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RURAL SPEED QUARTERLY PERFORMANCE REPORT

APRIL 1 THROUGH JUNE 30, 2007



July 2007

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

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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.

Rural SPEED

A USAID-funded project

Contract No. PCE-I-00-99-00003-00, TO 826

This report submitted by Chemonics International Inc. / July 2007

Rural SPEED Project Quarterly Report April 1, 2007 – June 30, 2007

Rural Savings Promotion & Enhancement of Enterprise Development (Rural SPEED) is a three-year USAID-financed program awarded to Chemonics International Inc. under the Rural and Agricultural Incomes with a Sustainable Environment (RAISE) Indefinite Quantity Contract (IQC), Task Order Number 826, on November 11, 2004.

The objective of Rural SPEED under this Task Order is to deepen and strengthen Uganda's financial sector in response to rural demand for financial services. Increased provision of financial services will leverage existing economic activity and complement other USAID programs in rural areas. The resulting increase in economic activity is designed to help Uganda achieve the economic growth rates proposed in the country's Poverty Eradication Action Plan (PEAP).

AIR 1. Increased Access to Rural Financial Services.

KRA 1.1: Capacity of RFEs to Provide Ag and Non-ag Financial Services Increased.

Strategy. Demystify rural finance for financial institutions, promote venues for increased financial service delivery and provide incentives to deepen rural financial services.

Accomplishments this quarter:

Activity 1: Improve skills in agricultural finance for Centenary Bank (formerly CERUDEB).

- Work in this area has been successfully concluded.

Activity 2: Improve capacity of FIs to promote agricultural lending.

- The agricultural loan product development manual "*A Comprehensive Guide to Agricultural Loan Product Design for Uganda's Rural Financial Intermediaries*", was developed and published. The manual covers all aspects of product development and marketing, and should generate well thought out products contributing to focused and intensified agricultural lending. A workshop to train loan officers from 12 rural financial institutions was held in Mbarara and another will be held in Mbale in July. Additionally, copies of the manual will be distributed to 400 financial institutions during the next quarter via APEX organizations.
- Mentoring in agricultural lending continued for partner SACCOs. A field visit by USAID's CO and CTO to Kyamuhunga and



20 Participants from 12 partner institutions attended the agricultural loan product design workshop in Mbarara. The training provides lenders a greater understanding of risks in agricultural lending and how to develop products which are both profitable and sound.

Muhame SACCOs in April showcased the steady progress these two partner financial intermediaries are realizing in agricultural lending for tea and matooke bicycle trading activities respectively.



During this quarter, ongoing support to partners resulted in continued growth of their agricultural portfolios as referenced below:

Partner	# new Ag. Firms assisted	Value of new Ag. Loans (UGX)
Kyamuhunga	371	164,374,650
Muhame	73	6,530,000
Pearl Microfinance	23	32,500,000

- Pearl Microfinance’s generic agricultural production loan product rollout was successful in its two branches in Ntungamo and Rukungiri through provision of support under a SAF grant. The total lending for agriculture since the product roll out in December stands at 820 borrowers with a total loan amount of UGX 263 million.
- Following up on earlier Rural SPEED technical assistance, collaboration with Imani Development concluded with the establishment of an input loan facility for Kayonza tea growers and the abolition of poorly conceived fertilizer subsidies. (See KRA 1.1 Activity 7)

Activity 3: Maintain support for warehouse receipts programs.

- While the grant support to establish a coffee warehouse receipt system in three districts in the Buganda region was cancelled due to the slow process of the prospective partner, in house consulting support continues and it is likely that the a facility may begin in the coming quarter with a loan facility from Stanbic Bank for \$1M.
- The successful Kapchorwa warehouse receipt system that became self sustaining at the end of December 2006 has maintained the momentum and is set to reopen its doors at the beginning of the grain marketing season in August 2007.
- As a result of successful accomplishment of the contract by KACOFA during the last season, WFP has expressed its keenness to collaborate and support any further warehouse receipts initiatives that focus on agricultural relief commodities.
- Rural SPEED long distance consulting support to the EU/Ministry of Trade, Tourism and Industry initiative to draft the Uganda Commodity Exchange bylaws and warehouse licensing legislation was concluded. This support was critical to the new Commodity Exchange and the American perspective, as the world leaders in exchange trading commodities and public warehouses, was very much appreciated.

