments in the distribution of female and male borrowers, there is still inequality in the loan sizes. On average, female borrowers still receive lower loan amounts from MFIs than their male counterparts. The difference is most significant among unregulated MFIs/large SACCOs and mid-size SACCOs. Female borrowers in those institutions still receive loans which are 8.42% and 3.77% respectively lower than the average loan disbursed. There is no significant difference between the loan sizes of male and female borrowers among MDIs.

Chart 5: Comparison of gender composition among MFIs



4.4 Portfolio Quality

The most important asset of a financial institution is the loan portfolio. The portfolio of MDIs and of SACCOs increased in 2012. While MDIs increased their total asset base by 16.69% in the year 2012, the total loan portfolio outstanding increased by 8.48% even though the number of clients stagnated. The table below shows the details on the total assets and total loan portfolio for MDIs.

Table 14: Total Assets and Loan Portfolio of MDIs

	2012	2011	MDI1	MDI2	MDI3	MDI4
	Total		**Individual change in %**			
Total Assets MDIs	268,3b	229,9b	+57.2%	+25.0%	+9.6%	+2.6%
Total Loan Portfolio MDIs	185,9b	171,4b	+37.8%	+13.6%	+8.5%	-4.9%

SACCOs increased their assets jointly by 10.65% and their portfolio by 5.41%. The table below shows the total assets and total portfolio both on average and the total amount for SACCOs and MFIs.

Table 15: Total Assets and Portfolio of SACCOs and MFIs

	SACCOs	MFIs	SACCOs	MFIs
	Averages		**Total**	
Total Assets	1,2b	32,4b	69,4b	162,2b
Total Loan Portfolio	0,9b	28,4b	50,4b	142,3b

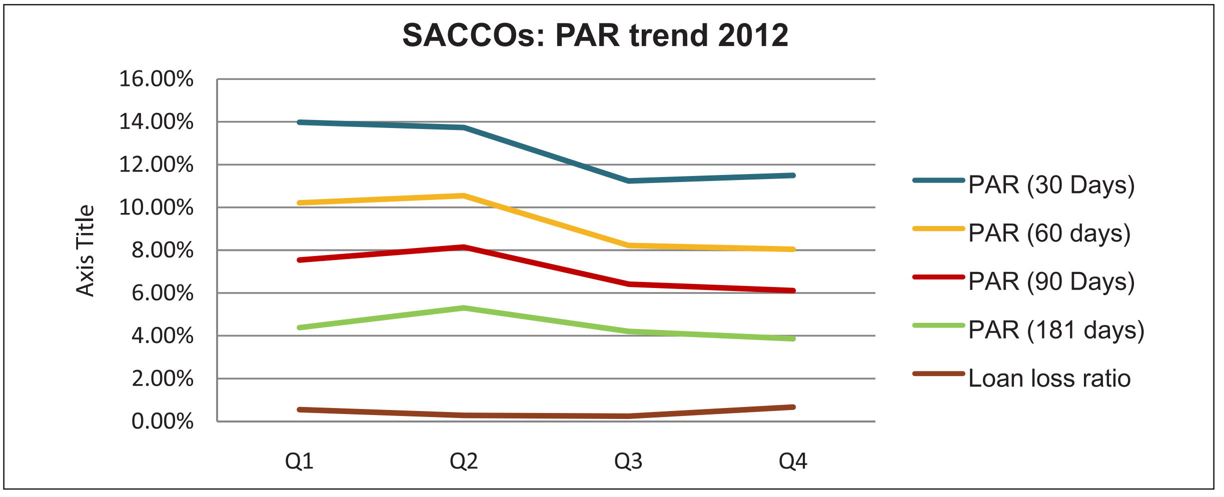
Quality

The Portfolio is the major income generating asset for all MFIs. A good quality loan portfolio indicates efficient management, and well developed procedures, among others. The Portfolio at

Loan Portfolio Indicators
Portfolio at Risk
Loan Loss Ratio/Write-Off
Ratio Risk Coverage Ratio

Risk (30 days) among MDIs was 3.43%, unregulated MFIs had on average 2.35% of their portfolio at risk, while for SACCOs the PAR (30 days) was 11.4%. In could be observed, that the smaller SACCOs had higher PAR levels, the average PAR (30) of SACCOs with a loan portfolio below 500m was 16.3% and of SACCOs with a higher portfolio 8.5%. The PAR indicates the percentage of loans with arrears relative to the total loan portfolio. It is considered as the best ratio to measure the quality of the loan portfolio. SACCOs not only have the highest Portfolio at Risk levels in comparison to the other industry players, but also the highest loan loss ratio. At the end of 2012, 3.8% of the overall SACCO Loan Portfolio was at risk for over 180 days and the loan loss ratio was as low as 1.8%, compared to 2.09% of MDIs and 1.23% of other unregulated institutions. Even though the write-off ratio is highest among SACCOs, there is still a low tendency to write-off loans in SACCOs. Loan portfolio management can be considered as one of the areas in which SACCOs still need to improve, even though most SACCOs have had positive development in 2012. Chart 6 shows the PAR (30, 60, 90 and 180 days) trends as well as the loan loss ratio among SACCOs in 2012.

Chart 6: Development of PAR levels in 2012



In order to protect the institution from potential loan loss, MFIs should have loan loss provisions. The risk coverage ratio measures how much of the portfolio at risk is covered by the loan loss provision. It is an important indicator which shows how prepared the institutions are to absorb possible loan losses. As of 31st December 2012, the average risk coverage ratio of MDIs was 61%, for MFIs 57% and for SACCOs 36%.

Generally, the loan portfolio performance in regulated and unregulated institutions has notable variations. Some of the possible reasons for this variation are given below:

1) MDIs, being regulated institutions are under strict guidelines regarding the quality of loan appraisal, monitoring and reporting. This means that they have to invest in skills-building for their personnel, as well as maintain strong management information systems for loan-

tracking. Consequently, they are better at identifying and reporting bad loans, as well as making accounting adjustments as per Bank of Uganda guidelines. In contrast, SACCOs have weaker systems for general loan management, and even where bad loans are later identified, they are rarely accounted for according to recommended practice. Indeed, some SACCOs do not write off extremely bad loans.

2) MDIs undertake more systematic product development and promotion. Hence, they provide loans which are closer to the clients' needs than SACCOs. The assumption is that the more loan products are designed in order to meet the needs of the clients, the higher the repayment rates and therefore the lower the PAR. In contrast, many SACCOs do not carry out systematic product development, and only wait for clients to come to their offices and take on loan products that are available – whether they are suitable or not. The consequence is low loan repayment - and a higher PAR.

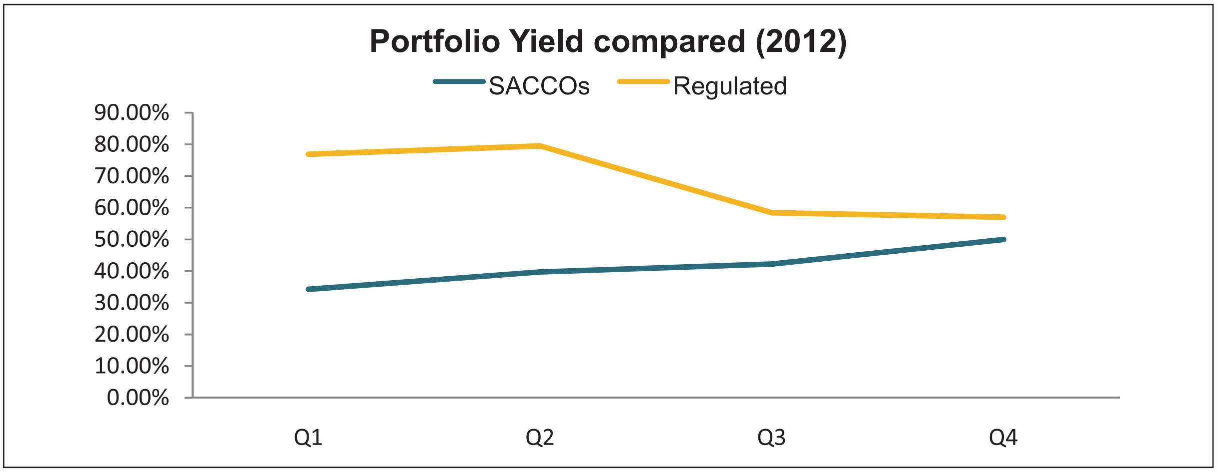
4.4 Profitability

Profitability indicators review the capacity of businesses in terms of generating income which is crucial for sustainability and growth. It is important for Microfinance Institutions to balance two key factors: profits and social responsibility. On one hand, the institutions are required to generate enough own revenue from their core operations to offset expenses and accumulate reserves; on the other hand, clients demand low-cost-services and responsible growth. Institutions which have managed to balance these two factors have managed to fulfil the essential conditions for sustainability.
Profitability Performance in 2012

86% of the institutions reported a positive return (after taxes and grants) in 2012, which indicates that most institutions reporting to AMFIU are at least running a profitable business. The Operational Self-Sufficiency ratio is a simple indicator, which indicates if the institution is generating enough income to cover its running costs. It is recommended that MFIs have an OSS of above 100%, which shows that they generate sufficient revenue to cover all their operating costs. The overall performance of MDIs in terms of operational self-sufficiency was with an average of 112% below the performance of SACCOs with 125% and unregulated MFIs of 141%. In terms of Portfolio Yield, which indicates how much cash revenue the institution received from its loan portfolio in interest, fines and fees, the four MDIs had an average of 55%. The average Portfolio yield for unregulated MFIs was 36% and 41% for SACCOs.

