Country Survey:

UGANDA

Key Facts : Microfinance in UGANDA				
By CGAP[1]	No. of MFIs	No. of Borrowers	Borrowers Population[1]	Borrowers/Poor[2]
	36	357,000	1%	3%
By MIX[2]	No. of MFIs reporting (2009)	No. of Active Borrowers	Gross Loan Portfolio (USD)	Average Balance per Borrower (USD)
	25	431,926	313.6 million	380
By MFT[3]	No. of MFIs (2010)	No. of Active Borrowers	Gross Loan Portfolio (USD)	% Products with a Flat Interest Rate
	10	388,970[4]	256.1 million	77%

Country Overview

Sitting astride the equator, the Republic of Uganda is a landlocked country of 241,000 km² in south-central Africa. It is bordered by Kenya, Rwanda, Tanzania, the Democratic Republic of Congo and Sudan. The country is home to a largely rural population consisting of 32.7 million[3] people, around 1.5 million of whom are resident in the capital city, Kampala.

Political Overview

Despite its controversial political history of civil war, economic catastrophe and damaging leaders, Uganda is now considered to be a relatively peaceful, stable and economically prosperous country. The 1995 constitution decreed Uganda as a Republic, with an executive president to be elected every five years. Since 2005 there has been a democratic multi-party system, with a current total of 38 registered political parties.[4] The incumbent President, Yoweri Museveni, has been in power since 1986 and is presently the longest standing leader in Africa. In early 2011 he was re-elected for his fourth term having previously amended the constitution to remove the limit on the number of terms a president can serve. Museveni won by a landslide, gaining 63% of the votes, amidst accusation from opposition parties of misconduct and fraud, most vocally by the exiled Dr. Kizza Besigye. Although recognizing the violence and voter disenfranchisement, the Supreme Court of Uganda voted 4-3 to uphold the results of the election.

Following years of repression and human rights abuses under Milton Obote and Idi Amin, Museveni has been credited with restoring relative stability to Uganda. Along with introducing democratic reforms he has improved Uganda's human rights, promoted self-sufficiency and encouraged anti -corruption. Strife in Northern Uganda still continues

[1] MFI borrowers as a percentage of the country's overall population
[2] MFI borrowers as a percentage of the poor population based on national poverty rates
[3] This row of the table is populated with data from MF*Transparency*'s *Transparent Pricing Initiative in Uganda*
[4] The number of active borrowers for Centenary Bank is from 2009

however, with Joseph Kony's Lords Resistance Army (RLA) having terrorized the population for over two decades. Over a million Ugandan's have been displaced by the guerilla army, tens of thousands have been killed, and thousands of children abducted to serve as rebel fighters and slaves.

Macroeconomic Overview

Uganda emerged from colonial rule in 1962 with one of African's most buoyant economies and a solid social economic infrastructure. This rapid economic development was abruptly terminated by the seizing of power by the military dictator Idi Admin in 1971. Political instability and economic mismanagement throughout the 1970s - 1990s has left Uganda among the world's poorest countries. However, Museveni's government has made significant progress towards economic rehabilitation and IMF/World Bank sponsored macro-economic policies have improved the structure of the economy. Having had a consistent pace of growth for over two decades, and one of the highest rates of economic growth in Africa, the country hopes to achieve middle income status by end of the decade. GDP growth is above the average for sub-Saharan Africa, increasing from an average of 6.5% per year in the 1990s to over 7% in the 2000s. Growth persisted during the economic crisis with the period 2009-2010 witnessing robust growth of 5.2%. Despite this, real GDP per capita has averaged at just 4% during the past decade, largely due to the rapid growth in population size[6]. The IMF has predicted GDP will grow by 6% in 2011 and 6.5% in 2012, based on continued spending on key infrastructure projects.[7] In spite of this favorable performance there are several challenges to achieving economic growth. Uganda's new National Development Plan (NDP) aims to address various structural bottlenecks, including the lack of significant productivity growth in the agriculture sector and the sector's hold on the employment market[8]

GDP and Inflation				
Year	**GDP (PPP)***	**GDP Real Growth**	**Inflation**	**GDP Per Capita (USD)**
2007	33.2	8.4%	6.1%	392
2008	36.8	8.7%	12 %	460
2009	40.1	7.2%	13 %	488
2010	42.5	5.1%	3.9%	508

***Billion USD, 2010 figures, Source: World Bank[5]**

Uganda is endowed with several natural resources, including copper, cobalt, hydropower, limestone, phosphate, salt, and recently discovered oil. Oil production is expected to start in late 2011, reaching peak flow by 2015. If managed correctly the oil revenues are predicted to reduce the government's reliance on overseas aid. The largest contributor to GDP is the service sector, followed by manufacturing and agriculture; however agriculture and fishing provide 80% of the employment.[10] As Africa's second-leading coffee producer, coffee accounts for the majority of export revenues. Other exports include fish products, tea, tobacco, textiles, cement, maize and electricity. Top imports include petroleum, road vehicles, cereals and industrial machinery.

GDP – composition by sector:	
Agriculture	24.7%
Industry	25.8%
Services	49.5%
Annual Trade:	
Imports	$3,593 million
Exports	$2,007 million
Source: 2009 figures World Bank[9]	

The stabilizing policies of Uganda's economic reform program helped to reduce inflation from its highs of 300% in the early 1980s to a fairly stable 6% in the early 2000s. However recent years have seen a return to double digit inflation.

