

Working Paper NO. 10

State of Microfinance in Uganda:
2008: Analysing AMFIU Member MFIs

By
Caroline Tuhwezeine Kumwesiga

Vol. 5 series 10



AMFIU

**ASSOCIATION OF MICROFINANCE
INSTITUTIONS OF UGANDA**

The Author:

Caroline Tuhwezeine Kumwesiga (tcarol@amfiu.org.ug) is the AMFIU Information Officer. Among other things, she is the editor of the AMFIU Directory and is a member of the editorial committee of the Microfinance banker, a professional journal published by the Uganda Institute of Banking and Financial Services' Microfinance Competence Centre (MCC) and AMFIU. She holds a degree in Library and Information Science of Makerere University and a Diploma in microfinance.

© 2009 by the Association of Microfinance Institutions of Uganda

Disclaimer: The views expressed in this paper are those of the author and do not necessarily reflect the view or policies of AMFIU.

Printing of this working paper was done with the generous financial support from DED



Working Paper NO. 10

State of Microfinance in Uganda:
2008: Analysing AMFIU Member MFIs

By

Caroline Tuhwezeine Kumwesiga

Vol. 5 series 10

Table of Contents

1.0	Introduction:	5
1.1	Methodology:	5
1.2	Summary of findings:	5
2.0	Who are the members of AMFIU	5
2.1	AMFIU Members structure:	5
2.1.1	By Tier and Legal Status	5
2.1.2	By Category	6
3.0	Communication Facilities	7
4.0	Client Numbers & Portfolio Volumes	8
4.1	How many Ugandans are served by AMFIU Members.....	8
4.2	Portfolio Volumes	9
4.2.1	Loan Portfolio.....	9
5.0	Customer Account Handling and Maintenance	10
6.0	Microfinance Products	11
7.0	Are AMFIU Members still reaching the poor	12
8.0	Conclusion	13

1.0 INTRODUCTION

After every two years, AMFIU publishes a microfinance Directory in which its members are featured. The information published comprises of contacts and business information for the member MFIs of AMFIU. The business information includes the loan and savings portfolio, outreach information in terms of numbers and branches, information on products offered by the MFIs and gender aspects of the businesses. A section of associates is also usually included showing their contacts and services they provide.

This working paper is meant to analyse the information that was collected and published in the 4th Edition of the MFI directory early this year.

1.1. Methodology

A tool was developed at AMFIU and sent to all members including associates. However, in this working paper, more focus will be given to ordinary members i.e all institutions offering microfinance services including banks, credit institutions, MDIs, SACCOs, NGOs and non regulated private companies. The tool/form was sent to the institutions both by email and post. At the time, all the 78 MFIs received the form. Although the response was much higher than that of 2007, we still had some members who did not submit data. For such institutions, only their contacts were displayed in the directory and where possible, their loan portfolio and number of clients served. The data collected was as per end of 2008.

1.2. Summary of findings

1. At the end of 2008, AMIU members served a total of 1,597,571 savers and 448,458 active borrowers.
2. Total savings stood at Uganda Shillings 411,023,900,283/= while the total loan portfolio was UGX 474,177,076,180/=
3. Out of 1,814,976 clients served by AMFIU members, 69% were women.
4. The average first loan has increased from UGX 331,640/= in 2007 to UGX 399,959/= at the end of 2008.(increase of about 17%)

5. The number of members with email addresses has increased from 65% in 2007 to 80% in 2008 while the percentage of members (including associates) with websites is 23%.
6. By end of 2008, AMFIU members were operating in 57 districts throughout the country.

2.0 Who are the members of AMFIU?

AMFIU membership increased from 110 members at the beginning of 2007 to 117 in 2008. The membership comprised of 78 ordinary members (financial institutions) and 36 Associate members (individuals and institutions engaged in support activities of microfinance e.g. capacity building suppliers, government and donor projects). This may seem to be a slow growth of the membership compared to the total number of microfinance institutions in the country. The slow growth is twofold. One, because AMFIU has eligibility criteria it follows to recruit institutions, which leaves out many MFIs that do not comply to the minimum standards set, and secondly because we have a code of conduct that MFIs must adhere to. Failure to comply would lead to deregistering some of our members to keep the register clean in order to maintain a high quality membership.