The benchmark for good performance on Portfolio Yield is a minimum of 42%, therefore both MDIs and SACCOs are performing relatively well. Interesting is the development of the Portfolio Yield throughout the year. The sample SACCOs increased their Portfolio Yield in Quarter III and IV, whereas the Portfolio Yield for regulated institutions decreased in the same time frame. This development for SACCOs might be explained by the repayment rate, which improved towards the end of the year.

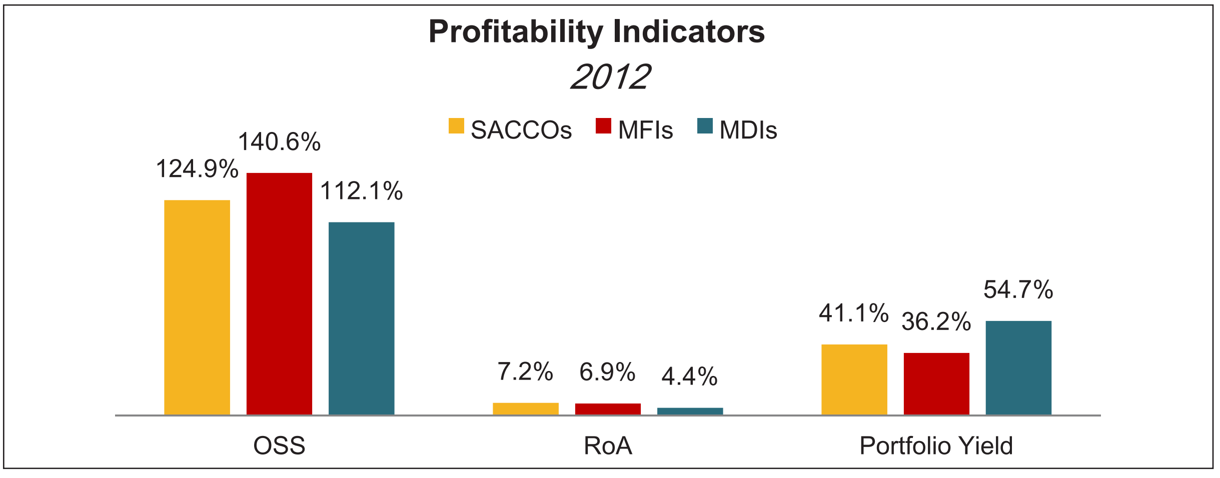
Chart 7: Portfolio Yield development of SACCOs and regulated institutions compared



RoA is an indicator which is commonly used by business to measure their profitability. The RoA shows whether the institution is able to use its assets productively to generate returns. Profitable and sustainable businesses have at least a positive RoA, whereby well-performing institutions can even have a RoA of 10-15%. For MDIs, the benchmark for good performance is 5%, which was achieved by one institution in 2012, whereas all other three have a RoA of below 2%.

From the three peer groups, the unregulated institutions performed better than their unregulated counterparts. The chart below shows the three main profitability indicators of the three selected peer groups.

Chart 8: Profitability Indicators

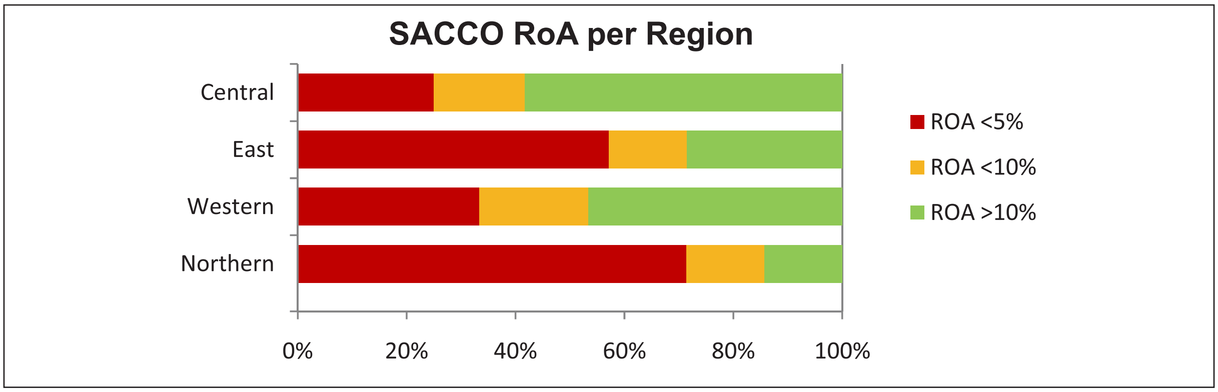


Profitability for selected SACCO peer groups

i. Regions

The performance of SACCOs in the different regions varies. 71% of SACCOs in Northern and 57% of the SACCOs in Eastern Uganda had a return on assets of below 5% in 2012. On the contrary, 47% of SACCOs in Western and 58% of SACCOs in Central had RoA of above 10%.The chart 8 illustrates the differences in RoA. On Operational Self-Sufficiency, 29% of the SACCOs from Northern Uganda in the sample had a OSS below 100% in 2012, 18% of the SACCOs in Western Region did not reach 100%, 17% of the SACCOs in Central and 14% of the SACCOs in Eastern Uganda. This variation in performance signals a need for specific interventions for the SACCOs in the different regions of Uganda.

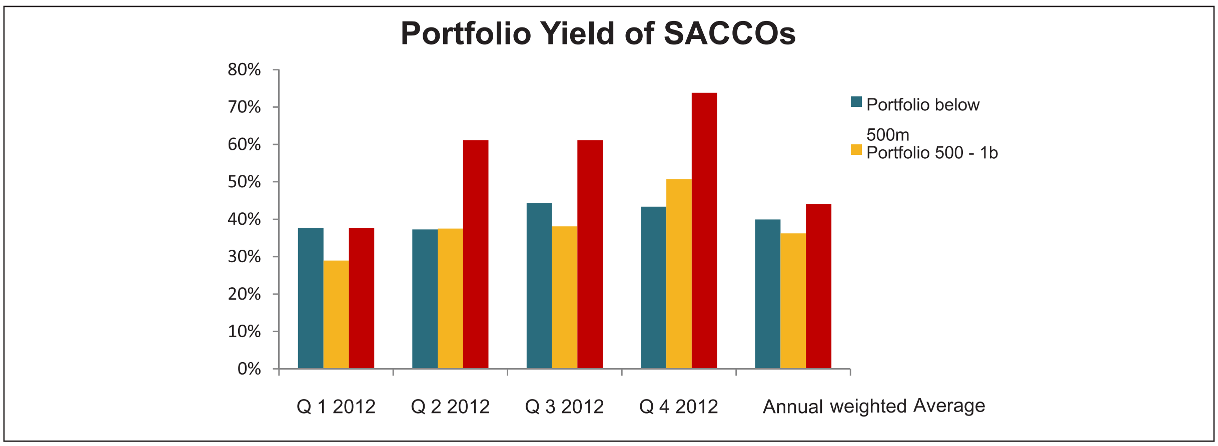
Chart 9: Return on Assets for SACCOs according to Regions