The annual headline inflation rate for the year ending May 2011 registered at 16.0%, up from 14.1% the previous month and the highest rate of inflation since 1994[11]. This rise was largely attributed to the rising costs of food crops resulting from the low rainfall and high demand.

Poverty in Uganda

Despite the relatively high growth rates and the headway made in macro-economic stability, the prevalence of poverty remains a significant challenge. The 2010 Human Development Index (HDI) ranks Uganda 143 out of 169 countries. Levels of poverty have fluctuated in recent years, falling from 54.6% in 1993, rising during 1999-2003, and then falling again in 2003-2006 to 31.1%[12]. Poverty in Uganda is rurally concentrated, particularly in the North and East of the country. The majority of Uganda's poor are rural subsistence farmers, the bulk of who are women. Life expectancy is 53 years, which has been significantly impacted by the prevalence of AIDS. Uganda has one of the highest population growth rates in the world, at 3.3% per annum. It also has one of the youngest populations with around 32 million children under 15 years, giving a dependency ratio of 1:12 – the highest in the world[13].

Key Poverty Figures	
HDI value	0.422
HDI Rank	143
GINI	42.6
Pop. below $ 1.25 a day (%)	51.5
Source: Human Development Report 2010	

The government's policy framework , the Poverty Eradication Action Plan (PEAP) and the five year National Development Plan details the country's long term development goals and route to poverty reduction. It recognizes the problems of Uganda's high population growth and increasing income inequality as major factors inhibiting the rise out of poverty. Lack of access to credit has been identified as one of a complex web of barriers facing the rise out of poverty for Ugandans, and private sector delivery of microfinance is seen as an important tool in addressing this.

It is unlikely that Uganda will meet the PEAP's ambitious target to reduce the proportion of people living in absolute poverty from 44% to 10% by 2017, however there has been impressive strides taken towards achieving the Millennium Development Goals[14]. The 2010 MDG progress report deems Uganda likely to meet its targets to halve the proportion of people (from 1990 levels) whose income is less than one dollar a day, to halve the proportion of people suffering from hunger, to halve the number of people without access to sanitation, to eliminate gender disparity in education and to achieve universal access to treatment for HIV/AIDS. Several health targets however have seen poor progress, including those related to maternal and child mortality, access to reproductive health and the incidence of disease. HIV/AIDS infections have increased over recent years, related to the country's increase in population size. In addition levels of inequality have risen compared to the early 1990s, with levels of poverty now more than twice as high in rural areas as they are in urban[15].

Traditional Financial Sector

Subsequent to the reforms of the 1990s, Uganda's formal financial system was among the weakest in Sub-Saharan Africa. It was deemed small in terms of value and volumes transacted (its liabilities were less than 10% of GDP), had a limited number of financial products aimed at business entrepreneurs, was highly oligopolistic and was considered inefficient in carrying out many basic bank functions[16]. This all changed when, in 1993, the Financial Sector Reform

Program was launched. This addressed the effectiveness of monetary policy, amended financial legislation, fortified the Central Bank and restructured several insolvent banks. The financial services sector has seen impressive development since then and is generally thought of as sound and well capitalized. The passing of the Financial Services Act in2004 and the Financial Institutions Regulations in 2005 demanded higher capital requirements and afforded tighter supervision by the Bank of Uganda (BOU). This aided a swift recovery of the sector following the collapse of five banks between 1997 and 1999[17].

The traditional banking sector is still considered small, with total assets of USD 2 billion as at June 2009[18]. However, by March 2010 there were 28 regulated financial institutions, providing financial services via 488 registered branch offices, compared to just 270 branches in 2006[19]. The year 2005 saw a decision by the BOU to withdraw all government project funds from commercial banks, resulting in an industry drive to increase customer deposits. There are now over five million bank accounts in the country, representing a 16% outreach. With several major international financial institutions in the country (e.g. Barclays, Stanbic, Citibank, Standard Chartered) most of Uganda's banks are foreign owned. There are however a number of locally owned banks, including Cerudeb, Crane Bank and DFCU Bank.[20] Geographically, the central and southwestern regions are home to most of the banks and are financially well served, whilst the remainder of the country is largely under banked.

As with most developing economies, the financial system contains informal elements as well as formal ones. The formal sector's banks, credit institutions, insurance companies and building societies are complemented by the informal sector's money lenders and savings circles. A UNDP study in 2000 indicated that of all the people borrowing money 79% obtained their credit from informal sources[21].

Financial Inclusion in Uganda

The Finscope Uganda Survey 2006 revealed that only around a third of Ugandans have access to financial services, with 62% of the population not using any type of financial service provider, whether formal or informal. Of those that have access, 18% use formal institutions (such as commercial banks, microfinance institutions and credit institutions), 3% use semi-formal institutions (such as SACCOs) and 17% use informal groups such as savings clubs[22]. Financial exclusion is influenced by a variety of factors in Uganda, including the limited size of the branch network, unsuitable product offerings, inaccessibility due to poor rural infrastructure, the high cost of delivery, and a lack of regular income. DFID found that being aged 25-44, male, and owning a television or mobile phone increased someone's likelihood of using formal financial services[23]. Exacerbating these issues are the financial concerns of microfinance institutions (MFIs) over how to achieve sustainability in rural areas that lack the critical mass to sustain the delivery of financial services.