AMFIU MFI membership cuts across all tiers and categories. While the tiers are determined by different statutes under which institutions of different legal status (companies, SACCOs and NGOs) are regulated as per the central Banks policy, categories on the other hand are determined basing on the level of development of the institution following a combination of features like the loan portfolio and the number of clients served.

2.1 AMFIU Membership Structure.

2.1.1 By Tier and Legal status

As a result of the policy statement that was issued by Bank of Uganda in 1999 on microfinance supervision and regulation, all financial institutions were categorized in 4 tiers that is, tier 1, tier 2, tier 3 and tier 4.

Tier 1 includes commercial banks which offer microfinance services, tier 2 consists of credit institutions, tier 3 comprises of Micro Deposit-taking Institutions (MDIs) and tier 4 which comprises of SACCOs, NGOs, and smaller companies which are not

under the supervision of the Central Bank. It is however important to know that there is a proposed bill that has already been presented to the parliament to regulate the activities of financial institutions in tier 4.

Fig1: AMFIU Members by Tier and Legal Status

Tier	No. of AMFIU Members	Description	Legal status	Applicable Act/ Law
Tier 1	2	Banks (Centenary Bank & Equity Bank)	Company Ltd by shares	Financial institutions Act (2004)
Tier 2	2	Credit institutions (Faulu Uganda & Post Bank Ug)	Company Ltd by shares	Financial institutions Act (2004)
Tier 3	3	MDIs <ul style="list-style-type: none"> • Finance Trust • FINCA • Pride Microfinance 	Company Ltd by shares	MDI Act (2003)
Tier 4	71	Other financial institutions that do not fall under the 1 st three tiers.	9 companies 17 NGOs 45 SACCOs	Not regulated but a proposed bill has been presented to Parliament for review.

2.1.2 By category

As a strategy for serving a diversified type of membership better, AMFIU members are categorized from A to E

depending on their portfolio size and the number of clients of each MFI. Category A consists of the biggest MFIs and E consists of the smallest.

Fig 2: AMFIU members by categories

Category	Description/features	No of AMFIU members (2007)	No of AMFIU members (2008)
A	Not less than 20,000 clients with a loan portfolio of not less than 800 million shillings	8	10
	OR Not less than 15,000 clients with aloan portfolio not less than 1 billion shillings		
B	10,000-19,999 clients with a loan portfolio of not less than 500 million shillings	11	09
	OR Not less than 500 clients with a loan portfolio of not less than 800 million shillings		

⁰ The drop in the number of category B institution was caused by some members graduating into category B and others going back to category C due to the revised membership criteria.

C	1000-9,999 clients with a loan portfolio of not less than 200million shillings	19	32
	OR Not less than 500 clients with a portfolio of not less than 400 million shillings		
D	200-999 clients with a loan portfolio of not less than 50million shillings	30	21
	OR Not less than 100 clients with a loan portfolio of not less than 100million shillings		
E (probationary membership)	Above 50 members with the portfolio of not less than 10 million shillings	5	6
TOTAL		73	78

3.0 Communication Facilities

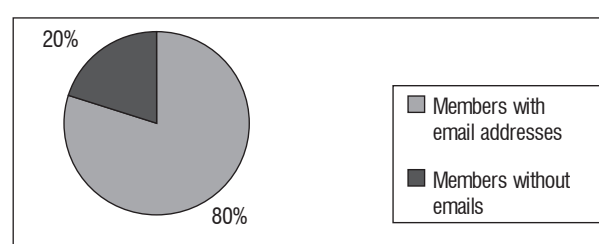
Are AMFIU Members online?

