Support for Private Enterprise Expansion and Development (SPEED)

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ASSESSMENT REPORT

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Submitted by:
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In collaboration with:
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ACRONYMS

ACDI	Agricultural Cooperative Development International
ACFODE	Action for Development
ADF	African Development Foundation
ADR	alternate dispute resolution
AfDB	African Development Bank
AIDS	acquired immuno-deficiency syndrome
AMFIU	Association of Microfinance Institutions in Uganda
APDF	African Project Development Facility
BAI	Business Association Initiative (PRESTO)
BCDF	Bunyaro Catholic Development Fund
BDS	business development services
BOU	Bank of Uganda
BUDS	Business Uganda Development Scheme
CADER	Center for Arbitration and Dispute Resolution
CBO	community-based organization
CEEWA	Uganda Council for Economic Empowerment for Women in Africa
CERUDEB	Centenary Rural Development Bank
CMFL	Commercial Microfinance, Ltd.
COMPETE	Competitive Private Enterprise and Trade Expansion
CRB	Credit Reference Bureau
DANIDA	Danish International Development Agency
DFCU	Development Finance Company of Uganda
DFD	Development Finance Department (BOU)
DfID	Department for International Development (U.K.)
DREPS	District Resources Endowment Profile Survey
EADB	East African Development Bank
FINCA	Foundation for International Community Assistance
FIS 2000	Financial Institutions Statute 2000
FOCCAS	Foundation for Credit and Community Assistance
FOCU	Federation of Ugandan Consultants
FSA	Financial Services Association
FTC	Feed the Children
GDP	gross domestic product
GOU	Government of Uganda
GT	Gatsby Trust
GTN	Global Technology Network
GTZ	German Agency for Technical Cooperation
HIVOS	Humanistisch Instituut voor Ontwikkelingssamenwerking Humanist Institute for Cooperation with Developing Countries (Dutch)
HORTEXA	Horticultural Exporters Association
IDB	Islamic Development Bank

IDEA	Investment in Developing Export Agriculture project
IESC	International Executive Service Corps
IFAD	International Fund for Agricultural Development
IQC	indefinite quantity contract
IR	intermediate result
ISP	Integrated Strategy Plan (USAID)
MCC	Microfinance Competence Center (UIB)
MDI	Microfinance Deposit Institution
MED-Net	Micro Enterprise Development Network
MFI	microfinance institution
MOFPED	Ministry of Finance, Planning and Economic Development
MTCS	Medium-Term Competitiveness Strategy
MUBS	Makerere University Business School
NAWOU	National Association of Women Organizations in Uganda
NGO	nongovernmental organization
NIC	National Insurance Corporation
NORAD	Norwegian Agency for International Development
NPA	non-performing asset
NSSF	National Social Security Fund
NTE	non-traditional export
NUMA	Northern Uganda Manufacturers Association
OECD	Organization for Economic Cooperation and Development
OSS	L'Observatoire du Sahara et du Sahel
OXFAM	Oxford Committee for Famine Relief
PACT	Poverty Alleviation Credit Trust
PAP	Poverty Alleviation Programme
PMA	Plan for Modernization of Agriculture
PRESTO	Private Enterprise Support, Training, and Organizational Development project (USAID-funded)
PRIDE	Promotion to Rural Initiatives and Development Enterprises project
PSDP	Private Sector Development Programme
PSF	Private Sector Foundation
RAISE	Rural and Agricultural Income with a Sustainable Environment
RFSC	Rural Financial Services Component (Danida)
RMSP	Rural Microfinance Support Project
ROSCA	Rotating Savings and Credit Association
SEGIR	Support for Economic Growth and Institutional Reform
SME	small- and medium-sized enterprise
SNV	Netherlands Development Organisation
SO	strategic objective
SOMED	Support Organization for Micro-Enterprise Development
SPEED	Support for Private Enterprise Expansion and Development
SUFFICE	Support for Feasible Financial Institutions and Credit-building Efforts
UCB	Uganda Commercial Bank Limited

UDB	Uganda Development Bank
Ugafode, Ltd.	Uganda Foundation for Development, Ltd.
UIA	Uganda Investment Authority
UIB	Uganda Institute of Bankers
UMA	Uganda Manufacturers Association
UMACIS	Uganda Manufacturers Association Consultancy and Information Services Ltd.
UMI	Uganda Management Institute
UMTAC	Uganda Management and Technical Advisory Center
UMU	Uganda Microfinance Union, Ltd.
UNCCI	Uganda National Chamber of Commerce and Industry
UNCITRAL	United Nations Commission on International Trade Laws
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USE	Uganda Securities Exchange
Ush	Uganda shilling
USSIA	Uganda Small Scale Industry Association
UWEAL	Uganda Women’s Entrepreneurs Association Limited
UWESO	Uganda Women’s Efforts to Save Orphans
UWFT	Uganda Women’s Finance Trust, Ltd.
VAT	value-added tax
VOCA	Volunteers in Overseas Cooperative Assistance
WTO	World Trade Organization

Executive Summary

EXECUTIVE SUMMARY

The USAID-funded Support for Private Enterprise Expansion and Development (SPEED) project is an aggressive intervention that will address the needs of micro, small-, and medium-sized enterprises in Uganda, focusing on access to finance and business skills development. The assessment phase of this design-and-implement activity was officially launched October 18, 2000, by the American Ambassador to Uganda, Martin Brennan, with the participation of 70 Ugandan and foreign stakeholders.

Following the launch, the 11-member assessment team, divided into four groups — small- and medium-sized enterprise (SME) financing (including agriculture), policy, microfinance, and business development services (BDS) — began the process of interviewing more than 200 stakeholders nationwide (enterprises, government, bankers, microfinance institutions, association leaders, business service providers, donors). The objective was to determine where gaps existed in the microenterprise, SME finance, and BDS sectors, and then develop options and recommendations for the implementation of the SPEED project. This was carried out using rapid assessment methodology and a comprehensive review of relevant documents and studies.

Several key documents, also being used by the Government of Uganda (GOU) and the donor community to coordinate funding and implementation of activities, played a central role in this assessment. These are the Medium-Term Competitiveness Strategy (MTCS), the Plan for the Modernization of Agriculture, the Poverty Eradication Action Plan, the Commercial Justice Reform Program and three pieces of pending legislation: the Micro Deposit-Taking Institutions Legislation, Arbitration and Conciliation Act 2000, and the Financial Institutions Statute 2000.

To encourage the **financing of SMEs**, SPEED will need to work effectively on both sides of the lending transaction. The project will need to encourage mid-sized financial institutions through specialized training, study tours, and specialized product development, while at the same time provide pre- and post-loan disbursement services (business planning, technical advice, marketing assistance, cash-flow monitoring) to SMEs through local BDS providers.

Because SME financing, especially when agriculturally related, requires medium- to long-term financial resources, SPEED will need to explore ways to increase the supply of medium and long-term funds for on-lending by the banks. SPEED can do this by expanding the leasing activity, issuing a bond to supply medium-term capital, or establishing a refinancing mechanism.

To address the issue of the perceived increased risk with SME lending, SPEED will need to explore the possibility of a loan guarantee mechanism, including opportunities with the PL-480 program and the Development Credit Authority, Micro and Small Enterprise Development, and Loan Portfolio Guarantee programs of USAID's Global Bureau. In addition, SPEED can assist the Uganda Institute of Bankers (UIB) with the development of the credit bureau, including the innovative idea of creating a privately owned company to deliver this critical service.

Policy constraints can often act as "ceilings" on results and impacts, and the SPEED team has identified several such constraints during this assessment. The key areas identified include a mechanism that both banks and SMEs can use to settle claims quickly and efficiently. The Center for Arbitration and Dispute Resolution (CADER) and Small Claims Court are two key policy areas that can unleash tremendous market potential and change attitudes toward SME lending. Another area constraining lending to agriculturally based enterprises and SMEs is land titling. By having ready access to reliable and timely information on the ownership of property, banks can feel more secure about lending to SMEs, and SMEs will not require 150 percent discounted collateral to obtain loans.

Finally, to sustain growth, processes are required to allow for constant public-private dialogue on administrative and policy reform. To make timely administrative and policy decisions, up-to-date information is needed on SME creation, job growth by sector, and investments. SPEED can facilitate these activities to ensure a sustainable public-private dialogue.

The centerpiece of the **microfinance industry** assessment was a survey of 26 institutions involved in microfinance lending and covered the range from commercial banks to community-based organizations, including several outside of the capital area. At present, the environment is being molded by a plethora of microfinance institutions (MFIs), strong donor support, a large untapped market, and a positively evolving enabling environment. These factors together set the stage for a strong and mature sector within the next five years.

Opportunities for SPEED will be created with the passage of the Microfinance Deposit Institution (MDI) legislation. MFIs will require assistance to move from one Tier to the next and access commercial bank financing. Working through local firms, SPEED can assist MFIs with the transition and prepare others for moving up the scale. Through a combination of technical assistance and a loan guarantee mechanism, SPEED can help MFIs access the commercial market for financing.

In addition to assisting MFIs to achieve MDI status, SPEED can play a proactive role in helping MFIs grow through geographic expansion and product diversification. Several MFIs are planning to expand into rural areas, where the possibility of introducing new products for agricultural lending are high; this will encourage an increase in the number of stakeholders and exploit under-utilized resources. In addition, a gap exists between the upper end of the MFI market and the lower end of the commercial bank market, and most MFIs are still delivering group-lending products. This gap and lack of product diversification present two opportunities for MFIs to expand and for SPEED to assist.

Training and technical assistance is another area where the SPEED project can have an effect. Working through local consulting firms (such as UIB/Microfinance Competence Center (MCC) or Aclaim), training and technical assistance initiatives can be put into place to meet the demands of this ever-evolving industry. SPEED can stimulate demand for these services through a targeted voucher scheme, covering a portion of the costs of these services if needed.

Business development services providers are excited about the possibility of accessing the microenterprise and SME market. Over the past few years, several smaller interventions have prepared the ground for a major BDS initiative. Banks, associations, and MFIs are ready to promote the use of BDS among their clients and members. SPEED is ready to play a leading role to stimulate demand for BDS services and provide targeted supply-side interventions to build capacity in the local BDS providers. This “push and pull” strategy can be facilitated through a voucher scheme used to access training, consulting, and other types of BDS.

Associations remain an important private sector organization to promote change and respond to common needs of their members. SPEED will consider a matching grant program to challenge the more serious and capable associations to undertake activities that respond to their members’ needs. This program will require that the association respond to a rigorous set of application criteria.

To examine the depth and complexity of **gender** differences, the gender specialist interviewed more than 75 people and offered positive observations, which can be leveraged by SPEED. These include that women, who make up the majority of borrowers in the MFI sector, are more willing to participate and pay for BDS. As a result, any initiatives to improve the delivery of BDS should target women to maximize results, impacts, and sustainability of service delivery. As one woman entrepreneur stated, “He may say that he has the last word, but once you have the money, you have the last action.”

Using a market-driven mechanism, SPEED will cooperate with all partners ready to embrace a similar philosophy. Potential partners include associations, nongovernmental organizations (NGOs), BDS providers, MFIs, and banks willing to cost-share activities and adapt products and services to the needs of their target market. This approach will allow the project to work with the more progressive and innovative Ugandan organizations.

ASSESSMENT OF MICRO, SMALL- AND MEDIUM-ENTERPRISE SECTOR IN UGANDA

A. Introduction

A1. Project Objective and Overview

The objective of the USAID-funded Support for Private Enterprise Expansion and Development project is to design and then implement an aggressive intervention that addresses the needs of microenterprises and small- and medium-sized enterprises in Uganda. SPEED focuses on microenterprise and SME access to finance and business skills development. The project will contribute to USAID's Strategic Objective One, to increase rural household incomes.

Timing of the Assessment and Design

October 15	Assessment team arrives in Uganda
Oct 15-Nov 17	Assessment period
November 17	Presentation of assessment
November 18-26	USAID reviews assessment documents and provides comments
December 4	Design team returns to Uganda
December 4-20	Design period
December 20	Draft design, workplan, M&E plan, budget presented
January 2001	Design finalized and approved
February 2001	Implementation begins

USAID selected Chemonics International to design the SPEED project over a ten-week period (see adjacent box). During the assessment phase of the design, the team (see box below) assessed the microenterprise and SME sector using rapid appraisal methods. Our findings on sector status, constraints, and opportunities are presented in this report. To ensure that the design reflects Ugandan private and public sector realities and needs, a larger stakeholder's meeting will be held to facilitate input, information exchange, and a common vision for the project. During this time, we will work with USAID to determine appropriate project results that correspond to SPEED's activities once they are formulated. When the design is approved, Chemonics will implement the three-year project.

A2. Structure of This Assessment Report

The assessment first provides a summary of USAID's support of the microenterprise and SME sector and then an overview of the sector, including definitions, financial and gender impacts on the sector, financial and business development services available, the policy and institutional environment in which the sector operates, and USAID and other donor support. We then present status, constraints, and opportunities in SME financing, policy, microenterprise financing, and business development services. Special consideration is given to agricultural financing opportunities and commercial bank-MFI linkages. Next we evaluate potential counterpart organizations and,

Chemonics' Assessment Team

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finally, present a synopsis of the options and recommendations for the SPEED project design. The detailed market survey of the microfinance industry is included in Annex B.

B. USAID's Current Support of the Microenterprise and SME Sector

Under USAID's Economic Growth Program, Strategic Objective (SO) 1, a variety of innovative interventions are being implemented that support the microenterprise and SME sector in Uganda. The most notable effort in this area, the Private Enterprise Support, Training, and Organizational Development (PRESTO) project (which ends in February 2001) supports microfinance initiatives across Uganda, building capacity and facilitating microentrepreneurs' access to credit. PRESTO has helped key business associations improve member services so they could better assist microenterprise and SME members. Under the Investment in Developing Export Agriculture (IDEA) project, nontraditional agricultural export SMEs have been successfully targeted while Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) and USAID's PL 480 partners have made inroads to reach rural and agricultural microenterprises. Additionally, USAID's support to the dairy sector has assisted associations and other private sector entities involved in milk production, marketing, and distribution.

SPEED and the microenterprise and SME sector. The SPEED project is a new, dynamic effort under SO 1 that will address the needs of microenterprises and SMEs. Building on USAID's successes in the private sector, especially those under PRESTO and IDEA, SPEED was conceived to provide financial and non-financial assistance to help intermediaries, microenterprises, and SMEs improve access to finance and skills, especially in rural areas. The SPEED activity zeros in on the key constraints to business development in Uganda: the lack of access to finance and related business management skills needs.

C. Background and Description of the Microenterprise and SME Sector

The development of microenteprises and SMEs is recognized worldwide as an important engine for economic growth. Uganda is no exception. Roughly 800,000 microenterprises and small businesses account for 90 percent of non-farm employment and an estimated 20 percent of Uganda's gross domestic product (GDP). Although liberalization measures in the country have ignited an economic revival, private sector growth is subject to numerous constraints, with microenteprises and SMEs hardest hit. These organizations are not served by the formal banking system and do not possess the skills needed to expand their businesses. Through its Medium-Term Competitiveness Strategy for the Private Sector, the GOU has made improving the business environment for micro and small enterprises a priority. The strategy emphasizes regulatory, financial, and legal reforms, as well as infrastructure development, required to remove constraints to growth among all-sized businesses. Specific financial reforms include the development of financial services suited to SME needs (leasing services, equity funds, capital markets). For MFIs, the aim is to develop a legal and regulatory framework, an interest rate policy, and a debt collection program. Specific to non-financial assistance needs of microenterprises and SMEs, the strategy stresses a sound structure for policy formulation and dialogue, skills development and training, and BDS.

In this subsection, we define the sector and services currently available to microenterprises and SMEs, explain the general policy and institutional environment in which these organizations operate, and provide an overview of donor assistance to the sector.

C1. Definition of Microenterprises and SMEs

The SPEED team was initially hesitant to define microenterprises and SMEs despite the SPEED contract guidance. We were concerned that, by setting specific definitions, we might limit the project's ability to react to targets of opportunity. One of SPEED's greatest strengths should be the ability to respond quickly to good business opportunities that ensure USAID and SPEED achieve project objectives. To help us develop acceptable and reasonable definitions, we queried financial institutions, donors, GOU staff, and firms during the assessment on their definitions of firm sizes. Financial institutions are not concerned with defining firm size in terms of small, medium, and large; rather they focus on risk and profitability. Historically, this has led them to work with larger clients. Commercial banks analyze financial opportunities in terms of turnover, assets, and size of the deal. MFIs define portfolios by products (group and individual loans and their sizes), and the Ugandan government and most donors define firms by number of employees. Private enterprises do not care about definitions; they care about growing their businesses.

It is clear that classification of firms is relevant only to organizations that keep and analyze statistics. In Uganda, the GOU and some donors require this information, as well as contractors and grantees who must report activities to donors. Classification thus has programmatic implications.

For consistency and ease of monitoring, we believe that SPEED should mirror the firm size definitions of the GOU. Found in the MTCS, these are based on number of employees. Counting employees is unambiguous and verifiable as opposed to assessing firm turnover or assets. The definitions are:

- Microenterprise: mainly informal with one to five employees
- Small business: usually in the formal sector with five to 20 employees
- Medium-sized business: 21 to 100 employees

C2. Gender Issues in the Microenterprise and SME Sector

Despite macroeconomic level success — including an annual rate of growth that has averaged 6.5 percent over the last ten years (Wright et al. 1999:I) — at least 50 percent of the population of Uganda remains below the poverty line, with women and children disproportionately represented among the poor. Women are burdened by a total fertility rate of 6.7 children per woman, one of the highest in the world. Although they raise approximately 80 percent of the food, they have little tradition of independent entrepreneurship. So it would seem that Ugandan women would be hard-pressed to do well in business. Yet data shows that female Ugandan entrepreneurs have managed to replicate the main "lesson learned" of microfinance programs around the world: they are better clients with higher repayment records. This has led to preferential targeting of women clients in almost all Ugandan MFIs attempting to follow best practices. About 80 percent of microenterprise credit clients in the country are women, with all MFIs reporting that at least 60 percent of their client base is female.

