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# RURAL SPEED SECOND ANNUAL REPORT



**October 2006**

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.



# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## SECOND ANNUAL REPORT

OCTOBER 2005 - SEPTEMBER 2006

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Rural SPEED  
A USAID-funded project  
Contract No. PCE-I-00-99-00003-00 TO 826  
This report submitted by Chemonics International Inc. / October 2006

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## ACRONYMS AND ABBREVIATIONS

ABDC	Agro-Business Development Component (DANIDA)
ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ADP	Ankole Dairy Producers
AIM	AIDS/HIV Integrated Model District Programme
AIRs	Activity Intermediate Results
AMFIA	Ankore Microfinance Institutions Association
AMFIU	Association of Microfinance Institution of Uganda
APEP	Agricultural Productivity Enhancement Program
ASCAs	Accumulating Savings and Credit Associations
ASPS	Agricultural Sector Programme Support (DANIDA)
BOU	Bank of Uganda
CERUDEB	Centenary Rural Development Bank
CGAP	Consultative Group to Assist the Poor
CMFL	Commercial Microfinance Limited
DANIDA	Danish International Development Agency
DCA	Development Credit Authority
DFID	Department for International Development (UK)
FEWSNET	Famine Early Warning Systems Network
FI	Financial Intermediary
FINCA	Foundation for International Community Assistance
FSDU	Financial Services Deepening Project (DFID)
FY	Fiscal Year
GIS	Geographic Imaging Systems
GOU	Government of Uganda
GTZ	German Development Program (Deutsche Gesellschaft für Technische Zusammenarbeit)
IDEA	Investment in Developing Export Agriculture
IR	Intermediate Results
IT	Information Technology
KRA	Key Result Areas
LOL	Land O' Lakes
M&E	Monitoring and Evaluation
MDIs	Micro-Deposit Taking Institutions
MEDNET	Micro Enterprise Development Network
MFI	Microfinance Institutions
MIS	Management Information System
MOFPED	Ministry of Finance, Planning and Economic Development
MOP	Microfinance Outreach Plan
MOU	Memorandum of Understanding
MSMEs	Micro, Small and Medium-sized Enterprises
MT	Metric Tons
NGCU	Nyakatonzi Growers Cooperative Union
PEAP	Poverty Eradication Action Plan
PMP	Performance Monitoring Plan
PMT	Performance Monitoring Tool
POs	Producer Organizations

PRIME/West	Productive Resource Investments for Managing the Environment/West
PSPD	Private Sector Development Programme
R&D	Research & Development
RATES	Regional Agriculture Trade Expansion Support Program
RFEs	Rural Financial Entities
RFP	Request for Proposals
Rural SPEED	Rural Savings Promotion & Enhancement of Enterprise Development
SACCOs	Savings and Credit Cooperative Organizations
SAF	Strategic Activities Fund
SCOPE	Strengthening the Competitiveness of Private Enterprise
SMEs	Small and Medium-Sized Enterprises
SO	Strategic Objective
SPEED	Support Private Enterprise Expansion and Development
STTA	Short-Term Technical Assistance
SUFFICE	Support to Feasible Financial Institutions and Capacity Building Efforts
TERUDET	Teso Rural Development Trust
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperatives and Savings Credit Union
UFT	Uganda Finance Trust
UGAFODE	Uganda Agency for Development
UGT	Uganda Gatsby Trust
UML	Uganda Microfinance Ltd. (formerly UMU)
UNDP	United Nations Development Program
U-Trust	Uganda Finance Trust
WFP	World Food Program
WRS	Warehouse Receipt System

## INTRODUCTION

Rural Savings Promotion & Enhancement of Enterprise Development (Rural SPEED) is a three-year, USAID-funded program whose objective is to deepen and strengthen Uganda's financial sector in response to rural sector demand for financial services. Rural SPEED began operations in January 2005 and committed the first nine program months to developing strategies, laying the ground work, and identifying and strengthening partners for implementation. The focus shifted to initial implementation of key strategies in the 12 months that began in October 2005. Innovations including a warehouse receipts system and a micro-leasing product were rolled out or piloted, creating new opportunities for farmers and small business owners to improve their operations. Savings mobilization campaigns at the national and local levels resulted in thousands of rural Ugandans opening accounts for the first time. Rural SPEED continued to develop new strategies and refine existing ones with a wide range of partners, including other donor programs, assuring an integrated approach designed to leverage maximum impacts. Program approaches continued to be demand-driven and systematized to yield sustainability.

This second annual report covers fiscal year (FY) 2006, the period from October 1, 2005 through September 30, 2006.

## PROGRESS BY ACTIVITY INTERMEDIATE RESULT (AIR)

### AIR 1 Increased Access to Rural Financial Services

AIR 1 is responsible for facilitating and enabling the expansion of saving, credit and agricultural finance products and services into Uganda's rural areas. The vision for this component in the second year emphasized active roll-out of key strategies through Rural SPEED partners and close collaboration with other projects and private sector actors to ensure maximum impact. Key fiscal year 2006 accomplishments included launch of a pilot warehouse receipts program for maize farmers in Kapchorwa, creation of two new savings and credit cooperatives for sunflower farmers in northern Uganda, successful completion of national and local savings mobilization campaigns, and ongoing training to strengthen rural partner financial institutions and expand their range of services.

Three Key Result Areas (KRAs) support AIR 1:

KRA 1.1: Capacity of Rural Financial Entities (RFEs) to Provide Agricultural and Non-Agricultural Financial Services Increased

KRA 1.2: Strategic Partnerships between Financial Institutions Strengthened

KRA 1.3: Savings Mobilization Increased

Each of these KRAs is detailed below in terms of its overall strategy, key activities and progress on annual benchmarks.

#### **KRA 1.1 Capacities of RFEs to Provide Agricultural and Non-Agricultural Financial Services Increased**

**Strategy.** This KRA's over-arching strategy is to continue to demystify rural and agricultural financing opportunities that, despite being low-risk and profitable, have

historically been avoided by both formal and non-formal financial institutions. Under this KRA, Rural SPEED promotes these types of financing, while also working to introduce new innovations that will enable a more liquid and lower risk market for several commodities. To help build confidence for financial institutions to explore new opportunities, Rural SPEED continues to encourage prudent lending through the Development Credit Authority (DCA), as well as build transparency and financial management capacity through the new Performance Monitoring Tool (PMT).

## Activities.

### 1.1.1 Improve Institutional Skills in Agricultural Finance:

Based on Rural SPEED's initial work, partner financial institutions had acknowledged they lacked the skills necessary to effectively deliver financial services for agriculture. Many maintained an internal culture that mistakenly viewed agricultural lending as excessively risky, further constraining their ability to operate in this area. To address these gaps, Rural SPEED focused its FY 2006 efforts on training and mentoring various levels of partner institution staff in the proper appraisal, delivery and monitoring of agriculture credit products. Centenary Rural Development Bank (CERUDEB), a



key partner, additionally received grant funding for related computer equipment, as well as motorcycles to broaden its rural outreach.

In collaboration with DANIDA's Agricultural Sector Programme Support (ASPS), Rural SPEED provided agricultural lending training for 90 loan officers and credit administrators from Allied Bank, Development Finance Company of Uganda (DFCU) and CERUDEB. The workshops specifically addressed understanding, mitigating and managing agriculture-related risks for credit officers who are not specialists in the area.

Under the Strategic Activities Fund (SAF), CERUDEB staff received further in-depth, targeted training in May and July from two international consultants who are experts in agricultural lending. The May training focused on deepening the skills of current agricultural loan officers, branch managers and credit administrators, as well as sensitizing senior managers. The July training principally focused on sharpening and improving the skills of new agricultural loan officers. Best practice case studies and field visits enabled trainees to appreciate a range of low-risk, viable financing opportunities. The consultant also made recommendations to refine the bank's policies and procedures, and reinforced the May training at senior management and board levels. This intervention resulted in CERUDEB increasing the number of new agricultural borrowers by 1,165, increasing the volume of borrowing by over 3 billion shillings.

Rural SPEED also maintained regular mentoring in agricultural lending for two partner Savings and Credit Cooperative Organizations (SACCOs),

Kyamuhunga and Muhame, which now offer agricultural credit products (refer to Section 2.2.1). In addition, loan officers from 10 partner SACCOs received intensive practical mentoring in agricultural lending, including field exposure in CERUDEB's loan offices from the Mbale branch, during the last quarter, which coincided with the beginning of the peak agricultural lending season. This resulted in significant linkages between the organizations.

Benchmark	Actual	Progress
Five agriculture finance training events	Three training events for CERUDEB and two mentoring events for SACCOs held in Mbale  Two training workshops held for banks in Kampala	140% achieved

### 1.1.2 Collaborate to Develop Warehouse Receipt Systems with World Food Program and APEP:

Rural SPEED led the development of a successful pilot warehouse receipt system (WRS) program in Kapchorwa, where USAID's Agricultural Productivity Enhancement Program (APEP) already was working with maize farmers to improve crop quality and yields. Rural SPEED collaborated with APEP, USAID's Strengthening the Competitiveness of Private Enterprise (SCOPE), the World Food Program (WFP) and banks to launch the program with the Kapchorwa Commercial Farmers Association (KACOFA). Under the system, KACOFA members who deposit maize in a designated secure warehouse



access financing worth up to 80 percent of its value from Stanbic Bank based on a certified receipt from the facility. Stanbic committed nearly \$200,000 to lend for the 2,100 member Association. On average, farmers have received 1.2 million Uganda shillings or approximately US \$660 against the future sale of their maize under the receipt system. Furthermore, the WFP agreed to buy KACOFA maize from the warehouse at a premium guaranteed price due to its high quality. In a May 2006 site visit, the US Ambassador to Uganda Steven Browning praised KACOFA on its efforts and private sector approach.

Rural SPEED, via the SAF, provided six months of pilot funding for professional collateral management services at the warehouse, provided support to Stanbic through a Development Credit Authority (DCA) guarantee for its loans, and facilitated access to quality-enhancing processing equipment for KACOFA through a DFCU lease. Within three months, a total of 400 metric tons (MT) of maize was received and sold to the WFP through the facility. This performance motivated the WFP to extend a contract for 1,600 MT.

To further reinforce sustainability of the KACOFA pilot, a training program was developed to educate farmers on the benefits of the warehouse receipt system, as well as how to use it. KACOFA's lead farmers were trained to provide the training to the rest of the group. This activity will be replicated for additional warehouse receipt initiatives as they come on line.

Using the KACOFA pilot as a model, Rural SPEED had anticipated launching additional WRS programs during the fiscal year. While substantial progress was made toward establishing programs in Lira and Masindi with a range of partners, including APEP and WFP, various obstacles prevented the projects from being finalized. However, these efforts are ongoing and expected to result in the launch of two new warehouse receipt facilities within the first half of FY 2007.