Efforts to increase access to financial services have included the introduction of new technologies to improve outreach, the promotion of a savings culture to ensure consumption smoothening, as well as hopes to achieve economies of scale in operations[24]. The Bank of Uganda has addressed financial inclusion with various measures, including the promotion of money transfer services, devising a regulatory framework that includes Tier 4 institutions (such as SACCOs), including Islamic banking into statute, and developing a framework for financial literacy and financial consumer protection[25]. The Bank recently released a report outlining a roadmap to achieve financial literacy and financial consumer protection, which includes plans for financial education in schools, developing a consumer website, and developing regulation on how to disclose effective interest rates and the total cost of credit in a standardized way.

Microfinance Industry of Uganda

Introduction

The microfinance sector of Uganda is often heralded as the most vibrant and successful in Africa[26]. The strong state of the microfinance industry has been attributed to several factors, including the government's enabling environment, macro-economic stability, the weakness of the formal financial sector, sound donor commitment, strong capacity builders, stakeholder co-ordination and the healthy competition. It is however a relatively new industry in Uganda even though access to finance has been identified as a key development strategy since the 1960s[27]. The first true microfinance institutions (MFIs) did not appear until the early 1990s.

Microfinance first appeared in Uganda in the 1980s as a socially motivated bid by the non-governmental organization (NGO) sector to alleviate poverty and increase access to financial services for the rural poor. A number of NGOs and aid bodies developed microfinance departments and a few specialized MFIs started operations offering microcredit collateralized by compulsory savings. In the early 1990s some of the NGO microfinance projects split off to become stand alone MFIs. These organizations grew quickly in size and number, helping to counteract the gap left by the closure of several large banks in the 1990s. The late 1990s and early 2000s witnessed a plethora of fully sponsored training and technical assistance for MFIs, and the adoption of sustainability and profitability alongside the original social mission of the MFIs. Microfinance in Uganda is now no longer seen as just a social service but also a long term commercially viable enterprise. This dual mission has prompted MFIs to increase their outreach and client numbers have grown accordingly[28].

A combination of both formal and semi-formal institutions provide microfinance services in Uganda, including commercial banks, credit institutions, microfinance deposit-taking institutions (MDIs), savings and credit cooperative organizations (SACCOs), non-government organizations (NGOs) and money lenders. The microfinance providers currently regulated by the Bank of Uganda currently include:

- Two commercial banks (Centenary Bank and Equity Bank)
- Two credit institutions (Opportunity Uganda and Post Bank Uganda)
- Three micro deposit taking institutions (Finance Trust, FINCA, Pride Microfinance)

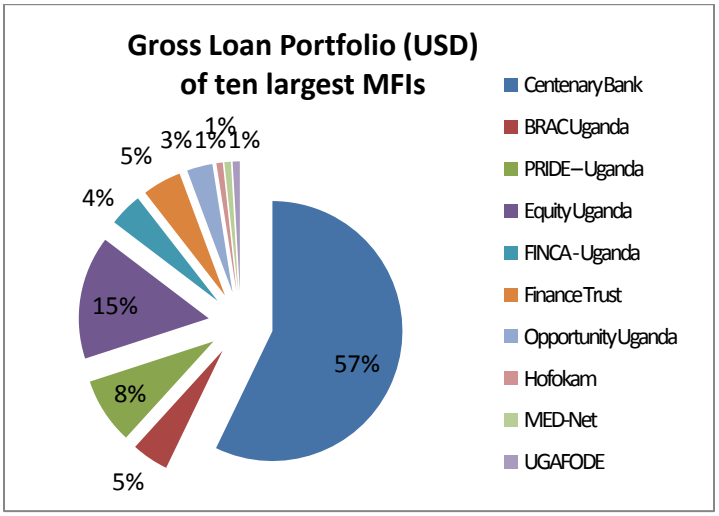
The microfinance providers that are not currently registered and supervised by the Bank of Uganda include 628 SACCOs, a host of Private Company MFIs, NGOs, Sub-Country Development Associations (SIDAs) and several micro-insurance providers.[29]

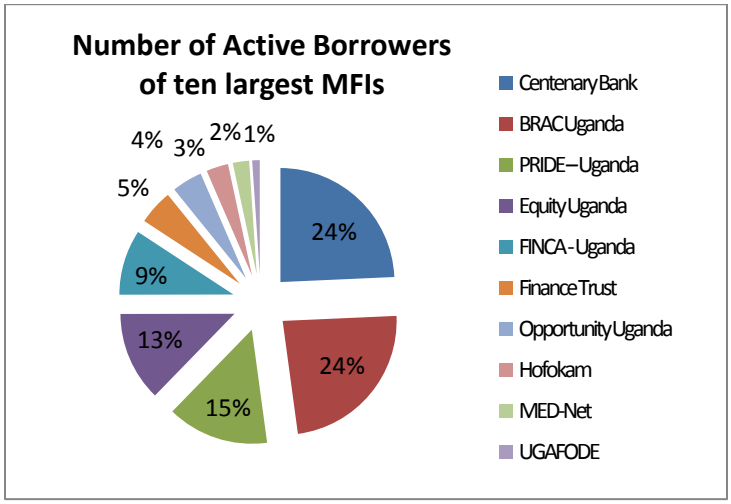
Microfinance Institutions

The market share in terms of both loan portfolio and numbers of active borrowers of the largest ten MFIs in Uganda are displayed in the diagrams below. This information comes from the publically available data reported by the MFIs to the Mix Market in 2010. Centenary Bank has the highest number of active borrowers (25.3%) and the largest gross loan portfolio (68%).