Activity 4: Establish pilot price insurance for maize borrowers.

- This activity was dropped due to slow response of the prospective insurance company, NIC in the last quarter.

Activity 5: Support establishment of hedging instrument for cotton.

- Unfortunately, the cotton sector has fallen into complete disarray preventing the successful establishment of a hedging instrument for cotton. Zoning has been revoked; larger ginners are pledging not to buy; and the Cotton Development Organization has earned a questionable reputation. Standard Chartered Bank remained interested in supplying the hedge instrument if a large enough counter party could be organized (such as the four largest ginners). Formation of this counter party was impossible in this quarter but may still be achieved in the coming quarter.

Activity 6: Strengthen U-Trust’s overall operations.

- This activity was cancelled as U-Trust, given its management changes during the end of 2006, has improved remarkably and as such, does not require external support.

Activity 7: Establish a SACCO to support Kayonza Tea Growers.

- Rural SPEED brokered a wholesale tea inputs loan with Centenary Bank to be retailed by Kayonza SACCO. This line of credit will be disbursed in July to coincide with the procurement of the inputs for the tea grower beneficiaries. Danida ASPS has collaboratively agreed to provide a guarantee to Centenary Bank for this facility and the loan product was designed by Rural SPEED. The first disbursements are expected to reach 80 lead farmers.



Rural SPEED's added tea to its financial mapping exercises. These maps provide financial institutions tools to demystify the risks and costs along the entire commodity supply chain facilitating the introduction of viable and sustainable agriculture finance products primarily in rural areas, as seen with the newly developed Kayonza tea inputs loan.

Activity 8: Maintain ongoing support to sunflower producers SACCOs.

- Through a SAF grant, Iceme SACCO intensified the membership and savings mobilization drive in 22 parishes, procured basic office furniture and equipment and branded its branch. Membership has increased 8% to 1,246 and savings now stands at UGX 8,233,100, an increase of 113% since February.
- Three more SACCOs (ITAAAO, Amach and Baamo) with Rural SPEED field technical assistance to support the sunflower producers are now very active with aggregate membership surpassing 2,200. This represents a full 10% of Mukwano’s outgrowers.

Activity 9: Promote utilization of DCA in financial institutions.

- **1st Multi Institutional DCA Program**
 - The program ended in February however some limited claims totaling \$340,000 were submitted before the August deadline. One large claim of \$329,000 relates to a loan by Centenary Bank to Muddu Oils, an edible oil refinery. The \$1 million, 30 month facility was issued in February 2002 and was for the purchase and installation of additional equipment for a start up cotton seed oil refinery. The facility went into default in May 2005 due to lack of working capital. The borrower successfully acquired additional funding to continue operation but eventually failed to reach a state of profitability. The bank placed the company under receivership and submitted the claim.

➤ **2nd Multi Institutional DCA Program**

- In the last quarter usage has gone up by 81 to 467 in volume and by \$1.14m to \$9.03m in value, a utilization of 77.5% of total portfolio (excluding the Standard Chartered US\$ 6m) in just over 50% of the guarantee's life. The periods' performance has again been dominated by UML who booked 70 of the 81 loans and have exhausted their limit.
- With UML's dominance, the average loan size has continued to go down, albeit marginally by \$1,000 to \$19,400 and up to 70% of the loans in the quarter have been to rural areas. Nile has continued its urban center usage strategy while Stanbic, with only one (bulk lending to a micro finance) loan placed, has remained inactive.