ii. Size

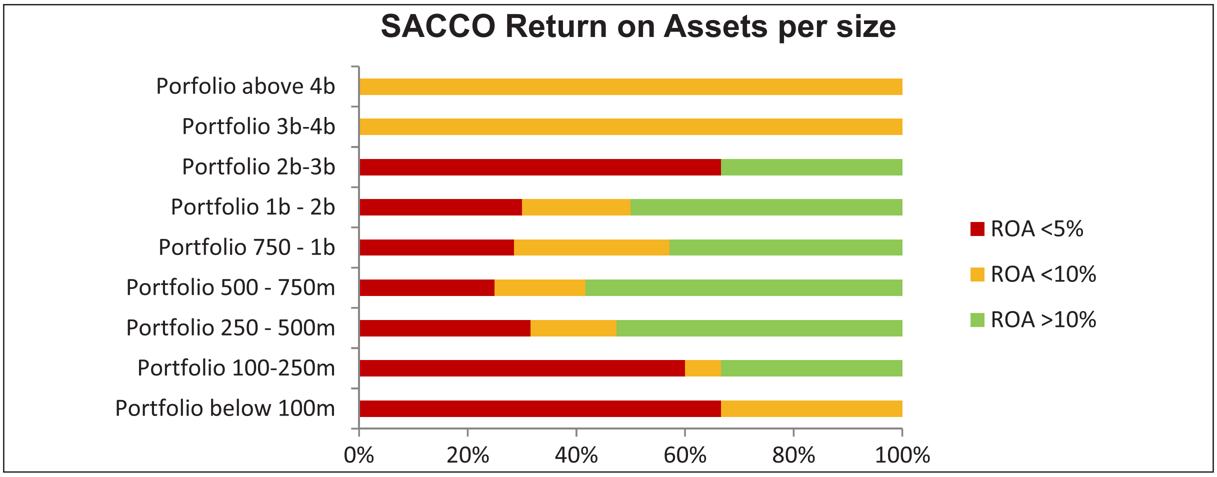
Profitability can also be influenced by the size of the institutions. The Portfolio Yield increased in the sample SACCOs with every quarter, even though the indicators are annualized. The highest Portfolio Yield of 44% could be generated by SACCOs with a Loan Portfolio of above one billion. Slightly lower, but still performing well in terms of Portfolio yield, is the SACCO peer group with a loan portfolio of below 500 Million and an average Portfolio Yield of 40%. The lowest Portfolio Yield of 36% was generated by the group of SACCOs with a loan portfolio between 500 million and 1 billion. The chart 10 below shows the Portfolio Yield per quarter and size of institution.

Chart 10: Portfolio Yield of SACCOs according to size of institution



Comparing the Return on Assets among the different institutions, most SACCOs with an outstanding Return on Assets (above 10%) had a portfolio between 250 and 750 million.

Chart 11: Return on Assets according to the size of SACCOs



4.6 Efficiency and Productivity

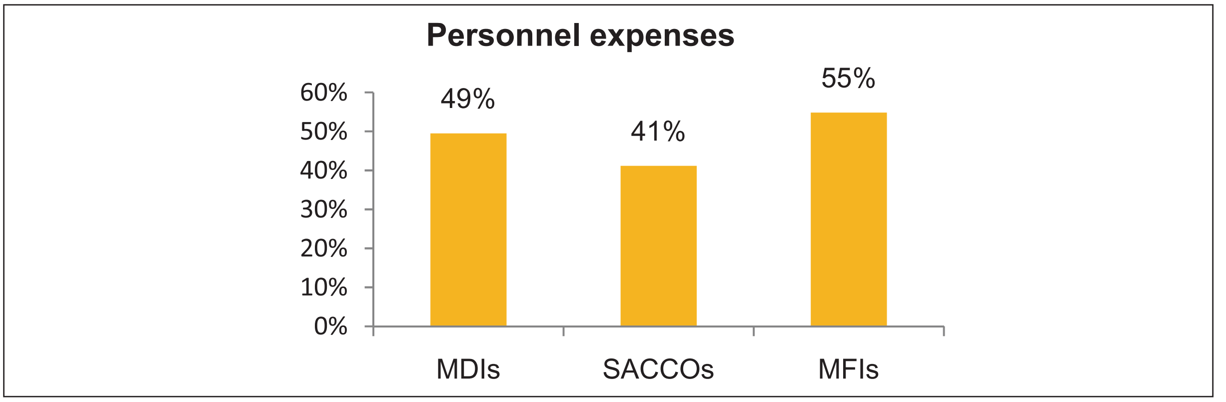
Efficiency indicators help to analyse how effectively an MFI uses its resources. The provision of microfinance services is considered costly due to high transaction costs. A typical microfinance loan, for example, might have similar or even higher transaction costs than a larger loan. Additionally, most MFIs provide non-financial services, such as financial literacy programmes, which also need to be budgeted for. Still most of the MFIs in Uganda have reached a level of efficiency.

Efficiency

Operational expenses represent around 80% of the total expenses of a Ugandan MFI. This is regardless of their organizational background or regulation status. Therefore, not surprisingly, the Cost-of-Funds ratio, which indicates how much the institution pays for internal and external funds, was relatively low for all institutions in 2012: It was on average 4.8% for SACCOs, 5.4% for unregulated MFIs and 8.23% for MDIs 8.23%. The costs of funds ratio can be interpreted as a combined interest rate for all funding liabilities.

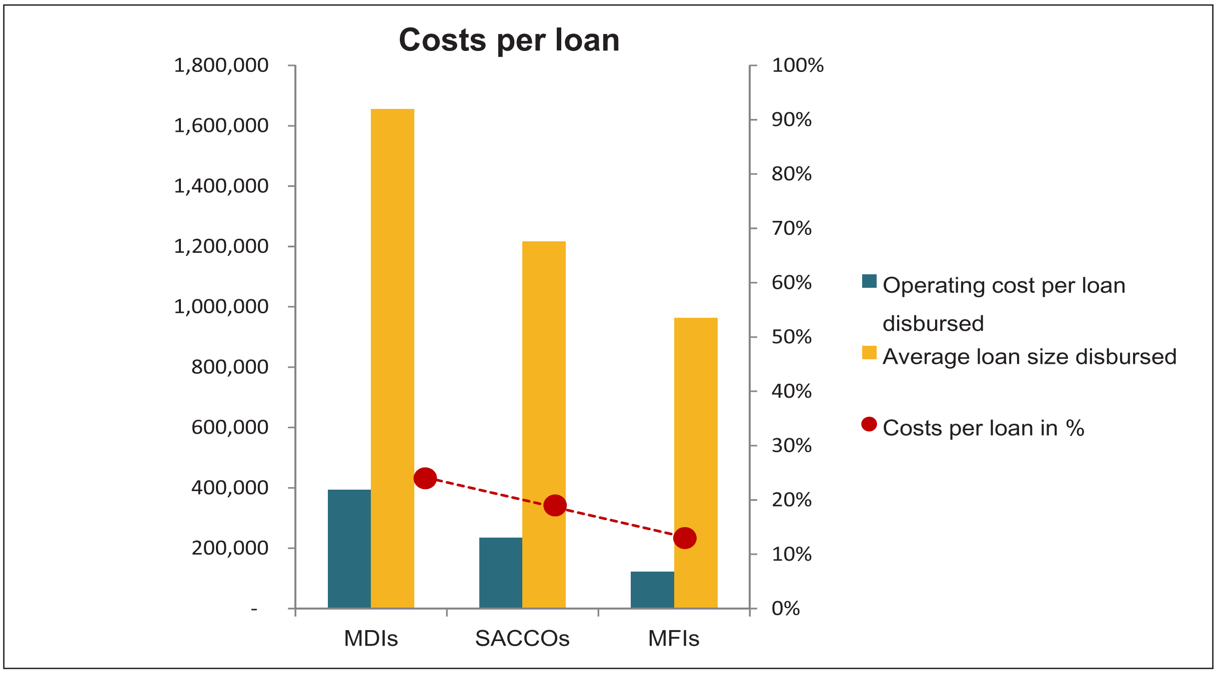
The Operating Expense Ratio (OER) shows the cost efficiency in relation to the loan portfolio. It is recommended that an institution has a low Operating Expense Ratio. The national benchmark for MDIs is <60% and for unregulated institutions <20%. In 2012, MDIs had an average OER of 42.6%, which is below the benchmark and therefore a fairly good performance, whereas MFIs had 22.6%, while SACCOs had 32.6%. Neither Tier IV MFIs nor SACCOs reached the recommended percentage of below 20%. In this area, both types of institutions should increase their efforts to reduce their operating expenses. The highest operational costs are the expenses for employees as shown in the chart 12 below.

Chart 12: Percentage of personnel expenses from overall operating expenses



The different cost structures can also be observed in the average operating-costs-per-loan-disbursed. MDIs have a 'Costs per Loan Ratio' of 24% which is the highest, followed by SACCOs with 19% and unregulated MFIs with 13%. Despite the fact that MFIs have higher personnel expenses their costs per loan ratio is lowest. Chart 13 compares the operating costs per loan disbursed with the average loan disbursed and the costs per loan in %.