Experience with women's participation in microfinance makes it clear that SPEED and other donor interventions should reach out to women-owned SMEs as part of any SME development initiative. Given the dearth of information in Uganda on women-owned SMEs, we based our assessment on interviews with women business owners. We learned that women-owned SMEs are subject to the same constraints affecting all SMEs in Uganda but are particularly impeded by financing. Women have a harder time than men do in accessing bank loans due to prevailing customs. Land, homes, and cars are in husbands' names, precluding their use as collateral by women, despite in some cases business earnings paying for these assets. Additionally, there are gender differences in the acceptance of BDS as valuable services. Women entrepreneurs have been more interested in training and more willing to share a larger burden of the costs than male counterparts. Women SME owners have overcome many obstacles to reach their current scale; they are a dynamic lot and perhaps better equipped to grow their businesses than some male counterparts. If the history of the microfinance movement in Uganda is any guide, proactively incorporating women will help guarantee the success of SPEED's interventions to support SME financing and business skills development.

C3. Financial Services for Microenterprises and SMEs

The financial sector and its linkages with microenterprises and SMEs in Uganda must be examined in the context of the entire country's economic development. Uganda went through a series of socio-political dislocations in the 1980s that severely affected the development of the sector. When the National Resistance Movement came to power in 1986, the system was in a deplorable condition following a decade of instability and gross mismanagement. Lack of public confidence in the system was compounded by prolonged periods of high inflation, which caused rapid erosion in the value of money, and by liquidity and insolvency problems in some banks. In subsequent years, government policy has sought to ensure availability of credit at affordable rates as a precondition for sustained development; this requires an efficient and sound financial system to help manage the economy.

Financial markets in Uganda are narrow in two senses. First, the participants are few; most of the financial instruments in the markets (Treasury Bills), are held by commercial banks and other financial intermediaries (insurance companies). Second, the range of financial instruments in the markets is small. The majority of financial transactions in the economy are conducted using a few financial instruments, such as cash and demand deposits. With few participants and instruments, the markets are far from being competitive.

Another feature of the sector is the uneven distribution of the financial institutions. Most currently concentrate operations in urban centers. The major banks are reluctant to go to the rural areas — where most microenterprises and SMEs are located — because of the high cost of maintaining the rural branches thus making them unprofitable, the poor infrastructure that tends to raise costs of administration and complicates their coordination, the absence of target groups (traders, industry, salary earners), and insecurity in some parts of the country. Consequently, except for pilot efforts by Centenary Rural Development Bank and the newly formed Commercial Microfinance Limited, appropriate products for rural areas have not been developed. At the same time, many Ugandans in rural areas are not familiar with banking, and it will take some time before bank products are appreciated and used. There are added problems of lack of adequate capacity in the middle management of banks; most banks are new to the market and trying to consolidate their business to meet the legal requirements and demands of survival in a competitive market. Therefore branch expansion for most of them is not a priority.

Formal financial institutions. The financial system in Uganda remains narrow. It consists of the Bank of Uganda (BOU), 17 commercial banks, 7 credit institutions, 19 insurance companies, three development finance institutions, one building society, and one pension fund (the National Social Security Fund, NSSF), a postal bank, and numerous foreign exchange bureaus. BOU is at the apex of the financial system. It is mandated to carry out regulatory and supervisory functions. But for some time, it has also performed other functions outside the traditional supervisory and regulatory mandate consistent with the evolution of economic and structural change in Uganda. For example, since 1977 it has provided investment support by administering lines of credit through select commercial banks. This was intended to catalyze mobilization of long-term capital in the financial sector.

The sector is dominated by **commercial banks**, with the government-owned Uganda Commercial Bank Limited (UCB) accounting for 23 percent of the assets and more than one-half (67) of the branches across the country. Other commercial banks include local operations of foreign banks (Stanbic Bank, Standard Chartered Bank, Barclays Bank, Bank of Baroda, Citibank). The East African Development Bank (EADB) (jointly owned by the governments of Uganda, Kenya, and Tanzania), the Development Finance Company of Uganda (DFCU), and Uganda Development Bank (currently undergoing restructuring) are concerned with long-term development finance. Uganda’s commercial banking sector has a network of 122 branches, as opposed to 156 in 1996 and 290 in 1972. The bank concentration ratio has steadily risen from 34,000 persons per branch in 1972 to 115,000 in 1996 and 180,327 in 2000.

The **asset structure of commercial banks** as of September 30, 2000 included liquid assets (cash balances, securities) estimated at Shs. 1,081 billion (of which Shs. 49.4 billion were cash balances, and Shs. 396 billion were invested in securities — approximately 40 percent invested in cash and government securities). Loans and advances stood at Shs. 630 billion, fixed assets at Shs. 125 billion, and other assets estimated at Shs. 113 billion. Consumer loans stood at Shs. 15.3 billion, as opposed to commercial loans estimated at Shs. 626 billion (Bank of Uganda, 2000). Because of the dichotomy of the banking sector, there is no evidence as to the average loan size sector-wide. The large foreign banks target large clients, such as oil and other international companies, and the average loan size in this segment is about Shs. 300 million to 1 billion. The rest of the banks, mostly smaller and indigenous, have an average loan size of Shs. 20 to 150 million.

Post Bank, with an extensive network of branches, was started as a postal savings bank and is government owned. In 1997, the bank and the postal service were separated, and the Post Bank established in February 1998. Deposits have improved significantly and stood at Shs. 5.5 billion at the end of the last financial year. In the current financial year, they are estimated to reach Shs. 11 billion.

Of the 19 **insurance companies** operating in the country, most are small. The largest is the soon-to-be privatized, government-owned National Insurance Corporation (NIC). The law governing the industry is generally liberal and allows companies to invest in ways that provide sufficient liquidity to meet claims. Nonetheless, business has been affected by lack of public confidence and the AIDS epidemic. Most insurance companies have no loanable fund resources, especially for SMEs.

The National Social Security Fund is a **national pension fund** covering formal sector employees except civil servants and security forces. The number of registered subscribers to the fund is about 1 million, with 800,000 active members. The small number of subscribers affects the fund's resource mobilization and availability for investment, financial performance in terms of the ratio of administrative costs to income from assets, and contribution in supporting retirement obligations by serving a small fraction of those in need. The NSSF has invested in short-term treasury bills and real estate, holds a small amount of 20-year government bonds, and has substantial placements with commercial banks. NSSF has potential for rapid growth. At present, it is the largest holder of long-term funds in the country, with current collections expected to exceed future payments substantially. The fund is currently expanding its portfolio by investing in a prime office block in Kampala.

Uganda's financial system lacked an organized market for channeling savings into investments until 1996 when the Capital Markets Authority was established to license brokers and investment advisors and the Uganda Securities Exchange (USE) was launched in January 1998. To date, the USE has listed four securities. In addition, the exchange has initiated the recording of Treasury Bills, discounting information for retail investors. Although Treasury Bills are traditionally not capital market instruments, the intention is to complement the BOU in publicizing these instruments and involve licensed brokers. It is also expected that venture capital funds and other collective investment schemes will follow to meet the growing demand for non-bank finance. The constraints to rapid growth of the stock market are that many of the larger firms do not need to raise capital, a general lack of awareness about the benefits of listing and investing on the stock exchange exists, and there is a lack of public-company-based culture that requires financial reporting procedures and disclosure of information.

Microfinance institutions. These institutions are non-commercial bank financial providers and include NGOs and community-based organizations (CBOs) and cooperatives. Often guided by social objectives and funded by donors or the government, most of the MFIs/NGOs are registered as companies limited by guarantee although some are registered with the NGO Board. Some are government projects and others are registered with the Registrar of Cooperatives as cooperative societies or unions. Finally, there are a large number of unregistered CBOs such as Rotating Savings and Credit Associations (ROSCAs), Financial Service Associations (FSA), and other cooperatives. No MFIs are registered with the Bank of Uganda to provide intermediation of mobilized deposits. Those who mobilize deposits are operating outside existing legislation even if they do not on-lend the funds.

The District Resources Endowment Profile Survey (DREPS, 1999) estimated that 79 percent of borrowers in rural Uganda receive loans through money lenders, friends, relatives, and local revolving credit systems, indicating the continued existence of a large market for rural financial services. MFIs have begun to fill the gap in rural financial service markets, where it is estimated that only eight percent of rural households have bank accounts (as opposed to 41 percent in urban areas.) Since 1994, rapid growth in the development of microfinance programs that provide savings and credit services to urban and rural poor has occurred. Roughly 100 MFIs are registered in Uganda, of which about 12 are large and using best practices. These include Foundation for International Community Assistance (FINCA), FAULU, Promotion to Rural Initiatives and Development Enterprises (PRIDE) project, and Uganda Women's Finance Trust, Ltd. (UWFT). Most of these larger MFIs operate in and around urban and market centers where high economies of scale exist, and they successfully target women clients. Despite considerable growth, most of the MFIs are relatively new and lack products that will ensure sustainability and meet the demands of rural populations. Even the top 12 MFIs are characterized by rigid group-based products and systems that do not adequately respond to the needs of clients other than traders. Nearly all major donors in Uganda support MFI sector growth through loans, grants, and capacity building. Additionally, the sector has established the Association of Microfinance Institutions in Uganda (AMFIU), an association of MFIs of which 69 are registered members. A survey of the microfinance industry is found in Annex B.

The GOU has recognized the important role of microfinance in microenterprise and SME growth, financial sector development, and poverty alleviation. The GOU recently prepared a policy statement on microfinance regulation, delineating four tiers of institutions, including Tier 3 Microfinance Deposit Institutions (MDIs) and Tier 4 institutions, which include credit-only NGOs and others that have mandatory savings programs (held in a commercial bank in a group's name). The GOU is currently preparing legislation relating to the regulation and supervision of MDIs that will be sent to Parliament once the Financial Institutions Statute (FIS) 2000 has been passed. A number of the larger MFIs are analyzing the MDI eligibility criteria and beginning to prepare themselves for eventual licensing as Tier 3 MDIs. Tier 4 institutions will not be regulated by the new microfinance law or supervised by the BOU. The GOU, donors, and microfinance sector are considering establishment of a freestanding regulatory body to regulate Tier 4 institutions.

C4. Financial Sector Impacts on Microenterprises and SMEs

Urban-based microenterprises have far greater access to financial and nonfinancial services, yet the vast majority of microenterprises in Uganda are based in rural areas. Ugandan society is predominantly rural, and the majority of people are small-scale farmers. Consequently, agriculture is the country's lead sector in terms of people employed and the value of output produced. According to the *Plan for Modernization of Agriculture (PMA)* (MOFPED, Ministry of Agriculture, Animal Industry and Fisheries, 2000), the sector accounts for 80 percent of the employment and generates 43 percent of the GDP. It is also the base for a number of manufacturing and processing industries. Thus agriculture provides the foundation for government efforts to reduce poverty in Uganda. But while the potential for agriculture is recognized, its position has been undermined by infrastructure inadequacies, lack of market information, limited adoption of new and improved farming technologies, and lack of adequate finance to promote its growth. The agricultural sector currently receives a small share of credit from commercial banks. In 1997-1998, credit to agriculture grew by a mere 2.1 percent and declined by 17.1 percent in 1999 (BOU, 1997/98, 1999).

Rural financial markets are serviced by bank branches. However, in recent years the branch network has decreased significantly following the closure of rural branches of the UCB as part of its restructuring exercise and closure of the Coop Bank, which was Uganda's second largest bank. Since the closure of these branches, bank density in Uganda is about 180,327 per branch.

Against this background, it is clear that the majority of the rural population of more than 18 million has little or no access to financial services. In recent years, efforts have been made to extend financial services to the rural areas, especially by informal and semi-formal institutions. This category includes intermediaries that, in various capacities, link the rural population to the formal institutions. They include cooperative societies, NGOs, and MFIs. MFIs have taken the lead in this regard and made significant progress in reaching further into rural areas.

Commercial banks are better placed than MFIs to provide a wide range of financial services including credit, savings accounts, check collection, and payment transfer necessary for development. Nonetheless, they have not been able to extend these services to the rural population due to the high costs of intermediation, little knowledge of the socioeconomic environment, few appropriate products, and the subsistence and scattered nature of rural enterprises. The inability of banks to reach the rural population, both for disbursements and recoveries and the rigid terms and conditions for agricultural lending, has minimized the impact of formal financial institutions on the rural sector. Hence, in the long term, MFIs may be in a better position to extend basic financial services to the rural areas because they operate at very low margins and have low operational costs. The GOU recognizes the role these institutions can play and is preparing legislation to regulate their activities.

It is important to note that SMEs in urban and peri-urban areas have not faired well either despite a higher presence of banks in urban centers. Banks are reluctant to service these enterprises, especially in terms of extending credit. Because of past negative experiences, banks do not target SMEs. SMEs are often not able to meet the loan requirements; in some cases they do not keep proper books of account and therefore cannot produce up-to-date professional financial statements (profit and loss accounts). Consequently, banks have difficulty assessing their creditworthiness, and some banks believe they divert or misuse the funds lent, making them unreliable customers.

C5. Business Development Services

Business development services can be defined broadly as a service that aims to improve the performance of the enterprise, its access to markets, and its ability to compete. The focus is on the individual business and not on the larger business community. The range of services can be large and should reflect the needs of the client. Services include business advisory and counseling services (group or individual), consulting services (individual), technical and business management training, market information services, new technology support, business brokering and partnering, subcontracting by large firms, and entrepreneurship education. BDS are often linked or bundled to take advantage of natural synergies that exist between these activities. For example, training and consulting can be combined to improve access to financing or export markets. When delivered in conjunction, impacts and sustainability can be very good. Best BDS practices include being market driven (delivering what the client needs on a commercial basis) and supply-side interventions that build local capacity. To bridge the gap between the cost of delivering an adapted service and the willingness to pay, subsidies or vouchers are used for the initial connection and introduction of the client to the value of BDS.

Donors. BDS activities in Uganda are diverse, employ traditional and modern delivery mechanisms, and are donor-led and funded. There has been little effort between donors to coordinate activities or adopt best practices, although all donors presently considering BDS activities (USAID, the Department for International Development (DfID, UK), European Union, United Nations Development Programme (UNDP)) are looking for more coordination and adoption of best practices. Past or existing BDS efforts in Uganda have included: business management training, technology training in agro-processing (Norwegian Agency for International Development (NORAD), United Nations Industrial Development Organisation (UNIDO)), training of trainers in interactive training methodology (DfID), basic business training for farmers (ACDI/VOCA), consulting/marketing plans, quality control, business plans, export promotion (Business Uganda Development Scheme (BUDS)/World Bank), entrepreneurship training (PRESTO/UMA), business related radio programs (FIT/UNIDO and European Union), and technical training (UNIDO). These activities have achieved good national coverage and have not been limited to the Kampala-Entebbe-Jinja triangle.

Private sector. Private and quasi-public institutions are also conducting training and undertaking consultant activities. These include Uganda Management and Technical Advisory Center (UMTAC), Uganda Management Institute (UMI), and Uganda Manufacturers Association Consultancy and Information Services Ltd. (UMACIS). Most activities, however, have not been bundled together — linking the value of training to improved business performance or to increased chances of access to financing — and have been heavily subsidized. User pay initiatives are beginning to take hold, and there are a few training providers that are able to carry out training at full cost recovery. For example, ACDI/VOCA's training activities are almost entirely subsidized, while technical training courses run by UNIDO's Uganda Integrated Program, have achieved full cost recovery.

Associations. In the delivery of certain BDS, intermediaries such as professional and business associations and chambers of commerce frequently play a critical role in facilitating the process between the provider and the client. This is a mutually beneficial relationship, where the organization is perceived as delivering a valuable service to its members and as a result is strengthened in the process, while the client receives valuable know-how. However, in Uganda, associations, chambers of commerce, or other business intermediaries have not been involved in facilitating the delivery of BDS to the extent that they could be. They have been slow to recognize the value and simplicity of helping members access these vital services. For example, while the Private Sector Foundation (PSF) has been involved in the direct delivery of consulting services and is now training small enterprises, it is an umbrella organization and its association members have manifested a desire to get more involved in providing services to their enterprise members. To a certain extent, Ugandan associations have been influenced by unconditional donor funding, including the support of operational expenses, rather than being encouraged to seek out membership-building activities. Except for a few, such as UMA, associations in Uganda lack the strategic focus and resources to play a central role in the delivery of BDS to their members.

Consultants. Most Ugandan consulting firms and consultants, even if they started their operations in targeting the private sector, have moved very wisely to the donor market. Therefore, firms such as UMACIS and Impact Associates receive 70 percent of revenues from donors versus 30 percent from the private sector. Common complaints are that the businesses do not value BDS; however, most consulting firms have not adapted their products to the enterprises' needs and ability to pay. Despite dependence on the donor market, consulting firms remain interested in tapping into the private sector market and are looking for assistance to do so. One firm in particular, Aclaim Africa, has adapted well to the environment and added MFI training courses to its product line, in addition to carrying out human resources and strategic planning with medium-sized agricultural operations.

Training providers. Training providers are interested in delivering services to the private sector and feel that the enterprises do not yet value training services. Training providers in Uganda are more evolved in the use of modern methodology — interactive, short-term training by trainers with both training and technical expertise — than the consulting and business advisory providers. UMTAC and UMI both offer courses "up-country" and use a combination of outside and internal trainers. Both have received training-of-trainers courses from the British Council (DfID). In addition, training is more widespread than other business development services. But there may be resistance to business management training because the training has not been linked to tangible results such as access to financing, increased markets, better products, and increased sales. Several success stories and strong demand for technical training exist — for example, UNIDO's Master Craftsman program with USSIA — as this type of training is perceived to have a more immediate effect on the performance of their business, as does financing, rather than business management-related training.

Capacity building to providers. Capacity-building activities for BDS providers seem to have been focused more on trying to provide business to the firms, rather than equipping them with the know-how to adapt and market products to the SME market. Some attempts have been made to build capacity, probably more so for training providers than other BDS providers. All providers interviewed indicated a need for more capacity building ("know how") to access the private sector market. In sum, the efforts to develop a sustainable market for business development services have been weak, uncoordinated, and driven by social, rather than economic, objectives.

C6. Overview of the Policy Environment

The legal and policy framework in Uganda is changing rapidly as the GOU attempts to accelerate economic growth, reduce poverty, and move the country closer to international standards of not only business and commerce, but also civil life and international relations. The GOU has recognized the central and critical role that a viable and competitive private sector will have in obtaining a prosperous future for Uganda's people by developing and adopting its Medium-Term Competitive Strategy for the Private Sector (2000 - 2005). The stated aim of the strategy is to increase private investment to achieve higher GDP growth. Below is an overview of the major policy and legal constraints to microenterprise and SME growth.