To promote and increase understanding of warehouse receipts as a financing mechanism, Rural SPEED also facilitated several roundtable discussions on the topic and provided training for Structured Trade Finance Departments of four partner banks. This resulted in greatly enhanced interest in this type of financing on the banks' part, which is expected to speed the process of securing financial institutions as partners for future ventures.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Four warehouse receipt programs launched	One warehouse receipt program launched in Kapchorwa	25% achieved

### **1.1.3 Establish Pilot Price Insurance for Maize:**

CERUDEB agreed in early 2006 to work with Rural SPEED to develop a price insurance product to mitigate the risk of price collapse for CERUDEB's many commercial maize-producing borrowers. While rare, price collapse has been the principal cause of loan default among CERUDEB's clients and fear of such events contributes to conservative lending policies that constrain agricultural credit. In addition to CERUDEB, Rural SPEED worked on exploring various options with many interested partners during the year, including the German Development Program (GTZ), Opportunity International and the World Bank Commodity Risk Management Group. However, the activity was delayed due to a change in senior management at CERUDEB. A new Memorandum of Understanding ultimately was signed with the bank and the activity will go forward in the first quarter of fiscal 2007.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
One insurance product piloted	Partners signed MOU	25% achieved

#### 1.1.4 Market Commodity Value Chain Maps:

During 2005, value chain maps for maize, sunflower and cotton were developed and introduced as a tool for helping partner financial institutions identify viable agricultural financing opportunities in these sub-sectors. In 2006, Rural SPEED's continued promotion of the maps led several partners to undertake new financing initiatives along the value chains of these three commodities. The Kapchorwa warehouse receipts pilot program discussed in Section 1.1.2 resulted from the program's marketing of the maize map to Stanbic and Standard Chartered banks.

Based on information in the sunflower map, Rural SPEED collaborated with APEP and Mukwano Industries, a major producer of cooking oil, to support establishment of two SACCOs for sunflower growers in Lira and Apac. The SACCOs, which are being aided by a long-term consultant, are designed to support the ability of farmers to save during the crop marketing period to finance inputs for subsequent seasons. There is some doubt about Mukwano's continued interest in the project due to competition from the Government of Uganda's new *Bonna Bagaggawale* (Prosperity for All) policy, which calls for creation of 1,000 SACCOS nationwide, including two that already opened in Lira in September.



In cotton, the value chain map revealed that market price was the greatest barrier to securing financing and improving production. Following analysis of the feasibility of establishing a cotton price hedging instrument, Standard Chartered offered to hedge Uganda's entire cotton crop beginning in December 2006. The bank provided three options that are being studied by the cotton industry with technical support from Rural SPEED and APEP.

Another cotton venture, the planned formal linkage between Uganda Microfinance Ltd. (UML) and Nyakatonzi Growers Cooperative Union (NGCU), did not materialize due to UML's delayed opening of its Bwera branch. However, the branch has opened with Rural SPEED support and already is financing a considerable number of cotton growers. UML has committed to pursuing the formal relationship in fiscal 2007.

Also in fiscal 2006, two additional value chain maps for tea and upland rice were completed. The tea value chain map identified a potential financing opportunity for the Kayonza Tea Growers and a feasibility analysis is underway to determine further potential for the development of a tea improvement loan product with a local SACCO.

Benchmark	Actual	Progress
Value chain maps disseminated to 30 financial institutions	Value chain maps disseminated to eight banks, four MDIs, three MFIs and 20 SACCOs, and available on website	117% achieved
Two new commodities mapped	Tea and upland rice mapped	100% achieved

### 1.1.5 Promote Utilization of DCA in Financial Institutions:

Rural SPEED oversees the promotion of the three Development Credit Authority programs: Multi-Institutional Program I, Multi-Institutional Program II and the Collateral Management Program.

#### *Multi-Institutional Program I*

The seven-bank program was launched in early 2002 to strengthen the banks' ability to finance loans to businesses in targeted sectors, thereby stimulating economic growth. The objective is to encourage banks to lend to new clients and sectors, particularly small and medium-sized enterprises (SMEs) and those engaged in agriculture. Microfinance institutions (MFIs) are also targeted because they traditionally have found it difficult to access commercial bank finance. Rural SPEED inherited the program from the SPEED project.

To date, \$24.2 million of the available \$26.5 million (91 percent) has been utilized in 272 loans to different sectors of the economy. Four claims from three banks have been made, with payouts amounting to \$193,000 made. Three of the participating banks (CERUDEB, Nile and Standard Chartered) have exhausted their limit, and the fourth (Stanbic) has utilized 91 percent of its limit (see table below).

#### Multi-Institutional DCA Program I Summary

Bank Name	Amount in \$US	Number of Loans	Loans Value in \$US	% Usage	Amount to Agriculture	Number to SME	Average Size in \$US
Allied Bank	2,000,000	36	1,731,600	87%	346,332	34	48,100
Barclays	5,500,000	18	4,058,245	74%	1,316,838	14	225,458
CERUDEB	5,520,000	140	5,515,970	100%	1,832,524	136	39,400
Citibank	500,000	1	278,552	56%	0	0	278,552
Nile Bank	3,000,000	32	3,005,329	100%	227,081	30	93,917
Stanbic Bank	6,000,000	16	5,619,649	94%	4,619,649	5	351,228
Standard Chartered	4,000,000	29	3,999,984	100%	1,089,833	26	137,930
<b>Total</b>	<b>26,520,000</b>	<b>272</b>	<b>24,209,329</b>	<b>91%</b>	<b>9,432,259</b>	<b>245</b>	<b>89,005</b>

The program concludes in February 2007 and has been successful as indicated by the large volume (92 percent) of actual usage going to the SME sector (generally defined as loans below US \$225,000) and the large value (35 percent) of actual usage directed to financing agriculture. In contrast, average banking sector lending to agriculture ranged between 8 percent of total portfolio in December 2002 to 12.5 percent in December 2005.

A close-out review is scheduled to be performed in February 2007 to make an independent assessment of the program's success and lessons learned.

### ***Multi-Institutional Program II***

The second multi-institutional guarantee program began in May 2005 with five financial institutions (including UML, the first microfinance institution to join the guarantee program). Subsequently, Standard Chartered pulled out on the basis that it had gained sufficient experience lending to SMEs through Program I, the first graduation to be seen under Uganda's DCA program.

While the overall objective is similar to that of Program I – stimulating economic growth through lending to agriculture and rural micro, small and medium-sized enterprises (MSMEs) – Program II also is designed to encourage partner banks to develop and introduce new and innovative initiatives in rural markets.

Current utilization stands at \$5.8 million by value and 233 by volume, of which 35 percent and 50 percent respectively have been loans in rural areas. Details are outlined in the table below.

**Multi-Institutional DCA Program II Summary**

Institution Name	Amount in \$US	Number of Loans	Loans Value in \$US	% Usage	Amount to Rural	Number to Rural	Average Size in \$US
CERUDEB	3,000,000	106	2,489,339	83%	1,198,670	58	23,484
Nile Bank	4,000,000	44	2,461,711	62%	65,772	2	55,948
Stanbic Bank	2,700,000	7	228,894	8%	228,894	7	32,699
UML	2,000,000	76	598,129	30%	310,518	49	7,870
<b>Total</b>	<b>11,700,000</b>	<b>233</b>	<b>5,778,072</b>	<b>49%</b>	<b>1,803,854</b>	<b>116</b>	<b>24,799</b>

### ***Collateral Management Program***

The third DCA program, launched in September 2005 with three banks, is intended to strengthen their ability to finance business loans in the grain sub-sector, specifically by providing short-term financing backed by warehouse receipts issued by third party, internationally recognized collateral managers. The program was designed based on bank demand and in collaboration with APEP and is managed by Rural SPEED. It is through this DCA program that the Kapchorwa WRS (see section 1.1.2) was able to achieve its results.

Activity in the program did not meet expectations in fiscal 2006, as outlined below.

### Collateral Management DCA Program Summary

Bank Name	Amount in \$US	Number of Loans	Loans Value in \$US	% Usage	Amount to Rural	Number to Rural	Average Size in \$US
Barclays	4,170,000	0	0	0%	0	0	0
Stanbic Bank	3,314,000	1	193,157	6%	193,157	1	193,157
Standard Chartered	4,170,000	0	0	0%	0	0	0
<b>Total</b>	<b>11,654,000</b>	<b>1</b>	<b>193,157</b>	<b>2%</b>	<b>193,157</b>	<b>1</b>	<b>193,157</b>

A number of factors contributed to the low usage. First, participating banks were uncomfortable and unfamiliar with financing that uses agricultural commodities for collateral. As a remedy, Rural SPEED arranged for a trade finance specialist to review Uganda's legal environment and the banks' operational procedures, and recommend best practice in light of his findings. A roundtable presentation was well received by stakeholders and the concern mitigated.

A second issue concerns the small size of potential customers in the grain trade, who cannot afford collateral management fees. As such, Rural SPEED, in collaboration with APEP and the banks, will explore the possibility of having all the financed traders combine to use one warehouse and consequently one collateral manager, thereby limiting the cost per trader to the volume of grain held. It is hoped that this will provide banks an increased customer base.

#### ***DCA Training***

Five loan officers from four participating banks (Allied, Barclays, Nile and Stanbic) attended five days of trade finance training in South Africa to improve their product range and credit assessment skills. Rural SPEED co-sponsored attendance at the workshop, which was organized by the DCA office in Washington for participating banks in the Africa region.

#### ***DCA Reviews***

In October 2005, the Pretoria Regional Inspector General's Office conducted a 14-day, on-site audit of the DCA program in Uganda. The audit report raised several issues, which resulted in the following program response:

- More information about the borrowing firms is being collected to enable more effective monitoring of DCA impact via the online Transaction Reports.
- The un-utilized limit for Citibank is in the process of being removed and availed to other banks that have shown an interest in using it.
- A monitoring program that includes on-site visits to both the banks and program beneficiaries is being implemented.
- Utilization targets for the participating banks have been set.

Concurrently, USAID/Washington's Office of Development Credit conducted an on-site impact study, which made the following observations:

- The DCA program is most efficient as a catalyst in economic environments that support its intended goals. In the case of Uganda, a fall in interest rates and the licensing of MDIs pushed banks to look for new lending opportunities in SMEs and MDIs, which the guarantee was supporting.
- Management of the DCA program by technical assistance projects like SPEED and Rural SPEED renders positive and beneficiary support to utilization and promotion /measurement of the development impact.
- Permitting overdraft for cover gave banks flexibility in usage of the guarantee, especially since a lot of financing to the targeted SMEs is for working capital.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
65% of DCA guarantee utilized	61% of all program limits used	94% achieved

### **DCA Success Story**



The new Bushenyi Medical Center (BMC) in western Uganda, which was built with the help of a \$45,000 loan from Nile Bank under Rural SPEED's DCA guarantee program. The three-year loan allowed BMC to expand its services in Bushenyi District, where medical services are limited. The Center employs five doctors, four clinical officers, 25 nurses and 31 support staff.

#### **1.1.6 Adapt and Disseminate the Performance Monitoring Tool:**

Reprogramming of Rural SPEED's PMT software underwent some strategic shifts in fiscal 2006 to make it more relevant to the needs of both financial institutions and policy makers. The prototype software has been completed.