Institution	Gross Loan Portfolio (USD)	Number of Active Borrowers	Reports to MIX (2009)	Participated in MF*Transparency Pricing Initiative (2011)*
Centenary Bank	173,350,541	111,035	Y	Y
BRAC Uganda	13,950,624	107,686	Y	Y
PRIDE – Uganda	25,027,762	65,928	Y	N
Equity Uganda	46,553,904	58,011	Y	Y
FINCA - Uganda	12,564,600	42,347	Y	Y
Finance Trust	14,683,398	22,585	Y	Y
Opportunity Uganda	9,672,405	19,725	Y	Y
Hofokam	2,395,293	14,259	Y	Y
MED-Net	2,455,494	10,600	Y	Y
UGAFODE	2,687,516	4,873	Y	Y

Source: MFIs according to MIX data 2010





Source: MFIs according to MIX data 2010

Microfinance Networks in Uganda

The Association of Microfinance Institutions in Uganda (AMFIU)

Founded in 1996, the Association of Microfinance Institutions in Uganda (AMFIU) is Uganda's primary network for Microfinance Institutions. It was set as an umbrella organization by industry participants who felt the need for a united voice in order to lobby for favorable government policies, to share information and experience and to link up with local and international players. AMFIU is an effective and impressive organization, having recently won the PSFU award for Best Run Association in Uganda (November 2010). It has a functional and detailed website, issues regular newsletters, runs industry events and publishes regular working papers, annual reports, consumer education publications as well as a microfinance directory.

As at April 2009, member institutions numbered 117. This consisted of 79 MFIs (known as "ordinary members") which includes formal sector banks, credit institutions, microfinance deposit taking institutions, non deposit taking MFIs and SACCOs. The remaining members are "associate members", comprising of apex institutions, regional network organizations, wholesalers of funds, capacity building suppliers, private sector development centers, and individuals for people carrying out activities related to microfinance[30]. AMFIU membership cuts across all four tiers of the microfinance sector, however it's relatively low membership base has been limited due to strict eligibility criteria which excludes institutions that do not meet certain minimum standards or that are unwilling to abide by AMFIU's code of conduct.

AMFIU estimated that at the end of 2008 they served almost 1.6 million savers and 450,000 active borrowers, of which 69% were female. Between AMFIUs microfinance directory collations of 2007 and 2009, the average first loan size had increased by 17% (from UGX 331,640 in 2007 to UGX 399,959 at the end of 2008). The number of members with email addresses had also risen during this time, from 65% in 2007 to 80% at the end of 2008, with the around a quarter of members having their own website[31].

The Uganda Cooperative Savings and Credit Union Limited (UCSCU)

Established in 1972, the Uganda Cooperative Savings and Credit Union Limited (UCSCU) is the network for Savings and Credit Cooperative Societies (SACCOs) in Uganda. The national apex organization is formed, financed, owned and controlled by SACCOs. It aims to organize and develop SACCOs, advocate for beneficial legislation, provide consumer education and to link with similar minded organizations. The UCSCU offers capacity building and training, technical services, marketing, representation, advocacy and information management[32].

Uganda Cooperative Alliance Ltd (UCA)

Since 1961 this umbrella organization has promoted the economic and social interests of co-operatives in Uganda. It acts to promote, advise, regulate, advocate and capacity build through education and training for all types of cooperatives. As part of its mission to empower members the UCA produce a quarterly magazine, "The Cooperator". Current membership stands at 170 SACCOs and 54 Area Cooperative Enterprises, thereby representing around 500,000 members and 18 unions. UCA estimate that, at household level, around 2,500,000 family members benefit from their services[33].

Funders and Donors

The microfinance industry in Uganda has been well supported by donors and investors. Many MFIs have, at times, been dependent on donor funds to finance their operations. The sector has benefitted from more donor aid per capita than in any other country in Africa (between 1998 and 2003 alone this was estimated to be USD 40 million[34]). Donor aid has principally concentrated on improving the financial sustainability of MFIs, taking the form of capacity building, technical support and provision of funds for on-lending[35]. Recent popular discourse on breaking the cycle of borrowing and donor dependency has added to the quest for MFI sustainability.

Donor intervention has been instrumental in developing the industry, with the collaborative effort of USAID, DFID, and GTZ working together under the Transformation Steering Committee (TSC) between 2004 and 2007[36]. The development of sustainability for MFIs has been stressed by the two USAID projects for the microfinance sector (PRESTO and SPEED) and the European Union program SUFFICE. Several equity and debt funds provide investment funding to certain Ugandan MFIS, including Triodos, Shorecap, Oikocredit and Norfund.