C6a. Infrastructure

Major improvements will need to be made in the infrastructure network if sustainable private growth, especially in the rural areas, is to occur. The MTCS calls for dramatic improvements in the power and water sectors, transport, telecommunications, and utility regulation, which are critical to bring economic growth to the people who need it most.

C6b. Financial Sector

In Uganda, many factors limit microenterprise and SME access to the finance that is needed to become viable and competitive. The MTCS attempts to mitigate a number of these limitations to free up the relatively high level of liquidity in the banking system for lending to Ugandan enterprises, especially microenterprises and SMEs.

Commercial banks and development finance institutions. For commercial banks and development finance institutions, the strategy calls for reforms in prudential requirements, improved payment systems, better bank supervision, and the resolution of non-performing assets. With the pending FIS 2000 legislation and extensive efforts by the BOU and various donors, these reforms are moving forward, and capacity is being built. The passage of the new bill, its enforcement, and extensive and continued training and capacity building will go a long way toward mitigating the problems in the sector.

Microfinance/deposit institutions. The MTCS calls for greatly strengthening the MFIs and providing for some MFIs to become deposit-taking institutions (MDIs) as long as they meet certain prudential requirements. Because this shift requires extensive changes and new provisions to the existing laws, the GOU has developed a new law focusing on MFIs and MDIs. The policy behind the new law has been adopted by the cabinet and is undergoing thorough review with a mind to get the law adopted as soon as possible.

Financial services for SMEs. A serious gap exists in the provision of finance and financial services to SMEs. The large companies have access to the commercial banks and development finance institutions, and the microenterprises increasingly have access to finance through the MFIs. The total number of commercial bank branches outside of Kampala, not including UCB, is very low. This limits access to finance by rural SMEs.

The MTCS lists equity funds and capital markets as potential sources of financing, while rightly stating that the legal and policy framework will have to be improved before these are realistic options for SMEs. Equity funds are limited, and capital markets are in their infancy. As the enabling environment for private sector investment improves and domestic savings increase, the availability of equity financing will increase. Equity financing is long-term without interim returns, and equity investors therefore look for stability and transparency in the political, business, and financial sectors before investing heavily. In addition to an enabling environment, a viable capital market requires companies with sound financial performance and a willingness to disclose their financial records fully. Typically, the first companies seeking financing through listing on the capital markets are large companies. Investment funds such as pension funds will need to be developed and properly regulated and managed. Although it will likely be some time before the capital market is a viable source of financing for SMEs, efforts are being made to lower entry requirements on the market and increase awareness of capital markets.

Credit Reference Bureau. One of the major limitations to lending is the lack of information on potential borrowers. Currently under the jurisdiction of the UIB, a Credit Reference Bureau has been created to solve this problem. A more detailed discussion of this bureau and its regulation is in Section D. Financial Services: SME Financing.

C6c. Commercial Justice Sector

Severe weaknesses in the commercial justice system and the difficulty in enforcing contracts have constrained private sector development. Enforcement of debts and other commercial claims in Ugandan courts has been virtually impossible due to inadequate training of lawyers and judges in commercial law, corruption, large backlogs, a lack of alternate dispute resolution (ADR) and small claims procedures, and inadequate information registries. In response to this problem, the GOU has undertaken the Uganda Commercial Justice Reform Program. Although the GOU appears committed to undertaking positive changes, many of these changes will take significant time to have full effect.

Commercial Court and the Center for Arbitration and Dispute Resolution. Established in 1996 as a division of the High Court, the Commercial Court's purpose is to efficiently adjudicate commercial disputes. Clearly the Court is young and nowhere near functioning properly, but adherence to the new reform program should result in material improvements over the next five years. However, Ugandan lawyers and judges do not receive formal training in commercial or business law and do not specialize in this area. In addition, foreign lawyers and international law firms are prohibited from practicing in Uganda. It will therefore take some time for a body of expertise in commercial law to develop. Also a long-term focus, the GOU is considering amending the Advocates Act to liberalize this area and build capacity for training in commercial law.

Corruption in the court system remains a serious problem. Complicating the issue is that the support staff (including clerks interfacing with the public) is managed by the Public Service Commission, not by the Judicial Service. Therefore, the clerks have little direct oversight and accountability. The proposed creation of a unified Judicial Service to include both judges and support staff under a single management system, as well as well-defined and enforced policies and procedures against corruption, would be a step in the right direction.

An important development is the recent increased interest in and support for ADR procedures to speed up and reduce the cost of handling commercial disputes and the creation of CADER. The challenges for CADER include gaining acceptance of ADR as a legitimate alternative, enforcing its awards and judgments, obtaining the necessary seed funding, and developing its sustainability. This is discussed in Section E. Facilitating Policy Reforms.

Magistrates' and other courts. There are more than 300 Magistrates' Courts handling disputes up to 5 million Uganda shillings (Ush). These courts face a huge backlog of cases as well as other numerous problems. The Commercial Justice Reform Program intends to improve the functioning of the Magistrates' Courts and develop small claims rules to speed up many of the cases. The program will also increase the jurisdiction of the LC Courts from 5,000 to 200,000 Ush.

Enforcement of commercial judgments. Awards and judgments must actually be executed for there to be any benefit of having gone through the time and expense of the adjudication process. The combination of getting a judgment in the first place and then getting enforcement is a nearly impossible process in Uganda. Through the Commercial Justice Reform Program, the GOU intends to address this by the review and revision of enforcement provisions of Rules of Civil Procedures, introduction of new Insolvency Act and Insolvency Rules, and reform of the regulation of Court Bailiffs (self-financing system).

Companies' Registry and Land Registry. Dramatic improvements in the Companies' Registry and Land Registry are required. This is discussed in Section E. Facilitating Policy Reforms.

Commercial laws. Many of the commercial laws of Uganda are being amended under the Law Reform Commission. While the improvement of laws is necessary, it is not sufficient — enforcement of the laws is critical. Moreover, the GOU needs to develop a mechanism to assess the effect of new and revised laws and regulations on the private sector. This will likely be undertaken through the Private Sector Developments Projects Committee, with representatives from the GOU and the private sector. Key laws to be reformed include the companies law, insolvency law, and personal property securities law/mortgages.

C6d. Institutional Reforms, Investment, and Trade

Important planned **institutional reforms** include a framework to curb corruption and a program to improve the public procurement system. Particularly important to microenterprises and SMEs is the program to simplify administrative procedures, the Deregulation Program. The time and cost wasted in these cumbersome administrative procedures to start and run a business is prohibitive and has a disproportionately negative effect on small and medium enterprises. The GOU has attempted to carry out **investment** promotion through the Uganda Investment Authority (UIA). Both the mandate of the UIA and the investment law itself are planned to be reformed to provide better linkages with the private sector and a more balanced promotion of domestic and foreign investment and the advocacy of an improved business climate. The GOU needs to do more to promote Ugandan **exports** and remove anti-export biases. Examples planned to reduce anti-export biases include improving the awareness and procedures for value-added tax (VAT) refunds and duty drawbacks on exports and reducing the taxation on the import of raw materials and semi-components destined to be incorporated into exports. To create a bigger market and greater efficiencies, the GOU is committed to expanding regional integration, including the railway network, trade policy and facilitation, and capital markets. The GOU is actively participating in the Regional Trade Facilitation Project and the Cross-Border Initiative.

C6e. Micro, Small, and Medium Enterprises

In addition to other reforms mentioned in the MTCS, it was recognized that, for the GOU to achieve its goal of poverty reduction and economic growth, special attention must be paid to the

SME sector. Key areas include policy formulation with extensive private sector input and involvement at national, regional, and local levels; skills development and training (training of entrepreneurs, vocational education,); and BDS. Support for these areas are described in Sections D, E, F, and G.

C7. SPEED and USAID's New Country Program

USAID's current five-year program strategy (1996-2001) is nearing its end. The agency's new Integrated Strategy Plan (ISP) is a six-year program that covers 2002-2008. The ISP concept paper was recently approved in Washington, and the Mission will release a sanitized version of the concept paper later this month. The final version of the ISP will be sent to Washington for approval in February or March 2001.

Under the ISP, the Economic Growth (SO 1) program will continue to focus on private sector growth. Anticipated features of the revamped SO 1 program and its resulting results framework are:

- Expansion of SO 1 from raising rural household incomes to include achievement of high economic growth rates

- Intermediate Result (IR) 1, increased commercial agricultural production, will focus on growth in the sector beyond just production (marketing, distribution)

- IR 2, increased productivity of the dairy sector, may be combined with IR 1

- IR3, increased use of financial services, will remain; SPEED will contribute directly to this IR

- IR4, micro and small agricultural and non-agricultural enterprises created and expanded may be adjusted. This result and related interventions to achieve the result are key to the SO 1 program but it is not clear yet if there will be a separate IR or if the concept will be integrated into other IRs. Regardless, the new Competitive Private Enterprise and Trade Expansion (COMPETE) project and SPEED will contribute to this result.

- IR 5, strengthened legal and regulatory framework for business development, will remain with WTO, AGOA, commercial justice, COMPETE, and possibly SPEED, activities contributing.

- SO 2, USAID's environment program, will be integrated into SO 1 with an emphasis on private sector-oriented interventions (ecotourism, private sector solutions to reducing pressures on protected areas). SPEED can play an important role in identifying and supporting private sector-oriented environmental efforts.

The SPEED design team will liaise with USAID as it further defines its next six-year strategy, program, and intermediate results. We will carefully devise SPEED's activities, results, and indicators to make sure they support USAID's higher level results under SO 1.

C8. Other Donor Support of the Microenterprise and SME Sector

Most bilateral and multilateral donors are active in Uganda. The highest profile donors (funding and scope) are USAID, German Agency for Technical Cooperation (GTZ), European Union, the Danish International Development Agency (DANIDA), the World Bank, and UNDP. Donor-funded private sector support activities have been or are being fashioned to facilitate the MTCS.

Current private sector activities. Donors are working in various areas of private sector development but nearly all are supporting the microenterprise and SME sector in some way. Donor activity in the this sector has the following features:

- A focus on rural poverty alleviation
- Numerous donors supporting MFIs in the form of loans and grants for capitalization, operations, and capacity building
- Implementation of pilot efforts as donors struggle to find and test the right type or mix of interventions
- A notable lack of business development and finance assistance to SMEs
- Good coordination and information exchange through the relevant donor working groups, including the Donor Private Sector Working Group and the Microfinance Forum (Annex A contains the most current inventory of current and planned donor activities prepared by the Donor Private Sector Working Group)
- A number of new donor projects being designed to support microenterprise and SME skills development and financing

In our assessment, we note gaps and synergies in the sector. For example, we must carefully plan USAID's continued support of the top-performing MFIs, given the number of donors already providing grants and loans to this handful of MFIs. We must also recognize donor comparative advantages and niche areas where other donors are already working effectively or plan to. For example, GTZ currently implements and plans to expand its highly successful Financial Systems Development Project. Most directly related to microenterprises and SMEs, the project supports microfinance regulation and supervision capacity development within the BOU, as well as capacity building at the UIB's Microfinance Competence Center. The SPEED design team is thus contemplating interventions that will parallel and support GTZ's and other donors' work.

New initiatives. Donors are carefully tailoring their private sector development efforts to support and reinforce the MTCS. Note that the two that are nearly designed and ready to be implemented before the end of the year, the African Development Bank's (AfDB) Rural Microfinance Support Project (RMSP) and DANIDA's Rurual Financial Services Component (RFSC), both target rural access to microfinance. The rest of the new efforts are not designed and, like SPEED, have a mandate to assist in microenterprise and SME business skills and financing. The larger new donor initiatives planned are shown in the following table.

Larger Private Sector Projects Currently Being Designed

Donor	Project Name	Estimated Duration	Estimated Funding Level	Estimated Start Date
African Development Bank	Rural Microfinance Services Project	Five years	24.5 m.	November 2000
DANIDA/BOU	Rural Financial Services Component	Five years	$5 m.	December 2000
DfID	Financial Services Deepening Project	Five years	$9.75 m.	HQ approval expected 12/00; 2001
DfID	Business Development Services Umbrella Project	Five years	$6 m.	Assessment 11/00; 2001
EU	Medium and Long-term Financing Mechanism	Four years	$4 m.	Diagnostic study soon; 2001
IFAD	Private Sector Initiative	To be determined	$9 m.	Diagnostic study 1/00
GTZ	UIB Modernization Programme	Five to seven years?	To be determined	2001
UNDP	Microenterprise Dvelopment	Five years	To be determined	Project design 11-2/00; 2001
UNDP	Medium Enterprise Development	Five years	To be determined	Project design 11-2/00; 2001
SNV	New initiative	Two years?	To be determined	Gap Study 11/00; 2001

A number of policy-related and institutional development efforts will continue to be funded or are newly funded to provide support to a variety of departments at the Ministry of Finance, BOU, and Ministry of Justice. SPEED will link with and inform these efforts, but we do not envision the project working directly in these areas. The table below provides other new initiatives, which, although smaller in scope, are important to note as we design the SPEED project.

Due to the design and implement format of the SPEED contract, implementation could begin long before other new project designs are finalized. Given this timeframe and the size of the SPEED project, USAID will take the lead in defining the most needed support to the sector.

Other New Private Sector Projects Currently Being Designed or Soon to Be Implemented

Donor	Project Name	Estimated Duration	Estimated Funding Level	Estimated Start Date
EU	BUDS Follow-on (PSF)	Three years	$700,000	2001
Irish Aid	MFI Support in three districts	To be determined	To be determined	Assessment 11/00; 2001
NORAD	Support to Women Entrepreneurs	One year	$100,000	2001
NORAD	Fruit and Vegetable Training	Two years	$750,000	2001
SNV	Management Advisor to UCOTA	Two years	To be determined	January 2001
SNV	Management Advisor to AMFIU	Two years	To be determined	January 2001
Various: Austria, European Union, DfID, Women's World Banking	Grants to top MFIs, MicroSave, AMFIU, AFCAP	Varies	Varies on average $400,000-500,000	2001

D. Financial Services: SME Financing

D1. Status

The financial sector in Uganda includes a number of direct and indirect sources of financing for small and medium enterprises, including commercial banks, development finance institutions, MFIs, finance companies, and insurance companies. On the small end, according to the MTCS, "microfinance institutions in Uganda provide almost only short-term loans and for small amounts of capital in most cases not exceeding Ush 2 million. The conventional development and commercial banks deal with "large" firms having a lending threshold of US$100,000 on average. So there is a gap between micro borrowers and the large ones, which is not catered for by the lending institutions." For the purpose of this assessment, we will use as the definition of an SME loan, amounts ranging from Ush 2 million to 180 million ($1,100 to $100,000 U.S.).

In our assessment of the sector, we found many factors that are either being addressed or need to be addressed that limit access by SMEs to the finance they need to become viable and competitive. These factors include:

- Bank regulation and supervision
- Payment systems
- Lack of savings
- Collateral-, rather than cash flow-, based lending
- Land titling
- Narrow range of loan products
- Commercial justice system weaknesses, including contract enforcement, company and land registries, and small claims procedures
- Lack of "bankable" deals
- The bank with the largest branch network is very weak
- Many SMEs are "informal" without bank accounts and financial statements
- Culture of not paying back debts
- Lack of credit information on borrowers

The recently released MTCS addresses a number of these issues to increase lending activities to Ugandan enterprises, especially SMEs. It aims to:

- Increase the scope for private sector firms to access capital at reasonable cost
- Reduce risks associated with lending to the private sector
- Promote financial savings and restore public confidence in the financial sector
- Provide the incentives for diversification of financial products to cater for SMEs

In this section of our assessment, we examine the current status of SME access to financial services. Our findings are based on interviews with potential sources of SME financing, GOU officials, representatives of donor agencies, and small and medium business owners themselves. We begin with a short overview of the main types of financial institutions in the country.

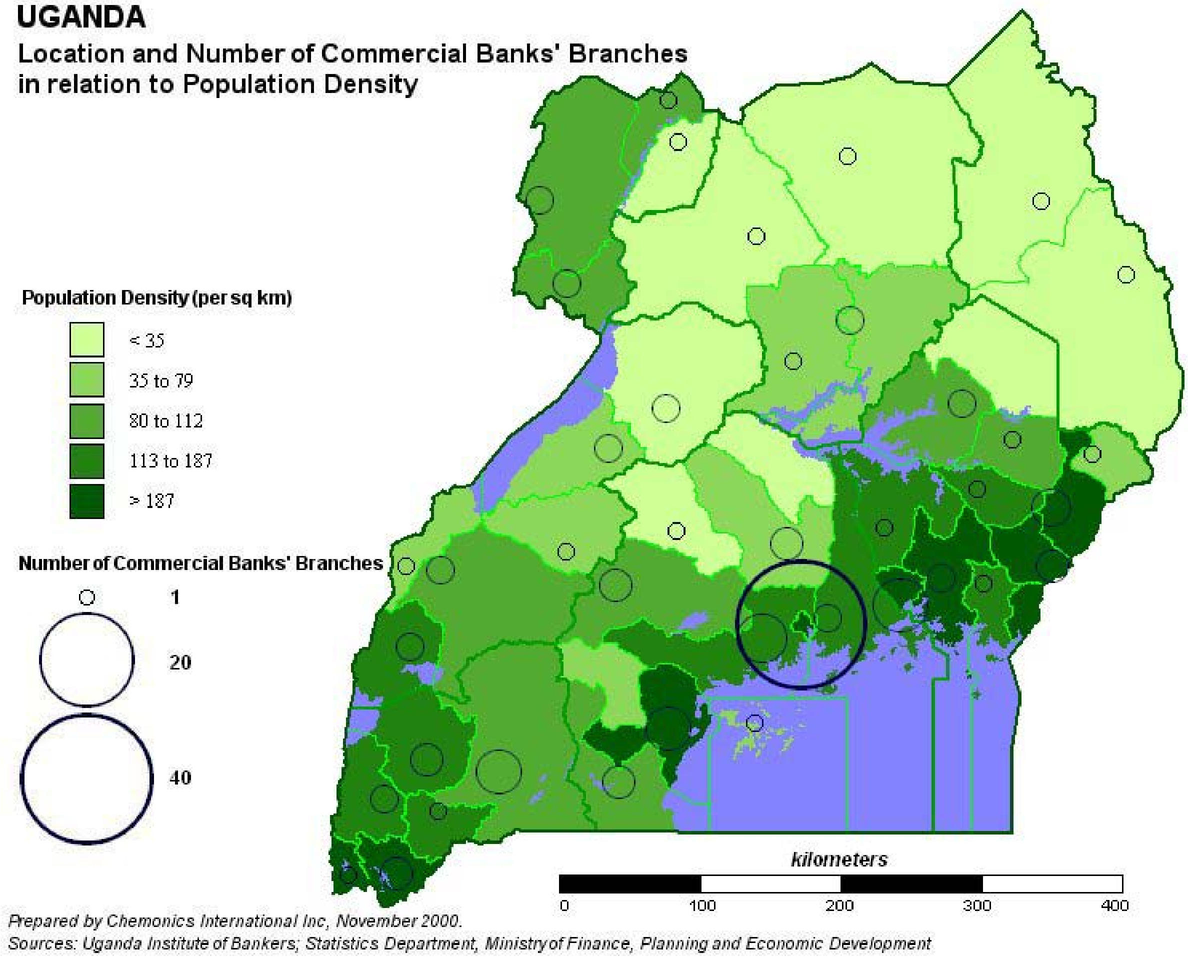
Commercial banks. There are 17 commercial banks in Uganda, 16 privately owned banks, and the state-owned UCB. The 17 banks have a total of 122 branches located in the larger cities and town of Uganda. UCB with 67 branches and Centenary Rural Development Bank (CERUDEB) with 15 branches have the largest branch networks in the country.