The new PMT is capable of linking directly to MicroBanker for Windows Management Information System (MIS) software and can produce virtually any type of financial report. It is further specifically customized to the needs of MFIs, MDIs and SACCOs. Although these improvements have delayed release of the new PMT, the reporting capacity they will provide is a necessary prerequisite for effective regulation and supervision of the fourth tier of Uganda's financial system. It is anticipated that the PMT will be rolled out in the first quarter of fiscal year 2007 with AMFIU under a SAF grant.

Benchmark	Actual	Progress
25 financial institutions using adapted PMT	The PMT is in the final testing phases and the users' manual is being written	0% achieved

## **KRA 1.2 Strategic Partnerships between Financial Institutions Strengthened**

**Strategy.** This KRA's strategy centers on promoting and supporting formalization of linkage banking between regulated and non-regulated financial institutions. The concept is based on the comparative advantage of the different partners, with each benefiting from the arrangement. This occurs particularly through reduced transaction costs for larger financial institutions and increased access to financial products or services by smaller microfinance institutions. This strategy is designed to increase the outreach and profitability levels of Rural SPEED's partner institutions and, at the same time, increase the accessibility of financial services to underserved areas.

The strategy is implemented through a process that ensures potential linkage partners are educated and well-prepared before linking, so that each fully understands the costs and benefits. The activities follow four basic steps: prepare the downstream linkage partner, prepare the upstream linkage partner, facilitate the linkage, and follow up with provision of more sophisticated technical assistance.

### **Activities.**

#### **1.2.1 Support SACCOs to Become Viable Regulated Financial Institution Partners:**

Rural SPEED continued to support both partner and non-partner SACCOs through training and mentoring designed to improve their operational performance and, in the case of partner SACCOs, transform them into potential linkage banking partners. Rural SPEED conducted 10 in-depth training sessions for SACCOs during the fiscal year.

Training and mentoring in strategic planning enhanced the capacity of 18 participating SACCOs to develop sound Mission and Vision statements. This resulted in SACCO boards and management staff becoming better champions of their institutions' goals and objectives. An evaluation of institutional needs

also was conducted, which helped in formulation of a framework for further SACCO support designed to facilitate expanded, sustainable outreach.

Training and mentoring on delinquency management, risk management and internal controls for 18 SACCOs led to improvements in the institutions' portfolio quality. Training focused on the causes and effects of delinquency and, more importantly, on methods of reducing delinquency. Delinquency management plans formulated by each SACCO as a result of the training have been used as tools to stop delinquency and bring the institutions' Portfolio at Risk (PAR) to best-practice levels.

Accounting and financial management training for 14 SACCOs improved information and internal control systems, increased understanding of accounting principles, helped streamline the loan appraisal process and generally enhanced operational efficiency.



Training in agricultural finance was conducted for loan officers from 30 SACCOs to help them better serve their rural client population, which is engaged primarily in agriculture. Although SACCOs ideally should play a central role in providing easily accessible and affordable financial services to agriculture, many lack the necessary knowledge, skills and understanding of the market. The training strengthened the SACCOs' capacity to more profitably engage in agricultural lending and address client demands.

To reinforce the training, partner SACCOs participated in a week-long mentoring program delivered by CERUDEB, the leading commercial bank engaged in agricultural finance in Uganda. The practical, hands-on exercise enabled participants to gain practical skills in the loan appraisal process, loan monitoring and delinquency management.

Training also was provided to 41 SACCOs in how to develop and market appropriate savings products to members. The training was necessitated by the fact that many SACCOs were found to be offering only a single generic savings product, often without paying interest. This created a major barrier to increased savings deposits. After the training, several SACCOs developed savings products tailored to client needs, enhancing the savings culture and increasing savings volume.

Partner SACCOs also were trained in mobilization, sensitization and education of members. The workshop addressed the roles, duties and responsibilities of committee members and management staff in marketing, membership mobilization, and effective communication and public relations. On-site mentoring reinforced the information.

Rural SPEED also continued its efforts to assist SACCOs in upgrading their MIS capacity to improve their performance and suitability for linkages. All the preliminary steps for full-scale computerization have been completed and procurement, installation and related training will be done in the first quarter of fiscal 2007.

In addition, a power study was conducted for each of the seven SACCOs to be supported with the goal of providing MIS solutions that minimize energy costs and maximize energy efficiency through the use of alternative power sources. The necessary power backup systems (solar panels, inverters and batteries) and computer hardware (desktops, printers and servers) are being procured.



Rural SPEED's technical team also continued to provide ongoing field-level mentoring for partner SACCOs as part of routine support. This included attendance at annual general meetings and weekly contact with SACCO boards and management. These efforts led to improvements in governance, implementation of consultant recommendations from training workshops, and improved positioning for linkage banking partnerships.

Refer to Annex 1 for specific details on program partners' progress.

Benchmark	Actual	Progress
Ten mentoring sessions for ten SACCOs in strategic planning	Ten mentoring sessions for ten SACCOs in strategic planning	100% achieved
Eight capacity building workshops for SACCOs	Ten capacity building workshops for SACCOs conducted	125% achieved

### 1.2.2 Promote Regulated Financial Institutions' Understanding of SACCOs through Due Diligence Tool:

The Light Due Diligence tool, which was formulated as an efficient means for interested stakeholders to screen SACCOs, continued to attract increasing interest from the broader financial and banking industry, with a number of major players now planning to use it.

Rural SPEED conducted a week-long training on use of the tool for seven regulated financial institutions (two commercial banks, four MDIs and one MFI). The training not only enhanced the regulated financial institutions' understanding of SACCOs, but also gave them an in-depth perspective on financial services outreach and delivery mechanisms. This increased their

appreciation of the need for linkages and the extent to which they can be applied.

This tool is used to evaluate SACCOs to determine partner possibilities with Rural SPEED, as well as determine the change in effectiveness of financial institutions that is a component of the Performance Monitoring Plan (refer to indicator #8).

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Training in SACCO due diligence tool for three banks	Training in due diligence tool done for seven FIs	233% achieved

### **1.2.3 Stimulate Demand for Linkages and Facilitate Linkage Relationships:**

One of USAID/Rural SPEED's key objectives has been to facilitate linkages between regulated and non-regulated financial institutions. Linkages can take many forms, including financial transactions, MIS support and human resource development. By achieving collaboration between the different institutional types, quality of service to rural clients is improved, efficiency and outreach is enhanced, and private sector relationships based on comparative advantage are forged.

Rural SPEED hosted two meetings of donors, commercial banks, MDIs and other stakeholders to share experiences and formulate ways of strengthening linkage banking relationships. Meetings with bank and MDI senior managers also were held to pursue specific linkages, resulting in five SACCOs being identified for MDI/SACCO relationships for mobilization and management of savings.

In May 2006, a high-level technical team composed of a financial analyst, a human resources specialist and an IT expert conducted a study to evaluate and recommend potential linkage banking relationships. This study revealed the following linkage banking opportunities, which were outlined at a workshop attended by banks, MDIs, MFIs and SACCOs:

- For regulated Tiers I, II and III:
  - Short-term lending
  - Establishment of credit lines with Tier IV institutions
- For unregulated Tier IV, opportunities are mainly in:
  - Liquidity management including local money transfer
  - Access to facilities that allow expansion of short-term lending based on establishing a credit line with an upper-tier institution
  - Capacity building, particularly human resource development

Under the DCA, two wholesale loans were made to non-partner SACCOs providing short-term credit addressing the first point of the study recommendations and creating two new linkages.

Capacity building human resource linkages also were promoted via practical training for loan officers of 10 partner SACCOs, who were attached to a Tier I institution (Centenary Rural Development Bank) in September for one week of joint training on agricultural lending (refer to Section 1.1.1 for additional details). This practical training not only increased the skills and knowledge of SACCO staff, but also demonstrated the potential of linkage relationships and the diverse nature they can take.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Seven linkage relationships established	12 linkage relationships established	171% achieved

#### **1.2.4 Provide Centralized Service Centers for SACCOs to Facilitate Inter-SACCO Lending:**

In February 2006, an international four-member team conducted a feasibility study for establishing a union of SACCOs for Ankole region, concluding that such a union was not financially feasible or sufficiently compelling for potential members at the time. The study recommended that Rural SPEED continue to strengthen SACCOs through capacity building, mainly in the areas of training and audit services, which it is doing. The report and recommendations were well received by the SACCOs, donors and other projects in a public forum.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
One SACCO Apex feasibility study	One SACCO Apex feasibility study done	100% achieved

#### **KRA 1.3 Savings Mobilization Increased**

**Strategy.** Rural SPEED's strategy under this KRA is based on an in-depth study it conducted in fiscal 2005 on the needs and priorities of rural savers and potential savers. The strategy calls for working from the supply side through banks, MDIs and SACCOs to develop, pilot and roll-out new savings products.

A key finding of the savings study was that many respondents lacked awareness of the benefits of saving. Rural SPEED's strategy includes public information campaigns to educate rural Ugandans on the benefits of saving, thereby preparing them to take advantage of savings services offered. This strategy is designed to improve Uganda's current low rate of savings, especially in rural areas.

Since all the MDIs were only recently licensed, the priority in fiscal 2006 was to provide assistance in developing new savings products while controlling the level of growth to coincide with the MDIs' management ability in this area. The strategy

further recognizes that SACCOs need assistance in building their internal systems, management and governance capacities before active new savings product development can be undertaken.

## Activities.

### 1.3.1 Establish and Maintain Collaboration with Partners:

Ongoing collaboration continued with key partners, including the Consultative Group to Assist the Poor (CGAP). Building on the 2005 savings study, Rural SPEED and CGAP collaborated on a countrywide savings analysis, which CGAP published during the fiscal year, distributed worldwide and promoted on its savings website.

Benchmark	Actual	Progress
One country savings analysis completed in collaboration with CGAP	One country savings analysis completed in collaboration with CGAP	100% achieved

### 1.3.2 Implement Savings Public Information Campaigns:

Multiple savings information campaigns were introduced, including a national campaign collaboratively launched with the Ministry of Finance, Planning and Economic Development (MoFPED) with the theme “Saving pays in many ways.”

Rural SPEED conducted a broad-based savings mobilization campaign covering the central, west and eastern parts of Uganda where many of its financial institution partners are concentrated. The campaign, implemented by a professional advertising agency, included a wide range of activities targeted to reach rural audiences in their local language. The campaign had wide coverage in the target areas, and more than 14 partner financial institutions were actively involved, as were over 300 local community leaders who participated in four district awareness seminars.

Road shows with live drama performances entertained a collective audience of over 10,000 possible savers in nine districts; 1,500 radio messages on seven stations in five languages delivered multiple savings messages and dramas; and 4,000 posters, 20 highway signs and two billboards promoted key messages. In addition, 15,000 notebooks and 7,000 coin purses were distributed to potential savers, communicating the tag line message “Save today, better tomorrow, wise saving, better living,” ensuring it lives on post campaign.



Benchmark	Actual	Progress
Savings information campaign launched	One countrywide savings campaign launched	100% achieved

### 1.3.3 Build Institutional Capacity of FINCA Uganda to Develop Improved Savings Services:

Foundation for International Community Assistance (FINCA) was assisted throughout the period in both development of new products and promotion of its existing products to increase public awareness. FINCA's signage was improved, its branding enhanced, its saver recruitment procedures simplified, and its savings product mix diversified to better meet client demands. Technical assistance was provided to help FINCA properly design a school fees product, village group account and the "Save as You Earn" account, which is a form of a fixed deposit account. Additionally, under a SAF grant, funding was provided to market and promote these savings products. These new products contributed to the 21 percent increase in savers that FINCA posted during the fiscal period.