One of the most core services of AMFIU is information dissemination to members and stakeholders. Communication facilities are therefore a very vital factor in the delivery of information. In order for AMFIU to keep in regular communication with its members, we encourage our members to have e-mail addresses because it is the fastest means of communication compared to the other available options. Email is used in addition to postal addresses and telephone. Members with email addresses receive information more quickly and we are able to get early response from them. Members without this facility tend to lag behind in receiving regular updates and some other information.

The number of AMFIU members with email addresses has increased from (65%) to (80%). Only 15 MFIs do not have an e-mail address. This is basically because most of them are rural based and those that have the facility usually take long to check on them because of the long distances they have to travel to access the internet cafés which in most cases are expensive in rural areas. The SACCOs are therefore affected most when it comes to communication facilities since they are the ones usually located in the deep rural. Communication facilities is just one of the many other infrastructural factors that need to be addressed if rural financing is to be a success.

In the last membership satisfaction survey, members expressed the need for AMFIU to devise supplementary channels to avail information to its members other than email and Posta. Accordingly, AMFIU is planning to install a bulk sms facility to be used in addition to other communication channels. For instance if an important email is sent, we would send a text message to all members in the rural areas informing them about the urgency or importance of the sent message.

Fig 3: Communication facilities: percentage of members with emails



3.1 Members with websites.

The AMFIU's number of members with websites has increased. Most of the members with a website are category A and B or Associate members.

Fig 4: AMFIU members with websites

MFIs with websites	Associate members with websites
<ul style="list-style-type: none"> • Centenary Bank - www.centenarybank.co.ug. • Equity Bank Uganda Ltd - www.equitybank.co.ug. • Faulu Uganda Ltd - www.fauluuganda.com. • MED-Net - www.wvi.org • PRIDE MF Ltd - www.pridemicrofinace.co.ug. • FINCA Uganda - www.villagebanking.org. • The Hunger Project- Uganda - www.thp.org • Success Microfinance Ltd - www.smslimited.co.ug • Five Talents - www.fivetalents.org • Brac Uganda - www.brac.net. • Cidi Microfinace - www.cidi.org.ug • APAS Financial services Ltd - www.apasgroup.com • ECLOF- Uganda - www.eclofuganda.com • Finance Trust - www.finance.co.ug • Gatsby Microfinance Ltd - www.gatsbyuganda.com 	<ul style="list-style-type: none"> • CEEWA-U - www.ceewauganga.org • Crystal Clear Software Ltd - www.loanperformer.com. • DEMIS Limited - www.demisuganda.org. • EPSEDEC - www.epsedec.co.ug • FRIENDS Consult Ltd - www.friendsconsult.co.ug • Sigma Data Computer Ltd - www.sigmadc.com • Share an opportunity Microfinance Uganda Ltd - www.souganda.org. • SEPSPEL - www.privtesectorcentres.org • Aclaim Africa Ltd - www.aclaimafrica.com • Alexander Forbes Uganda Ltd - www.forbes.co.ug • Catholic Relief Services - www.crs.org • CKM Consultants Ltd - www.ckmconsultants.com • Habitat For Humanity - www.habitat.ug • Kabarole Research and Resource Center - www.krc.or.ug • Micro Ensure - www.microinsuranceagency.com • Stromme Foundation East Africa Region - www.stromme.org • Swiss Contact - www.swisscontact.org • TRIAS UGANDA - www.triasngo.be • UCA Ltd - www.uca.co.ug • Uganda Martyrs University, Nkozi Department of Microfinance - www.fiuc.org/umu.

4.0 Client Numbers and Portfolio Volumes

4.1 How many Ugandans are served by AMFIU Members?

By end of 2009, AMFIU members served 1,814,976 people. The number of savers served was 1,597,571 while the total number of borrowers was 448,458. The outreach of AMFIU members has grown both in terms of the number of people served and the branch network.

In terms of branch network, AMFIU members operate through 403 branches compared to 281 Branches in the past two years. Likewise, there has been a 81% increase in the number of clients served by AMFIU members in the last 2 years. The increase in the branch network and the number of clients has been caused both by the expansion of the already existing institutions and the joining other

big institutions like BRAC and Post Bank.