Microfinance Regulation

There are several players involved in the regulation and supervision of microfinance providers in Uganda. The Bank of Uganda regulates commercial banks, credit institutions, and MDIs. The Department of Co-operatives within the Ministry of Tourism, Trade, and Industry supervises SACCO and the National Board of Non-Governmental Organizations housed at the Ministry of Internal Affairs monitors NGOs.

Microfinance regulation has emerged over the past decade, prompted by a desire to improve the stability of the financial sector, to promote its orderly growth, to build the public's confidence in MFIs and to define the scope of the Bank of Uganda[37]. The Bank of Uganda has a strong interest in microfinance as an estimated 90% of Uganda's private sector entities are micro enterprises who gain their financing from MFIs[38]. The micro enterprise sector is estimated to provide 90% of non-farm employment in the country[39].

This led to the development of a four-tier system for regulating and supervision of those institutions that carry out microfinance business in Uganda. The four categories are as follows:

- **Tier 1 Financial Institutions – Commercial Banks**
  Banks regulated under the Financial Institutions Act (revised 2004) are sufficiently capitalized and meet deposit taking requirements so are permitted to offer microfinance at their discretion. AMFIU members in this category are Centenary Bank and Equity Bank.
- **Tier 2 Financial Institutions – Credit Institutions**
  Although regulated under the Financial Institutions Act 2004 they are not authorized to have checking / current accounts. They are authorized to offer both savings and loans products. AMFIU members are Faulu Uganda and Post Bank Uganda.
- **Tier 3 Financial Institutions – Micro Finance Deposit Taking Institutions (MDIs)**
  Known as Microfinance Deposit-taking Institutions, or MDIs, these institutions are licensed under the MDI Act and are subject to MDI Regulations. They are allowed to accept deposits from customers in the form of savings accounts. All three members of this category are members of AMFIU, namely Finance Trust, FINCA Uganda, and Pride Microfinance.

- **Tier 4 Financial Institutions – All other financial services providers**
  These are not regulated by the Bank of Uganda. They include SACCOs, credit-only NGOs, unregulated microfinance companies and community based organizations that offer microfinance. They are not authorized to take deposits from customers but may offer collateralized and non-collateralized loans to the public. AMFIU members in this category include 9 companies, 17 NGOs and 45 SACCOs.

Tier 4 institutions are governed under various laws, for example the Companies Act (1969), the Money Lenders Act (1952) and the NGO Registration Act (1989). SACCOs are registered under the Cooperative Societies Statute 1993 by the Ministry of Trade, Tourism and Industry. However supervision of these institutions is minimal and current regulation is considered ineffective in governing this tier. Self-regulation has been adopted by AMFIU, who enforce a code of conduct upon their members, as well as those of UCA and UCSCU, however the majority of Tier 4 are not members of these networks. There are additional problems associated with this self-regulation approach caused by the voluntary nature of compliance and the conflict of interest created by supervision from a member-based organization. AMFIU have been instrumental in forwarding the regulatory development of these Tier 4 institutions and in 2009 proposed a new single law. This would include the requirement to adhere to certain liquidity levels, prescribe a core capital adequacy levels, and establish a deposit insurance system[40]. They hope that this will increase financial sector stability, facilitate the movement of MFIs to higher tiers and generate more efficient, better integrated financial sector[41].

Financial Services Act, 2004

This governs the Tier 1 and 2 institutions with a tighter supervisory approach than previous enactments. Banks are required to submit details of their operational and financial performance to the BoU, and to regularly disclose their fees and charges to the public. The Act specifies rules for governance, capital requirements, reporting and operational restrictions.

Micro Deposit Taking Institutions Act, 2003

This was Uganda's first act to govern the microfinance sector, which by 2003 consisted of over 1500 MFIs[42]. For the first time licensed microfinance institutions were treated as formal regulated financial institutions and the Act created a new category called Micro Deposit-taking Institutions. The Act covers the areas of ownership, governance, management, operations, policies, financial prudence and audited accounts. The Act also set a time-frame for the prohibition of use of compulsory savings as a requirement for microloans by non-licensed institutions. The first MDIs gained their licenses in 2004 and 2005. The currently regulated MFIs under this tier are FINCA Uganda, PRIDE Microfinance and Uganda Finance Trust.[43]

Since implementation certain aspects of the Act have been deemed restrictive e.g. the restriction of loan maturity to two years, and there have been several negative impacts of the regulation, e.g. whilst average loan size has grown, the number of borrowers has dropped, and MDIs have reduced the proportion of lending to groups compared to individuals. However in general the regulations have benefited both MDIs and their clients by improving microfinance products and services and increasing the professionalism of the sector.