Chart 13: Average operating costs per loan

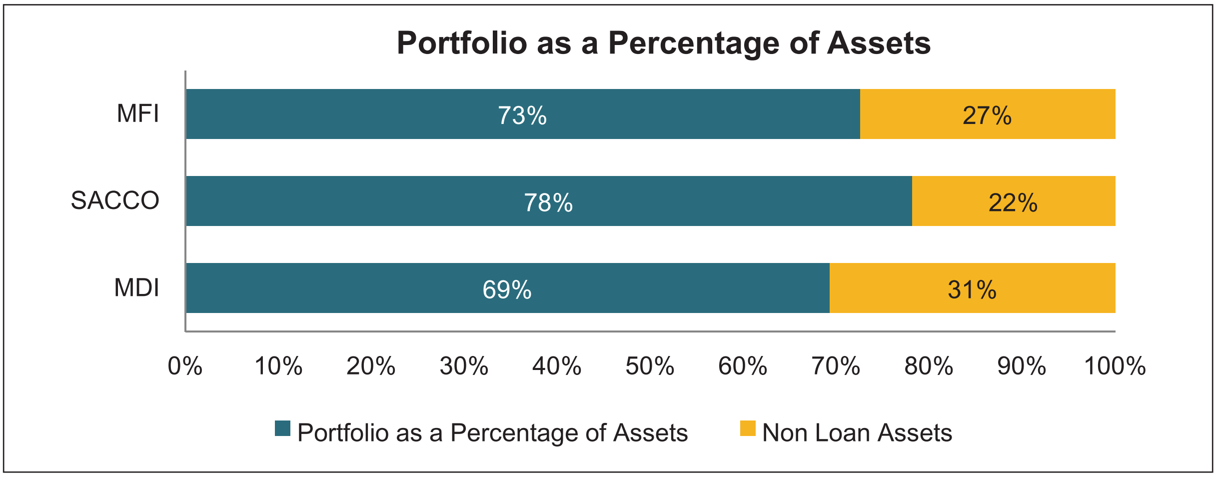


Productivity

The Loan Portfolio as a Percentage of total Assets indicator helps to understand which percentage of the assets is represented by the loan portfolio. The higher this indicator, the more efficient a MFI uses its resources. Chart 14 shows the distribution of the loan portfolio as a percentage of total assets in the different types of institutions.

A closer look at the SACCOs in the sample shows that 7% of the SACCOs had a ‘portfolio as a percentage of total assets’ ratio of below 50% in 2012 which could indicate that these SACCOs might not be actively involved in their core business anymore. 48% have a ratio of between 51% - 75%, while 45% of the SACCOs performed above 75%.

Chart 14: Loan Portfolio as a Percentage of total Assets



Other important aspects of efficiency and productivity are the productivity of staff and loan officers. End of 2012, the average outstanding loan from MDIs was Shillings 1.180.032, of unregulated MFIs Shillings 793,025 and SACCOs Shillings 883,012. The Loan officer productivity can be measured through relating the number of active loans to the number of loan officers. On average, a loan officer of a MDI is responsible for 232 loans with a total loan portfolio of 274m whereas a loan officer of a SACCO has 307 loans with a total loan portfolio of 283m to manage.

In terms of personnel productivity, the overall productivity of personnel can be measured by relating the number of active borrowers and the number of active clients to the number of personnel. In 2012, for each staff member, MDIs had on average 105 borrowers and 469 clients and SACCOs 82 borrowers and 351 clients. It can be concluded that whereas the SACCOs had a higher productivity on loans officers (but also a higher Portfolio at Risk), the MDIs scored in the productivity of general human resources.

Capital and Liquidity

apital and Liquidity indicators measure the ability of institutions to meet long and short term obligations. There is usually a trade-off between these indicators and profitability, and successful MFIs are those which manage this trade-off well.

The Capital Adequacy Ratio measures the ability of MFIs to cover expected and unexpected losses. This is important as a financial cushion is needed to protect deposits and ensure the stability of the institution. MDIs had a Capital Adequacy Ratio of 27.6% on average, while

SACCOs had 41.2% and Tier IV MFIs 30.9% as of end of 2012.

External funds

The Debt to Equity (DE) ratio measures the extent of leverage of an MFI's own funds to finance the portfolio. This ratio is especially important for wholesale lenders and investors. In comparison, SACCOs have a much lower debt to equity ratio of 142.8%, against 262.2% of MDIs and 223.7 of Tier IV MFIs. Regarding external funding, 59% of all SACCOs in the sample were servicing an external loan at the end of 2012. For those SACCOs, the external funds represent 16.7% of the total loan portfolio. SACCOs without external funding reported a higher OSS of 138% compared to the SACCOs which are currently serving a loan of an OSS with 120%. Further, differences could be observed in the number of members. SACCOs with an external loan had on average 3592 members while other SACCOs had on average 2,193 members.

Overall, 5% of the equity of SACCOs was donated equity, compared to 22% of unregulated MFIs. A total of 75% of the sample SACCOs reported to be funded partly by donated equity. Additionally, 18% of all the SACCOs received grants in 2012. There was no statistical difference observed in terms of profitability between SACCOs receiving grants and SACCOs which have not received grants in 2012. SACCOs which received grants in 2012 have on average more members (3667) than the SACCOs which have not received donations (2900). The percentage of share capital of the total equity was 60% among SACCOs, 37% among MDIs and 31% among unregulated MFIs.

Liquidity

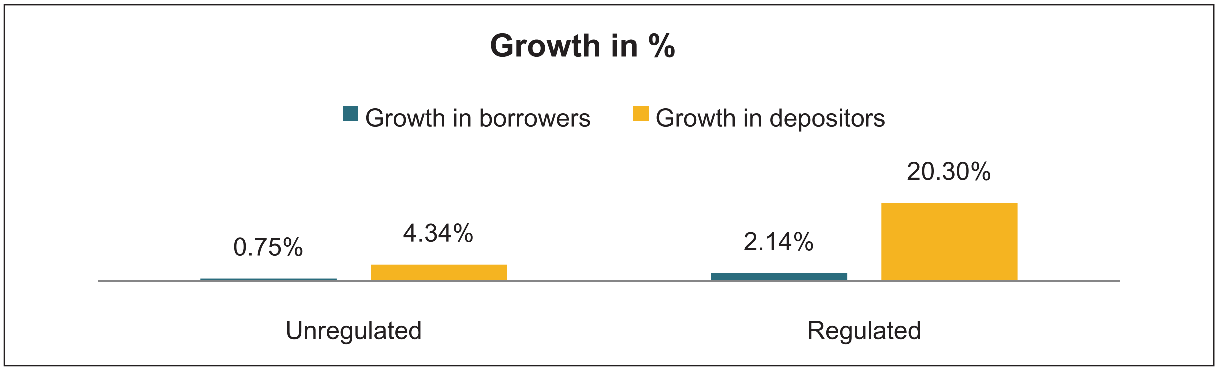
The Liquidity Ratio measures how sufficient available cash is to meet short term obligations. By the end of 2012, the liquidity ratio of SACCOs was relatively low at 13.1%. MDIs and unregulated MFIs had a liquidity ratio of equally 21% by the end of 2012.

The Loans to deposits ratio measures the portion of the loan portfolio which is funded by deposits. The higher the ratio, the more is the dependency on external funds. In 2012, SACCOs and MDIs had a 'Loans to deposit ratio' of 171% and 174% respectively.
4.8 Growth and trends.

MDIs and SACCOs both increased their assets and their loan portfolio size in 2012. On liabilities, the volume of savings increased by 7.5% for SACCOs and by 19.3% for MDIs. SACCOs recorded a strong increase of 17.9% in share capital which supported the overall increase of their equity by 18%. This might be mainly due to their increase in membership of 13.5%. MDIs increased their equity by 15%.
Borrowers and depositors.

Regulated and unregulated institutions increased their number of depositors. With regulated institutions the number increased by 20.3% and with unregulated by 4.43%. The growth among borrowers was low in 2012 among all types of MFIs. Unregulated institutions increased their number of borrowers by only 0.75% whereas regulated institutions increased by 2.14%. Among regulated institutions the growth was only achieved by the non-MDI institutions. The chart below shows the different growth rates for borrowers and depositors.

Chart 15: Growth of depositors and borrowers in 2012.