Just like in 2007, the institutions in the upper tiers/ regulated institutions (Tier 1, 2 and 3) had the biggest percentage of clients. Of the regulated, Centenary had the highest number of clients totaling to 715,000, followed by Equity Bank with 281,340 (both in tier 1), followed by Post Bank with 204,415, (Tier 2) followed by the MDIs i.e Tier 3 (PRIDE, Finance Trust & FINCA) and then Faulu as displayed in the table below.

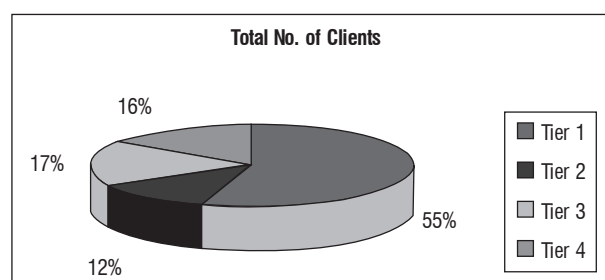
Fig 5: Client outreach in the regulated institutions

Organisation	Tier	Total No. of Clients
Centenary Bank	1	715,000
Equity Bank Uganda ltd	1	281,340
POST BANK (U) LTD	2	204,415

Organisation	Tier	Total No. of Clients
PRIDE Microfinance Limited (MDI)	3	129,070
Finance Trust	3	127,411
FINCA Uganda	3	53,406
Faulu Uganda	2	21,290
Total		1,531,932

The rest of AMFIU membership (Tier 4) served a total of 283,044 people.

Fig 6: No. of clients by tiers

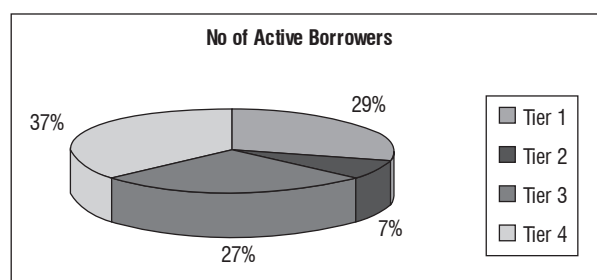


Regarding the market share in terms of microfinance borrowers, the regulated institutions alone served 284,542 people (63%) while the unregulated institutions served 163,916 people (37%) of the total market share.

Fig 7: Market share in terms of borrowers among the regulated & non regulated institutions

Organisation	Tier	No of Active Borrowers
Centenary Bank	1	82,434
PRIDE Microfinance Limited (MDI)	3	57,286
Equity Bank Uganda Ltd	1	47,388
FINCA Uganda	3	46,722
Faulu Uganda	2	17,847
Finance Trust	3	17,516
POST BANK (U) LTD	2	15,349
Unregulated Institutions	4	163,916
Total		448,458

Fig 8: Percentage distribution of borrowers across tiers



4.2 Portfolio Volumes

4.2.1 Loan Portfolio

In terms of portfolios, the regulated institutions had a total loan portfolio of 412,351,614,120 (87%) while their tier 4 counter parts had a total of 61,825,462,060 (13%) of the total market share.

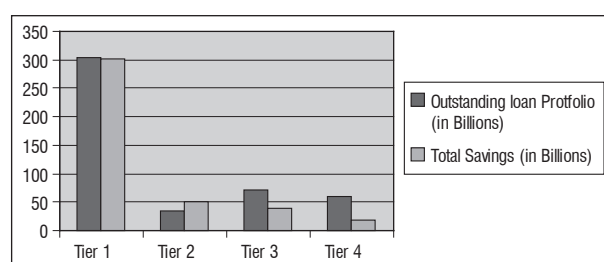
Savings Portfolio

In terms of savings, the regulated institutions shared a total of **391,577,111,379** (95%) while the unregulated institutions shared a total of 19,446,788,904 (5%)

Fig 9: Distribution of savings and loan portfolios among the regulated institutions