Cooperative Societies Statute, 1991

This regulates Uganda's SACCOs. It details many of the areas of the above regulation and covers the conduct of all cooperative societies, whether they be production, marketing, multipurpose cooperatives or SACCOs. It is felt that this

legislation is weak and inadequate for regulating and supervising SACCOS, however the government is in the process of drafting a law to regulate Tier 4 institutions more appropriately.[44]

Cost of Borrowing - Interest Rates, Fees and Charges

Interest rates were liberalised during the financial sector reforms of the 1990s. Although they subsequently fell from heights of 40% in 1992 to around 20% in 2000 they are high by both international and regional standards, and remain prohibitively high for many businesses[45]. This has been attributed to many factors, but a significant contribution comes from the high intermediation costs as a result of high operational costs, inefficiencies in the banking sector, a large portion of non-performing assets in bank portfolios together with weak bankruptcy legislation[46]. Rather than attracting more borrowers and raising portfolio volumes, MFIs sometimes increase their revenues by increase the interest rates they apply or the commissions they charge, thereby disadvantaging the poor. In a liberalised environment it is not possible to control the interest rates that MFIs charge, however competition amongst MFIs can be enhanced with increased transparency on interest rates and product fees[47]. This encourages MFIs to improve their levels of efficiency, translating into lower interest rates.

The MF*Transparency Transparent Pricing Initiative* in Uganda revealed that the majority of MFI charge interest using a flat interest rate method as opposed to a declining balance method. Flat interest rate was charged by 77% of products surveyed, with just 23% of products using the more transparent declining balance method. Whereas product fees and insurance charges were common, just 7.4% of loan products had these details listed on the repayment schedules given to borrowers, leaving a huge 92.6% of charges undisclosed. The majority of these were charged at disbursement (95%) rather than throughout the lifetime of a loan. This lack of disclosure was also seen with the use of compulsory savings as collateral. Whereas 41% of products required compulsory savings, just two out of 33 of the products that mandated savings showed these savings on the repayment schedules.

Loan Products

In 2004 the Economic Policy and Research Centre criticized the microfinance sector for the lack of diversity and suitability of loan products. Generic products with standardised features were characterised by short loan periods of 4 - 12 months, no grace periods, weekly repayments and small loan amounts. These features were deemed particularly unsuitable to meet agriculture related loan requirements, the sector that sustains the majority of Uganda's rural population. Farmers were obligated to make repayments before they'd had the chance to plant the seeds that they purchased with the loan. The lack of uptake of new higher yielding technology that could significantly impact household income has been attributed to the restrictive conditions that MFIs placed on their loans. MFIs argued back on grounds of microfinance best practice guidelines. Small loans progressively increasing over time incentivises good repayment rates in anticipation of the client qualifying for future larger loans. Weekly repayments not only enhanced repayment rates but assisted MFIs with their cash flow[48]. The MF*Transparency* Initiative showed that, by 2011, monthly repayments had become the norm; with almost 70% of loan products structured so.

AMFIU's microfinance survey of 2009 revealed that the most common product offered by their members was business or commercial loans, with 46 members offering this product. The findings of MF*Transparency's* 2011 Initiative supported this, with a large majority of loan products being aimed at business use. Questions over the eligibility of loan

products ratified this, with over 57% of loans requiring borrowers to own a business, as shown in the chart below. The next most prevalent product purposes were for education (15%), multipurpose (14%) and housing (11%). Consumer purposes reached 9% and emergency loans constituted 7% of loan products.

The AMFIU survey also showed that agricultural finance was becoming increasingly popular, having grown to 38 institutions offering this from virtually nothing just a decade ago. There was a variety of other products on offer from member MFIs, including group loans (19 MFIs), school fee loans (31 MFIs), bicycle loans (13 MFIs), Solar Power loans (12 MFIs) and Emergency Loans (13 MFIs) amongst others. Despite this AMFIU noted an increasing demand amongst Ugandans for a greater diversity of product offerings[49].

Consumer Protection

Protection of consumer rights is not well established in Uganda. At present the country lacks both an overall consumer protection policy and a regulatory scheme to protect consumers. There is an absence of legal guidance for dispute resolution and no enforcement mechanisms for maltreated customers. In 2004 the Ugandan Law Reform Commission drafted both a competition law and a consumer protection law; however these acts are still pending cabinet approval. Legislation to establish a Deposit Insurance Scheme was passed in 1994, which guaranteed partial insurance for depositor's losses in the event of a bank failure and a subsequent fund was established under the MDT Institutions Act 2003 for a number of microfinance institutions.[50]

There are a handful of independent organizations addressing this field in Uganda. Chief amongst these are the Uganda Consumers Protection Association (UCPA) and the Consumer Education Trust (CONSENT). However in terms of financial consumer protection AMFIU is heralded as leading the way with its Consumer Education and Transparency Program, its Consumer Code of Practice and its Consumer Financial Education Handbook. AMFIU's 2009 paper concerning consumer inclusion and protection addressed the need for a fine balance in Uganda between consumer protection, consumer education and consumer advocacy, taking into consideration the potential for increased consumer protection to impact negatively on borrowers by reducing the willingness of financial institutions to provide services[51]. Financial literacy was highlighted as a key focus area to improve consumer protection.

Financial literacy is a growing area of interest in Uganda. The country has now celebrated five annual financial literacy weeks and the Bank of Uganda has released plans to incorporate financial literacy programs into the school curriculums spanning from nursery to tertiary level. The central bank is also planning to work with the government to integrate financial literacy into the National Development Plan for the country[52].