Bank Name	DCA Portfolio Facility \$US	Number of Loans	Value of Loans \$	% usage	% Rural by Vol	Average loan size (\$)
Centenary Bank Ltd	3,000,000	132	3,000,897	100%	58%	22,734
Nile Bank Ltd	4,000,000	69	3,366,220	84%	7%	48,786
Stanbic Bank Uganda Ltd	2,700,000	12	707,751	26%	92%	58,979
Uganda Micro Finance Union	2,000,000	254	1,994,762	98%	75%	7,853
Total	11,700,000	467	9,069,630	78%	61%	19,421

➤ **Collateral Managed Guarantee Program**

- This program has been cancelled.

Other DCA Activities

- Both UML and Centenary Bank have made a request for an increase of their limit to enable further their rural penetration. The recommendation made to USAID is to transfer the Standard Chartered unutilized \$6m limit to meet this request.
- The site visit reviews are to resume in the next quarter, and as a follow on of the recommendations made by the comprehensive review, an effort will be made to visit the same clients to enable some trend analysis of their development.

KRA 1.2: Strategic Partnerships between Financial Institutions Strengthened.

Strategy. Promote and support formalization of linkage banking between regulated and non-regulated financial institutions based on comparative advantage of the partnership arrangement, which provides reduced transaction costs for larger institutions and increased access to products and services for microfinance institutions.

Accomplishments this quarter:

Activity 1: Build capacity of partner SACCOs in cost accounting procedures.

- A Product Costing and Pricing manual for SACCOs was distributed to all partner SACCOs. This manual is a follow up of the earlier training on costing and pricing for new product development. Both the training and the manual have led to the effective roll out of rural-focused products in partner SACCOs.

- On-site mentoring in pricing, costing and new product development by the technical team has taken place. Partner SACCOs have been supported in formulating the necessary policies and procedures for product development, product costing, treasury management and strong information systems.

Activity 2: Continue support to adoption of revised PMT.

- Training in the use of the PMT by a broader spectrum of financial institutions and a major apex organization began this quarter and will continue into the next quarter. At least 120 financial institutions have been selected and are scheduled to be trained in the PMT under a subcontract with UCA. This will be a countrywide training based at regional level for wider adoption and use of the PMT.

Activity 3: Introduce MIS program leading to linkages.

- The first procurement of computer hardware and power systems for three SACCOs was completed. Migration of data from the old systems to the new MBWin system has been completed in three partners who are now operating fully using the MBWin software.



Smaller Ugandan financial institutions, particularly in the rural areas have suffered prolonged lack of electrical power throughout their normal working days, making it difficult to rely on computers to post accounting entries and generate operational and managerial reports. Rural SPEED procured solar systems as alternative power equipment for partner SACCOs. The lack of reliable electricity in the rural areas is key constraint to the operations and sustainability of many rural financial institutions.

- To try to manage constant power outages, solar has been installed at two of the SACCO branches and this has further strengthened the effectiveness of the MIS as there are no interruptions.
- With the proposed general training in the PMT and the already installed MBWin software in four SACCO branches, opportunities for linkage partnerships have increased and are expected to gain momentum in the next quarter. Using the PMT implicitly improves management capacity by enabling minute by minute performance monitoring within the SACCO. With this heightened level of MIS, SACCOs are better equipped to manage risk and therefore more attractive to upper tier institutions as partners and borrowers.

Activity 4: Build linkage relationships between T1-3 and T4 institutions.

➤ The Quarterly linkage banking meeting between Tier 1-3 and Tier 4 was held. Through this forum, it was learned that FSDU is currently working with Post Bank and Centenary Bank in the North and in the West to build linkages based on transaction with Tier IV institutions. Rural SPEED shared its latest innovations in building linkages including the transactional relationship established between Kayonza SACCO and Centenary Bank .