The map on the following page shows the locations and numbers of commercial banks' branches, overlaid on a map of population density. Kampala boosts the highest number of commercial banks — 37. Jinja has the next highest number of branches — 7. This geographic analysis shows that the number of commercial banks' branches are generally proportionate to population density; however, except in Kampala and four other districts (Adjumani, Hoima, Kalangala, Mukono), the per capita numbers of commercial banks' branches are less than 1 per 100,000 population. Further geographic analysis with household economic data could help identify locations where additional commercial banks' branches are most needed.

The largest private banks, including Citibank, Barclays, Stanbic, and Standard Charter, focus on large corporate clients. These banks are the main depository institutions for the large international companies and the donor community and command the lion's share of the market for export/import trade finance and money market transactions, their core businesses. Profitability of the banks is high; for example, Barclays reported 54 percent return on equity for year end 1998. Commercial credit facilities at these banks often begin with loans starting at $100,000 and go as high as $1 million. They have limited interest in SME loans and generally no interest in agricultural loans. Barclays and Standard Charter do have credit relationships with clients of USAID's IDEA Project. However, these loans are not only collateralized with mortgages on property but are 100 percent secured by fixed deposits of PL480 funds. Both Barclays and Standard Chartered recently announced new loan products as small as USh10 million. Although an appropriate size for SMEs, the new products are salary-based loans that serve to disqualify independent business people.

The largest bank, UCB, is a state-owned bank slated for privatization by year-end. It has 23 percent of all commercial bank assets in the country. UCB's large branch network presents an opportunity for rural financial initiatives. However, the bank experienced severe credit quality problems in the past. Given the uncertain status of the bank at present, no new loans are being made, and no medium- and long-term planning is taking place. The bank is benchmarked by IMF for privatization by year's end.

Beyond UCB, there are also a number of medium and small commercial banks, some with international shareholders and managers. A number of these banks feel under pressure to meet increased BOU-imposed capital requirements, which will be raised from the current 2 billion Ush to 4 billion Ush as of January 2002. Therefore, to prevent losses and maximize earnings, they are taking a very conservative approach to lending. Mid-market banks with substantial foreign ownership generally follow the business philosophy of the parent organization. To illustrate, Allied Bank, 83-percent Belgian owned, seeks out as much trade and foreign exchange business as possible but also solicits strong mid- to upper-level manufacturing and service accounts. On the other hand, Indian-owned Bank of Baroda solicits trade and foreign exchange but also has a portfolio of small loans (Ush 10 million and up) aimed primarily at Asian traders.



Real estate is by far the predominant form of security, and such security is generally the basis for loan analysis and approval with little, if any, consideration given to the financial and business plans of clients.

Development finance institutions. Three development finance institutions exist in Uganda: Uganda Development Bank (UDB), DFCU, and EADB.

- UDB is currently undergoing restructuring and is not active in the market.

- DFCU Group is owned by four shareholders: Uganda Development Corporation, Commonwealth Development Corporation, International Finance Corporation, and Deutsche Investitions-und Entwicklungsgesellschaft mbh. DFCU is comprised of three entities, each with different mandates: DFCU Limited is one of the few sources of medium-term financing in Uganda; DFCU Bank, a commercial bank with branches in Kampala, Masaka, and Luwero, focuses on working capital loans of 12 months or less; and DFCU Leasing, a leasing company, is actively expanding in this growing but still nascent market.

- EADB operates in Uganda, Kenya, and Tanzania. Its main activity is the extension of term loans of up to ten years for $250,000 and above to finance real estate and capital expenditures (equipment). The bank occasionally takes an equity position. Typical borrowers are food and agricultural processors, hotels, transport companies, bakeries, and flower producers. EADB also offers working capital term loans of $100,000 and up, repayable in two years or less.

Microfinance institutions. MFIs in Uganda generally work with very small informal sector businesses with one to five employees. Loans are in the Ush 50,000 to Ush 1 m. range, occasionally go as high as Ush 2 to 3 m., and are offered almost exclusively through highly inflexible group-lending methodologies. The majority of SME clients are not interested in loans from MFIs because the loan sizes are too small and the group lending methodology, requiring a client to guarantee the loans of up to 50 other individuals, is not looked upon favorably by SME sector clients. Nor do the loan terms or payment schedules accommodate themselves to the investments required by SMEs. SME clients often need to buy equipment, which they cannot afford to pay off during the short loan terms offered by MFIs. With respect to agriculture, although some MFIs are beginning to develop products and techniques that will accommodate their agricultural clients, the majority shy away from this type of lending in favor of traders who can make ready use of and easily repay working capital loans (six-month loans with weekly payments).

Finance institutions and life insurance companies. Six finance companies are active in Uganda. Commercial Microfinance Limited is active in the microfinance sector and, although it has plans to expand into the SME sector, at this time it uses a group loan methodology that does not lend itself to working with larger clients. Of the remaining five finance companies, there is substantial interest on the part of one, Stanhope Finance Company, in expanding their activities in the SME sector. There are as many as 26 life insurance companies in Uganda, most quite small. The life insurance companies invest primarily in government treasury bills, fixed deposits, real estate and, to a lesser extent, equities. Unlike in many countries, life insurance companies in Uganda are not a source of medium- to long-term financing; however, National Insurance Company did participate in a medium-term bond offering by EADB. But the bond offering was an investment for the company, not a lending activity.

Agricultural finance. Bankers not experienced in agricultural production and marketing shy away from the industry forever if they have a bad experience with one of their loans. Ugandan bankers are very aware of the losses suffered by banks in the past with their agricultural loan programs, and many of them have suffered losses themselves at their banks. One managing director of a commercial bank in Uganda, with more than 35 years experience in Africa, stated he wanted no part of a lending relationship if the primary source of repayment “wiggled, blinked, or rotted.” Although many of the problems with agricultural loans were the result of borrower fraud, directed loans, or improper loan analysis and credit management, the industry itself has been painted with a broad brush as being unsound.

Any banker anywhere must look to sources of repayment beyond the primary source. This is especially true in agricultural finance. When markets fall, or crops fail, the banker must have reasonable assurance that the borrower will be able to mortgage or liquidate assets in amounts sufficient to repay the debt. Generally, agricultural producers will depend on the value of their farm real estate, equipment, or chattels such as livestock to provide this secondary security for repayment. However, bankers in Uganda assign little or no value to property in the country aside from unencumbered real estate in Kampala. Bankers cited difficulty in identifying or acquiring equipment in the countryside, and one banker characterized farm ground as “rubbish” in terms of its collateral value for his bank. The fact that the ground in question was a developed sugar cane plantation adjacent to an operating sugar processing plant made no difference in his assessment of the value.

On the other hand, potential borrowers who have real property assets that meet bank requirements are reluctant to borrow because of high interest rates. Those who do borrow generally find that loan terms do not match their needs. For example, most banks in Uganda require agricultural clients to draw down all of the required funds at one time when agricultural production inputs are applied in steps, such as planting, fertilizing, cultivation, and finally harvest over a period of several weeks or months. Properly structured agricultural loan products account for this cycle and allow periodic drawdowns against an agreed upon budget and cash flow. The requirement of taking all of the money at one time also forces borrowers to pay interest on money they are not using. Not only does this raise the cost of financing for the borrower, it puts money into the borrower’s hands that he cannot use productively and that is therefore easily diverted into non-farm expenditures. Another constraint affecting agricultural lending is that, as with most lending in Uganda, the banks base loan approvals solely on the value of the collateral provided. There is no attempt to prepare a budget, a cash-flow projection, or a marketing plan, or to examine the client’s background and payment history. As a result, the bank is unable to monitor the progress of the loan properly or follow up repayment from buyers of the commodities produced.

D2. Assumptions

Before we present opportunities for SPEED to support SME and agribusiness financing in Uganda, we present assumptions we have made based on our understanding of how to best tackle SME and agribusiness financing issues.

Assumption 1: There is a need to focus on the middle market banks to increase provision of financial services to the “missing middle.” The four large commercial banks (Citibank, Barclay’s, Stanbic, and Standard Charter) target multi-national companies as their core source of business. These banks are generally able to meet their loan portfolio and deposit goals in the upper-level market and have little interest in the SME arena. However, most of the other banks are unable to attract multinational customers and therefore actively compete for local accounts in certainly the medium, and sometimes the small, markets. These mid-level banks are challenged to find “bankable” deals that are suitable for inclusion in their portfolio. Potential SME borrowers, lacking the resources and sophistication of their larger counterparts, are quite often unable to provide the information and detail banks require for sound loan request appraisal. As a result, what could possibly be a good business opportunity for both the bank and the customer is lost because of ignorance of basic business skills and credit application procedures. While banks might consider the SME market to have potential for their institutions, they are not in the entrepreneur training business and will expend their efforts seeking out good customers rather than waste time with the ill informed. It will be necessary to develop SME entrepreneur’s skills and abilities to a level of commercial bank acceptance and then integrate that development with bank confidence building, so that a consistent flow of financial services to “the missing middle” can be established.

Assumption 2: Bankers will need to be enticed to provide agricultural financing. To encourage banks to venture into the uncertain shoals of agricultural lending, it will probably be necessary to provide them with some sort of loan protection. By facilitating loan guarantee programs, SPEED can be in a unique position to coordinate the efforts of BDS, training, and technical assistance suppliers that will lead to the development of strong, stand-alone agricultural sector borrowers at the end of the day. Cooperating banks, selected on the basis of real commitment to future involvement in the industry, can learn the agricultural lending trade with minimal risk and can gain confidence not only in their own understanding, but also in the quality of their borrowers. Key to the success of such a program will be the performance of the borrowers. Technical support in marketing, production, and business management — technical assistance and aftercare support on the lines of the IDEA project — along with the development of a strong credit culture can be coordinated through SPEED efforts.

Assumption 3: The lower end of the small enterprise market will need to be served by MFIs. With a few notable exceptions (such as Centerary Bank), commercial banks are uninterested in loans of less than 20 million Ush. Though SPEED can and should encourage continued mainstreaming of microfinance services into commercial banks, we do not expect commercial banks to drastically change their client base or targeted markets. Therefore, the lower end of the small enterprise market will have to look to MFIs for the most part. Details on supporting MFIs going up-market can be found in Section F.

D3. Opportunities

In this section, we have identified major areas of opportunities for supporting SME financing in Uganda based on the assumptions listed above:

- Expanding the availability of medium- to long-term financing
- Presenting bankable deals to financial institutions that are willing to provide financing to SMEs
- Helping banks prevent and expeditiously resolve problem loans
- Assisting commercial banks to institute lending and loan administration practices appropriate to SME and agricultural lending
- Using SPEED resources to establish a model SME lending unit at selected commercial bank branches
- Developing new products

D3a. Opportunity 1: Expanding the availability of medium- to long-term financing

The lack of medium- and long-term financing[1] in the market is a serious constraint to capital investment for small, medium and large enterprises involved in a number of sectors, including

[1] Medium-term financing is defined as greater than 1 and less than 4 years, while long-term financing is greater than 4 years.

agriculture. For SMEs, equipment leases are often a valuable source of medium-term financing for capital investment, yet the total number of leases in Uganda reaches no more than 300. The only two Ugandan sources identified for medium- and long-term financing for the larger commercial enterprises are two development finance institutions: DFCU and EADB. DFCU has a mere 40 projects currently in its portfolio and EADB even less, yet based on interviews with DFCU, the IDEA Project, other donors and their projects, and entrepreneurs, demand is considerable. Areas of opportunity are in:

- Expanding and developing new leasing programs
- Expanding development finance institutions' ability to provide medium-term loans
- Helping commercial banks gain access to sources for medium-term financing
- Using expertise and services of the African Project Development Facility (APDF)

Expanding and developing new leasing programs. Equipment leasing is an ideal vehicle to respond to the need of SMEs for medium-term financing. A key strategy of the GOU is to make more medium-term financing available to SMEs. As described in the MTCS, "The new proposed Financial Institutions Act to be enacted in the short term will spell-out guidelines governing the operations of new financial products such as asset leasing and venture capital activities with particular emphasis on the taxation arrangements and obligations of the various stake holders such as the lessor and lessee in asset leasing transactions."

Leases are attractive where the borrower needs to acquire a fixed asset and has long-term use of the asset. For borrowers who need the use of an asset for a shorter time, an operational lease would generally be more attractive. In developed countries, more than 70 percent of operational leases are for equipment and automobiles. Under an operational lease, the Lessor owns the asset, carries it on its balance sheet and takes the depreciation. However, currently in Uganda, the regulations require that the Lessor maintain an 80 percent residual risk in the asset, which, combined with the culture of not maintaining equipment, make this type of lease unattractive to the Lessor (residual risk is closer to 10 percent in developed countries). If the residual risk requirement to the Lessor were reduced, access to this type of lease by SMEs would increase dramatically.

A method that DFCU Leasing uses to increase its payment rate is to insist that the lessee open a bank account and submit, in advance, post-dated checks for the entire term of the lease. Bouncing a check is a criminal offense and a strong deterrent against non-payment. They also reduce their risk by only leasing equipment with a secondary market. Although DFCU Leasing plans to expand their leasing portfolio aggressively in the years ahead, rapid expansion of the availability of lease finance to SMEs will occur only with additional players in the field. It is noteworthy that Gatsby Trust, one of the only providers of financing to small entrepreneurs with needs in the $500 to $10,000 range, has identified leasing as an ideal financing vehicle to meet the needs of this sector. UNIDO has provided Gatsby with approximately $180,000 for the purpose of developing a pilot-leasing program.

Leasing appears to be a great opportunity for SMEs. Based on interviews with entrepreneurs and DFCU Leasing, demand is strong for these products among SMEs. With more assistance to SMEs to increase their ability to submit credible business plans and lease applications, and with some of the above constraints reduced, the use of leasing as a source of financing by SMEs should flourish. SPEED could provide training and technical assistance on a cost-sharing basis, possibly through UIB, to financial institutions interested and committed to entering the lease-finance field. In addition to the demand by SMEs, improvements in the tax treatment of leases should stimulate demand from MFIs, finance companies, and commercial banks for technical assistance and training.

Encouraging development finance institutions to expand medium-term loans. A second opportunity to expand medium- and long-term financing to SMEs is to work with both DFCU Limited and EADB to expand their lending activities. DFCU has a minimum loan size of 100 million Ush ($55,000) and EADB 180 million Ush ($100,000). Loans of this size are appropriate for medium-sized Ugandan companies, and both DFCU Limited and EADB are interested in working with SPEED's BDS activities to increase their exposure to sound SME clients and bankable deals.

Helping commercial banks gain access to sources of funds for medium-term financing. Investors generally seek loans for the acquisition of capital items that have repayment terms matching the economic life of the asset to be acquired. As a rule, commercial banks in Uganda are reluctant to extend loan facilities with maturities beyond one year, no matter what industrial sector the borrower might be in. The bankers explain that maturities in sources of funds and maturities of loan products must coincide. The banks rarely offer deposit products, the main source of funds that have more than a one-year maturity. Therefore, they are limited to loans of one year or less. This gap in the market leaves industry, particularly agriculture, in a difficult position when attempting to mobilize funds for capital expenditures. Agriculture, capital intensive industry needing heavy investment in land, tillage equipment, and processing facilities and machinery, requires medium- to long-term term financing.

In many countries, including Uganda, financial institutions raise money by selling loan-secured bonds through the capital market system. To encourage commercial banks to use this avenue to raise money for capital lending, SPEED could facilitate a loan guarantee program that would shore up the portfolio securing new medium-term bonds issued for the funding of medium-term loans. Discussions indicate there would be ready acceptance of bank bonds in the Ugandan market place. As an interim step, SPEED could establish a loan refinancing mechanism to provide an immediate source of medium-term funds for the banking system.

For larger projects (medium-sized companies), leveraging project resources and using the expertise and connections of the Africa Project Development Facility. A fourth potential source for accessing medium- to long-term financing is APDF. APDF helps entrepreneurs prepare market, technical, and other feasibility studies; develop business plans; and obtain financing. Although in the past APDF focused on projects with investment needs in the $250,000 to $7 million range, it has been encouraged recently by its shareholders to lower its minimum project size to $100,000 and has successfully concluded a number of transactions of this size. Depending on project size, financing packages are often syndicated with the International Finance Corporation, a regional development bank, and a local commercial bank.

In Uganda, APDF works closely with EADB, DFCU, and commercial banks to source financing. Chemonics' IDEA Project has worked successfully with APDF on a number of $400,000 to $1 million project deals over the years including Mairye Estates, a vegetable and rose producer/exporter, and Uga Rose. Mishek Ngatunga, director of the Nairobi office of APDF, under which Uganda falls, reported that he is very pleased with the USAID/IDEA link with APDF. Mr. Ngatunga expressed strong support for collaboration with SPEED as it would enable APDF to work in agricultural sectors not included under the IDEA project, such as dairy, and in the manufacturing and service sectors. APDF is a strong proponent of aftercare to companies for which it arranges financing and often provides for such assistance as part of its "package." APDF already provides such assistance to IDEA project clients and is open to similar arrangements with SPEED.