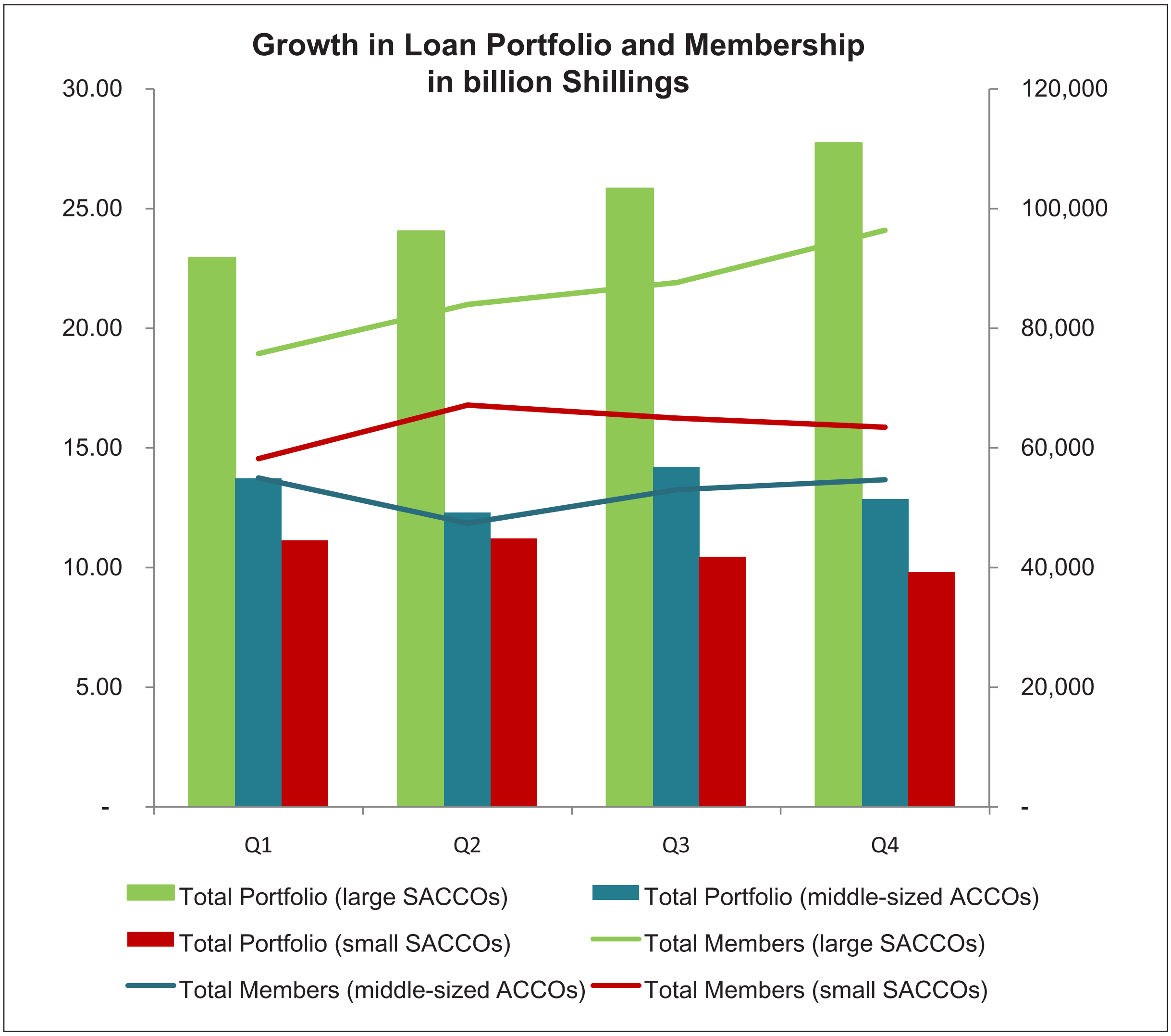
Trends observed among SACCOs

Even though the overall loan portfolio of SACCOs increased, not all SACCOs in the sample performed equally well. In total, 56% of the SACCOs increased their value of the loan portfolio whereas the portfolio of 44% of the institutions decreased. Additionally, there are differences of growth rates according to the institutional size. The graph 16 below shows the relationship between the size of the SACCO according to their loan portfolio and their increase of borrowers. Large SACCOs (Loan Portfolio above 1b), increased their portfolio by 20.8% and their membership by 27.2%. Middle sized SACCOs (Loan Portfolio between 500m – 1b), reduced their loan portfolio by 6.4% and equally their membership by 0.6%. Small SACCOs similarly reduced their loan portfolio by 11.9%, but increased their membership by 9%.

This shows that the large increase of the loan portfolio volume is due to the large SACCOs, as the two other peer groups reduced their portfolio. There might be several reasons for this development, among them:

a) Support institutions and wholesale lenders mainly focus on large institutions hence the increase of the portfolio
b) Trust in larger SACCOs increased
c) Increased efforts of larger SACCOs to establish branches to serve a larger membership

Chart 16: Growth in Loan Portfolio and Membership



Disbursements and repayments in 2012 - The highest number of loans disbursed could be observed in quarter two and four of 2012. In the same time periods (quarter two and four) the highest numbers of loans were fully repaid. The value of repayments was with Shillings 15.6b lowest in the first quarter of the year, compared to an average of Shillings 18.9b in the other quarters of the year.

Trends in Income and Expenses – There are different strategies to reduce risks in SACCOs. One important method is efficient cash flow management. The timing of cash inflow and outflow is essential to ensure that sufficient cash is available in the institution, when the SACCO and its members need it. Part of cash flow management is the timing of income and expenditure. The SACCOs in the sample showed lack of efficient cash flow management, especially on managing expenses. Specific expenses, such as interest and tax payments, are mainly paid at the end of the year. This also affected the self sufficiency of these institutions, on average the SACCOs had an OSS of 125% in 2012, but the lowest rate of 117%[79] could be observed in fourth quarter. This low OSS is especially worrying, because the portfolio yield in the fourth quarter was the highest during the year (chapter 4.4). SACCOs should review if they could spread some of the expenditure throughout the year instead of accumulating payments to the end of the year. The findings in summary:

- Most SACCOs in the sample pay the interest on savings in fourth quarter. An increase of 522% compared to the first quarter of the year could be observed. The same applies to expenses related to interest on external funds (190% higher than first quarter) and taxes. High expenses for taxes could be observed in quarter two and four.
- Only 52% of the SACCOs indicated any depreciation expense in 2012. Accumulated, the SACCOs reported a total of 195m expenses for depreciation from January to September. In the last three months of the year, the total costs for depreciation accumulated to 280m, which makes it a total of 475m for 2012.
- In the second quarter, the governance related costs increased by 42% compared to the first quarter of the year. This is might be mainly due to the Annual General Meetings which are held on SACCO level.
- Among income, it could be observed that 17% of the total income generated in 2012 was ‘other operating income’. This means that a substantial percentage of the income was not generated from interest, investments, fees and fines.

79 All figures annualized

CHAPTER 5: KEY FINDINGS AND RECOMMENDATIONS

This chapter presents an assessment of major sector risks and challenges. It also highlights opportunities and achievements of the sector, and gives both general and specific recommendations for microfinance institutions and policy makers.

5.1 Assessment of Sector Risks and Challenges

Asset Quality of SACCOs

The loan Portfolio Quality measured in PAR (30) of SACCOs improved by 2.48% in 2012, but the average PAR of 11.4% at the end of 2012 is still very high compared to international and even national standards. Among the sample SACCOs, the PAR reduces with the increase in the size of the institutions, which shows that specifically small and mid-sized SACCOs need to improve on their credit management.

Outreach to Loan Clients

The growth among borrowers was very low among the institutions in this industry assessment. In 2012, the number of borrowers increased by only 0.75% in unregulated institutions, and by 2.84% in regulated institutions. There was no growth observed among borrowers served by MDIs. It is highly recommended that all MFIs and stakeholders analyze these trends and identify the reasons.

There is limited outreach of MDIs to borrowers with needs to finance agricultural activities. MDIs reported that only 4.1% of all outstanding loans are in the agriculture sector. SACCOs, on the other hand, reported that 56.1% of all their loans are in the agriculture sector.

It was further observed, that the levels of outreach in the different regions differ. Northern and Eastern Uganda are still under-served. Stakeholders should evaluate in which regions the co-operative model is successful and promote the SACCO-model around these areas. Other regions, which still have a low number of fully-operating SACCOs, might need alternative institutions or approaches to serve the growing number of potential microfinance clients.

Profitability of MDIs and Efficiency in all institutions

The findings of the report have shown, that operational costs are too high in unregulated MFIs and especially in SACCO compared to their loan portfolio. Additionally, around 55% of the SACCOs in the sample had a “Portfolio as a percentage of Assets” ratio below 75% at the end of 2012, which indicates that they are not making enough use of their assets. SACCOs should be encouraged to increase their productivity and efficiency. This can be done by professionalising the management, improved budgeting practises and tight monitoring of the budget.