Institution	Tier	Outstanding loan Portfolio	Total Voluntary Savings	Total Compulsory Savings	Total Savings
Equity Bank Uganda Ltd	1	86,085,521,104	7,490,338,771.42	5,148,079,537.44	12,638,418,308.86
Centenary Bank	1	219,000,000,000	289,000,000,000	NA	289,000,000,000
POST BANK (U) LTD	2	25,000,000,000	47,000,000,000	NA	47,000,000,000
Faulu Uganda	2	10,215,517,201	NA	3,395,710,834	3,395,710,834
FINCA Uganda	3	18,476,924,905	8,611,429,871	1,569,229,194	10,180,659,065
Finance Trust	3	16,767,783,221	8,611,429,871	711,348,490	9,322,778,361
PRIDE Microfinance Limited (MDI)	3	36,805,867,689	10,019,772,408	10,019,772,402	20,039,544,810
Total		412,351,614,120	370,732,970,921.42	20,844,140,457.44	391,577,111,378.86

Fig 10: Distribution of loan and savings portfolio and the relationship between the two across the tiers



From the data above, The tier 1 institutions have the highest portfolio both in terms of savings and loans. The loan portfolio (305 billion) is slightly higher than the savings portfolio (301 billion) probably because Banks have big entrepreneurs whose interest is more in investment than savings. However, the difference between the amounts in savings and loans is quite minimal and we can conclude that Banks are much more balanced in giving out loans and savings mobilization.

The highly developed systems structures have helped banks to attract more savings from the public because they are more trusted. The savings mobilized are used to lend to larger enterprises.

The tier 2 (Credit) institutions are doing much better in savings probably because they are looked at as banks. Indeed, most of the microfinance clients may not be able to differentiate an institution like PostBank from a commercial bank. Such an institution is also more trusted by the public when it comes to protect peoples savings.

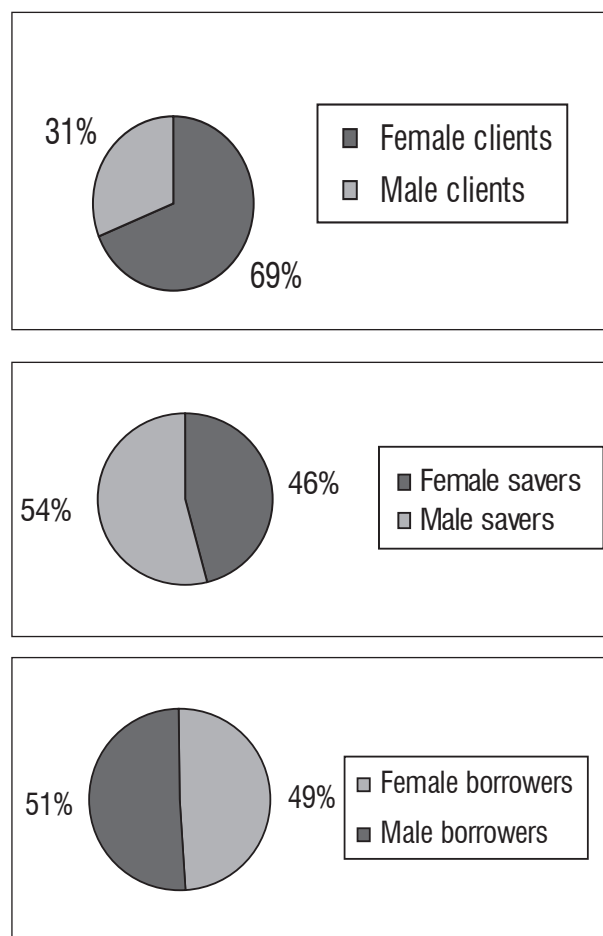
In tier 3 institution, Loans still almost double their savings. This may be because the public still does not look at them as secure institutions to keep their money. They may still be associated with the shark microfinance institutions. This means that the MDIs on top of building sound systems and structures, they may have to do a lot in promoting themselves to build a much better image for the public to entrust them with their fund.