Benchmark	Actual	Progress
Two new savings products developed; one savings product rolled out	<ul style="list-style-type: none"> <li>• Village group account developed and rolled out</li> <li>• School fees savings group account developed and rolled out</li> <li>• "Save as You Earn" account developed and rolled out</li> </ul>	200% achieved

### 1.3.4 Assist Development and Piloting of Savings Services for UML:

UML was supported to pilot and roll out the UM-SAVE product to all its branches under a SAF grant. This new product was coupled with a broader strategy, including re-branding UML as a savings institution, improving the physical appearance of branches to increase depositor confidence, conducting client days to invite potential rural clients into the MDI, and recruiting marketing management to drive the entire savings mobilization objective forward. UML's number of savers increased 28 percent during this fiscal year.

Benchmark	Actual	Progress
One new savings product piloted	UM-SAVE piloted and rolled out to all branches	100% achieved

### 1.3.5 Facilitate Development of Savings Services for U-Trust:

Rural SPEED provided assistance to Uganda Finance Trust (U-Trust) in the piloting of an Easy Access Account (current account) and developed a Fixed Deposit Account. Unfortunately, U-Trust's operational performance deteriorated during the course of the fiscal year, leading to the conclusion that further support for savings mobilization might actually worsen the institution's position if it accepted liabilities it was too weak to manage. As such, the Fixed Deposit Account was not rolled out and the SAF grant was terminated.

Benchmark	Actual	Progress
One new savings product developed	<ul style="list-style-type: none"> <li>• Easy Access Account pilot tested</li> <li>• Fixed Deposit Account developed</li> </ul>	200% achieved

### Other Savings Activities:

#### *Treasury Management*

To underpin the MDIs' new role as savings institutions, Rural SPEED assisted them in formulating better asset-liability management to address their prior lack of experience in this task. Four MDIs received one day of training in treasury management followed by on-site mentoring for the three non-governmental MDIs, with emphasis on liquidity and vault management. UML and FINCA received continuous monitoring of their progress and mentoring by specialized project staff throughout the period. U-Trust was too disorganized during this period to take advantage of these offerings.

#### *Ikongo Savings Mobilization Campaign*

Rural SPEED provided a grant for a savings mobilization campaign in response to a request by Ikongo SACCO. The campaign results were extremely good, with the SACCO showing an increase of nearly 100 percent in its numbers of savers. Significant improvements also were made in the institution's share capital and loan portfolio. This success generated a stronger relationship with Rural SPEED, resulting in additional technical assistance that improved Ikongo's portfolio at risk above 30 days from more than 23 percent to less than 13 percent over the fiscal year period.

## **AIR 2 Increased Innovation to Products and Service Delivery Mechanisms**

Rural SPEED is charged with increasing access to and usage of financial services by Uganda's rural population. AIR 2 seeks to accomplish this with a two-pronged approach that includes development of new service delivery mechanisms and new products.

Under this AIR, Rural SPEED researches, develops, pilots and rolls out innovative service delivery mechanisms designed to significantly reduce both the upfront investment per new client, and the minimum number of clients required to cover the access point's operating costs. Cost is the key criterion for assessing innovation. Suitability of new service delivery mechanisms also is measured against the size and effective demand of the community to be serviced by Rural SPEED's partners, ensuring the broadest outreach and greatest impact.

A complementary approach is taken when analyzing how existing financial services needs can be met through new and innovative products. Rural SPEED works to promote new product development with partners via the Strategic Activities Fund and Development Credit Authority, as appropriate.

Recognizing that not every innovation will be sustainable at a rural level of operation, Rural SPEED has designed a five-stage process to assess progress and determine if further development is warranted at multiple points during the development process. This process, outlined below, also allows partner-initiated innovations to enter the process at various stages along the development chain.

- Stage One: Assess needs and identify innovative ideas with R&D potential
- Stage Two: Research and develop innovations with pilot potential
- Stage Three: Pilot innovative product and/or service delivery mechanism
- Stage Four: Roll out of innovative product and/or service delivery mechanism
- Stage Five: Support, monitor, improve and replicate use of innovative product and/or service delivery mechanism

Key fiscal year 2006 accomplishments included roll-out of a micro-leasing product for small business owners who lack collateral, launch of an innovative, super-short-term loan product for matooke traders, opening of a financial services agency to serve dairy farmers with direct deposit of milk payments in Rushere, and continued progress on other initiatives such as low-cost funds transfer mechanisms and the introduction of mini-ATMs and Point of Sale Devices.

Two Key Result Areas (KRAs) support AIR 2:

KRA 2.1: Service Delivery Mechanisms Expanded

KRA 2.2: New Products Developed

Each of these KRAs is detailed below in terms of its overall strategy, key activities and annual benchmarks.

### **KRA 2.1 Service Delivery Mechanisms Expanded**

**Strategy:** Under this KRA, Rural SPEED collaborates with KRA 1 staff to gauge institutional requirements while simultaneously investigating feasibility of new delivery mechanisms. Following the stages explained above, and pending success at each, the delivery systems are piloted and subsequently rolled out with support from Rural SPEED, combined with a cost-share contribution from the partner institution. This approach strikes a practical balance between the necessary discovery process

associated with managing innovation and the need to turn new ideas into sustainable business solutions.

### **2.1.1 Develop Funds Transfer System for Rural Areas Using SIMBA Retail Outlets as Access Points:**

Although this activity did not reach the anticipated pilot stage during fiscal 2006, significant progress was made in developing a funds transfer system capable of delivering financial services through SIMBA Telecom retail outlets. Progress initially was slowed when the project team rejected the five potential suppliers who responded to the initial RFP for a complete “turn-key” solution (process design, system design and implementation). The project team then divided the overall task into three steps: (1) process design and documentation, (2) requirements analysis and technical design, and (3) solution development and integration. Step 1 was completed successfully by local firm Enlaiten, but progress again stalled during the second phase when another contractor failed to perform and the contract was terminated.

Recognizing that it was possible to start process testing even before the technology component was ready, the project team decided to begin an “alpha test” of funds transfer services using a combination of paper-based and telephone-based approval processes. An alpha test performs all activities of the proposed system, but only with known individuals acting as customers. Monitors observe all activities and later interview both customers and store staff to look for strengths and weaknesses in the process design. The findings are then analyzed and used to further enhance and formalize the various processes. The alpha test was conducted by Enlaiten.

More than 5,000 transactions were done over a two-week period during the test. It concluded that SIMBA, with a few minor adjustments to its retail environment (such as installation of UV light forged currency checkers), would be able to deliver financial services through its retail outlets with the processes designed during Step 1.

Work will continue in fiscal 2007, with a goal of deploying the system in 40 retail outlets by August 2007.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Funds transfer mechanism piloted	Business process designed and alpha tested	40% achieved

### **2.1.2 Establish Rural Dairy Sector Financial Services Access Points with UML and Land O’ Lakes:**

Collaboration with UML and USAID/Land O’Lakes’ Dairy Development Program led to establishment of a satellite financial services agency to meet the needs of dairy farmers around Rushere in western Uganda. Members of the Ankole Dairy Producers (ADP) Cooperative previously had to travel 80 kilometers to UML’s nearest branch in Lyantonde to deposit and access

payments they received from SAMEER Group (formerly Dairy Corporation Ltd.), which buys milk worth an estimated 200 million Ugandan shillings each month from the coop's 2,500 members.



The collaboration began when UML approached Rural SPEED for assistance after identifying an opportunity to expand into the area, where Land O' Lakes already was providing technical assistance to improve milk production and quality. A market study was conducted, and the Bank of Uganda approved the outlet, which will operate as a satellite "mini-branch" to the Lyantonde branch.

UML obtained a SAF grant to renovate and equip a leased building in Rushere to meet BOU standards.

In addition, UML and ADP have agreed to establish a system under which SAMEER's payments to the farmers will be credited to a coop account in UML's Kampala branch and can be collected in Rushere. By September 30, 2006, 480 savings accounts worth 59 million shillings had been opened in Rushere, which began operations in August. Projections indicated the agency will serve more than 3,000 new customers with savings worth 400 million shillings by its second year of operation. With the proven success of the Rushere Agency office, UML will open a similar outlet in the neighboring sub-county of Kazo, where ADP members also are concentrated.

Benchmark	Actual	Progress
Two rural access points established	Rushere agency outlet opened	50% achieved

### 2.1.3 Develop Sub-Branch/Mobile Banking Capabilities for FINCA:

After an initial investigation that included a Kenya field visit to observe Equity Building Society's mobile banking operation, FINCA concluded that the economics of a mobile banking unit were not favorable for its operations in Uganda and decided against pursuing this initiative any further. All actions in the regard were terminated.

Benchmark	Actual	Progress
Development of sub-branch mobile banking capabilities initiated	Activity cancelled by FINCA after initial investigation	0% achieved

### Other Services Delivery Mechanism Activities:

#### *Strategy for Increasing Financial Services Access Points Using a Point-of-Sale Strategy with Commercial Microfinance Limited*

CMFL applied for SAF assistance with upgrading its Mbale agency into a full-service branch to create more of a presence in the area. Rural SPEED suggested that an even more effective approach would combine expansion into a full-service branch with the addition of a cluster of eight point-of-sale (POS) devices in the immediate vicinity, thus increasing convenience to clients in accessing their account without having to go to the branch as well as increasing access to financial services for the rural Mbale population.

CMFL has implemented the necessary technology upgrades to its banking platform to connect POS devices and has performed a user acceptance test with an initial POS device. The devices have been procured and implementation is expected in the first quarter of fiscal 2007. It is anticipated that this innovation will increase rural access to over 4,000 new savers and over 400 new borrowers.

#### *Payments System Study*

A study of Uganda's payment systems potential was undertaken to determine to what extent debit card technology and other low-cost delivery mechanisms could be used to provide banking services to a broader population.

The report used an internationally accepted benchmark of transactional banking service affordability (2 percent of gross income) to estimate market demand based on use of the proposed lower-cost channels, full infrastructure interoperability, and low switching and interchange costs. Market demand was estimated to be in excess of 2.3 million new transactional banking customers, up from the current 1.7 million.



Based on the study's findings, Rural SPEED issued a Request for Assistance, soliciting proposals from licensed financial institutions to implement low-cost access technology for the benefit of the non-metropolitan population. Seven institutions submitted proposals. Two (Orient and Stanbic banks) were chosen based on impact and perceived implementation risk. Combined, they plan to implement 450 new access points in the coming year with more than half in rural communities of Uganda.

#### *USAID PRIME Application*

USAID presented an opportunity for Rural SPEED to apply for matching grant funding from its Economic Growth and Trade Bureau's PRIME fund. In light of pending budget reductions, Rural SPEED prepared a proposal to pursue two initiatives: POS implementation (\$618,000 requested) and mobile telephone banking (\$543,000 requested). EGAT chose not to fund the proposals due to limited resources.