D3b. Opportunity 2: Presenting bankable deals to financial institutions that are willing to provide financing to SMEs

Many bankers believe SME lending is much more risky than lending to larger established clients and are therefore hesitant to target this sector. Bankers report a dearth of SME "bankable deals." According to the banks, SME clients rarely have financial statements, acceptable references, and/or adequate collateral (Kampala real estate, the disposal value of which must be at least 150 percent of the loan amount). Additionally, they told us such clients never present business plans capable of making the case for a loan. Despite these sentiments, a number of middle market banks are open to expanding their SME loan portfolios if bankable deals are presented. When complemented by guarantee mechanisms and aftercare activities, financing looks even more attractive to banks.

Allied Bank: Interested in the SME sector

Allied Bank's minimum loan size is 10 million Ush (US $5,555), and they generally provide short-term loans of 12 months or less to finance commodities, exports, and imports. According the bank's Managing Director, Mr. Julian Lainge, Allied Bank would be interested in expanding in the SME sector (Ush10 to 20 million and up), especially if the loans are professionally packaged and presented. Mr. Lainge stated he is looking for long-term bankable clients and that a guarantee that declines over time as the bank becomes better acquainted with clients would be an acceptable arrangement.

The interventions under IDEA show that agribusiness finance can succeed. In a limited number of cases, loan guarantee programs for agricultural finance have addressed many of the issues of concern to Ugandan bankers and their borrowers. Seasonal loans for maize production have been structured for draw down in two tranches instead of just one, and repayment is tied to a harvest-sale period rather than a set date. IDEA and other donor projects providing technical assistance to their borrowing clients have helped prepare budgets and cash flow projections and have educated bankers by accompanying them on visits to their client's farms. Cooperation between the projects and the banks has been excellent, and the bankers have learned much about agricultural production and lending in the process. The challenge for these programs will be to leave behind borrowers who will be good customers for the bank without the support of a loan guarantee and have bankers that actively seek out agricultural borrowers for profit-center lending.

Lessons learned from USAID projects in Africa also show that resources for agribusiness development have had their biggest impacts when focused on high-potential, medium-sized firms determined by subsector market assessments. These firms often feature upward linkages to larger firms and downstream to smaller firms and producer groups, thus yielding a multiplier effect. We know first-hand from our IDEA experience that this approach works in Uganda. The COMPETE project findings will further help SPEED target its assistance to appropriate sectors and subsectors.

We recommend the following elements to SPEED's work in bringing banks and SME deals together:

- Assisting SMEs and agribusinesses package deals
- Developing appropriate guarantee mechanisms
- Providing aftercare to SMEs

Assisting SMEs and agribusinesses package deals. According to DFCU Leasing's Mr. Kisaame, DFCU currently approves two out of ten lease applications, but the "hit rate" would be much higher if they received well-packaged proposals. A full 30 percent of DFCU Leasing's clients have never banked before, and the work required to analyze and close a deal with so little information is costly and more work than his small staff can handle. This sentiment was echoed by a number of other financial institutions including Stanhope Finance Company and Allied Bank. Allied Bank's Managing Director, Julian Lainge, stated, "although they may have good businesses, the problem with many clients at this level is that they have no financials or cash flow projections." Yet, based on extensive discussions, DFCU Group (DFCU Limited, DFCU Bank, and DFCU Leasing), Allied Bank, and CERUDEB, among others, are willing and interested to work in the SME market. Properly presented proposals with financials, business plans, and projections would greatly facilitate and contribute to the expansion of their SME sector activities. As described in the BDS section of this assessment, SPEED will ensure that bankable deals are presented to bankers.

Developing appropriate guarantee mechanisms. Guarantee mechanisms or funds help overcome resistance on the part of some bankers to working with SME sector clients. Structured properly — with increased risk sharing over time among guarantor and lender — a guarantee will help transition clients from non-bankable to bankable status. The IDEA project and PL-480 program have developed successful loan guarantee programs with CERUDEB and Standard Chartered Bank providing fixed-deposit guarantees for two strong performing small businesses, Bancafe, and the only private seed company in Uganda, Harvest Farm Seeds. Uganda Commercial Bank is currently implementing a pilot program with the European Union in which the European Union guarantees 60 percent of loans from the bank to veterinarians to establish private veterinary clinics. In both cases, aftercare for the clients (emphasized below) is a key component of success.

SPEED could establish a guarantee fund or encourage the creation of a privately owned credit guarantee company to guarantee loans from formal financial institutions to SMEs and MFIs. Initially capitalized with SPEED resources, the guarantee fund would ideally include some PL480 funds and ultimately other donor funds. SPEED will also explore other possibilities for loan guarantees including the U.S. Government's Loan Portfolio Guarantee Program and Development Credit Authority. The Development Credit Authority program, given its design, is not useful for direct guarantees of SME loans but could be used to guarantee loans from formal financial institutions to MFIs. It could also be used to enhance a medium- to long-term bond issue floated by one or more commercial banks, providing them with a source of medium-term money for SME lending.

Although initially capitalized with SPEED resources, the guarantee fund would be established in coordination with other donors to maximize efficiency and capture other donor funds. As an impetus for such coordination, SPEED may propose that project resources used to capitalize the guarantee fund in Year 1 are withdrawn from the fund in Year 3 of the project and used to fund other project implementation activities. A number of issues will need to be explored, including the potential for developing separate funds for microenterprises and SMEs, legal issues, and sustainability.

SPEED could encourage the creation of a privately owned and operated credit guarantee company. Examples of these can be found throughout the world. They are often owned by the banks and manage donor and other funds for guaranteeing bank loans to commercial clients. The advantages of such a company is that they can be a central respository for donor and public sector funds and can make progam changes as conditions in the country change. In addition, losses on guaranteed loans can be charged to the capital of the company, thereby greatly containing the moral risk often associated with guarantee mechanisms.

Providing aftercare to SMEs. Aftercare to SMEs will ensure high quality SME portfolios at finance institutions and ensure continued interest and growth in the sector. All financial institutions seek to minimize losses. However, success of SPEED's work in SME finance requires perfect or near-perfect on-time repayment of scheduled lease or loan payments in the early stages of implementation and minimal payment problems throughout the implementation period. Not only does this require that clients be selected with care, but that clients receive proper follow-up and aftercare after they have received financing. Such follow-up and aftercare are essential for the success of the businesses and to ensure continued interest on the part of finance institutions in this sector following the completion of the SPEED project. As described in the BDS section of this assessment, the SPEED design will incorporate aftercare, largely through private sector initiatives, to SME clients of financial institutions.

D3c. Opportunity 3: Helping banks prevent and expeditiously resolve problem loans

Commercial banks often have difficulty collecting loans and are currently carrying non-performing assets (NPAs) on their books of approximately 14 percent of total assets. According to the MTCS, "lending institutions severely restrict credit, largely because of difficulties in loan recovery and their resultant high levels of non-performing assets." The high level of NPAs increases the overall level of interest rates, adversely affects bank profitability, and inhibits interest in working in sectors perceived as "risky," such as the SME sector, particularly agriculture. Among the causes of this high level of NPAs are "the difficulties lenders face in the courts when they seek to recover their loans," the lack of information available on potential clients, and inadequately trained bankers. All of these serve to "reinforce a bad debt culture" in Uganda, further worsening the situation. Interventions relating to credit information, CADER, small claims court, and land and business registries can help in these areas. How SPEED can help in these areas is covered below (credit information) and in Section E (CADER, small claims court, and registries).

Credit information bureau. One of the major limitations to lending is the lack of credit information on potential borrowers. Unless the bank has a pre-existing, long-term deposit relationship with a client, it is hesitant to lend because it has almost no way of knowing if the potential client has a history of defaulting on his/her financial obligations. Credit information bureaus help financial institutions build strong portfolios and increase profitability by avoiding loans to clients who have demonstrated an unwillingness to repay debt in the past — or at least to make lenders to such clients fully aware of the client's past credit history. Additionally, credit information bureaus help borrowers build credit histories and contribute to an expansion of their borrowing capacity. Looking at the bigger picture, as borrowers become aware that their payment history is tracked and access to and/or price of financing depends in part on their payment history, overall credit quality of the financial system improves and allows finance institutions to expand lending activities, leading to increased economic growth.

Credit information bureaus are an essential part of the credit process, even more so where SME financing is concerned, as the character of the client is often a key consideration in the decision as to whether or not to make a loan in this sector. One of the most effective means of evaluating a client's character, his/her commitment to meeting his obligation with a bank, is through a thorough review of his/her payment history.

The Credit Reference Bureau (CRB), currently under the jurisdiction of the UIB, has been created to solve this problem. The utility of the CRB has been limited and based on compilation of information from court records and other similar sources. Ugandan law has effectively prohibited the development of such a data source because financial institutions are prohibited from disclosing information on their clients. Fortunately, under the FIS 2000, which should be enacted by late 2000, this will change. Section 73 of the FIS 2000, specifically calls for the establishment of a credit reference bureau "for the purpose of disseminating credit information among financial institutions for their business." The Bill protects the CRB, a financial institution and their respective officers from rights of action stemming from disclosing information on borrowers to the CRB or other financial institutions. The Bill requires that:

> *All financial institutions shall report to the credit reference bureau all non performing loans classified as doubtful or loss in their portfolio and the details of the loans, and information on individuals involved in other financial mal-practices including bouncing of cheques and fraud.*

Expanding the CRB: Implementation and Sustainability Issues

Key issues are setting up the CRB database properly and having the CRB become self-sustaining financially. Some key questions for bringing the CRB into full operation:

- What will be the incentives for the financial institutions to submit complete and accurate information?
- What will be the sources of financial support for the operation of the CRB?
- Will the financial institutions provide positive as well as negative credit information?
- What protections will be in place for the protection of borrowers from the dissemination of inaccurate information?

The financial institutions could become paid subscribers to the CRB or jointly form an entity that financially supports the CRB and enforces compliance of its members. Compliance certification could become part of the financial institution's external audit requirements. Institutions could be incentivized by receiving a higher level of information as they themselves provide more information to the CRB. In any case, the requirements for MIS and data management should not be underestimated in creating a CRB that would truly perform the functions that will enable financial institutions to more readily lend to potential borrowers.

This is a very promising development. Once the CRB is running reliably with information provided directly from financial institutions, it will help lenders reduce their credit risk, at least from borrowers with a history of non-performance.

SPEED could provide technical assistance and leadership to the CRB initative. This could include the innovative idea of privatizing the CRB and through this effort introduce a strategic investor with previous credit reference bureau experience.

D3d. Opportunity 4: Assisting commercial banks to institute lending and loan administration practices appropriate to SME and agricultural lending.

Proposed Project and Agricultural Finance Diploma

Although not planned as a result of a market needs assessment, we were pleased to see UIB has planned a diploma course for Project and Agricultural Finance. When questioned about SME and agricultural lending, numerous bankers interviewed by the SPEED team said they had little experience in this area and expressed the desire for their account officers to be properly trained in how to serve the sector. In particular, lack of understanding of sound agricultural lending practices on the part of commercial banks can be corrected by instituting training programs delivered by UIB or other suitable training facilities. A well developed and delivered course will contribute to the expansion of the availability of SME and agricultural financing. A diploma or short course on lease finance, discussed previously, could also present financial opportunity for UIB while ultimately contributing to the availability of financing to SMEs.

Commercial bankers in Uganda have available to them a number of sources of training, including a diploma course in banking offered by Martyrs University, business and management courses from the Makerere University Business School (MUBS), accounting and management courses at the Uganda Management Institute, and banking courses from the UIB. In addition to external sources of training, many of the large banks in Uganda, including Citibank and Barclays, have in-house training programs for their staff, implemented locally and regionally.

The UIB is the sole institution providing certified professional banking qualifications in Uganda. UIB's executive director, Steve Mukweli, has broad support among senior bankers in Uganda, expatriate and Ugandan alike. Bankers agree as well that UIB's current training program is weak and are therefore skeptical about UIB's current capability to be a leader and innovator in commercial bank training in Uganda and the region. However, given UIB's business orientation, commitment from the UBA, and loosened ties to BOU, we believe the organization is poised to play a critical role in strengthening the commercial banking system through training. SPEED can play a role in helping UIB transform its bank training program.

UIB has adopted an entrepreneurial approach as evidenced by a new business plan that has restructured the organization into profit and cost centers. The profit centers include Banking and Finance Department (bank training), Microfinance Competence Center, and Reference Services. The cost centers are the Finance and Accounting Department and Information Services Departments. The UIB banking courses are well attended and generally in demand by commercial banks. However, the range of courses available is narrow and the quality is thought to be only fair to good. The UIB Banking and Finance Program includes Certificate in Banking and Diploma in Banking Programs. UIB is planning to develop and offer additional commercial banking courses including Diploma programs in Risk Management, Financial Management, Marketing, and Project and Agricultural Finance and short courses in Introduction to Banking, Banking Operations Control, Bank Management, and International Programs.

While we applaud UIB's entrepreneurial approach, we believe that, with respect to training, a key step was bypassed in the curriculum development process — UIB did not adequately assess its market. A training needs assessment was not conducted prior to developing its business plan and course curriculum. Conducting such an assessment prior to the development of new courses and curricula is key and should include research on training methods of other bank training institutes in the region and abroad. SPEED is well placed to undertake such an assessment soon after project start up.

One of the problems with UIB provision of training is the absence of a core group of experienced trainers. UIB is considering a link or partnership with Uganda's Martyrs University or Makerere University to remedy this situation while maintaining control of the syllabus and exams. If structured properly, such a partnership could improve the overall quality of bank training while lowering UIB's overhead.

SPEED, possibly through UIB, will organize exposure visits for bankers to visit commercial banks that successfully, profitably target the SME sector, including agriculture. There are few better ways to educate and inform bankers about serving a new sector (like the SME sector) than by showing them cases where banks have done so successfully and introducing them to other bankers who work in and believe in the sector. Project assistance offered to banks in developing suitable loan products and systems can be augmented by acquainting bankers with agricultural practices through field trips and roundtable discussions with current potential customers.

D3e. Opportunity 5: Using SPEED resources to establish a model SME lending unit at selected commercial bank branches

SPEED could award one or more packages of technical assistance and training with a small subcontract for start-up and initital operations costs to banks on a competitive basis, on a cost sharing basis, at one or more commercial bank branches outside the Jinja-Kampala-Entebbe corridor. Making banks compete will heighten best value, establish commitment, and hone responsiveness. Excluding branches in the "urban" corridor will help focus activity on agricultural projects. We believe financial institutions can realize reasonable profit objectives on the basis of sound portfolio distribution, the introduction of cost controls, appropriate loan pricing, streamlined systems, and the development of tailored loan instruments and savings products.

SPEED's technical assistance to one or more bank branches for a pilot SME lending unit does not mean we would not provide assistance to other banks and bank branches, but it would allow us to target a more intensive level of assistance to those banks and bank branches truly committed to an expansion of their SME activities. SPEED needs to make the case to the banking community at large that working with SMEs is good business and that there is no better way of doing this than working with one or more banks and making it happen.

D3f. Opportunity 6: Developing new products

Seasonal or periodic loan need and repayment cycles have generally been ignored in loan products available to SME borrowers, resulting in higher interest costs than would properly structured loan facilities. Other financing mechanisms such as supplier credit, letters of credit, and purchase order financing should be explored so that SME operators and suppliers are able to move beyond a pure cash-based economy. Leasing, hire purchase, and other avenues of acquiring equipment on terms beyond one year will offer repayment terms in keeping with repayment capacity. Protection provided by crop insurance, as well as other types of insurance, will give lenders confidence in dealing with the SME market.

E. Facilitating Policy Reforms

E1. Status

The legal and policy framework in Uganda is changing rapidly as the Government of Uganda attempts to accelerate economic growth, reduce poverty, and move the country closer to modern Western norms of not only business and commerce, but also civil life and international relations.

The GOU has recognized the central and critical role that a viable and competitive private sector will have in obtaining a prosperous future for Uganda's people by developing and adopting its "Medium-Term Competitive Strategy for the Private Sector (2000 - 2005)." The stated aim of the Strategy is to increase private investment to achieve higher GDP growth. It is quite encouraging to see that the GOU has set the priority right from the outset: "Making Institutions Support Private Sector Growth," as oftentimes it seems countries, despite lip service to the contrary, have it exactly backwards. It is not enough to have the "right" laws, policies and regulations on the books – the institutions (meaning the people that staff them) must actively help investors, managers and entrepreneurs start and run businesses efficiently and profitably.

In extensive meetings with government and agency officials, the commitment to implementing the Medium-Term Strategy was pronounced. Many of the proposed changes, as well as some already underway, will directly facilitate the objectives of the SPEED activity, which makes the timing of the SPEED (and COMPETE) start-up excellent. However, as many of these changes will take time to implement and realize results, the SPEED project will have to be both creative and nimble to maximize results at each step while the landscape continuously changes around it. It will be in the interest of SPEED to provide advocacy for reform in many cases and direct assistance in several others.

As the Medium-Term Strategy has been presented by the GOU as its virtual "bible" for private sector development, this policy discussion will loosely follow the outline of the Strategy, but with a focus on the issues most relevant for SPEED (access to finance for microenterprises and SMEs).