- A treasury management workshop for partner SACCOs was conducted jointly by USAID/Rural SPEED Technical Specialist and Treasury Managers from FINCA, PRIDE and U-TRUST. This format further built a critical linkage between the MDIs and SACCOs in terms of understanding each other and creating space for ongoing relationships.

KRA 1.3: Savings Mobilization Increased.

Strategy. Continue active promotion and marketing of the benefits of savings at both general and institutional levels, stressing appropriate treasury management.

Accomplishments this quarter:

Activity 1: Expand savings mobilization campaign.



- The second phase of the savings mobilization campaign was successfully completed. Over 40,000 Ugandans attended the road in 13 districts of Uganda including the North. Stickers and tee-shirts were added to the coin purses and notebooks as give-aways at the event. The updated posters, billboards and road signs continued to promote “save today for a better tomorrow; wise savings better living”.
- Partner institutions took advantage of the opportunity to open accounts on the spot with over 200 accounts opened and thousands opened at branch locations following the event.

- Radio dramas and adverts were expanded and introduced in stations covering the North as well. Additionally, in collaboration with Ministry of Finance and Fit-Sema, a Radio Consultant was contracted to manage the 30 minute field based interactive radio programs. These “live” serial programs promoting savings ran 14 times on seven radio stations in the appropriate local languages. These radio program combined ran on a total of 14 radio stations with an estimated radio coverage area of more than 20 million.
- Impact assessment exercises were embarked on, resulting in an average increase of 46% in number of new savers and 18% in value of savings.

Activity 2: Follow up on MDIs savings programs.

- U-TRUST utilized their SAF grant support to promote their Easy Access and Fixed Deposits products. During this quarter, Easy Access account registered 1,858 new savers with a value of UGX 266,623,226/= which was 28.6% over the projections. Further U-TRUST’s Fixed Deposit account recruited four new large depositors with an average deposit of UGX 27,275,000/= per deposit.
- UML savings grew by 6,947 savers and UGX 4,039,709,301 during the quarter.

Activity 3: Strengthen MDI treasury management functions.

- Throughout the quarter, both regular and ad-hoc meetings with Treasury Officers of the MDIs were ongoing.

- Rural SPEED Specialist and UML Treasury Officer visited UML’s eastern Uganda branches to check on the progress of the status of their treasury functions and activities. The visits found that the institution’s treasury functions were performing well.

Activity 4: Build SACCO treasury management functions.

- A workshop was organized to strengthen the Treasury Management and Asset and Liability Management functions in partner SACCOs and to reinforce the previous trainings. This intensive training was fully facilitated by technical staff from three regulated financial institutions who in conjunction with the in-house team imparted the relevant knowledge, skills and expertise on treasury management.
- Rural SPEED technical staff followed up with on-site mentoring with each SACCO’s management staff and board. This culminated in the formulation of Treasury Management Policies by each of the partner SACCOs which will henceforth form the institutional framework in their day to-day Asset/Liability management functions.
- This training served as yet another milestone in the strengthening and full realization of linkage partnerships between the regulated and non-regulated financial institutions (Refer to KRA 1.2 Activity 4).



Rural SPEED through capacity building links lower tier (unregulated) to higher tier institutions (regulated). As part of linking the tiers, three MDIs, FINCA, PRIDE and U-TRUST were involved in facilitating the SACCO treasury management training which was held in Masaka.

Activity 5: Improve CMFL’s treasury management.

- The SOW for this activity was not approved for completion.

AIR 2. Increased Innovation to Products and Services Delivery Mechanisms.

KRA 2.1: Service Delivery Mechanisms Expanded.

Strategy. Launch with partner institutions; implementation of new technologies and cost reducing processes; encourage collaboration with SACCOs leading to cost effective transactional linkage banking arrangements.

Accomplishments this quarter:

Activity 1: Establish UML “mini-branch” access points for rural financial services.

- UML decided to work on strengthening the branch in Rushere rather than establishing another mini-branch in Kazo. This was a business decision influenced in part by the consultancy on “transfer pricing” supported under the SAF, the limited potential in Kazo at present and the fact that Rushere has been reporting progressively good results. UML decided against opening a “liaison office” in Kazo as well.