Tier 4 institutions have the least savings portfolio. This is partly because a good number of them (NGOs and Private companies) are not allowed to mobilize savings from the public. Only the SACCOs are allowed to mobilize savings from the public. However, most of SACCOs lack sound systems and structures in addition to not being regulated and supervised by a statutory body which makes it had for them to mobilize large amounts of savings.

5. 0. The Gender Perspective

From the data collected in 2008, out of the 1,814,976 people served by AMFIU members 69% are women. Women also account for 49% of the total borrowers and 46% of the total savers. From this, we can deduce that the AMFIU clientele is relatively balanced in terms of gender and most importantly, that the interests of women are relatively considered as far as financial services are concerned within the AMFIU membership.

Fig 11. Percentage of clients by gender



6.0. Microfinance products

AMFIU members offer a wide variety of products. However, the range of products is wider with the regulated institutions than the unregulated. This is expected since such institutions have a bigger capacity in venturing into product development and other aspects that may require huge sums of funds. The smaller institutions have also been creative enough especially in offering products that are suitable and most demanded in their localities. Such include solar loans, rain water harvest loans, bodaboda/bicycle loans, house improvement loans etc.

Because of the nature of directory, it was not possible to get the description/features of these products. The tool only allowed listing of the names of products for a particular institution.

The saving products offered by AMFIU members include;

1. Current accounts

2. Fixed Deposit Accounts
3. Foreign currency accounts
4. Individual saving accounts
5. Joint Savings Accounts
6. Junior accounts

Loan Products

The most common product offered by AMFIU members is the business/ commercial loan. This understandable because it is a basic product which most MFIs start with. It is friendly, less risky and is a traditional product that has been tried by most MFIs. At least 38 institutions are offering this product.

The agricultural financing also seems to be increasingly popular among the AMFIU membership. About a decade ago, financing agriculture was looked as a “no go area” because of the risks that are associated with it. However, the realities of our economy are now catching up with microfinance and therefore agriculture can no longer be ignored. However, it was not captured from the data collection which part of agriculture is being financed and the features this product has. However, one thing is for sure that agricultural financing is still a challenge much as it is on very high demand just like any other products that go beyond the regular savings and business credit.

AMFIU has noted an increasing demand for such special financial products which go beyond the regular micro and small entrepreneurial loans. If MFIs can vary and expand their financial product portfolio they create new business and increase income, they diversify their risks and offer loan opportunities to people who previously had no interest or possibility to take advantage of loans and savings as a means to improve their livelihoods, especially in rural areas.

Accordingly, AMFIU has commissioned a research on financial products with the aim of stimulating development of new financial products in order to increase the outreach of MFIs and improve access to and usage of financial services especially in rural areas. The focus is therefore on agricultural loan/savings products. As part of this research, a catalogue of successful Ugandan financial products shall be compiled, seconded by a practical guide to adapt and develop new products.

Fig 11: Products offered by AMFIU members

#	Product Category	Number of AMFIU members offering the product
1.	Agricultural loans	38
2.	Asset Acquisition Loans	13
3.	Bicycle loans/ Boda Boda Loans	13
4.	Business loans/ Commercial loans	46
5.	School fees loans	31
6.	Solar power loans	12
7.	Rain water harvest loan	8
8.	Emergency loan	13
9.	Home improvement loan	9
10.	Housing loans	5
11.	Salary loans	19
12.	Group loans	19
13.	Individual loans	13
14.	Health loans	2

Others services offered

7. Loan Insurance
8. Money Transfers
9. Custody of security items

7.0. Are AMFIU members still reaching the poor?

Since 2007, the microfinance industry has experienced a number of changes. We have seen some institutions graduate from one tier to another. Uganda Microfinance Limited (MDI) and Commercial microfinance Limited (Credit Institution) both transformed into Equity Bank and Global Trust Bank respectively while Faulu transformed from being a tier 4 (unregulated) into a Credit institution (Tier 2). The numbers of clients reached have also increased and like wise the business volumes.