Mobile Banking

The provision of banking services through the technology of mobile phones has been growing in momentum in Uganda. After launching its first mobile money service in Uganda, the mobile company MTN clocked up 890,000 users in the first year, double what it had forecast. They expect to have 3.5 million users by 2012[53]. Uganda's largely rural population is now gaining access to financial services previously prohibited by geographical distance. Traditional banks are currently the largest players in Uganda's mobile banking sphere, including Standard Chartered, Stanbic and Barclays; however microfinance institutions are now looking to adopt the technology with Equity Bank leading the way. Mobile banking has provided an avenue for MFIs to extend the social mission of microfinance by providing convenience, savings on

transport costs and enhanced security, whilst benefitting themselves from reduced transaction costs and improved rural market penetration.

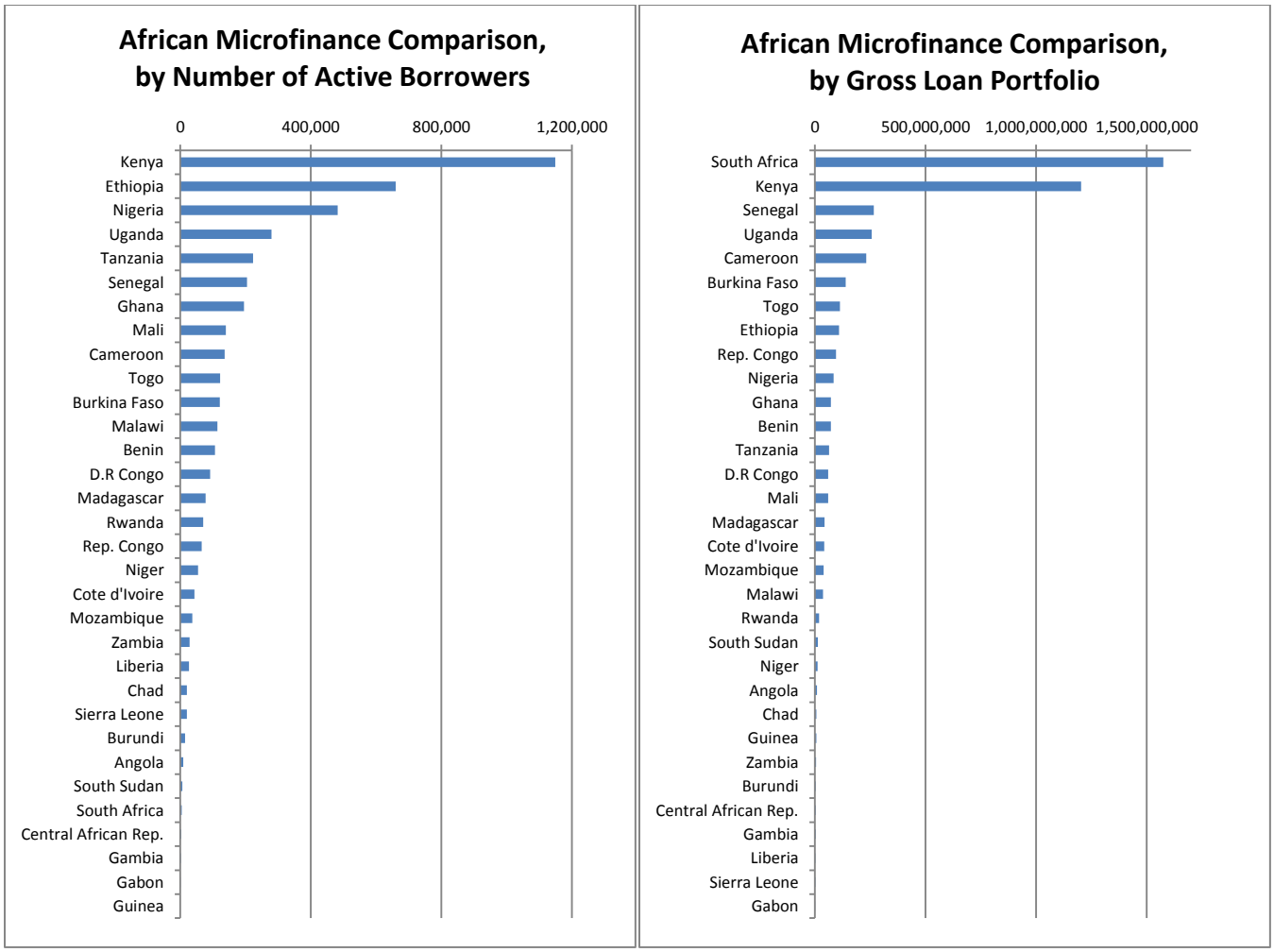
MFI Ratings & Reporting

The majority of Ugandan microfinance institutions including most of the market leaders reported financial and operational performance data to MIX market as of 2010. Many of these institutions have also undergone thorough ratings checks of their financial and operational performance. All three of the major rating agencies in the microfinance industry have worked in the Ugandan microfinance market. Several MFIs also participated in social performance ratings. The following table lists the MFIs with their respective rating score.