Activity 2: Deploy POS devices with Orient Bank.

- The first phase 100 POS devices arrived in the country in May, rather than April due to a delay by the supplier. Work finally began on configuration of the devices (installation of software) shortly thereafter. At the close of the quarter, the kinks have not been worked out of the software and this caused a delay in the demonstration of the devices capability to interested parties like Kobil Petroleum Company, which has expressed an interest in putting the devices in their upcountry locations.
- Orient is extremely optimistic that the software issues will be resolved shortly in order to have a fully functioning device and have begun to recruit a Card specialist with the task of building internal capacity and opening new markets for the deployment of the devices and cards.
- Orient has yet to design its strategy for sensitization of the rural unbanked to benefit from this initiative. The grant, which expired at the end of the quarter, will be extended to allow for the planned market research and deployment of the devices not yet undertaken. Rural SPEED is working with Orient Bank to remedy this situation and while the number of new savers joining the formal financial sector will be dramatically reduced during the period of the grant, Orient predicts that it will still reach its target but only after the conclusion of Rural SPEED in November.

**LESSON LEARNED:
Electronic banking**

Technology is the vehicle, sensitization is the key

In implementing the SAF grant, Orient Bank has focused on the perfection of the technologies and procurement of the POS devices. This did not, as planned, go hand in hand with the development of a strategy to identify potential rural clients and sensitize users on this alternative technology for the delivery of financial service.

Although it is anticipated that the POS devices will be ready for deployment early next quarter, the potential users of this service in the rural communities have yet to be defined. While Orient remains committed to develop a market strategy and hire appropriate staff for its implementation,, the anticipated influx of unbanked to the formal banking system during the period of the grant is greatly diminished. However, targets should ultimately be achieved post Rural SPEED.

Activity 3: Promote cost effectiveness in delivery of financial services.

- Rather than organizing a workshop of its own and basing on its experiences in trying to promote cost effectiveness in delivery of financial services, Rural SPEED will make contributions to the upcoming workshops like the 3rd African Microfinance Conference scheduled for the next quarter.

Activity 4: Pilot Stanbic rural mini-ATMs.

- Stanbic Uganda, through its parent bank, Stanbic S.A, determined that it would not be possible to proceed with this initiative within the agreed upon time frame and the grant was cancelled. While Stanbic was not able to work collaboratively under the grant to pilot the mini-ATMs as planned, they intend to continue with the project at their own pace.

Activity 5: Investigate the feasibility of linkages using “white labeled” cards.

- Considering that the grant agreement with Stanbic has now been cancelled, this activity will no longer take place. Orient Bank had suggested discussing a relationship with one of the MDI’s but due to the time required in establishing and implementing such

partnerships which could easily extend beyond the life of Rural SPEED, the activity will not be supported.

Activity 6: Pilot use of mobile telephone as a Stanbic SACCO linkage mechanism for rural finance.

- The activity will also not go ahead due to the discontinuation of the Stanbic grant.

Activity 7: Complete development of Simba funds transfer system.

- During the quarter, Simba expanded its service to 30 outlets throughout the country.
- To further increase the volume of its business, Simba plans to enter into partnerships with franchisees and deploy the in high service at border posts, where cash is accumulated and demand.
- Due to delays from CMFL’s server maintenance team, the “person to account cash transfers” and “account to account transfers” using CMFL’s banking platform, are delayed until the next quarter.