## **KRA 2.2 New Products Developed**

**Strategy:** New products are developed based on market demand identified through collaboration with partner institutions and other donor programs. New products may take the form of innovations designed specifically to reach certain sectors of the rural market, or may be merely modifications of existing urban-based products.

The eventual launch of new products will follow the five-step development strategy outlined under KRA 1. Based on market need, only those products destined to have greatest impact will be pursued. The launch of new products will position financial intermediaries to better meet market needs and afford rural clients greater options for loan products, including capital asset acquisition.

### **Activities.**

#### **2.2.1 Develop Capacity of Rural Financial Service Providers to Offer Agricultural Loan Products:**

Early in the year, workshops were conducted for five partner MFIs and 30 SACCOs (including 10 partner SACCOs) addressing agricultural loan product development. The workshops focused on methodologies of assessing profitability and mitigating risks of agricultural loan products to ensure development and delivery of viable and sustainable loan products. Consequently there was overwhelming demand by partner FIs to undertake development of agricultural loan products as reflected below.

Under the SAF, two partner SACCOs (Muhame and Kyamuhunga) were assisted to develop, pilot and launch new agricultural loan products. Muhame's Rapid Sales ("Tunda Juba") loan product, which avails short-duration, small-value revolving trade loans for rapid turnover transactions with low risk and high liquidity, has particularly generated excitement among the SACCO's clientele and other financial institutions and development programs. Though initially developed for matooke bicycle traders, it is being made available for other traders with both agricultural and non-agricultural dealings with rapid turnover rates. The pilot for this product is still proceeding and its overall sustainability remains in question. The break-even for this product's sustainability is 105 loans per month, while the current average is only 50.



The development of Kyamuhunga's agricultural loan product was completed and the product was piloted, launched and rolled out. Though the product initially was targeted to provide credit for rice and vegetables, it has since been extended to cater for tea and other commercial crops grown in the SACCO's clientele location. The new product launched in July met with great results. In its first three months, new loans in the amount of 85 million shillings were provided to 769 borrowers primarily for input purchases.

Through a SAF grant, Feed the Children Uganda (FTCU) completed a market survey and developed an agricultural loan product. The design phase was successfully concluded toward the end of fiscal 2006 and the product will be piloted, launched and rolled out in fiscal 2007.

Three partner SACCOs (Kitagata, MAMEDICOT and CMF) were supported under the SAF to review their loan products to revise and possibly introduce new products, including agricultural loan products. Consequently, Kitagata and MAMEDICOT have expressed interest in introducing agricultural loan products and have solicited Rural SPEED's support to develop the products, an activity that has been earmarked for the first quarter of fiscal 2007.

During the year, agricultural finance mentoring by Rural SPEED was maintained for partner SACCOs that had introduced agricultural lending products. Also, in order to facilitate broader mentoring in a practical agricultural lending environment, 10 partner SACCOs were mentored and coached in agricultural lending by CERUDEB at its Mbale branch. The week-long mentoring activity gave practical exposure to the SACCO loan officers on the entire lending mechanism, from client selection through application appraisal, client visits, loan packaging, loan decisions and loan recovery. This activity will be replicated in fiscal 2007.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
One new agricultural product developed and two redesigned	Three new agricultural loan products developed	100% achieved.

### **2.2.2 Assist U-Trust to Implement Innovative Low-Cost Housing Loan Program:**

U-Trust sought and was provided SAF grant support for a review and subsequent roll out of its innovative low-cost housing loan program. Rural SPEED contracted an international housing finance expert to conduct the review. Problems with the product design and lack of consumer interest (no house had yet been constructed) were identified and termination of the program was recommended. It was also recommended that U-Trust's board and management concentrate on organizational restructuring rather than new product development.

As part of the consultant's assignment, she also presented a housing workshop for financial institutions and development partners on the theme "Housing Finance: A Vehicle for Economic Development," which explained how Uganda could benefit from successful experiences in other emerging economies.

Benchmark	Actual	Progress
One low-cost housing loan product developed	Consultant review and poor pilot results led to cancellation	100% achieved

### 2.2.3 Build Capacity of Rural Financial Service Providers to Provide Micro-Leasing Products:



As part of its mandate to develop innovative products, Rural SPEED set out to promote leasing at the micro level to help small business owners without traditional collateral acquire business assets. At the same time, DANIDA's ASPS was given a similar mandate and reached an agreement with UML to finance Uganda's first-ever micro-leasing product portfolio on a 50 percent matching basis up to a maximum of UGX 900 million.

Besides matching DANIDA's term capital, UML was expected to prepare in-house operations to accommodate leasing, identify and recruit a leasing expert to manage the newly created department, and work with the consultant to complete the business plan. Both UML and ASPS, however, needed a feasibility study to justify the venture.

Discussion between Rural SPEED and DANIDA culminated in a Memorandum of Understanding under which Rural SPEED agreed to finance the feasibility study and develop the product, as well as monitor performance of the consultant and product for five months.

The feasibility study and product development were completed and pilot testing began in July 2006 after the BOU granted permission to test it in three branches (Kampala, Luwero and Tororo).

Consumer response to the product has been

overwhelmingly positive. UML's leases on average have an interest rate of 1.5 percent per month, making micro-leasing the least expensive product available. During design, considerable effort went into developing costing guidelines that considered the needs of lease beneficiaries while also assuring profitability for UML. UML leases are priced using a cost-based system that takes into account the weighted cost of micro-lease funds and adds a risk margin.

# of Leases (as of 9/2006)	Sector
12	Agriculture and Agro-Processing
15	Transportation
14	Trade and Commerce
2	Manufacturing
1	Medical

Also, Rural SPEED developed a chart for UML sales staff that simplifies the lease pricing and provides clients an immediate payment calculation right in the field.

The portfolio's performance has been better in financial terms than first projected. Initial

Status (as of 9/2006)	# of leases	Value in UGX
Disbursed	11	150,000,000
Approved (yet to be Disbursed)	6	89,100,000
Work in Progress	27	533,420,000
<b>Total</b>	<b>44</b>	

projections estimated a portfolio of UGX 450 million after one year. However, the significant growth of the portfolio in the first three months saw the first-year projection adjusted to UGX 1 billion.

Benchmark	Actual	Progress
One micro-leasing product initiated	One micro-leasing product initiated	100% achieved

#### 2.2.4 Develop Partnership Between Insurance Provider and Rural Financial Institution:

As part of a bid to promote collaboration between SO7 and SO8, Rural SPEED explored the possibility of collaborating with a health care partner to develop a strategy for providing a savings product with complementary health insurance.

Rural SPEED initially identified Business PART, MicroCare Health and UML as interested potential partners. However, a problem arose during product development discussions when it became apparent that the product as originally conceived could result in risk pooling that would cause larger-than-expected claims for health insurance benefits. Although changing to a group-based product could solve the problem, UML insisted that it be offered as an individual savings product to new clients. The issue could not be resolved, and that activity was suspended pending identification of a new service provider and partner.

Rural SPEED then discussed the issue with CERUDEB, which became interested and sought a Bank of Uganda opinion on the venture. BOU rejected the proposal, citing the level of risks involved, and the initiative was terminated.

Benchmark	Actual	Progress
One insurance product piloted	Initiative cancelled	0% achieved

### 2.2.5 Investigate Coffee Pulping Leasing Product Through CERUDEB/SACCO Linkage:

USAID's Productive Resource Investments for Managing the Environment/West (PRIME/West) project supports a number of farmer groups engaged in various agricultural activities, which are backed up by a guaranteed market. PRIME/West approached Rural SPEED with a request to introduce its coffee farmers to a financial institution that could lease them coffee pulpers, which would improve the quality of their crops. Rural SPEED was also made to understand that Rwenzori Coffee Company had contracted with the farmers to produce its coffee.

During initial discussions, it became apparent that Rwenzori was not in a position to offer supply contracts to its farmers as it did not have a supply contract of its own. Structured financing for agricultural producers should be based on the availability of an assignable supply contract that the farmers can use as collateral for the financing. In the absence of such a mechanism, farmers would be exposing themselves to an un-quantifiable default risk. Consequently, it was decided to drop further investigation of this initiative with Rwenzori as a business partner.

There may be potential to pursue this initiative further with UML, which currently is leasing various types of equipment under its micro-leasing pilot and may want to consider expanding its leasing business after the pilot concludes.

Benchmark	Actual	Progress
Coffee pulper micro-leasing product explored	Rural leasing provider established (UML), but coffee pulper leases have yet to be signed	50% achieved

### Other New Product Development Activities:

#### *Product Review and Assessment*

In response to ongoing requests from program partners for review and refinement of financial products, Rural SPEED developed a framework and tool under which any consulting house or financial intermediary could review and assess appropriateness of its product menus. A summary of this tool is contained in Annex II.

## **AIR 3 Quality Program Management and Monitoring and Evaluation Provided**

Rural SPEED is an ambitious program, with two technical AIRs, inter-related activities and far-reaching goals. Program Management, the third AIR, is integral to every aspect of the program, and therefore is cross-cutting through all components and activities. To achieve program goals, Rural SPEED must have defined policies and procedures, information-sharing mechanisms, and monitoring and reporting systems in place.

The Key Result Areas within the Program Management Results Framework are integrated and mutually supporting. Together, they result in a streamlined Program Management component that creates a service-oriented and transparent culture to support the technical components and goals of the program.

Three Key Result Areas (KRAs) support AIR 3:

- KRA 3.1: Efficient Program Administration
- KRA 3.2: Knowledge Management System
- KRA 3.3: Program Monitoring and Reporting Needs Met

Each KRA is discussed below in detail, with a description of strategies, activities, resources, and benchmarks.

### **KRA 3.1 Efficient Program Administration**

**Strategy.** To enable Rural SPEED to provide quality and timely service to external and internal clients, efficient administrative support is a critical focus of this KRA. Adherence to streamlined accounting, financial, administrative and personnel procedures is mandatory. The strategy calls for ongoing maintenance of the efficient service-oriented environment in which Rural SPEED operates, drawing on well-established Chemonics policies and procedures.

#### **Activities.**

##### **3.1.1 Effective Personnel Management:**

Effective personnel management was maintained during the fiscal year. Performance reviews were carried out on a timely basis and annual as well as merit/promotional increases were provided to staff. During the past year, several staffing changes took place. Two Rural Finance Specialists resigned and were replaced, which also happened with the Operations/Office Manager. Additionally, due to the demands of the SAF program, the joint DCA/SAF management position was split and a full-time SAF manager was hired and a Program Support Administrator added to improve the smooth operation of the SAF and technical activities. These changes have improved the efficiency and effectiveness of the program overall.

Additionally, due to budget cuts at USAID/Uganda that led to a funding reduction for Rural SPEED, the AIR 2 Financial Services Advisor will be leaving early in January 2007.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Performance reviews completed	All performance reviews completed on a timely basis	100% achieved

### **3.1.2 Provide Effective Contract Administration:**

All aspects of the contract were continually monitored and contractual obligations adhered to. Interactions with the Contracting Officer (CO) occurred as needed and the transition between three COs occurred with ease.