MFI	Rating Agency	Rating	Report Date (most recent)
Financial & Operational Ratings			
Agaru SACCO	Planet Rating	D	2007
BRAC Uganda	MicroFinanza	BB	2010
ECLOF	MicroFinanza		2011
Faulu Uganda	MicroRate	β-	2006
Gatsby Microfinance	Planet Rating	D	2010
Hofokam	MicroFinanza	BBB-	2010
ISSIA	Planet Rating	D	2010
KALCADA	Planet Rating	E	2006
KOLPING/KEDEP	Planet Rating	D-	2007
KYAPS	Planet Rating	C-	2007
Masaka	MicroFinanza		2010
MCDT	MicroFinanza	BB-	2010
Mednet	MicroFinanza	CCC+	2011
Micro Uganda Ltd.	Planet Rating	C	2011
Mushanga SACCO	Planet Rating	C-	2007
Naddangira	Planet Rating	D	2006
Pearl Microfinance Limited	MicroRate	γ+	2007
Pride Microfinance	Planet Rating	B+	2010
Share an Opportunity MFI	Planet Rating	D-	2007
Stromme Microfinance	Planet Rating	C++	2010
Tulihamu Budongo SACCO	Planet Rating	D-	2007
UGAFODE	Planet Rating	C-	2006
Uganda Finance Trust	MicroFinanza	B	2011
Social Ratings			
PRIDE Uganda	Planet Rating	2+	2010
Gatsby Microfinance	Planet Rating		2010
ISSIA	Planet Rating	1+	2010

Uganda and Microfinance in Africa

Data from The Mix Market in 2010 showed the African microfinance sector as having 4.5 million borrowers and a gross loan portfolio of $4.6 billion[54]. In terms of scale Uganda ranks as both the fourth largest gross loan portfolio in Africa and the fourth largest number of active borrowers, with Uganda's reporting MFIs constituting 6.2% of Africa's active borrowers and 5.6% of the sector's gross loan portfolio.



Source: Mix Market 2010

Challenges for the Ugandan Microfinance Industry

Although well developed and well supported, the Ugandan microfinance industry faces several important challenges going forward. Achieving financial sustainability is a prime challenge for the sector. At present MFIs tend to charge high interest rates and fees rather than attempt economies of scale with the use of low-cost financial technologies. Faced with slow rates of savings deposit growth and high operating expenses, MFIs are likely to come under pressure to lower their interest rates in order to counteract adverse media publicity and dwindling donor support. The next MFIs to climb up the series of regulatory tiers are unlikely to benefit from the same level of donor support as those before them have done. In order to achieve sustainability MFIs are drawn to target the economically active rather than Uganda's poorest.

As the sector becomes increasingly commercialized, steps need to be taken to avoid "mission drift" away from small-scale household finance to commercial scaled operations.

The sector needs to overcome its geographical concentration in urban and peri-urban areas. Not only does this result in an inadequate rural outreach, but it has also led to intense competition in urban areas, particularly in the cities of Kampala, Mbarara, Jinja and Mbale. There is also increasing competition for MFIs from various commercial banks who are venturing into microfinance markets, for example Barclays Bank with its recent acquisition of Nile Bank Limited, and Bank of Africa with its Allied Bank acquisition. In addition there is potential competition from several Kenyan banks that are looking to expand into Uganda.[55] With the relatively recent increase in credit availability, MFIs need to consider aspects of responsible finance. Anecdotal evidence suggests a growing rate of multiple borrowing by urban clients and a consequently heightened risk of default. There needs to be transparency within the sector, increased consumer protection regulation to combat the low financial capability levels of consumers and measures taken to prevent fraud and over indebtedness.

Whereas the government has been very supportive of the sector, there is always the risk of a change in focus and philosophy causing an inevitable impact on market mechanisms. The sector has benefitted from astute regulation; however it must be ensured that an appropriate level of regulation is maintained at a level that ensures the safety of customer deposits without inhibiting sector dynamics or over-burdening small MFIs.

As the industry grows in Uganda it risks outpacing the supply of skilled personnel causing inadequate expertise within MFIs to utilize the financial technology required to run a successful MFI. Capacity building needs that have so far been met by donors will need to be managed more thoroughly from within the industry, an issue already being led by AMFIU. In addition, MFIs will need to diversify their product offerings available to the Ugandan population. There is a limited range of financial products on offer aimed at agriculture, which is the backbone of the rural economy. Furthermore there will be a growing demand for services beyond traditional micro-credit, for example, micro-insurance, savings and payment services.

There are several recommendations as to how Ugandan microfinance can improve its social performance whilst still enabling MFIs to achieve financial and operational sustainability. These include government incentives for MFIs to increase their outreach beyond urban limits, capacity building of MFIs to foster suitable products, policies and procedures, and the publication of interest rates and product fees charge by MFIs so as to motivate competition and efficiency in the sector. Several internationally recognized initiatives, such as MF*Transparency*, are working to help strengthen the sector and improve the delivery of responsible microfinance in Uganda.

About the Country Survey

The Country Survey resources are comprehensive literature reviews that outline the country-specific context for the data collected during the Transparent Pricing Initiatives. Each country has a unique set of circumstances defining the state of its microfinance market. The macroeconomic conditions, the political history, and the level of financial inclusion in a country are important factors characterizing the origins and future development of its microfinance market. An awareness of the country-specific regulatory environment for microfinance, as well as the involvement of other industry actors and industry challenges, is a valuable backdrop when considering a market's pricing data. Country Surveys are prepared by a team of talented interns working for MFTransparency, and should be viewed as a resource offering general contextual information for the Transparent Pricing Initiative in each country.

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