Month	No of Transactions	Volume
Dec-06	4	275,000
Jan-07	13	2,084,000
Feb-07	29	3,096,000
Mar-07	80	7,643,000
Apr-07	220	23,382,100
May-07	473	56,522,500
Jun-07	575	60,913,000
Jul-07	648	75,182,900
Total	2,042	229,098,500

Simba Cash transactions have experienced a steady increase as more Ugandans use this inexpensive service to move money to and from 30 locations

Other ICT Innovations Activities—CMFL POS devices

- Following a review of the POS strategy by MicroSave and based on a preliminary review undertaken by Rural SPEED, recommendations were made to modify CMFL card penetration strategy. CMFL adopted many of these strategies and there have been positive results but overall usage remains low.
- CMFL is pleased with the pilot and now intends to roll out the strategy with the leverage of Simba’s network. This is based on the understanding that the connectivity issues between CMFL’s nimbus server and Simba’s FTS server and arrangements regarding operational procedures and revenue sharing are resolved as soon as possible.

KRA 2.2: New Products Development.

Strategy. Identify new rural product and service opportunities within partner institutions, confirm delivery cost reductions and sustainability through piloting activities, and roll out those products and services with confirmed sustainability potential.

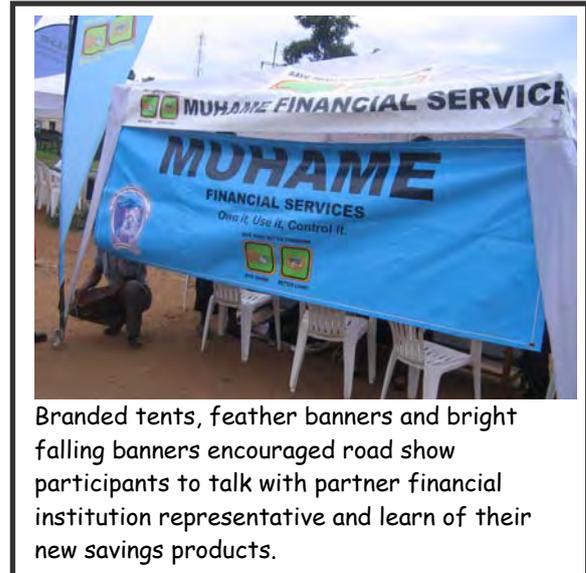
Accomplishments this quarter:

Activity 1: Complete roll out of the micro-leasing product.

- Since inception, 130 leases had been booked worth UGX 997 million; 65 (50%) are agricultural leases. An official launch of this new innovative product is scheduled for July.

Activity 2: Develop new savings products.

- Rural SPEED assisted eight partner SACCOs in the promotion of their savings products during the country wide savings mobilization campaign. All partner SACCOs received grants to develop and produce brochures/ flyers and posters to promote their savings and other products offered.
- In addition, all partner SACCOs received from Rural SPEED, a fully branded tent, falling banner and two feather banners which were used during the savings campaign



Branded tents, feather banners and bright falling banners encouraged road show participants to talk with partner financial institution representative and learn of their new savings products.

Activity 3: Sensitize financial institutions in product development.

- Activity concluded in quarter one.

Activity 4: Expand agricultural credit.

- As covered under KRA 1.1 above, mentoring in agricultural lending was maintained for partner SACCOs with agricultural lending portfolio, and also the manual on agricultural loan product design was disseminated to all partners with the objective of assisting them to develop and managing appropriate agricultural loan products.
- UML submitted an application to Bank of Uganda for permission to pilot the animal husbandry loan product that was developed through Rural SPEED STTA support in the last quarter. Once the permission is granted UML will pilot the loan product in its three branches of Lyantonde, Rushere and Kiboga.

AIR 3. Program Management and Monitoring and Evaluation.

KRA 3.1: Efficient Program Administration

Strategy. Closely follow well-established Chemonics policies and procedures for managing USAID projects and promote the Strategic Activities Fund for highest program enhancement.

Accomplishments this quarter:

Activity 1: Effectively manage personnel.

- Continued compliance with USAID and Chemonics personnel management policies.

Activity 2: Provide effective contract administration.

- Contract continues to be managed as agreed.

Activity 3: Maintain smooth operational procedures.

- Compliance with all USAID rules and regulations maintained.