For microenterprises and SMESs to be the engines of growth in the Ugandan economy, it is essential that the policy, legal, and institutional constraints to business be removed as quickly as possible. In addition to strengthening the microenterprises and SMEs themselves so that they will be more "bankable" and the financial institutions can provide financing more effectively and soundly, the institutional environment must be conducive to the efficient and competitive operation of both, and the extensive barriers to their success overcome. In Uganda, many factors limit the access by microenterprises and SMEs to the finance they need to become viable and competitive, including:

- Weaknesses in the financial institutions themselves
- Inadequate regulation and supervision
- Inefficient payment systems, especially to and from rural areas
- Lack of savings
- Inadequate collateral
- Unclear title to land, especially in rural areas
- Too few types of financial instruments
- Weaknesses in the commercial justice system, inability to enforce contracts, inadequate company and land registries, lack of fast and low-cost small claims procedures
- Lack of “bankable” deals due to inadequate skills and experience of owner/ managers
- Most microenterprises and SMEs are “informal” without bank accounts and financial statements; excessive regulation and bureaucracy (and corruption) put obstacles in the way of microenterprises and SMEs becoming formal
- Culture of not paying back debts
- Lack of credit information on borrowers
- Competition of risk-free T-bills to lending to microenterprises and SMEs

The MTCS attempts to mitigate a number of these limitations and so free up the high level of liquidity in the banking system for lending to Ugandan enterprises, especially microenterprises and SMEs. Specifically, the objectives of the strategy for reform in the financial sector are to:

- Increase the scope for private sector firms to access capital at reasonable cost
- Reduce risks associated with lending to the private sector
- Promote financial savings and restore public confidence in the financial sector
- Provide incentives for diversification of financial products to cater for small- and medium-sized enterprises

E1a. Infrastructure

Major improvements will need to be made in the infrastructure network of Uganda if sustainable private growth is to occur, especially in the rural areas. Inadequate infrastructure and improperly managed or regulated infrastructure increase the cost of doing business, thereby making it non-competitive. In many cases, especially in rural areas, many commercial activities are simply impossible without adequate power and telecommunications. The GOU’s Strategy calls for dramatic improvements in the power sector (electrification), water sector, transport, telecommunications, and utility regulation. While we endorse an intensive effort on the part of the GOU to improve infrastructure rapidly (involving maximum private sector participation), the bulk of the improvements will have to be carried out by the GOU, international financial institutions, foreign investors, and larger domestic companies. Infrastructure is therefore largely outside the scope of SPEED. As SPEED will be working to facilitate the growth of business activity, the program could provide an advocacy role to encourage the GOU to follow through on infrastructure development.

E1b. Commercial Banks and Development Finance Institutions

For the commercial banks and development finance institutions, the strategy calls for reforms in prudential requirements, improved payment systems, better bank supervision, and the resolution of non-performing assets. With the new Financial Institutions Bill 2000 (which should be ratified by Parliament soon) and extensive efforts by the BOU and donors (GTZ, the World Bank, USAID, the IMF) these reforms are moving forward, and capacity is being built. The passage of the new bill, its enforcement, and extensive and continued training and capacity building will go a long way toward mitigating the problems listed above. In tandem with these efforts, an autonomous clearinghouse, Uganda Clearinghouse Limited, should be operational by July 2001.

UCB has the most extensive branch network and 25 percent of the deposit base, but it is currently prohibited from lending. The re-privatization of UCB with a strategic partner would help free up this deposit base for lending, especially outside Kampala, and would put greater competitive pressures on the other banks.

Centenary Bank, with the next most extensive network, has a rural development focus, including for SMEs and agriculture. Centenary is working to expand its services and improve its MIS and management to support a larger network. This institution might be a good testing ground for diversified financial products aimed at SMEs, and this could be an opportunity for SPEED activities.

An area that would be useful is the greater issuance of bonds for medium and long-term financing. A major activity of SPEED should be to explore new financial instruments for financing microenteprises and SMEs and to foster more use of existing instruments through dissemination of information, training, and advocacy to remove policy constraints.

E1c. Microfinance Institutions

The MTCS calls for greatly strengthening the microfinance institutions and providing for some MFIs to become deposit-taking institutions as long as they meet certain prudential requirements. These changes require extensive changes and new provisions to the existing laws. To that end, the GOU has developed a new law dealing specifically with microfinance and microdeposit institutions. The policy behind the new law has been adopted by the cabinet and is undergoing extensive review now with a mind to get the law adopted as soon as possible.

Some of the issues facing the MFIs that will convert to MDI status will include their shareholding arrangements and the conversion of donor funds to equity. The development banks could become trustees. The new law provides for some flexibility/discretion on the shareholders and provides for possible ownership of more than 20 percent in the case of a strong financial partner. Options for MDI ownership include:

- Institutional investor
- International NGO network
- Development bank as trustee
- Commercial bank as trustee

With the new law and extensive capacity building of select microfinance institutions, it is expected that financial services to rural microenterprises will improve dramatically. The law provides for individual loans of up to one percent of paid in capital, and has a requirement of a 15 percent capital adequacy ratio. To avoid expensive and time consuming efforts later for corrective action and/or liquidation, much effort is being put into strict licensing requirements up front. Five key parameters/indicators of risk have been developed for ease in monitoring the institutions (ownership/governance, management, credit, liquidity, and interest rate).

There will be three MDI license types:

“A” credit only (requires plan to go to “B” or “C”)
“B” time deposits and credit
“C” savings, time deposits, and credit

MDIs licensed under “A” must have operational self-sufficiency, and those licensed under “B” and “C” must have full self-sufficiency. There will be five steps of supervision:

- Licensing
- Operations
- Corrective actions
- Sanctions
- Liquidations

Emphasis is being placed on getting licensing and operations right to avoid moving to corrective actions, sanctions, and liquidations.

The need for assistance to both the MFIs and the entrepreneurs should not be underestimated. Areas that will require capacity building at the MDIs include publication of information, MDI audits, and strengthening internal controls and MIS. Strengthening the capabilities of the potential MDIs would have a direct benefit in increased financing of microenterprises and SMEs and could be a worthwhile activity of SPEED.

E2. Financial Services for SMEs

A serious gap exists in the provision of finance and financial services to SMEs. The large companies have access to the commercial banks and development finance institutions, and the microenterprises increasingly have access to finance through the MFIs, MDIs, and other micro-credit programs. The total number of commercial bank branches outside of Kampala, not including UCB, which is prohibited from lending, is low. This limits access to finance by rural SMEs, even if the banks were willing to lend.

Another limitation is the lack of diversified financial products suitable for SMEs. The use of such products as supplier credit, factoring, and purchase order financing has been minimal, although these are potentially promising for SMEs and typically have good margins for the lender (especially the latter two). Equipment leasing has started to emerge more recently and is particularly promising for SMEs. Fostering the use of such financing instruments and providing advocacy to remove policy or regulatory obstacles would be a worthwhile activity of SPEED.

The framework for financial leases was laid out in Section 60 of the 1997 Income Tax Act. DFCU Leasing (formally Uganda Leasing) has promoted what they describe as a hybrid hire-purchase and financial lease and now has 80 percent of the leasing market. The East African Development Bank also provides leases, but DFCU is more geared toward SMEs and start-ups, including professional firms (medical, legal).

Under this type of hybrid lease:

- Lessee purchases the asset at the end of the lease
- Lessee holds the asset on its balance sheet
- Lessor holds title until the end of the lease
- Lessee takes the depreciation of the asset for tax purposes
- Lessee also claims finance charges as an expense for tax purposes
- Lessor has interest/finance charge income from the lease
- Lease payments can be structured to meet cash flow

This type of lease is attractive where the borrower needs to acquire a fixed asset and has long-term use of the asset. For borrowers that need the use of an asset for a shorter time, an operational lease would be attractive and in developed countries consist of over 70 percent of equipment and auto leases. Under an operational lease, the Lessor owns the asset, carries it on its balance sheet and takes the depreciation. However, currently in Uganda, the regulations require that the Lessor maintain an 80 percent residual risk in the asset, which, combined with the culture of not maintaining equipment, make this type of lease unattractive to the Lessor (residual risk is closer to 10 percent in developed countries). If the residual risk requirement to the Lessor where reduced, access to this type of lease by SMEs would likely increase dramatically.

Some constraints relating to making the use of leasing more widespread:

- High residual risk requirements on operational leases
- Some inconsistencies in value-added tax (VAT) treatment which make some leases more expensive than they should be for a priority sector
- Dispute resolution slow and expensive
- Payment system — checks from rural areas can take a month to clear, with a cost to the Lessor of 1 percent of the payment amount
- SME borrowers often have inadequate records and do not have the ability to prepare sufficient business plans for the use of the equipment to be leased.
- Lack of credit card or direct debit system for Lessees to make payments

A method that DFCU Leasing uses to increase its payment rate is to insist that the lessee opens a bank account and submits post-dated checks for the entire term of the lease in advance. Bouncing a check is a criminal offense and a strong deterrent against non-payment. DFCU also reduces its risk by only leasing equipment with a secondary market.

Leasing appears to be a great opportunity for SMEs. With more assistance, SMEs can increase their ability to submit credible business plans and lease applications. When some of the above constraints are reduced, leasing as a source of financing by SMEs should flourish. SPEED could be extremely helpful in technical assistance, training and advocacy to promote the more widespread use of leasing.

The GOU's Strategy also lists equity funds and capital markets as potential sources of financing, while rightly stating that the legal and policy framework will have to be improved before these are realistic options for SMEs. Equity funds are very limited and the capital markets are in their infancy with the Uganda Securities Exchange launched in 1998 and having only four listed securities. As the enabling environment for private sector investment improves and domestic savings increase, the availability of equity financing will also increase. Equity financing is by nature long term without interim returns, and equity investors therefore look for stability and transparency in the political, business, and financial sectors before investing heavily.

In addition to a sound enabling environment, a viable capital market also requires companies with sound financial performance and a willingness to disclose their financial records fully. Typically, the first companies seeking financing through listing on the capital markets are large companies, but many of the larger Ugandan firms do not need to raise equity capital. Additionally, the development and proper regulation and management of investment funds such as private pension funds is also needed. It is anticipated that it will be some time before the capital market is a viable widespread source of financing for SMEs, but efforts are being made to lower entry requirements on the market and increase awareness of the workings of capital markets. SPEED can play an important advocacy role for the development of the capital markets by promoting improvements in the legal and policy framework and institutions (a number of which are discussed herein). The core activities of SPEED, including helping enterprises improve their business planning, corporate governance, internal controls, and capacity building in BDS, will foster a culture of better managed companies.

In the meantime, various types of leasing products and financing instruments (factoring, supplier credit, divisible/open letters of credit, purchase order financing) should be explored. In the case of purchase order financing, risk can be mitigated by limiting the funds released directly to the borrower until after the order has been completed and been paid for. The lender can advance funds for materials and packaging directly to the supplier and have an assignment of the invoice so that the lender is paid directly by the customer. The lender pays the borrower only after being reimbursed for the advances made and paid its fee for the transaction.

Various guarantee and insurance mechanisms should also be explored to persuade commercial banks to lend. However, to the maximum extent possible, the credit risk of the borrower should be borne by the bank. The guarantor can provide liquidity protection to mitigate the maturity risk. An activity of SPEED should be to explore, develop, exploit, and advertise a variety of financial instruments to increase the access of microenterprises and SMEs to finance. To help overcome bureaucratic and regulatory roadblocks to the introduction or use of these vehicles, SPEED could play an advocacy role as needed within the GOU and wider community. Generally, SPEED should promote proper financial reporting and disclosure procedures, which lie at the heart of all forms of enterprise finance, both equity and debt.

E3. Commercial Justice Sector

Severe weaknesses in the commercial justice system have constrained private sector development significantly:

> The main economic impact of the failure of the commercial justice system is that contracts are difficult to enforce. In particular, private businessmen find it costly and difficult or impossible to enforce repayment of debt. This discourages investment and increases the costs of banking and private business activity. *GOU Poverty Eradication Action Plan (PEAP), 2000.*

The Uganda Commercial Justice Sector Study, July 1999, estimated the loss to Uganda due to the inadequacies of the commercial justice system to be at least two percent of GDP! This should certainly be incentive to reform the system. It has been virtually impossible to enforce debts and other commercial claims in Ugandan courts due to a combination of inadequate training of lawyers and judges in commercial law, corruption, very large backlogs, a lack of ADR and small claims procedures, and inadequate information registries. These factors create strong disincentives against lending and investment activities and are particularly hard on SMEs.

In response to this problem, the GOU, as part of the MTCS, has undertaken the Uganda Commercial Justice Reform Program:

> Contracts are the basis of commercial life. This program aims to make it as easy as possible both to make, and to enforce contracts in Uganda. *Hon. J S Mayanja Nkangi, Minister of Justice & Constitutional Affairs and Hon. S W W Wambuzi, Chief Justice.*

Although the GOU appears committed to undertake the changes called for in the Commercial Justice Reform Program, which will result in significant improvements in the private sector, many of these changes will take significant time to have full effect.

Commercial Court and the CADER

> Commercial Courts which are accessible to all businesses, and which process commercial cases expeditiously and justly. *Commercial Justice Reform Program, July 2000.*

The Commercial Court was established in 1996 as a division of the High Court to efficiently adjudicate commercial disputes. Clearly the Court is very young and striving to function properly; adherence to the new reform program should result in material improvements over the next five years. The Commercial Court has recently been provided new premises of its own.

However, Ugandan lawyers and judges do not receive formal training in commercial or business law and do not specialize in this area. In addition, foreign lawyers and international law firms are prohibited from practicing in Uganda. It will therefore take some time for a body of expertise in commercial law to develop. The GOU is considering amending the Advocates Act to liberalize this area and build capacity for training in commercial law, but again, these are long-term programs.

Corruption in the court system remains a serious problem. Contributing to the problem is that the support staff (including clerks interfacing with the public) is not managed by the Judicial Service, but by the Public Service Commission. Therefore the clerks have little direct oversight and accountability. The proposed creation of a unified Judicial Service, to include both judges and support staff under a single management system, would be a step in the right direction, as would well defined and enforced policies and procedures against corruption.

E3a. CADER

An important development is the recent increased interest in and support for alternate dispute resolution procedures to speed up and reduce the cost of handling commercial disputes. As early as May 1998, the Rules Committee of the High Court made rules changes that encouraged the increased use of ADR procedures. The Principal Judge and Chief Justice have stated their support for ADR techniques. Modeled after the United Nations Commission on International Trade Laws (UNCITRAL) Model Law on arbitration, the new Arbitration and Conciliation Act 2000 became law on May 19, 2000. In Section 68, the Act officially established CADER as a statutory corporation with perpetual succession with responsibility for formulation of appropriate rules, practices, and procedures for ADR. Although CADER was originally established in 1998, it has just taken on this new structure. The Act sets out CADER’s functions, governance, and administration. The Center is intended to support itself from fees and ultimately be self-sustaining, but it will need some subsidies for at least two years. However, the Act does not provide funding from the GOU or specifically from the Ministry of Justice’s normal budget, so it is unclear where initial funding will come from.

The Governing Council of CADER was inaugurated on September 15, 2000 by the Minister of Justice and Constitutional Affairs. It is important to note that awards and judgments made by CADER will need to be enforced by the Commercial Court. The fact that the Act designated the Head of the Commercial Court to the Governing Council of CADER is positive for coordination between the court and center.

Mandatory referral of the pending backlogged cases to ADR has been proposed as well as screening of future cases for appropriateness for ADR at the time the case is registered. The Commercial Justice Reform Program calls for extensive capacity building in ADR throughout the justice system and even in the business community.

It is also proposed that CADER will develop a fast track program for small claims and establish a fund to provide subsidized ADR to those people who can’t afford the fees. These recent developments with CADER and ADR are very encouraging, especially for increasing access of the justice system to women and the poor (thus far, women have had limited access in Ugandan society). The challenges for CADER include gaining acceptance of ADR as a legitimate alternative, enforcing awards and judgments, obtaining the necessary seed funding, and developing its sustainability.

E3b. Magistrates' and Other Courts

There are more than 300 Magistrates' Courts handling disputes up to 5 million Ush. Numerous problems with these courts include a huge backlog. The Commercial Justice Reform Program intends to improve the functioning of these courts and develop small claims rules to speed up many of the cases. The program also will increase the jurisdiction of the LC Courts from 5,000 to 200,000 Ush.

Awards and judgments must actually be executed to justify having gone through the time and expense of the adjudication process. The combination of getting a judgment in the first place and then getting enforcement is an extremely difficult process in Uganda. Through the Commercial Justice Reform Program, the GOU intends to address this by:

- Reviewing and revise enforcement provisions of Rules of Civil Procedures
- Introducing new Insolvency Act and Insolvency Rules
- Reforming the regulation of Court Bailiffs (self-financing system)

E3c. Companies' Registry and Land Registry

> Improved efficiency and transparency of the Companies' Registry and the Lands Registry. *Commercial Justice Reform Program, July 2000.*

Private sector growth and sound commercial activity require ready access to reliable and timely information about identification and ownership of property, as well as possible liens or other claims against the property, and the registration and thereby perfecting of collateral for secured lending. Two major registries exist in Uganda:

- Uganda Registration Services Bureau
- Land Registry

Both of these registries are "in disarray" and "administrative limbo." Problems include: "lost files; vital papers missing from files; inefficiency and alleged corruption amongst staff." Registrations can take a long time and may not be accurate. Everything is done by hand.

There is no separate or formal Commercial or Companies Register. The Uganda Registration Services Bureau (the Registrar General's Department of the Ministry of Justice) covers companies, births, deaths, and marriages. Under the Uganda Registration Services Bureau Act of 1998, the department was to become a parastatal. This never happened; the current plan is to spin it out as an executive agency. This will require amendments to the Act.

Plans under a World Bank program to computerize the Uganda Registration Services Bureau have been cancelled. USAID is now considering computerizing the "Companies Register" part of the Bureau, but that could leave the rest of the Bureau in limbo. Computerization would be advisable as soon as possible. Currently, the Companies Register contains simple identification information about the company and the names of the owners of the company.

The Chattels Transfer Decree (1976, amended in 1978) allows for the registration of chattel securities. However, most people interviewed were not familiar with these securities and thought they were not able to be registered. The Personal Property Securities Law/Mortgages, proposed under the Commercial Justice Reform Program, will include a comprehensive code for regulation of security interests in personal property and a certainty in ranking of competing interests. This, along with a well functioning Companies Register, would foster the use of additional types of securities/collateral in lending, which in turn will increase access to finance.

The Land Registry is part of the Ministry of Land, Water and Environment. Mortgages on real property are registered here. It is proposed that this registry would be converted into an executive agency, but the Directorate of Lands is not yet convinced of this approach. A feasibility study is proposed. This Registry is also not computerized, and it frequently takes a long time to register a mortgage. It can be three to six weeks to register a mortgage on Kampala real property. The time to register a mortgage on property outside of Kampala can be much longer.

In the Commercial Justice Reform Program, it is anticipated that considerable technical assistance will be required to transform these registries to executive agencies. The timeframe is summer 2001 to launch the executive agencies.