The level of profitability of MDIs was rather low in 2012. This is a risk for the sustainability of MDIs, especially because the market expects the institutions to further expand their services to rural areas. Stakeholders should further investigate the possible reasons beyond the limited growth on borrowers and the low profitability levels.

Regulation of Tier IV

Lack of regulation for Tier IV MFIs, which are growing in size and operations, remains a concern to stakeholders. In the absence of proper regulation, other risks arise. These include: emergence of unscrupulous savings and credit schemes which defraud the public; weak governance and management; poor reporting mechanisms; and outright fraud within MFIs. Since Tier IV institutions are evidently handling significant amounts of funds, lack of regulation can create latent systemic risk which can affect the entire financial sector if not addressed in time. It waits to be seen how long the regulation of Tier IV regulation will take to be enacted.

Political Interference and/or Inadequate Knowledge of Microfinance

Political interference and/or inadequate knowledge by political and other leaders of microfinance the business, and how microfinance the sector works still linger. While the sector has been gradually coping with the misperceptions created by politicians regarding the RFSP, there is less likelihood that such misperceptions will not happen again, especially as the RFSP winds up and a successor program is launched.

Supervision of Mobile Money

The mobile money business is fast-growing and involves billions of Shillings. However, a comprehensive regulatory framework for the sector has not yet been developed in Uganda. The Bank of Uganda's role, as regulator, has so far been limited to the approval of banks' participation in partnerships with mobile phone operators to offer mobile banking, based on a review of the proposed business model and associated risk assessment.

It is reported that some people are using the system as an alternative savings mechanism, which exposes them to loss in the event of failure of the system.

Inadequate Capacity to Manage Growth

In a bid to reach more clients, many MFIs, including SACCOs are establishing branches – some in places far away from the district where the head office is located. Growth has also been associated with computerization. For branching out and computerization to be effective, an MFI requires adequate human and other resources, yet many Tier IV MFIs are weak in this aspect. Considering the environment where many rural MFIs operate, the cost of establishing and maintaining branches, and installing and maintaining computer systems with alternative power sources – mostly solar can far exceed MFI capacity, and compound the risk of fraud and eventual failure.

5.2 Key Achievements and Opportunities

Sustainability and Profitability of unregulated MFIs
89% of all the institutions which were part of this assessment were able to generate positive returns in 2012. The majority of the SACCOs with a loan portfolio above Shillings 250million was able to have a Return on Assets above 5%. This can be considered as an achievement of the institutions as financial independency is one of the factors which can lead to sustainability of the institutions.

National Performance Monitoring through PMT and PMS

The number of PMT users is increasing and AMFIU has finalized the National Database (PMS) to capture and evaluate the data. Many stakeholders are already making use of the data and it is expected that all MFIs may use the PMT in the future and therefore contribute to the efforts of increasing transparency.

Financial Inclusion: Goodwill from Government and Other Stakeholders

The sector still benefits from the goodwill of the Government and a range of other players. This goodwill is reflected in various forms, including a conducive policy environment, and support to such programmes as RFSP.

A Financial inclusion strategy has been designed under Bank of Uganda. It focuses on financial access, literacy, consumer protection and data.[80]

Success in Financial Inclusion could be observed in the growth in the numbers of depositors. Unregulated institutions, which are mainly SACCOs, increased their number of savers by 4.3% and regulated institutions by 25.6% in 2012.

At the same time, the microfinance industry has moved towards the original double bottom line by refocusing on both the client and the institution. This is evidenced by the increasing focus on topics like ‘financial literacy’ and ‘client protection’ which are now considered a national agenda. Microfinance institutions (supply side), especially Tier 1 – 3 know what to offer, while clients (demand side) and partners appreciate the importance of MFIs. Having BoU spearheading the promotion of financial literacy and client protection has added momentum to financial inclusion.

Social Performance Management

There is increasing appreciation of SPM by MFIs and partners, which has been complemented by financial literacy and client protection to increase financial inclusion. With SPM, MFIs understand better the methodology to satisfy their clients’ needs, monitor progress of their clients and at the same time remain sustainable through increased client loyalty and retention. Presently, about 35 AMFIU members have integrated, or are integrating SPM in their operations

80 Charles Abuka, Director of Financial Inclusion, BoU, Key Note during the Evidence on Innovations in Savings and Payments’, Kampala, 24th June 2013

by clearly defining their mission, developing goals and objectives to achieve the mission and developing indicators to track their progress. Over 10 members have started using the Progress out of Poverty Index Tool (PPI) to track their clients' progress out of poverty and AMFIU is supporting some of its members through technical assistance to increase their compliance to the globally accepted universal standards for social performance management. This need to refocus on the client has been supported by the Central Bank that is spearheading a national campaign of financial literacy and integrating client protection issues as part of its monitoring indicators for the regulated institutions.

Sector Coordination and Consensus-Building

Box 2: Resolutions of National Microfinance Conference 2012

i. The vision for the industry is to move towards financial inclusion for all. In pursuing this vision, we are aiming at efficiency to avoid unnecessary duplication of resources and market distortions (by Government, Development partners, and the private sector).
ii. Revitalize industry dialogues through strengthening platforms for effective coordination for the industry.
iii. Stakeholders engaged in developing a Tier IV regulatory framework should be coordinated and meaningfully engaged.
iv. Have meaningful engagement with the Uganda Revenue Authority and MoFPED to agree on the appropriate way forward on taxation of MFIs, including SACCOs.
v. The industry should commit to promoting social performance.

Funders

Donors and investors have greatly supported the development of Uganda's microfinance industry. The assistance concentrated on capacity building, infrastructure and subsidized lending. The main donors to the microfinance sector in recent years include IFAD, GIZ, USAID, DFID and the European Union. At the moment, aBi Trust, and several wholesale organisations also provide significant support.

Technology

MFIs in Uganda are embracing technology as a means of innovation, improved service quality, and enhancing efficiency. Many MFIs are automating their accounting and loan-tracking systems, which produce basic information that aids monitoring. At the performance monitoring level, the industry adopted the PMT as the standard reporting tool for MFIs. Technology has improved teller services, and currently, all MDIs and the largest SACCO have ATM facilities. Beyond the traditional accounting and loan-tracking functions, MFIs seek to use technology to generate reports on such other aspects as social performance. At the same time, interfaces are being created between systems to make technology more convenient to use. For example, MicroBanker has been configured to produce PMT reports too.

The demand for technology has encouraged software services providers to increase their presence on the market. With innovation, MFIs can increase their outreach through branchless banking, increase their participation in electronic money transfer, and use mobile money to disburse and collect loans.

At the policy level, the necessary amendments to the financial sector legislation to accommodate alternative banking approaches such as mobile banking are being undertaken.81

Credit Reference Bureau

The primary objectives of the Credit Reference Bureau (CRB) include: reducing credit risk to the lender by easing loan appraisal; and easing access to credit by the borrower through using reputational collateral.82 In the long term, other benefits will rise, including a reduction in the cost of borrowing, and reduced borrower indebtedness which is an element of client protection. Although to date the Credit Reference Bureau in Uganda serves regulated FIs, the decision by Government to open up the CRB market to competition, and expand the CRB beyond the BoU-regulated financial sector is a necessary condition for promoting financial inclusion.

Innovation

In terms of products, MFIs have increasingly embraced systematic product development, and tailoring products, including range and amount of loan products to clients' needs. In addition, there is increased awareness of what technology can do, and MFIs are embracing it. For example, there has been increased use of mobile money by all categories of MFIs.

Emergence of Regional SACCO Unions

To date, at least six regional SACCO Unions are operational in Uganda. SACCO Unions, if operated properly can help SACCOs increase their outreach more efficiently. This can be achieved by for example carrying out joint product development and branding programmes, joint capacity-building services, and coordinating other SACCO aspects.

5.3 Recommendations

The following recommendations are based on findings from this report and target MFIs, Policy Makers and other stakeholders.

Recommendations for Microfinance Institutions

- All institutions should use the PMT and/or share their performance data regularly. Regular reporting has the advantage that the financial statements of the MFIs can be analyzed in-depth and the progress of the institutions can be interpreted. AMFIU, as the national apex organization for MFIs, gives analytical feedback and recommendations to

81 Budget Speech for the Financial Year 2012 – 2013 delivered by the Minister of Finance, Planning and Economic Development, p.5
82 BoU; Presentation to AMFIU, November 15, 2012

institutions reporting regularly.