An annual retreat was held for staff to engage in team building and develop the final year work plan. The workshop facilitator introduced many cutting-edge management and planning techniques, which lead to a solid work plan.

The USAID/Uganda budget reductions caused the overall contract budget to constrict by \$700,000 and, while many initiatives were curtailed, the overall technical integrity of the contract was maintained.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Contract managed appropriately	Contract was managed appropriately	100% achieved

### **3.1.3 Develop and Maintain Smooth Operational Procedures:**

Rural SPEED's office Policy and Procedure Manual has been reviewed and revised. All staff are well-oriented on office policies and procedures, which creates transparent management with minimized inefficiencies and ensures compliance with all appropriate USAID regulations, Chemonics policies and Ugandan labor laws.

Rural SPEED underwent a Chemonics operational audit and was found to be managing the procurements and subcontracts appropriately.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
Policy and Procedure Manual updated	Policy and Procedure Manual revised and updated	100% achieved

### 3.1.4 Efficient Financial Management of Project:

Staff ensured compliance with USAID and Chemonics home office accounting regulations and procedures, ensured effective petty cash management, established monitoring and tracking systems for managing grants and subcontracting funds, and instituted internal audit procedures.

The home office mid-project accounting audit was favorable and all recommendations to ensure efficient financial management of the project undertaken.

All invoices were delivered in a timely manner and the second obligation requested with appropriate lead time.

Benchmark	Actual	Progress
Invoicing completed monthly	Monthly invoices submitted on a timely basis	100% achieved

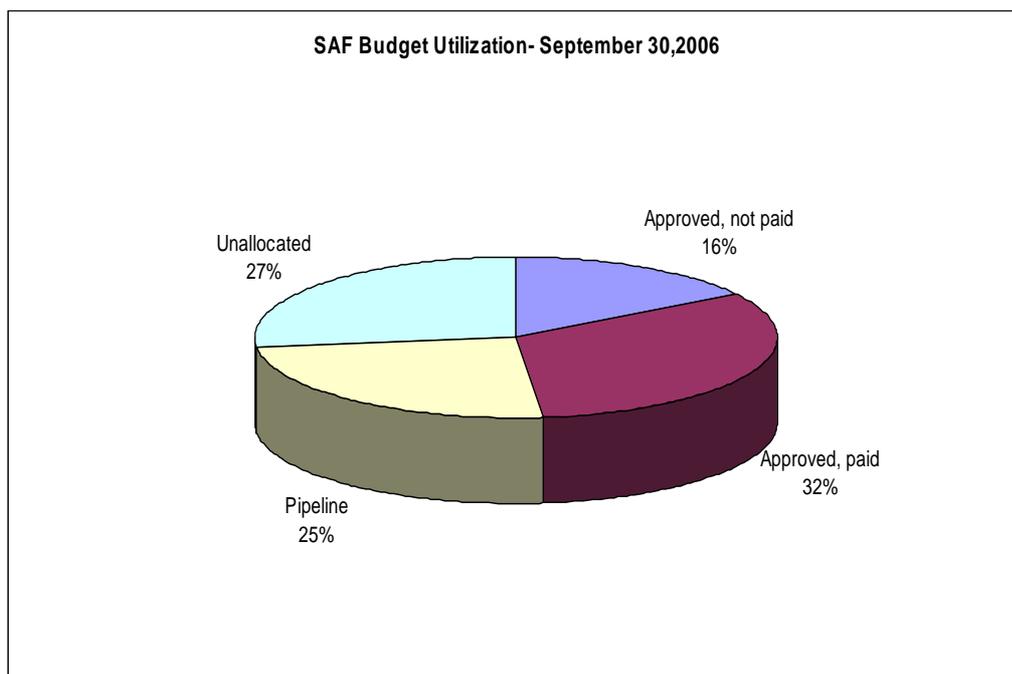
### 3.1.5 Implementation of Strategic Activities Fund (SAF):

The past year saw streamlining of the SAF approval process procedures with introduction of the new SAF Technical Review Document, which provides a comprehensive summary of the entire grant for approval. A SAF manager fully dedicated to the fund's activities was recruited, which also led to increased efficiencies.

There was a dramatic increase in the number of grants commitments under the SAF during the past year, with over 73 percent of the SAF budget committed to various financial organizations ranging from Tier I to Tier IV institutions. To date, Rural SPEED has approved assistance for varied uses supporting access to finance in rural areas, including feasibility studies, design and roll out of new loan and savings products, and design and roll out of innovative technology-based systems using Point-of-Sale (CMF, Orient Bank) and mini-ATMs (Stanbic Bank in process). A number of organizations (MDIs and SACCOs) were supported to mobilize savings in rural areas and most of these registered increases in the number of savers and value of savings. Notably, Ikongo SACCO registered an increase of nearly 90 percent in the value of savings.

**SAF Budget Utilization as of September 2006**

Type	Budget \$	Percentage
Approved, paid	800,953	32%
Approved, not paid	391,395	16%
Pipeline	610,989	25%
Unallocated	662,504	27%
<b>Total SAF budget</b>	<b>2,465,850</b>	<b>100%</b>



Benchmark	Actual	Progress
75% of SAF obligated	73% of SAF obligated	97% achieved

### **KRA 3.2 Knowledge Management System**

**Strategy.** In order for the Rural SPEED program to be implemented in a manner that is beneficial to all partners, collaboration and information-sharing mechanisms need to be used to optimum effect. The strategy for this KRA is the maintenance of an information-sharing culture, including continuously identifying and capitalizing on opportunities to present results of Rural SPEED via project partners and success stories; sound media relations; and coordination with other projects to maximize impact.

#### **Activities.**

##### **3.2.1 Communications Strategy Implemented:**

Ongoing use of Rural SPEED’s communications strategy ensured appropriate information dissemination with USAID, the Government of Uganda, the donor community, partner institutions and other stakeholders, as appropriate. Success stories outlining project impact were written and distributed on the Rural SPEED website, USAID’s global Telling Our Story website and in the Notes from the Field section of the Microlinks website. A medium-term consultant worked with the communications assistant to design appropriate “story” templates as well as stylize the stories for broad dissemination. Please refer to Annex III for an example of the broad-based success story development.

Using the project's communications strategy and USAID branding guidelines as a framework, Rural SPEED conducted media relations to ensure local dissemination to program beneficiaries as well. New and innovative products such as mobile banking were covered in the local newspapers, which generated interest in Uganda's finance sector. Successful implementation of the savings



awareness campaign as part of the communication strategy led the Microfinance Outreach Plan (a component of the Ministry of Finance, Planning and Economic Development) in Moroto and the newly established sunflower SACCO in Lira to request savings promotional information stressing the value and benefits of savings to be shared in their areas.

Building on the work previously performed under SPEED, Rural SPEED, collaborated with UML to open its Bweara branch in November 2005.

Benchmark	Actual	Progress
Five success stories written	Seven success stories written	140% achieved

### 3.2.2 Manage Program Website:

The program website helped in disseminating program information to stakeholders, publicizing Rural SPEED's technical services, research and studies; promoting SAF availability; and sharing success stories. The communications assistant received website management training to increase Rural SPEED's capacity to update, maintain and improve the site without outside assistance. There was continued content development during the fiscal year.

Benchmark	Actual	Progress
Website updated monthly	Website updated regularly	100% achieved

### 3.2.3 Maintain Inter- and Intra-Project Communication System:

Weekly technical and administrative staff meetings were held to ensure the program stayed on target and that information was appropriately disseminated. Mid-year, the coordinator of the monthly SO7 Chiefs of Party lunch meetings suffered a debilitating accident and the lunches stopped. The COP attended each lunch that was held.

Benchmark	Actual	Progress
Monthly SO7 meeting held	The meetings phased out mid-year	100% achieved

### **KRA 3.3 Program Monitoring and Reporting Needs Met**

**Strategy.** The goal for this KRA is to effectively use project resources to collect and report on results of Rural SPEED's planned activities, delivery of expected outputs, and quantitative and qualitative impacts. Data for the Monitoring & Evaluation (M&E) system is collected from three sources: Rural SPEED administrative and operational records, Rural SPEED partners, and external surveys. The M&E system is used as a management tool for systematically reviewing program progress and troubleshooting problems and issues during implementation. It employs a combination of database, spreadsheet and word processor packages. Staff familiarization exercises are conducted periodically for effective use of the system. The M&E system is the basis for quarterly reporting to USAID.

#### **Activities.**

#### **3.3.1 Maintain Accurate Monitoring and Reporting System:**

The Monitoring and Evaluation/Information Technology Manager continued to interact with and familiarize both staff and partner institutions on data collection requirements, reporting cycles and compliance. As a result, an accurate and updated M&E system was maintained, facilitating the preparation and submission of quarterly progress reports throughout the year. Partners were added and deleted, and targets were readjusted to reflect the new program partners' contribution to overall program goals.

In March 2006, Rural SPEED underwent a budget modification that reduced the life-of-project budget by \$700,000. This had broad impact on overall project aspirations and several indicators were reduced to reflect a lower level of resources for partner intervention. While partner effectiveness, linkages, agriculture technologies, training, leverage and savings targets were maintained, the balance of the indicators were reduced to more accurately reflect the diminished program capabilities.

A Work Plan Management Tool designed to monitor life-of-project progress was designed, maintained and updated periodically. Quarterly meetings were held with technical staff to review the progress of the work plan.

The Monitoring and Evaluation/Information Technology Manager attended and completed all three phases of the Certificate Program in Evaluation, a graduate-level program of classroom and field work in evaluation theory and methods conducted by Management Systems International (MSI) and USAID's MEMS Project between April and June 2006.

PMP reports were generated in a timely manner and all reports delivered on time. Refer to the Performance Monitoring Plan narrative and chart below for fiscal 2006 program results.

<b>Benchmark</b>	<b>Actual</b>	<b>Progress</b>
PMP updates prepared; reports submitted	PMP updates completed and reports delivered	100% achieved
Work Plan Management Tool designed	Work Plan Management Tool completed	100% achieved

## Performance Monitoring Plan

Rural SPEED's second year of activities focused on implementation of key strategies designed to increase and strengthen financial services in Uganda's rural communities. The project had meaningful impact in the lives of farmers, small business operators and other rural Ugandans with previously limited access to financial institutions and the benefits they provide. This impact was reflected in the performance monitoring plan. Substantial progress was made toward achievement of the Life-of-Project Indicators, with Rural SPEED and its partners exceeding more than half of the project's fiscal 2006 targets, many by substantial margins. In addition, the project met or exceeded a majority of its fiscal 2006 benchmarks outlined in the annual work plan, and made significant progress in most remaining areas.