E3d. Commercial Laws

> Key commercial laws reformed, and sustainable process established for ensuring business-friendly laws and regulations. *Commercial Justice Reform Program, July 2000.*

Many of the commercial laws of Uganda are being amended under the Law Reform Commission. Although the improvement of laws is necessary, it is not sufficient. The enforcement of the laws is critical, and the previous sections detail some of the areas required relating to improvement of the commercial courts and enforcement. In addition, the GOU needs to develop a mechanism for assessing the effect of new and revised laws and regulations on the private sector. It is anticipated that this will be undertaken through the Private Sector Developments Projects Committee, with representatives of both the GOU and the private sector. Key laws to be reformed under the Commercial Justice Reform Program include:

- Companies Law
- Insolvency Law
- Personal Property Securities Law/Mortgages

These improved laws are essential for fostering an effective legal environment for business and promoting greater accessibility to finance by enterprises. These laws directly impact the formation, registration, corporate governance, and capitalization of enterprises and the protections for shareholders, investors, lenders, buyers, customers, and suppliers of enterprises.

An effective, efficient, and fair Commercial Justice System is critical to the development of a vibrant and competitive private sector in Uganda. Deficiencies here were cited universally by government officials and private sector players as being key obstacles to increasing access by enterprises to finance, and the effect is particularly pronounced for microenterprises and SMEs.

Based on the virtual direct cause and effect relationship between improvements in the Commercial Justice System and increased access by microenterprises and SMEs to finance, SPEED should look for opportunities for direct intervention, support, and advocacy for facilitating select reforms in this sector.

E4. Institutional Reforms, Investment, and Trade

Planned institutional reforms include a framework to curb corruption and a program to improve the public procurement system. These are very important initiatives. Particularly important to microenterprises and SMEs is the program for the simplification of administrative and regulatory procedures, the DFID-funded Deregulation Project. A USAID-funded study showed that about 100 forms were required for business registration. The time and cost wasted in these overly cumbersome administrative procedures to start and run a business is prohibitive and has a disproportionately negative effect on microenterprises and SMEs. The recent survey report of the Deregulation Project (October 2000) cites a conservative estimate of the cost of regulation to micro, small-, and medium-sized enterprises in Uganda as 11 percent of GDP, which is three to five times higher than Organization for Economic Cooperation and Development (OECD) countries. An additional major obstacle to obtaining finance mentioned above is the large proportion of companies that are “informal.” Streamlining the regulatory and administrative framework for business will help increase the proportion of companies becoming “formal,” which will increase the number of companies able to attract financing and better obtain suppliers and customers. Because of the direct impact of this project on the SPEED activity, advocacy and coordination by SPEED to facilitate the Deregulation Project activities could be very beneficial.

The GOU has attempted to carry out investment promotion through the UIA and an outdated investment law. Both the mandate of the UIA and the investment law itself are planned to be reformed to provide better linkages with the private sector and a more balanced promotion of domestic as well as foreign investment and the advocacy of an improved business climate.

The GOU needs to do more to promote Ugandan exports and remove anti-export biases. Examples planned to reduce these biases include improving the awareness and procedures for VAT refunds and duty drawbacks on exports and reducing the taxation on the import of raw materials and semi-components destined to be incorporated into exports (indirect taxation on exports). In addition, it is likely that the USAID COMPETE project will identify other constraints associated with exporting that could require intervention.

The BOU, Development Finance Department (DFD) has several facilities to help promote exports, especially of non-traditional exports (NTEs). The Export Refinance Scheme is to be reactivated. The Export Credit Guarantee Program will start in December 2000 or January 2001. The Export Credit Guarantee scheme will guarantee up to 75 percent of the export loan advanced by a commercial bank, which loan should not be more than 80 percent of the total project cost. Eligible for credit guarantee cover will include pre-shipment credit against export orders or contracts; post-shipment credit; and medium-term loans to exporters for infrastructure investment. The guarantee will cover loans of amounts up to 500,000,000 Ush.

The DFD also has the European Investment Bank-Apex III Private Enterprise Loan Program coming in 2001 (Phase II is currently being completed), which funds primarily capital costs in the 10,000 to 1 million Euros range (a small amount of working capital associated with the capital costs can be included).

The GOU is committed to expanding regional integration including the railway network, trade policy and facilitation, and capital markets to create a bigger market and greater efficiencies. The GOU is actively participating in the Regional Trade Facilitation Project and the Cross-Border Initiative.

SPEED could be helpful to the above initiatives of the GOU by providing advocacy and policy support in the areas of investment, trade, export, and taxation.

Policies affecting Micro, Small-, and Medium-sized Enterprises. In addition to the other reforms mentioned in the Medium-Term Strategy, it is recognized that special attention must be paid to the microenterprise and SME sectors for the GOU to achieve its goal of poverty reduction and economic growth. Key areas include policy formulation with extensive private sector input and involvement, both at the national as well as local and regional levels; skills development and training (vocational education and training of entrepreneurs); and BDS.

One of the most consistent issues raised in the extensive interviews on the constraints associated with access to finance by microenterprises and SMEs was the need for much more extensive business development services, including market-driven product design, pricing and costing, quality, business planning, finance, and management. Microenterprises and SMEs are frequently unable to obtain financing due to their inability to develop credible presentations of their idea and "plan." They simply often do not have the skills and experience necessary to package their idea in a form acceptable to lenders or investors. In addition, they often, on their own, do not have all the myriad of skills necessary to implement the plan successfully and sustainably. This is a major component of SPEED, and its value in promoting increased access of microenterprises and SMEs to finance cannot be understated.

An addition constraint in microenterprise and SME development is the lack of adequate information and indicators for monitoring and policy formulation. The Bureau of Statistics is not capable of providing the data and analysis required by the MOFPED's MSE policy unit for planning and decision making. This is an area in which SPEED could provide support.

E5. Potential Areas of SPEED Intervention

As discussed earlier, since the policy, regulatory and legal environment is changing rapidly and many players are involved in the process (government, donors, NGOs, private sector), in addition to specifically identified opportunities, SPEED should maintain a high degree of flexibility in its ability to intervene. It will be very important to respond rapidly with advocacy, coordination, training, and/or direct technical assistance as needs and new opportunities arise. As the three SPEED components of SME/Agricultural Finance, MFIs, and BDS confront obstacles, the policy support function can bring to bear assistance from government agencies, other programs, associations, or its own experts. SPEED will take a crosscutting approach to facilitate coordination and integration across ministries, agencies, private sector participants, and disciplines for the promotion and advocacy of microenterprise and SME friendly policies, regulations, laws, and procedures.

E5a. Opportunity 1: Ad Hoc Policy Support to SPEED Components

Many of the policy areas and issues listed above are covered largely by other donor activities, but they have a significant impact on SPEED and most do not directly deal with the aspect of finance for microenterprises and SMEs. SPEED could provide additional policy support and coordination with a special emphasis on increasing access to finance for microenterprises and SMEs. In addition, SPEED should provide policy advocacy, both directly and through private sector intermediaries, but focused on directly supporting the other SPEED components as they encounter obstacles and barriers to achieving their results. Examples where this kind of policy support may be useful to SPEED include:

- Regulation and taxation relating to financial instruments such as leasing contracts, guarantees
- Export and trade policies, regulation, and taxation
- Capital markets/disclosure/corporate governance
- The DFID-funded Deregulation Project
- Credit Reference Bureau
- MFI/MDI regulation and supervision
- Commercial Justice Reform (enforcement of contracts, commercial laws, corruption)

E5b. Opportunity 2: Commercial Justice Reform

Based on the importance of Commercial Justice Reform to achieving the GOU's goal of reducing poverty and increasing economic activity, the donors have agreed to jointly fund the Commercial Justice Reform Program. USAID is slated to fund the CADER and Company/ Land Registries technical assistance components (actual computerization costs are to be covered separately). As discussed above, these components are important to the development of finance available to microenterprises and SMEs. Therefore, there is a unique opportunity for SPEED to undertake these activities while at the same time supporting its major objective of increasing access of microenterprises and SMEs to finance. In addition to the direct technical assistance required for these two components, extensive coordination will be required with the Ministry of Justice, Commercial Courts, other government counterparts, donors, and the other assistance providers. This is an excellent additional opportunity and forum to foster a number of the advocacy and support activities listed above. Through this opportunity, SPEED will be able to exercise even broader impact on legal, regulatory, and policy issues that affect microenterprises and SMEs.

E5c. Opportunity 3: Support to the MOFPED MSE Policy Unit

As mentioned above, information and analyses available for the proper monitoring and policy formulation for microenterprises and SMEs is inadequate. SPEED could provide assistance to the MOFPED to allow it to monitor such information as business creations, job generation, and investment levels adequately.

F. Financial Services: Microenterprise Financing

F1. Status

A comprehensive survey of the microfinance industry in Uganda is included in Annex B. We will not repeat that information in totality here but will move directly into presenting the major opportunities and constraints in the microfinance sector, followed by our recommendations and possible options for the design. We begin with a synopsis of the survey findings. We feel it is important to share the assumptions we have made based on the MFI survey and our understanding of how best to nurture the maturing microfinance industry in Uganda.

Assumption 1: 100 MFIs is more than the market can bear in the long-term. In just six to seven years, more than 100 MFIs have sprung up across the country, a response to the donor and government funds poured into the sector. But SPEED can not be all things for all of these MFIs. This places the program in the difficult situation of determining which MFIs are worthy of support and which are not. We have attempted to base our strategy on our understanding of USAID's forthcoming new and improved SO 1 and its Intermediate Results. As such, our determination of where to give support is less about the individual institutions than about impact at the industry level.

Assumption 2: Poverty alleviation is not enough. We have based our recommendations on the assumption that USAID would like to have SPEED do more than simply alleviate poverty (address a symptom) — but rather make a real impact by catalyzing real economic growth among microenterprises in Uganda. This requires sustainable interventions and working with sustainable intermediaries and partners. If this assumption is incorrect, and USAID is more interested in using SPEED as a vehicle to reach a specific segment of the population (the poorest of the poor, rural farmers more than five kilometers from the major trading centers, those living in the war-torn North) then we will change our focus now and design SPEED accordingly. In the meantime, we have recommended strategies we believe will have the greatest effect on the greatest number of Ugandans in the most efficient and sustainable way possible, even though these may not reach all segments of the population, geographically or otherwise.

Assumption 3: The microfinance credit market is not saturated. It is estimated that all 100 MFIs in country are still serving only about 150,000 clients. This represents less than 20 percent of the off-farm microenterprises estimated to exist in country. If this is expanded to include on-farm agricultural microenterprises, the percentage of the microenterprise market served is even smaller. As such, we assume that any growth in the microenterprise client base served by MFIs is good, as it means a greater percentage of demand is being met. We also assume that this growth can be achieved through geographic expansion (reaching new markets) or product diversification (reaching new segments in existing markets) and that SPEED should develop strategies for encouraging both types of expansion.

Assumption 4: Microfinance will remain a donor priority for at least five more years. Microfinance in Uganda is popular among donors. We believe it will be more effective to leverage these funds and programs than simply to be another source. This will mean technical assistance and training for MFIs in the sector but not more loan capital grants. Collectively, we estimate upwards of $50 million in new funds being programmed for the sector, not including anything from SPEED:

- *RMSP Project*: $24.5 million from the African Development Bank, to be used as a follow-on to the Poverty Alleviation Program (PAP). RMSP will lend around $19 million of this money to qualifying MFIs. The rest will be used for capacity development.

- *Islamic Development Bank (IDB)*: The IDB has recently committed $10 million to the microfinance sector in Uganda. This money has not yet been programmed.

- *DfID*: $9.6 million for grants to MFIs and other as-yet undetermined activities.

- *European Union:* $4 million, of which a portion will be for MFI support.

- *IFAD:* Large capital grants to NGOs (such as a new $3 million grant to UWESO), other assistance related to agricultural financing for rural microenterprises

Moreover, donors continue to give individual grants to MFIs. The Dutch organization Humanist Institute for Cooperation with Developing Countries (HIVOS) just approved an Ush700 million grant to Support Organization for Micro-Enterprise Development (SOMED) in Masindi. Women's World Banking will deliver the first tranche of a $350,000 capitalization grant to UWFT in December. Support to Feasible Financial Institutions and Credit-building Efforts (SUFFICE) continues to give small commodity grants in addition to lending funds at quasi-commercial rates to some MFIs. In addition to the new $3 million IFAD grant mentioned above, UNDP is committed to Uganda Women's Effort to Save Orphans (UWESO) through 2004. And the Austrians have recently given a grant for operational costs to Foundation for Credit and Community Assistance (FOCCAS) to last through 2002.

F2. Microfinance Opportunities for SPEED

In this section, we list the major constraints and opportunities found in the microfinance sector in Uganda, based on the assumptions presented earlier. Please note that we have not separated constraints from opportunities, as in most cases, addressing the identified constraint is in fact exactly where there is opportunity for SPEED.

F2a. Opportunity 1: The new MDI legislation

USAID can expect the MDI legislation to be put into effect within the first 12 to 18 months of SPEED implementation. The SPEED design must be explicitly integrated with the new legislation. Early indications are that the legislation as proposed will have a very positive effect on the microfinance industry — a big step forward in the commercialization of the MFI industry. GTZ is committed to assisting the BOU make the necessary adjustments on the regulatory side, including the training of BOU staff in MDI certification, inspection, and monitoring. However, the MFIs seeking and attaining MDI status will also need assistance in making the transition.

While a great deal of uncertainty exists among MFIs because no one quite knows exactly what requirements will be included in the forthcoming legislation, interested MFIs have already started doing what they can in anticipation of the transformation. For example, UWFT is receiving PRESTO assistance via a consultant to determine what legal and organizational changes will be needed for the transition and to provide UWFT with recommendations on how to proceed without compromising its current vision. Feed The Children is determining whether to pursue status limited by guarantee or by shares and expressed a need for assistance in doing so. FINCA listed the MDI transition as their number one organizational challenge and is receiving about $40,000 from the Austrians to field a Calmeadow consultant to help them; however, they contended that this would not be adequate assistance in the long-term. Uganda Microfinance Union, Ltd. (UMU) is currently converting to a company limited by shares and considering hiring a consultant to market UMU to social investors overseas. UMU would also like help developing a strategy to give shares to employees.

As mentioned in Annex B, Survey of Microfinance Industry, MFIs will face a great number of challenges beyond simply meeting MDI legislative capitalization and ownership requirements. These challenges represent opportunities for SPEED to help qualify MFIs before, during, and after MDI licensure. A few of the most obvious include:

- Introduction of a treasury management function
- Hiring and training a compliance officer
- Adjusting current MIS reports to meet new BOU requirements
- Developing savings products, integrating savings management, and monitoring into the existing MIS system
- Upgrading office premises to hold and guard cash deposits

Audit firms and consultants. The BOU advised us of their concern that the auditing firms in Uganda do not have adequate training and background in microfinance operations and auditing which the BOU will need to be able to rely on once a few MFIs are converted to MDIs. As such, the training of private sector auditing consultants and firms represents another opportunity for SPEED. We believe such audit firms would be willing to pay for this training.

MFI access to commercial financing. While some MFIs already access commercial financing through letters of credit, guarantees from organizations and donors such as the SUFFICE program and the Strommen Foundation, or (illegal) leveraging of deposits already mobilized, the MDI legislation will open up and legitimize a wider spectrum of possibilities. Additionally, it is important to note that the RMSP program is starting a wholesale lending program to MFI credit retailers. As part of helping the industry mature and become self-sustaining, we recommend that SPEED work with MFIs that have the capacity to begin sourcing loan capital from commercial or quasi-commercial sources rather than providing these institutions such capital through grants. Additionally, for MFIs that remain in Tier 4, we recommend SPEED assist them to become commercial finance-ready. This could include matching RMSP-provided loan capital with SPEED-provided technical assistance and training.

F2b. Opportunity 2: Addressing Diversity in the MFI Industry

The MFI industry in Uganda is maturing rapidly. The broad support to a wide range of MFIs through PRESTO and other donor programs has created the beginnings of a competitive microfinance market with multiple financial service providers. SPEED should continue to support the maturation of the industry. However, because so many MFIs are at different levels with different needs, SPEED will need to tailor assistance accordingly. As mentioned in our assumptions, SPEED can not be all things for all MFIs.

Therefore, based on our MFI survey, we suggest the following delineation (see table below) among MFIs which mirrors the BOU classifications, coupled with the assistance listed for each. In summary, our approach is to use SPEED as a catalyst for commercialization of the MFI industry. Further detail on the description of each level listed can be found in Annex B.

Category	**Commercialization of the MFI Industry: Options for SPEED Assistance**
Tiers 1 and 2	Centenary and Commercial Microfinance, Ltd. (CMFL). Centenary has received and continues to receive donor support from multiple sources. CMFL has entered a partnership with DANIDA to set itself up as a wholesale credit source for smaller MFIs and to expand from 6 to 52 outlets. As such, while we suggest that SPEED find ways to work with both organizations (for example, we may assist a smaller MFI to source funds by borrowing from CMFL) we believe both organizations are adequately supported at this time, and that SPEED microfinance resources would be better directed elsewhere.
Potential Tier 3 MFIs	Listed under Opportunity 1 above, SPEED should assist MFIs before, during, and after transformation to becoming an MDI. This could include a comprehensive package of technical assistance and training to address the specific transformation needs of qualifying MFIs, assistance to these MFIs in accessing commercial forms of finance, and training audit firms and consultants.
Upper Tier 4 MFIs	SPEED assistance to these organizations would be dedicated to improving the organizations' operational and financial self-sufficiency, as well as in achieving the necessary economies of scale and efficiency to do so. The main objective would be to link these organizations to commercial or quasi-commercial forms of finance. To do so, the main SPEED intervention would be a tailored package of technical assistance and training, based on the assessed needs and operational level of each qualifying MFI. It could also include small grants for such activities as piloting a new agricultural loan product or introducing and expanding a new individual loan product. No grants would include loan capital but could include covering some operational costs. In general, this approach is based on our belief that a number of opportunities exist for SPEED to leverage commercial and quasi-commercial loan funds by pairing SPEED technical assistance and training with funds wholesaled to MFIs through RMSP, the IDB, or other sources.
CBOs	SPEED should not provide direct assistance to CBOs, rural or otherwise. Doing so would result in little impact within the SPEED timeframe, with no guarantee that any efforts at this level would last for any amount of time beyond the end of the project. With so many MFIs in the market, an estimated 60 out of 100 of which are above this CBO level, SPEED resources can be better directed at Tier 3 and 4 MFIs. Most CBOs were not set up as credit organizations and few have the capacity or the ability to become self-sustaining. Most are only in the credit business because doing so is a way to access government and donor funding. While they could still be brought in to any general training done by SPEED (see training section below), they can also be directed to the CMFL/DANIDA project in the relevant districts, to the PAP program where available, or to RMSP.