- Carry out systematic product development based on the demands of the clients, especially to offer loan products tailored to the different agricultural value chains.
- Develop new outreach mechanisms, Innovate and/or use alternative mechanisms of branching out, for example using branchless banking or mobile branches.
- Risk assessments need to look into a) size of the institution and b) location as two strong factors which influence the performance of institutions
- SACCOs should start to capture gender aggregated data and data on individuals in groups. SACCOs need to improve their human resource management practices in order to increase efficiency and loan portfolio quality; this includes recruiting suitable people, setting targets in key performance areas like loans, and motivating them through performance-based incentives.
- SACCOs should adopt means of closely identifying their members' needs as a way of keeping themselves relevant to their members.

Recommendations for Policy Makers

- Continue and increase the provision of incentives for the development of microfinance operations in the underserved regions.
- Extend tax relief to MFIs which provide finance for all agricultural value chains, rather than restrict the relief to agricultural production loans.
- Support programmes for promoting consumer protection for clients and financial literacy programmes in order to increase the number of potential clients for MFIs
- Regulation of the tier IV sector

Recommendations for All Industry Stakeholders

- Improve coordination on performance monitoring activities and early warning systems. Wholesale lenders, funders and stakeholders should share data on the institutions they work with, but should also be willing to share own performance data.
- Continue capacity building activities, but improve on coordination among support organizations.
- Funders and other stakeholders should include PMT reporting in their assessments, and make it a requirement for any support granted.
- Ensure that MFIs and SACCOs conduct quality external audits. Good quality audits help to prevent fraud and help the owners of the institutions to understand their financial statements. Additionally it acts as basis for self-reporting and performance monitoring.
- At this stage of the development, SACCOs should be able to generate enough own funds to finance their core operations. In this report it was highlighted that there was no statistical difference observed in terms of profitability between SACCOs receiving grants and SACCOs which have not received grants in 2012. The authors recommend that instead of supporting institutions with grants for core operational activities, support institutions should rather focus on supporting SACCOs to establish efficient credit management systems, to improve governance structures and general business

administration (which includes setting up management information systems), to set-up and implement outreach strategies and product development processes.

- Agree on clear definition of some key terms in microfinance; these should include a definition for micro-credit, rural and urban, agricultural loan product, etc.
- Systematic collection of information on agricultural value chains to guide MFIs in their product development process
- Undertake a study to find out why some mature MFIs have collapsed in the past, as the findings can inform MFIs and stakeholders to prevent recurrences.
- Revive the vibrancy of the Microfinance Forum and the Information Exchange, which have in the past provided a platform for consensus-building on the microfinance sector by stakeholders.
- Cooperate with AMFIU in their efforts of managing the national database for performance data, encourage institutions to use the PMT

5.4 Conclusion

This report has presented an overview of the microfinance sector in Uganda, including fundamental issues and performance of the institutions. The report has also highlighted the key risks faced by the sector, as well as opportunities which the sector could take advantage of. Consequently, the report gives recommendations for microfinance institutions, policy makers and all stakeholders.

Some of the findings of this report will impact the sector strategies on financial inclusion. Strategies to support the sector need to recognize the different characteristics and needs of different regions as well as institutions. There is no strategy which is going to 'suit all the needs'. Whereas support organizations for MDIs could help the institutions with outreach strategies, there is also a need to increase profitability in order to make the institutions sustainable. The strategies for SACCOs need to differ greatly in the future; a large SACCO has different strengths and weaknesses than their smaller counterparts. Lack of efficient portfolio management is a weakness among all SACCOs whereas profitability and efficiency levels greatly differ.

Looking into 2013, similar developments can be observed – the regulated sector (MDIs, Tier II Microfinance Institutions) indicates weaknesses in the area of profitability and the increase of borrowers appears to remain weak. In order to inform the sector appropriately, AMFIU is going to publish regular updates on MFI performances.

The mandate of AMFIU, as an umbrella organisation is to promote professionalism and transparency in the sector. This report is among the tools which AMFIU believes will support its efforts towards achieving its mandate. Through innovation and consensus building, the microfinance sector in Uganda will continue to create opportunities for the population to access suitable financial services and move out of poverty. This will not only benefit microfinance providers and their clients, but the nurturing of professionalism will contribute to the safety and soundness of the financial system as a whole.

List of Participating Institutions

Full name	Region	District	AMFIU members
Alutkot SACCO	North	Oyam	
Advance Microfinance	Central	Kampala	x
Akworo	North	Nebbi	
Bagezza SACCO Ltd	West	Mubende	
Bihanga SACCO	West	Bushenyi	
Bugadde SACCO	East	Mayuge	
Bugongi SACCO	West	Bushenyi	
Bukanga Agali Awamu SACCO	East	Luuka	
Bukinda	East	Kabale	
Bululu SACCO	East	SOROTI	
Bungokho Fukirisa SACCO	East	Mbale	
Bunyaruguru Development SACCO	West	Bushenyi	x
Burebero SACCO	West	Ntungamo	
Burere SACCO	west	Bushenyi	
Busiu SACCO	East	Mbale	
Buyanja SACCO	West	Rukungiri	
Finance Trust	Central	Kampala	x
Gatsby Microfinance	Central	Kampala	x
Hakashenyi SACCO	west	Kabale	
Hoima SACCO	West	Hoima	
Ikongo Rural Co-operative Savings and Credit Society	West	Kasese	x
Joyfod SACCO	East	Jinja	
Kabira Matookye	West	Bushenyi	
Kahunge Rural SACCO	West	Kamwenge	x
Kakuuto SACCO	Central	Rakai	x
Karambi SACCO	West	Kasese	
Kasaana Ekinoni SACCO	West	Kiruhura	
Kasambya SACCO	Central	Mubende	
Kashensero SACCO	West	Bushenyi	
KIDEFISE SACCO	West	Kanungu	
Kigarama Farmers' SACCO	West	Bushenyi	x
Kigarama Peoples' SACCO	West	Bushenyi	x
Kihanga Mparo SACCO	West	Kabale	
Kihondo Tukwatanize SACCO	West	Kabarole	
Kijura	West	Kabarole	
Kitagata SACCO	West	Bushenyi	

Full name	Region	District	AMFIU members
Kiteezi SACCO	Central	Wakiso	
Koboko Town Council SACCO	North	Koboko	
Kyabugimbi SACCO	West	Bushenyi	
Kyambura SACCO	West	Bushenyi	
Kyamuhunga Sacco	West	Bushenyi	
Kyangyenyi SACCO	West	Bushenyi	
Kyeizooba Peoples' SACCO	West	Bushenyi	
Lwengo Micro-finance Cooperative Society	Central	Masaka	x
Lyamujungu Cooperative Financial Services Ltd	West	Kabala	x
Masaka Elders SACCO	Central	Masaka	
Masaka Microfinance Development Coop. Trust	central	Masaka	x
Mateete SACCO	Central	Sembabule	
Mitooma Peoples' SACCO	West	Bushenyi	
Mt. Otce Metu SACCO	North	Moyo	
Muhame Financial Services Co-operative Ltd	West	Bushenyi	x
Mushanga SACCO	West	Bushenyi	
Mutara SACCO	West	Bushenyi	
Myanzi SACCO	West	Mubende	
Nadangira Agali Awamu SACCO	Central	Wakiso	
Nakanyonyi SACCO	East	Jinja	
Ngora SACCO	East	Kumi	
Nkumba Rural Enterprenuers' SACCO	Central	Wakiso	
Ntungamo Development SACCO	West	Ntungamo	
Nyamirama Peoples' SACCO	West	Kanungu	
Nyaravur Farmers' SACCO	North	Nebbi	x
Nyarwanya SACCO	West	Rukungiri	
Opportunity Bank	Central	Kampala	x
Pakwach Nam SACCO LTD	North	Nebbi	x
Panyimur Rural SACCO	North	Nebbi	x
Pride Microfinance	Central	Kampala	x
Rukiga SACCO	West	Kabale	x
Rukiri SACCO	West	Ibanda	
Rushere SACCO	West	Kiruhura	x
Rwanyamahembe SACCO	West	Mbarara	
Rwenshaka SACCO	West	Rukungiri	
Shuuku SACCO	West	Bushenyi	x
Siimuka SACCO	West	Ihunga	
Taala Ya Mawogola SACCO	West	Sembabule	
Tropical Micro Entrepreneurs SACCO	Central	Mubende	
Tulihamu Budongo SACCO	West	Budongo	x
UGAFODE (MDI) Ltd	Central	Kampala	x
Others (non-PMT Institutions)			

Full name	Region	District	AMFIU members
BRAC	Central	Kampala	x
HOFOKAM	West	Kabarole	x
Talanta	North	Gulu	x
Wazalendo	Central	Kampala	x
FINCA	Central	Kampala	x
Centenary Bank	Central	Kampala	x