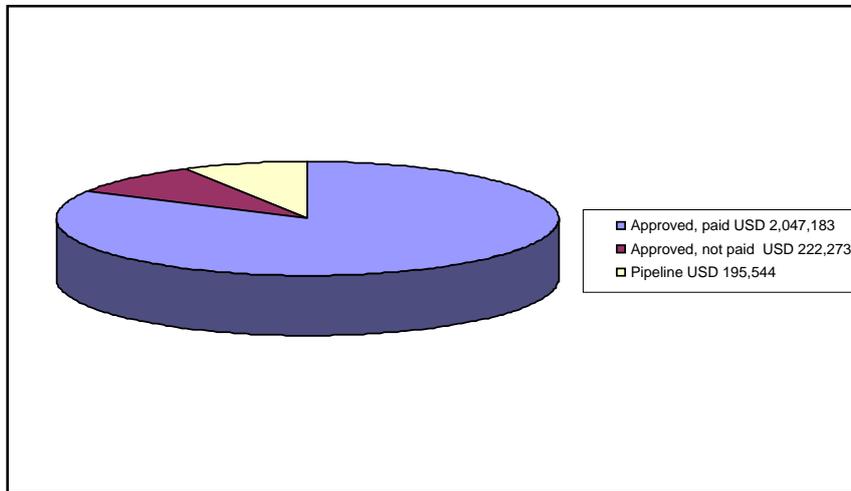
Activity 4: Efficiently manage project financials.

- Compliance with USAID and Chemonics accounting regulations and procedures is ongoing.
- Management systems for grants and subcontracts are in place and conform to USAID regulations.

Activity 5: Continue implementation of Strategic Activities Fund (SAF).

- During the period, new grants totaling \$135,528 were approved. The cumulative awards total is now \$2,493,219. This exceeds our SAF contract requirement of a minimum of 20% of total budget spent on SAF (See Pie chart below).
- Of the approved SAF portfolio, the standard grant to Stanbic Bank (by far the largest grant activity under the SAF) was cancelled because of continued procrastination and failure to develop an implementation plan that would assure completion of grant activities within the remaining Rural SPEED project period.
- Selected Rural SPEED SAF activities were audited by auditors from the Regional Inspectorate of Government (RIG) Pretoria office as part of the microenterprise assessment of the efficiencies and impacts of USAID global microenterprise programming.
- During the quarter, beneficiary grant implementation remained on course. In spite of the slide resulting from cancellation of the Stanbic grant, implementation of active grant activities was according to plan, and overall SAF expenditures were in line with our projections.
- Following successful implementation, thirteen grants came to an end during the quarter. Grantees submitted Final Completion Reports as part of their activities closure process. Beneficiaries submitted Final Completion reports, marking closure of these activities.

SAF Budget Utilization – June 2007



KRA 3.2: Knowledge Management System.

Strategy. Continuously identify and capitalize on opportunities to present results of Rural SPEED via project partners and success stories, develop sound media relations and coordinate with other projects to maximize impact.

Accomplishments this quarter:

Activity 1: Continue communications strategy implementation.

- The communications strategy was used to identify tools to use for our target audience and to adhere to the USAID branding guidelines. The tools included designing a radio program that would effectively promote and encourage savings in authorized financial institution among the rural audience.

Activity 2: Continue management of project website.

- Website maintained with information of Rural SPEED activities

Activity 3: Maintain inter and intra project communication systems.

- Staff meetings are regularly scheduled to ensure proper implementation of work plans.

KRA 3.3: Program Monitoring and Reporting Needs Met.

Strategy. Effective use of project resources for collecting and reporting of results

Accomplishments this quarter:

Activity 1: Maintain accurate monitoring and reporting system.

- The managing director and the USAID CTO met with personnel from MEMS to define the strategy to perform the USAID PAT (poverty assessment tool) as required by congress. MEMS agreed to undertake this survey and assessment next quarter.