Highlights of fiscal 2006 results in relation to the indicators listed in the chart below include the following:

- While the number of new borrowers did not meet the year-end target, partner financial institutions nevertheless posted UGX 68 billion in new loans; more than double the annual target of UGX 30 billion (targeted as a 20 percent increase). Ongoing technical assistance in product development and delinquency management positively affected this trend. Increased loan volume with lower borrower totals show a partner trend toward increasing loan sizes as the MDIs move into the SME market. UML under the DCA program experienced a dramatic shift in this regard.
- The value of new agricultural loans reached UGX 13 billion, more than three times the annual target of UGX 4 billion. Support for specific agriculture loan product development with Kyamuhunga, Muhame and particularly the automated agriculture loan product at CERUDEB contributed to this target, as partners not only increased the amount of agriculture lending but began to properly classify these loans. The introduction of the UML leasing product wherein 30 percent of the leases are in the agriculture sector also modestly contributed to this increase. As in the overall borrower totals, the number of agriculture borrowers fell short of projections, mirroring the trend of increased average loan sizes.
- Twelve linkages between financial institutions were established, exceeding the annual target of seven. Based on a study conducted, the definition of linkages was broadened to include human resource development, MIS system improvements and training that increases the institutional capacity of a linkage partner. The definition previously was limited to formal or informal dealings between institutions that result in financial transactions. Two linkages with DCA partner banks were noted for short-term lending transitional activities, while the balance of the linkages were contributed by the CEREDUB capacity development exercise with SACCOs described in Sections 1.1.1, 1.2.1 and 1.2.3.

- The number of new savers at partner financial institutions increased to 173,219, surpassing the 20 percent growth target of 135,388. Rural SPEED's three-month national savings awareness campaign played a significant role in attracting new clients, as did several local savings mobilization campaigns focusing on demand-drive savings products. The SAF funded Ikongo, FINCA and UML savings mobilization programs. Additionally, the diversification of savings products such as the UM-SAVE and FINCA Easy Access and the introduction of various fixed savings accounts provided savers greater options with regard to savings products. The fact that the overall savers number did not reach the projected target indicates that while more savers are coming to the formal financial system, they are doing so with lesser amounts of savings. This is an extremely positive trend with regard to rural savers and their ability and willingness to save.
- The number of innovative service delivery mechanisms and new products researched, piloted and rolled out exceeded annual targets. Eleven mechanisms and products entered the research and development stages (target was seven), while eight new products and service delivery mechanisms entered the pilot stage (target was five), and six were rolled out (target was two). These are summarized in the table below:

Service delivery mechanism/new product	R & D	Piloted	Rolled Out
<b>Indicator Number</b>	<b>19</b>	<b>17 &amp; 18</b>	<b>13</b>
Muhame Tunda Juba loan product	✓	✓	✓
Kyamuhunga ag product	✓	✓	✓
Feed the Children ag product	✓		
UML micro leasing product	✓	✓	
U Trust Low cost housing product		✓	
FINCA village group savings product	✓		✓
FINCA school fees savings product	✓		✓
FINCA "Save as you Earn" fixed deposit savings product	✓		✓
UML "UM-Save" savings product		✓	✓
U Trust "Easy Access" savings product		✓	
U Trust fixed deposit savings product	✓		
SIMBA low cost funds transfer system	✓		
Warehouse receipt system financial product		✓	
CMFL Point Of Sale in Mbale Branch	✓		
UML Rushere Agency	✓	✓	

- Ten new agricultural technologies (equipment and machinery) were made available to farmers through leasing operations supported by Rural SPEED, more than three times the target. The number of smallholders adopting new technologies was 2,904, nearly double the target of 1,500. The contributors to

these targets are attributable to the work done to develop the UML micro-leasing product.

Although Rural SPEED and its partners achieved numerous successes during the year, some target were not achieved. Many factors contributed, including changes in Uganda's economy that hampered the ability of rural Ugandans to produce and earn up to their potential. These included:

- The country's economic growth slowed, negatively impacting the operations of micro and small business people, the primary clients of Rural SPEED's partner institutions.
- Drought continued to negatively affect agricultural production country-wide and as a result the increase in agricultural borrowers was less than projected. Partner institutions cited specific examples such as low yields in maize production in Tirinyi, loss of livestock due to malnutrition in areas of Kiboga and Mityana, as well low levels of tea leaves and banana in Bushenyi district. This hampers new loan origination as well as negatively impacting the repayment schedules thus increasing on default levels - according to UML and Kyamuhunga. As a result, UML is currently in the initial stages of a study to develop a new product ('Livestock Fattening') specifically for livestock affected areas in order to boost their production.
- Electricity production fell dramatically, leaving parts of the country without power as much as 50 percent of the time. This forced many businesses of all sizes to turn to diesel generators to continue operations, which substantially increased operating costs. Electricity tariffs also rose by nearly 50 percent during the year impacting borrowers like rice and grinding mill operators (with leased equipment) whose core business depend on constant power supply as well as the financial institutions themselves who are forced to run on generator power causing their operating costs to be high. Additionally, with decreased power, automation of the branch is reduced and the increased customer service delays (long queues) cause many to leave the branch without their needs be addressed.

Among the targets shortfall in fiscal 2006, the following are of particular note:

- The revamped Performance Monitoring Tool was not distributed to partner institutions as planned. However, the PMT software underwent substantial revision to make it more relevant to the needs of both financial institutions and policy makers. Although these improvements delayed release of the new PMT, the reporting capacity they will provide is a necessary prerequisite for effective regulation and supervision of the fourth tier of Uganda's financial system. The new PMT is expected to be in use in the first quarter of fiscal 2007.
- As addressed above, the number of new borrowers did not meet expectation, reaching only 24,027 new borrowers, falling short of the target of 33,713. This gap was in attributable in part to a substantial decline in new borrowers at

three partner institutions – UML (14 percent), PRIDE (seven percent) and U-TRUST (23 percent).

- Program leverage was \$146,225 short of its \$750,000 target. Each SAF grant has a minimum cost share associated with it and most for-profit organizations are held to a 50/50 cost share. As much of the cost share is accounted for late in the grant process, there is ample leverage in the SAF backlog to not only meet but exceed this target.
- The number of rural financial services delivery points was significantly below the anticipated target. A slow technology development process is the key factor in this shortfall. While the program was successfully able to launch UML's Rushere Agency location and Bwera Branch, the development of the Simba Telecom fund transfer mechanism has taken significantly longer than originally projected. Additionally, the CMFL POS launch was delayed as was the RFA for rural transaction points, which was not released until mid-year. It is worthwhile to note that presently in the SAF backlog are the following delivery points:
  - ◆ 40 Simba Telecom transfer locations
  - ◆ 8 CMFL POS sites
  - ◆ 200 Orient Bank POS devices
  - ◆ 250 Stanbic Bank Mini-ATMS

### **Modifications to the Targets**

Changes in Rural SPEED's roster of partners necessitated modification of the targets during the year to accurately reflect program goals. The project withdrew support from RUSCA SACCO, Kamukuzi Village Trust and Ankoli Farmers SACCO due to their inability to improve and meet standards. FOCCAS, a partner MFI, went into receivership and is no longer a partner.

However, the project also added four new partners, including two large financial institutions that have broad reach in rural Uganda: Centenary Rural Development Bank (CERUDEB) and Commercial Microfinance Limited (CMFL). Ikongo SACCO and Masaka Microfinance and Development Trust Limited also became partners.

Rural SPEED's indicators are detailed in the following chart:

**Life-of-Project Indicator List with Year 2 Targets and Results as of 9/30/06**

<b>Ind.</b>	<b>Indicator Name</b>	<b>Unit</b>	<b>Year 2 Targets</b>	<b>Sept 06</b>	<b>Variance</b>
1	Weighted Average of PAR (over 30 days)	%	<6%	<6.27%	(0.27%)
2	Number of institutions using the adapted PMT*	#	25	0	(25)
3	Number of private-public partnerships formed*	#	20	20	0
4	Number of new borrowers	#	33,713	24,027	(9,686)
5	Value of new loans	UGX	30,296,820,037	68,196,006,156	37,899,186,119
6	Number of associations assisted*	#	40	85	45
7	Number of agricultural firms assisted*	#	25,307	16,615	(8,692)
8	Effectiveness of assisted financial institutions	index	Improved	Improved	-
9	Value of new agricultural loans	UGX	4,100,694,866	13,183,024,374	9,082,329,508
10	Number of linkages established*	#	7	12	5
11	Number of new savers	#	135,388	173,219	37,831
12	Value of savings	UGX	243,219,395,693	239,484,883,779	(3,734,511,914)
13	Number of innovation roll-outs*	#	2	6	4
14	Number of new agricultural technologies made available*	#	3	10	7
15	Number of smallholders adopting new technologies*	#	1,500	2,904	1,404
16	Number of new rural financial services delivery points*	#	40	2	(38)
17	Number of new service-delivery mechanisms piloted*	#	2	1	(1)
18	Number of new products piloted*	#	3	7	4
19	Number of mechanisms and products that have been R&D*	#	7	11	4
20	Number of persons-attendance in training*	#	600	968	368
21	Amount of resources leverage by Rural SPEED*	USD	750,000	603,775	(146,225)

**Note:** Figures in parenthesis ( ) reflect a negative variance.

\* Indicates a cumulative indicator

## **ANNEXES**

### **Annex I Partner SACCOs' Progress Report (Oct. 2005 - Sept. 2006)**

Most of Uganda's rural financial institutions are facing a number of problems which affect their performance. These include poor leadership, inefficient management, poor management information systems (MIS), a narrow capital base thus lack of loanable funds, low membership/savings, poor portfolio quality, poor planning, weak asset/liability management, lack of financial sustainability, poor product delivery mechanisms, etc. These problems have seriously undermined the successful growth of rural finance in the country.

Rural SPEED has made a considerable contribution in reversing the above limitations with its partner SACCOs through the provision of technical support including trainings and on-site mentoring sessions with a view of making these SACCOs potential linkage banking partners. The use of the one-day due diligence tool has also helped in identifying operational weaknesses in order to put in place the necessary remedial measures. Notwithstanding the overall good progress made with partner SACCOs, one area that still remains a common problem is poor information systems. Despite this, partner SACCOs have made remarkable progress in operational performance and going forward will be well positioned to enter into more meaningful linkage relationships.

#### **Kyamuhunga**

Kyamuhunga SACCO has made tremendous progress since partnership with Rural SPEED. There has been both a quantitative and qualitative change in the SACCO's operations. The volume of savings have increased by 57% from Shs.280.7M to Shs.441.7M, number of savers has increased by 39%, number of borrowers by 316%, all in a space of one year. Delinquency has been controlled and PAR is standing at 5%. The SACCO has also put the necessary governance structures in place to cope with the growth trend. In addition, they have managed to open up another branch to increase outreach. Even with a more rigorous and stringent due diligence tool, Kyamuhunga SACCO scored 89% in the recent LDD exercise compared to 75% last year.

#### **Muhame**

This SACCO has made tremendous progress as well, with membership growing by 40% from 2896 to 4070, savings by 20% from Shs.302M to Shs.361.8M, number of savers by 41% from 2896 to 4070 and total equity by 24% from Shs.264.5M to Shs.329M. Through Rural SPEED trainings and on-site mentoring, PAR has fallen from 14% to 10.5%. Furthermore, the SACCO on advice from Rural SPEED reviewed their loan policies and procedures to make them correspond with the prevailing practices. In this year's due diligence exercise, Muhame scored 88.5% compared to 68% last year. The SACCO's operations however have been adversely affected by the current power shortages and lack of necessary equipment.