Licensed Commercial Banks in Uganda as at April 10, 2013

ABC Capital Bank Limited
Bank of Africa - Uganda Limited
Barclays Bank of Uganda Limited
Bank of Baroda (Uganda) Limited
Bank of India (Uganda) Limited
Cairo International Bank Limited
Centenary Rural Development Bank Limited
Citibank Uganda Limited
Crane Bank Limited
DFCU Bank Limited
Diamond Trust Bank Uganda Limited
Ecobank Uganda Limited
Equity Bank Uganda Limited
Fina Bank Uganda Limited
Global Trust Bank (U) Limited
Housing Finance Bank Limited
Imperial Bank (Uganda) Limited
KCB Bank Uganda Limited
NC Bank Uganda Limited
Orient Bank
Stanbic Bank Uganda Limited
Standard Chartered Bank Uganda Limited
Tropical Bank Limited
United Bank for Africa (Uganda) Limited

Licensed Credit Institutions in Uganda

Name of Credit Institution
Mercantile Credit Bank Ltd.
PostBank (U) Ltd.
Opportunity Bank (U) Ltd.
National Social Security Fund

Regional SACCO unions (as at 31st December 2012)

Name of Union	Year of Registration	Area of Operation	Type of Membership	Number of Members	Services Provided
FORMA Co-operative Union	2006	Rwenzori Region	SACCOs, marketing and producer co-operatives, NGOs	22	Financial and non-financial services
Kigezi	2012	Kabale District	SACCOs only	15	Financial services
Ntungamo	2012	Ntungamo and Rukungiri	SACCOs only	11	Financial services
Sheema SACCOs Union	2009	Sheema District	SACCOs only	3	Non-financial services
Wakiso	2012	Wakiso	SACCOs only	14	Non-Financial services
Bunyoro -Toro (BUTO)		Bunyoro and Toro Region	SACCOs only (formerly Sub-county Integrated Development Associations – SIDAs)	Not available	Not available

Indicators and Benchmarks

(Adapted from the AMFIU ‘Study to establish and promote the understanding of industry benchmarks in Uganda’s financial sector’, 2011)

Portfolio Indicators

Portfolio at Risk > 30 Days

This ratio shows the proportion of the portfolio with a portion in arrears as a percentage of the total loan portfolio. The standard “over 30 days” is used. Its rationale in showing the portfolio quality is that any loan that has started to fall into repayment arrears is completely at risk.

Health Indicator	MDIs	SACCOs	MFIs
Green	<2%	≤3%	≤3%
Yellow	>2% to 5%	3.1% to 5%	3.1% to 5%
Red	>5%	>5%	>5%

PAR > 30 Days = Outstanding loans with past due payments over 30 days/ Gross Loan Portfolio

Loan Loss Ratio (LLR)

The LLR indicates the amount of loans written off (removed from the balance sheet) compared to the average gross loan portfolio. This ratio complements the PAR ratio and is a good indicator to show the past quality of the loan portfolio.

	MDIs	SACCOs	MFIs
(Green)	n/a	≤1%	≤1%
(Yellow)	n/a	>1≤2%	>1≤2%
(Red)	n/a	>2%	>2%

LLR = Loans written off during period / Gross Loan Portfolio

Risk Coverage Ratio (RCR)

This ratio indicates how adequately the loan loss provision covers the potential loan losses. It is important as it shows how prepared an institution is to absorb possible loan losses.

Health Indicator	MDIs	SACCOs	MFIs
Green	>100%	<120%	<120%
Yellow	>80 to 100%	100% to 120%	100% to 120%
Red	<80%	>80%	>80%

RCR = Loan loss reserve / PAR > 30 days

Profitability Indicators

Operational Self-Sufficiency (OSS) P1

The OSS ratio indicates whether revenues from operations are sufficient to cover all operating expenses. If 100% OSS is not attained, capital will be drained unless additional funds can be raised through grants, which is not sustainable. OSS further reflects the institution's ability to continue operations if no further subsidies are received.

Health Indicator	SACCO/ MFIs Younger than 3 years	SACCO/ MFIs 3 to 5 years	SACCO/ MFIs Older than 5 years
Green	≥100%	>130%	>150%
Yellow	80% < 100%	110% to 130%	120% to 150%
Red	<80%	<110%	<120%

$$OSS = \frac{\text{Total Operating Income}}{\text{Total Expenses}}$$

Portfolio Yield (PY)

Portfolio Yield refers to how much the institution received in interest, fees and other incomes from the gross loan portfolio during the period. This is important as it shows the institution's ability to generate income from the main asset, the loan portfolio.

Health Indicator	MDIs	SACCOs	MFIs
Green	n/a	>42%	>42%
Yellow	n/a	30% to 42%	30% to 42%
Red	n/a	<30%	<30%

$$\text{Portfolio Yield} = \frac{\text{Fin. Income}}{\text{Total Portfolio}}$$

Return On Assets (ROA)

This ratio measures the income generated by the assets of an institution and its ability to utilize its assets in a profitable manner. The calculation uses average assets to capture the evolving assets volume pattern for the year.

Health Indicator	MDIs	SACCOs/ MFIs Younger than 3 years	SACCO/MFIs 3 Years or older
Green	>5%	>10%	15%
Yellow	>2% <5%	5% to 9.9%	10% to 14.9%
Red	<2%	<5%	<10%

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$$

Efficiency

<table>
<tr><td colspan="5">Cost of Funds Ratio (CFR)</td></tr>
<tr><td rowspan="5">Cost of funds ratio measures the overall price that the institution pays for external borrowings. It is important that any institution that borrows to finance its business should negotiate for favourable rates to avoid paying above market prices which affects the institutions’ competitiveness and sustainability.</td><td></td><td>MDIs</td><td>SAC-COs</td><td>MFIs</td></tr>
<tr><td></td><td>n/a</td><td>≤15%</td><td>≤15%</td></tr>
<tr><td></td><td>n/a</td><td>16% to 20%</td><td>16% to 20%</td></tr>
<tr><td></td><td>n/a</td><td>≥20%</td><td>≥20%</td></tr>
<tr><td colspan="4">$$CFR = \frac{\text{Total Financing Costs}}{\text{Average Funding Liabilities}}$$</td></tr>
<tr><td colspan="5">Operating Expense Ratio (OER)</td></tr>
<tr><td rowspan="5">The OER measures the operating expenses in relation to the institution’s average portfolio which is its main income earning asset. It therefore compares the recurrent expenses to the volume of business.</td><td>Health Indicator</td><td>MDIs</td><td>SACCOs/MFIs Younger than 3 years</td><td>SACCOs/MFIs 3 years or older</td></tr>
<tr><td>Green</td><td><60%</td><td>≤40%</td><td>≤20%</td></tr>
<tr><td>Yellow</td><td>>60%; <70%</td><td>41% to 59%</td><td>21% to 39%</td></tr>
<tr><td>Red</td><td>70% & higher</td><td>≥60</td><td>≥40</td></tr>
<tr><td colspan="4">$$OER = \frac{\text{Total Operating expenses}}{\text{Gross Loan Portfolio}}$$</td></tr>
</table>

Capital and Liquidity Indicators

Capital Adequacy Ratio (CAR) C2

Capital adequacy refers to the institutions ability to cover expected and unexpected losses, and still survive. This is important as a financial cushion is needed to protect deposits and ensure the stability of the institution.

Health Indicator	MDIs	SACCOs	MFIs
Green	n/a	≥30%	≥50%
Yellow	n/a	15 - 29%	30 -50%
Red	n/a	<15%	<30%

$$CAR = \frac{\text{Total Equity}}{\text{Total Assets}}$$

Debt / Equity Ratio

This ratio compares the total debts payable by the institution to the shareholder's capital in it. It shows the extent to which equity supports the overall indebtedness of the institution.

Health Indicator	MDIs	SACCOs	MFIs
Green	4 to 6 times	< 1:1 100%	2:1 to3:1
Yellow	<4; and >6 up to 8 times	1:1 to 2:1	3:1to 6:1
Red	> 8 times	>2:1 200%	>6:1

$$DER = \frac{\text{Total debts}}{\text{Total Equity}}$$

Liquidity Ratio

This ratio measures an institution's ability to meet its short term cash payment obligations.

Health Indicator	MDIs	SACCOs	MFIs
Green	>20%	30%	15%
Yellow	10% to 20%	15% to 29%	10%
Red	<10%	≤10%	≤10%

$$\text{Liquidity Ratio} = \frac{\text{Cash + near cash assets}}{\text{Total Assets}}$$

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