Microfinance institutions are becoming more aware of the microfinance sound practices which are based on the notion that microfinance is a business other than a charity to the poor.

Looking at these changes, anyone would wonder if microfinance institutions are still really reaching and benefiting the low income earners of the Ugandan society.

According to the directory data collected at the end of 2008, the average 1st loan was UGX 399,959 (1stUSD 200) while the per capita income for Uganda in 2008 was ²estimated at USD 1300 (2,600,000). The average first loan for AMFIU members being much below the per capita income (i.e it is 15 % of the average annual income of a Ugandan) means that AMFIU members are reaching Ugandans who are earning below average, the low income earners.

The above also presumes that an average Ugandan household lives on US\$3.6 (UGX 7200) per day which is above the poverty line. This may be an indicator that there are still many poor people out there who may need the services of microfinance institutions but are not being reached by these institutions.

In regard to serving the poor i.e. households which survive on less than one dollar per day (less than UGX 720,000 per annum), the average 1st loan is 56% of their average annual income which may show that AMFIU members are not just serving the people below average but also the ones who are below the poverty line.

Since AMFIU membership is very diverse, with commercial banks like Centenary and other regulated institutions alongside SACCOs, NGOs and other small private companies, the Average 1st loan may not give a true representative picture for all categories of the member financial institutions.

The table below therefore shows the average 1st loans across all tiers to get a more realistic picture of the type of clients that MFIs serve.

1 The rate of a dollar was estimated at 2000 Uganda Shillings
 2 Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html>

Table Fig 12: A comparison between the average first loan among the different Tiers for 2006 and 2007

Category	Average 1 st loan
Banks – Tier1	2,656,671
Credit institutions – Tier 2	1,071,582
MDIs– Tier 3	423333
Companies– Tier 4	736910
NGOs– Tier 4	311,538
SACCOs– Tier 4	243271
All Members	399,959

A closer look at the different tiers shows that the upper tiers i.e Banks and credit institutions target the upper class of the low income earners while the MDIs, SACCOs and NGOs target the lower classes of the low income earners. The MDIs despite being regulated have continued to serve the poor.

For the unregulated private companies, the 1st average loan is higher than in some of the regulated institutions (MDIs). This is understandable since their motive is more into profit making than social empowerment of their clients.

8.0 Conclusion

The 2009 MFI directory being the 4th edition has realized a higher response from MFIs in terms of data submission and has been improved greatly in terms of quality. Over 90% of members submitted their data. This improvement has caused an increase in demand for advertising space in the directory. A total of 45 advertising companies was realized.

In this edition, we realised a lot of improvement in terms of communication facilities, outreach in all aspects such as portfolio, numbers in clients, products, geographical and poverty outreach.

The challenge we still have is effective communication facilities between members and the network. Because the directory is self financing, we tend to rely so much on cheaper means of acquiring this data; electronic communication. This sometimes does not go well with deep rural based members resulting into delays and

insufficient data.

However, AMFIU intends to put in place other tools of communication to support the existing ones. The Performance Monitoring Tool 2009 (PMT2009) will be out before the end of the year and will facilitate systematic data capture and management feedback. Moreover AMFIU will put in place a bulk SMS facility especially for institutions that do not have regular access to their emails. Hence, we are further looking into maintaining a high level of communication with our members in order to support their cause and improve the way they conduct their business.

References

1. <https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html>
2. The microfinance Directory 2009/10
3. Microfinance Directory 2007
4. State of Microfinance in Uganda: working paper series No. 9



AMFIU

**ASSOCIATION OF MICROFINANCE
INSTITUTIONS OF UGANDA**

AMFIU House, plot 679, Wamala Rd (off Entebbe Rd), Najjanankumbi
P.O. Box 26056, Kampala, Uganda

Tel: (256-41)259176, **Fax:** (256-41)254420

Email: amfiu@amfiu.org.ug, **Web:** www.amfiu.org.ug