#### **Ikongo**

Ikongo SACCO is a fairly new SACCO among Rural SPEED partners. It is also quite a young institution having been formed in late 2003. Despite all this, it has had phenomenal growth since partnership with Rural SPEED. It has grown in membership

from 1280 last year to 2826 (120%, and the number of savers grew proportionately), savings from Shs.41.2M last year to Shs.77.2M (87.3%) and share capital from Shs.27.2M last year to Shs.49.2M (80.8%). The number of borrowers has also grown by 31% from 414 to 542 and the loan portfolio by 62% from Shs.64.2M last year to Shs.104M. The SACCO's PAR (30 days) stands at 12.5% from 19% last year. Most of this has been made possible because of the progress in governance and management effectiveness. The LDD score of 66.5% qualifies it as a SACCO of average institutional health and performance. Areas that the SACCO needs to improve on according to the LDD report include information systems, asset/liability management and product development.

### **Nyarwanya**

Nyarwanya SACCO due to its remote location has been very instrumental in enabling the local people to access quick and affordable financial services.. The number of borrowers now stand at 478 from 743. This fall is attributed, in part, to the group lending methodology that has replaced much of the individual loans. Savers have grown by 36% from 2278 to 3092. This SACCO has a wide catchment area and has shown remarkable progress in mobilizing marginalized members of the community, especially women and youth. It has a committed BOD and staff has demonstrated a lot of zeal in implementing Rural SPEED technical support. Due to the manual systems in place coupled with its imperfections, the SACCO lacks robust management information systems. Nyarwanya's LDD score dropped to 72% this year from 77% last year and this, coupled with its lack luster performance and lack of adoption of Rural SPEED recommendations for capacity building, has resulted in this SACCO being dropped from the Rural SPEED partner list.

### **Rubabo**

This SACCO has shown very good progress in increasing outreach and was even able to open up another branch that has in less than two years reached break-even. The number of borrowers has increased by 8% from 711 last year to 765 now. Total equity has also increased by 41% and now stands at Shs.300M. Rural SPEED interventions have helped push down PAR to 7% from 13% last year. Rubabo has through Rural SPEED trainings and mentoring established strong governance structures/tools aimed at ensuring clear lines of authority. This has promoted professional management and sound governance. Despite this, however, Rubabo's computer software developed a multitude of problems (like in other institutions which had the same software) and this led to a breakdown in information systems. Lack of an automated accounting system among other operational bottlenecks has had an adverse effect on portfolio management/quality. This has ultimately affected the SACCO's LDD score this year, which went down to 63.5% from 76% last year.

### **Shuuku**

Shuuku at the time of Rural SPEED partnership had only 795 borrowers but have now grown by 24% to 988. This has been as a result of proper sensitization and education of the members about the institution's products. Membership has also grown by 39% from 1979 to 2764. At the time of Rural SPEED support, PAR stood at an alarming 23% but it has now been brought down to 7%. This was because the SACCO was not carrying out a number of accounting principles like loan loss provisioning, write-offs, etc. In addition, the SACCO has made good progress in governance and management effectiveness, asset/liability management, outreach and accounting/financial

management. This reasonable progress however has been undermined by lack of automated accounting systems (the software the SACCO had has not been of efficient use). This adversely affected the portfolio tracking and monitoring systems which had been put in place. This has led to a decline in the due diligence score this year to 74% compared to 82% last year. This has also been attributed to lack of prudence in product pricing.

### **Mamidecot**

MAMIDECOT has performed extremely well and was a solid contributor toward Rural SPEED PMP objectives. The number of borrowers has risen by 8% from 1342 to 1410, number of savers by 54% from 3885 to 6010 and membership by 48% from 4385 to 6523. The SACCO has opened up two new branches to serve its growing clientele. This growth has largely been due to the tremendous improvement in outreach, sound governance, accounting/ financial management and service delivery mechanisms. However, the SACCO has not done proper costing/pricing of its products which has affected the determination of reasonable rates of return. In addition, the SACCO has been using software (Finance Solutions) which has not been efficient. This has affected MAMIDECOT's LDD score with a drop of two points this year to 77%.

### **Kitagata**

This SACCO has demonstrated efforts in achieving self-sufficiency and reliance in quite a short time. It has been instrumental in the provision of accessible and affordable financial services to the rural people. There has been a 22% and 18% growth in both membership and number of savers this year from 1495 to 1835 and 1553 to 1835 respectively. Loan portfolio has grown from Shs. 316.4M to Shs.327.7M. The number of borrowers has gone up by 188% from 175 last year to 504 this year. Kitagata has made improvement in governance and management effectiveness, accounting/financial management and outreach. The existence of manual systems has however hindered even more operational efficiency. This has to some extent led to a one-point drop this year from last year's 76% due diligence score

## **Annex II Product Development Tool - Brief**

A number of Rural SPEED's partner financial institutions over the course of the year requested support for the review and refinement of their existing products or products that they had intended to develop. These requests have come from partner SACCOs, MDIs and even the finance houses Tier 2 institutions). Product refinement would result in maximizing member or client satisfaction and consequently reducing drop out rates, delinquency and attracting new members or clients in this competitive environment.

A case in point are the partner SACCOs, which like many SACCOs countrywide generally do not have identifiable and distinct products to offer their members. In many instances products are inappropriately tailored to meet clients' needs. This is because they do not go through a process when developing and pricing their products. Products are mainly copied from the market and the SACCOs do not engage in scientific calculation of costs and desired margin to determine product pricing, but rather base them on what the market charges. Furthermore, much as clients indicate the purpose for which they intend to use loans, poor loan appraisal processes make follow up difficult. Resultantly, many loans end up being diverted to projects they were not meant for, culminating in poor recovery due to the inherent risks and lack of sufficient monitoring.

Rural SPEED identified this problem and has sought to address it. Through a SAF-supported grant, it has developed a standard, simple, step-by-step guide for reviewing, refining and developing products. Most methodologies for financial services product development tend to be too long, elaborate and complicated for RFI managers and members/clients to follow. This manual presents a fairly simple but logical and comprehensive way of working with RFI stakeholders in ways that they can fully understand to develop products they can own and implement.

The tool is also meant to be a reference text for consultant and development partners to accomplish the work with economy and efficiency. The steps are presented in the logical, chronological order in which they should be implemented.

However, as Rural Finance Institutions differ in their legal/ownership form and size, the user of this document needs to exercise discretion when it comes to issues related to ownership and governance.

It is expected that users of this manual need to have a reasonable understanding of micro-finance, financial service operations and rural financial systems and structures. Product development is, even for a modest RFI, a high-level undertaking. The user of this manual should, therefore, at a minimum, possess the following:

- A degree in any discipline;
- Middle or senior-level experience in a financial institution;
- Working knowledge of banking including front and back office operations, risk management and internal controls;
- Some experience with rural financial services such as having worked as RFI staff or a consultant; and
- Business/institutional analysis skills.

The tool is a dynamic document that was first applied when reviewing Kitagata SACCO's products. It will be used for all product reviews in the future.

### Annex III Warehouse Receipt Success Story

This success story was posted in some version on Microlinks/Notes from the Field, USAID/Telling Our Story and the Rural SPEED project website

#### USAID-Funded Program Gives Farmers Access to Bank Loans, Higher Crop Prices

Like other small-scale commercial farmers around Kapchorwa in eastern Uganda's corn belt, Sam Arapsatya found it impossible to get ahead financially. Although his 20 acres of rented land had good yields, Arapsatya struggled to support his large extended family and keep the farm running from one harvest to the next.



RICKY MUGABI, USAID/Rural SPEED

Sam Arapsatya inspects maize that he stored in a warehouse under a USAID Rural SPEED program that allowed him to get his first-ever bank loan based on the grain's value. When the price was right, he sold the maize to the World Food Program and paid the bank back.

With bills piled up during the growing season, when harvest time arrived, he and his neighbors sold their corn immediately to village traders to get cash for school fees and food, and to pay farm laborers and buy inputs for the next crop. The flood of maize lowered prices, but the farmers had no other choice. They needed money, and because Uganda's financial sector traditionally has viewed farmers as too risky to deal with, especially renters like Arapsatya who have no land for collateral, borrowing from a bank or other financial institution was not an option.

Today, however, Arapsatya is a welcome customer at the local Stanbic Bank branch thanks to USAID's Rural Saving Promotion and Enhancement of

Enterprise Development (Rural SPEED) innovative warehouse receipts system which lets him store his crop, use it as collateral for a loan worth 80 percent of the current grain value, and sell later at a higher price when prices increase. The system is helping Ugandan farmers overcome two challenges—the cyclical nature of farm income and lack of access to credit—that kept many of them operating not far above subsistence level.

“This system rescues us,” says Arapsatya. “With it, I was able to get a loan using my grain as security. With the money, I bought more seeds and fertilizer. Now I can develop my farm.”

Chemonics International's Rural SPEED project, a USAID activity that works to expand rural access to finance, developed the system and implemented it with a consortium of partners. Collaborating with two other USAID-funded activities, Rural SPEED piloted the program through the 2,100-member Kapchorwa Commercial Farmers Association (KACOFA). Another key partner is Stanbic Bank, which is making the loans with support from USAID's Development Credit Authority Loan Guarantee Program, managed by Rural SPEED. The bank has set aside \$200,000 in loan capital for the pilot.

KACOFA already was working with two other USAID programs in agriculture and competitiveness to increase production levels and improve the post-harvest handling process to ensure the corn sold by the Kapchorwa farmers is consistently of good quality. Under the program, KACOFA's farmers deliver their harvest to a designated secure warehouse, where it is weighed and kept under proper conditions until the farmer is ready to sell. In the meantime, the farmer gets a certified receipt that can be taken to a local bank and converted into a loan, with the warehoused corn serving as collateral. The loan is paid back when the grain is sold.

“I can instruct KACOFA to sell at a price I am comfortable with and benefit from the highest price,” explains Arapsatya.

As part of the KACOFA pilot, USAID Rural SPEED also collaborated with the World Food Program, which agreed to buy high-quality maize from the warehouse at 350 Uganda shillings per kilogram, substantially more than the 120 to 180 Uganda shillings the farmers got from quick sales to local traders.

“We had challenges of post-harvest handling, like storage, but mostly poor marketing,” said Wilson Chemusto, chairman of KACOFA. “We were not exposed to buyers, so we would sell at the first price that came along. We were many farmers with few buyers and we needed money to pay fees, and buy seeds and fertilizer in order to plant in time for the next season.” On average, farmers have received 1.2 million Uganda shillings or approximately US \$660 against the future sale of their maize under the receipt system.

The USAID-funded warehouse receipts system has boosted incomes and created new opportunities for the Kapchorwa farmers to invest in the future. The amount of grain they are delivering to the warehouse has dramatically exceeded initial expectations. Although Rural SPEED is subsidizing the warehouse collateral manager for the pilot, KACOFA is on track to produce enough grain to render the subsidy unnecessary in the second year of operation.

In addition, KACOFA is exploring the possibility of expanding the warehouse receipt system to barley and beans. Based on Kapchorwa’s success, similar programs already are being developed in other parts of Uganda. As for USAID Rural SPEED, the success of this pilot has presented an easily replicable model, one that Rural SPEED plans to initiate in several other locations throughout the country.