Differentiation between Tier 3 and Tier 4 entities will be dictated by the BOU. It will be more difficult for SPEED to differentiate among upper and lower Tier 4 organizations. The criteria will need to be transparent and SPEED must have the capacity to assess the institutions quickly and fairly. At a minimum, the selection criteria should screen out MFIs that do not:

- Charge cost-recovering interest rates
- Follow microfinance best practices (delivery of non-financial services to borrowers)
- Have good management and a supportive Board of Directors
- Have a realistic but ambitious business plan that projects both a growth in active borrowers and loan volume, as well as an upward trend in financial self-sufficiency

No capital grants? We recognize that no longer providing grants for loan capital to MFIs may not be popular with MFIs expecting them. If such a strategy is unacceptable, we can work to include such grants. In any case, we would not see such grants reaching anywhere close to the levels issued under PRESTO, and not issued until commercial sources of finance (including RMSP) have been tried. However, we do recognize there are strong arguments for continued grants *at the institutional MFI level*, including the following:

- PRESTO recently issued a few very large grants to young MFI programs, including Bunyaro Catholic Development Fund (BCDF), UWESO, and Micro Enterprise Development Network (MED-Net), none of which have an OSS (L'Observatoire du Sahara et du Sahel) ratio higher than 70 percent. Without further donor assistance, these programs can not be maintained for long and will slowly shrink as their operational costs eat into capital. In other words, the PRESTO grant money may have been wasted unless further grant money is given to elevate these programs to the scale needed to realize full operational self-sufficiency. However, under our recommendations above, SPEED could still help such organizations with grants that cover some operational costs and commodities such as computers, technical assistance, and training, but not loan capital.

- There is a segment of Tier 4 MFIs that will not be ready to transform to MDIs immediately, but which have good systems, good management, and strong growth potential. An infusion of donor capital could allow these organizations to realize their growth potential, expand geographically, achieve operational self-sufficiency, and reach more clients more quickly. If the SPEED results will have an outreach element (increased number of MFI borrowers and savers), the quickest way to accomplish this would probably involve capital and operational/or grants. Because our overall approach is to move MFIs toward full commercialization, we propose limiting SPEED grants to operational.

- While 100 MFIs in the industry is more than can be sustained, there is room for more than the four or five that may immediately qualify for MDI status. Integrated grants to 10 to 12 of the Tier 4 MFIs that are one level below those that will become MDIs could serve to increase competition, force natural rural outreach, improve client service, and help diversify the products offered to clients. However, we believe this can also happen for MFIs when they access commercial forms of finance. Evidence exists from other microfinance efforts around the world that getting MFIs to borrow money early reduces the time it takes for them to reach financial self-sufficiency because they are forced to pay close attention to the bottom line.

Therefore, we believe an approach driven by an industry-level focus, with commercialization of the MFI industry at its heart, will be of greater benefit in the long-term, as it is by definition sustainable. Still, this commercial approach will probably not reach the poorest of the poor in remote rural areas in the short- or even medium-term. If USAID would like SPEED to do so, it can certainly be done, but we do not believe it would be possible to leave behind anything truly sustainable by the end of SPEED. We explore this idea in more detail below in Opportunity 3: Geographic Expansion.

F2c. Opportunity 3: Geographic Expansion

One of the illustrative results targets listed in the SPEED RFP was an increase in the rural/urban ratio of MFI clients from 80 percent urban and 20 percent rural, to 60/40 urban and rural. While it would be simple for SPEED to place rural outreach conditionalities on SPEED technical assistance, training, and any grants to induce expansion into rural areas, we do not believe this is necessary or advised. Our assertion is based on the following findings from the MFI survey:

- Growing competition in the urban markets is pushing MFIs to expand rurally. Almost all of the MFIs surveyed already have plans to expand their base of operations geographically. This includes plans to expand to new towns and trading centers and deeper into rural areas (more than five kilometers outside urban areas). If allowed to expand on their own, MFIs are much more likely to do it sustainably and efficiently, albeit more slowly and perhaps not as deeply as some would like. However, with still such a small percentage of the microenterprise market served, growth, and geographic expansion, will happen with or without conditionalities. While the availability of donor funding continues to fuel this expansion, for the most part, MFIs expansion plans are currently demand- and market-driven.

- The RMSP project has released a request for expressions of interest from MFIs interested in borrowing money for on-lending. Significantly, the RMSP has a strong geographic mandate, intending to realize coverage in every district and sub-district in Uganda. Therefore, RMSP’s advertised request clearly implies that intermediary MFIs will be selected partly based on geographic coverage considerations. Also the RMSP’s explicit objective is to increase access and participation of the poor, particularly women in rural areas, to appropriate microfinance services. Clearly, donor-induced geographic outreach is starting to happen. In our opinion, USAID does not need to add further pressure.

This does not mean that our interventions with individual MFIs would not contribute to such rural outreach, only that we would help MFIs achieve the geographic expansion plans already contained in their strategic plans. For some MFIs, this will include rural outreach; for others it may include urban or town expansion. Still others may simply want to focus on increased penetration of their current markets. Any of these approaches means a greater percentage and number of Ugandan microentrepreneurs will have access to finance.

F2d. Opportunity 4: Product Expansion

We believe that assisting MFIs to expand their product base can have as great an impact on the microfinance industry in Uganda as geographic expansion. In fact, the MFIs we surveyed were more eager for assistance in ways to expand their product base than they were in help to expand geographically (which they feel they already know how to do). For SPEED, we believe four key opportunities are present in the area of MFI product expansion:

- *Moving up market*. MFIs were keenly interested in finding ways to extend larger individual loans. Many have already started an individual loan program aimed at their best group clients. As illustrated in the graph on page B-15 of the MFI survey, helping MFIs offer larger loans can begin to address the small end of the “missing middle.” The survey indicates that almost no formal or informal financial institution in Uganda extends credit in the Ush3-10 or Ush10-20 million ranges.

- *Pilot agricultural microfinance loan products*. MFIs are keen to tap the large agricultural production market in rural areas. But they are unsure how to develop workable loan products with risk factored in appropriately. SPEED can have quick impact by helping MFIs develop better non-production agricultural loans (livestock, poultry, dairy), which do not carry as much risk but may require non-standard and unfamiliar repayment schedules and loan terms. On the production side, SPEED can assist selected MFIs to pilot agricultural loan products they are interested in through a small grant facility, crop insurance schemes, or a targeted loan guarantee program.

- *Product development in COMPETE cluster areas*. Once COMPETE has determined the key clusters it will support, it may be possible for SPEED to complement the effort by working with MFIs to develop loan products in sectors that support the COMPETE strategy.

- *Micro healthcare*. As outlined in the microfinance survey, FINCA and MicroCare have piloted a healthcare product for microentrepreneur clients in Uganda, which is linked to regional hospitals. Early indications show this scheme has considerable potential but many issues remain. Given the huge impact of AIDS-related illnesses and malaria, which affect productivity and loan repayment, we believe the current micro-health pilot efforts deserve continued support and that SPEED is well-placed to give it. Efforts could be linked with USAID’s other AIDS and health initiatives in Uganda; in fact, a number of missions in Africa are using some of their funds earmarked for AIDS to support similar efforts. Should the Uganda mission have access to such funding, SPEED could be used to program and direct it.

F2e. Opportunity 5: Training and Technical Assistance

All MFIs surveyed indicated they need assistance in capacity development. Further, many indicated that training alone is often inadequate. In response, a key aspect of SPEED’s support of the microfinance industry should be an integrated package of technical assistance and training to qualifying MFIs in Tiers 3 and 4. As mentioned above, this technical assistance and training should be tailored to the specific needs and level of each qualifying and interested MFI. At this time, we will not propose the criteria used to select MFIs as they will be determined by results framework targets and indicators developed in the design phase of SPEED.

Technical assistance. SPEED consultants would offer the technical assistance to selected MFIs directly. It may also be possible to access assistance from some local private sector technical assistance consulting firms with experience in microfinance, such as Acclaim. Once USAID has reviewed our design recommendations, we plan to explore such arrangements in more detail during the design phase. A key piece of the technical assistance will be to install better internal training capacity within targeted MFIs. Additionally, the project will need to address the wide range of MIS needs apparent at a majority of the MFIs interviewed. Both efforts could be done in partnership through MCC, if an appropriate arrangement can be worked out with UIB during the design phase.

Training. For external training, SPEED would work through existing providers, such as MCC, UMI, UMU, and UIB, as much as possible. This would ideally be done through a voucher program. Initially, the amount of subsidization will need to be high, as MFIs indicated little ability and interest in paying for outside training or technical assistance without donor help. Details and criteria for the vouchers will be linked to project results targets and indicators selected during the design phase.

SPEED could also continue PRESTO's strategy of offering regular training workshops open to the microfinance industry at large. However, SPEED should begin charging at least a nominal fee for participation and be careful not to pull participants away from other courses available in the private sector, such as those at MCC. In fact, if possible we suggest this training not be done under the "SPEED" banner at all since SPEED is a project that will disappear after time. Instead, such training should be offered via a local institution, such as UIB/MCC.

G. Business Development Services: Business Skills Providers

In this section we present the assessment of BDS and an overview of the key players that could be involved in the development and deepening of this important market. The assessment is divided into three parts: government support for BDS, the status of the BDS market in Uganda, and recommendations for the SPEED design. The status section is further broken down into a brief overview of BDS best practices, BDS providers in Uganda, BDS intermediaries in Uganda, and donor involvement in BDS promotion.

The rapid appraisal methodology included interviews with BDS providers (consulting firms, trainers), intermediaries (associations, MFIs, chamber of commerce, banks), donors, and microenterprises and SMEs. In addition, a review was conducted of the various donor reports, project assessments, promotional material, and corporate capability statements. Bankers and MFIs were asked questions as to what they thought the needs of their clients were, associations were asked what their members required, BDS providers were asked what their needs were and what their clients' needs were, and microenterprises and SMEs were asked what they thought they needed. This included 33 interviews, several focus groups with microenterprises and SMEs, and information gathered by the other interviews with donors, banks, MFIs, and government.

G1. GOU Support for BDS

The role that BDS can play in the development of the private sector is outlined in the GOU's MTCS. In this document, the GOU has recognized the importance of BDS to the increased participation of the private sector in the economy in three separate sections, 3.4.4 (b), 3.6.2, and 3.6.3.

Vocational training and the need to attract new technology will be addressed through the creation of the National Productivity Center (3.4.4(b)). This Center will be located within UMTAC, an existing BDS provider, and will have the objective of improving and increasing productivity in all enterprises through promotion of productivity consciousness and conducting research and surveys.

Skills development and training are highlighted in Section 3.6.2, a direct quote from this section best represents the GOU thinking on improving skills, especially the questions of how to and who:

> *The key requirement to resolving this constraint [fiscal] on a sustainable basis in the medium to long term is to ensure demand-led skills training, provided on a cost recovery or profit making basis. This implies that they have to be tailored to the needs of the private sector, and hence either have a strong influence of the private sector or provided by the private sector themselves.*

The same section suggests public sector sponsored interventions:

- A countrywide training of trainers programme in small business management to enhance capacity in the small enterprise sector

- A countrywide community based training for micro entrepreneurs organized in groups

Section 3.6.3, Business Development Services, recognizes the shortcomings in BDS, despite the effort of the Private Sector Competitiveness Project, implemented in conjunction with the PSF. A suggested intervention is to add more resources to the PSF to broaden the BDS sector.

The MTCS is important as it displays that the GOU recognizes BDS's importance (integrated with other initiatives) and captures the importance of BDS in a general sense. Its shortfall is in the lack of innovation in proposing interventions. Firstly, BDS are narrowly defined to training and consulting. Secondly, the role of the private sector is vague. Thirdly, the suggestions that more resources be made available to the PSF reduces the positive effects that could be obtained from a broader private sector intervention. From this assessment, it will become clear that the private sector, through a properly structured BDS initiative, will be able to carry out most if not all of the interventions suggested in the MTCS.

G2. Overview of BDS Best Practices

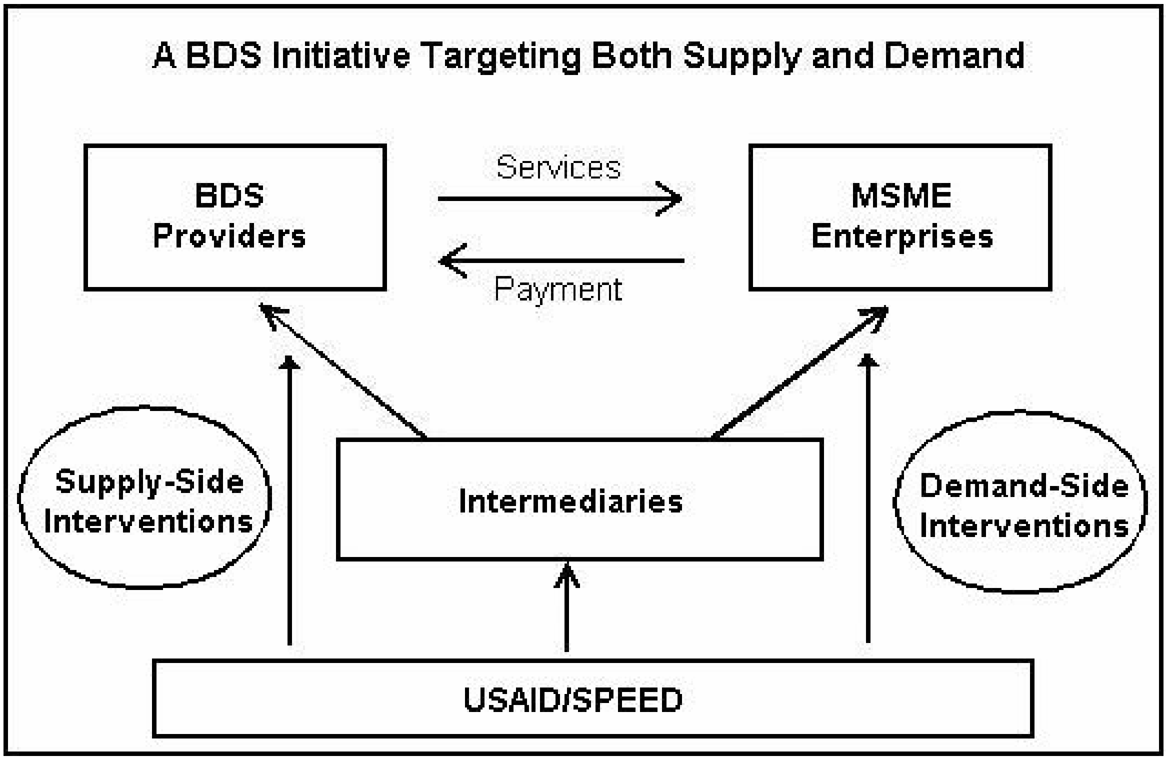
Prior to presenting the current state of the BDS market in Uganda, it is important to establish a point of reference by providing a brief overview of current thinking and BDS best practices (promoted by the International Donor Committee on BDS, through the *Business Development Practices for Small Business: Guidelines for Donor Intervention*, commonly referred to as the Blue Book).

Business development services, which aim to improve the performance of an enterprise, its access to markets, and its ability to compete, are designed to serve individual businesses, as opposed to the larger business community. BDS was initially narrowly defined as training and consulting but over time has expanded to include all types of services that can improve the performance of the enterprise. Within the arena of consulting, the number and types of interventions can be quite large and extend beyond training in business planning; the range of BDS products is limited only by the creativity of the BDS providers and the ever-evolving needs of the microenterprises and SMEs. Non-traditional BDS examples include subcontracting; franchising; market information services; market development; product adaptation; management information systems; information services through media (radio, television, internet), business brokering; incubators; industrial parks; and estates.

Although the delivery of BDS can be done on a stand-alone basis, the **bundling** or **linking** of services usually brings results far in excess of the simple arithmetic addition of the impact of the services when delivered individually. A phenomenon of synergy comes into play and leads to a more rapid acceptance of BDS as a valuable investment by microenterprises and SMEs and to the continued development of new products and services by the providers. Examples of linking or bundling services include provision of cash-flow preparation with financing requests, after sales service and training of new products, technical assistance, and advisory services after loan financing. Furthermore, in project design, integrating BDS with other activities leads to more durable impacts and higher quality results as a result of the synergy created between the components.

Sustainability and a focus on letting the market play as large a role as possible are key factors in determining the success of a BDS initiative. This implies a limited role for the donor or public sector entity and a leading role for private sector BDS providers. Intermediaries (associations, banks, MFIs) can play a key role in facilitating access to the market by the BDS providers. It is important that the BDS provider be able to assess the needs of the SME and then tailor products or services to those needs. The establishment of this link is key to achieving sustainability. BDS providers have to deliver services that the microenterprises or SMEs demand, not what the BDS providers or others think these firms need.

The closer that this process is linked, the better will be cost recovery of the service being delivered. Total cost recovery happens when the service delivered meets both the needs and the purchasing power of the microenterprise or SME. Donor intervention is sometimes required to temporarily bridge the gap that exists between supply and demand (cost of developing and delivering an adapted service and the ability and sometimes willingness to pay for the service by the micro, small-, or medium-sized firm). This intervention often comes in the form of cost-sharing (most commonly referred to as vouchers) and in targeted supply-side interventions. A typical donor-supported BDS intervention is shown in the figure below.



In this schematic, donor projects work through intermediaries to stimulate demand for BDS and furnish supply-side activities to reinforce the capacity of BDS providers to deliver services. The kind of supply-side interventions depend on the needs of the market, which are usually determined through needs' assessments. Demand-side interventions could include voucher schemes and the promotion of better business practices. The guiding principles of BDS programs design are:

- Market driven
- Delivered by private for-profit firms or individuals
- User pay and if cost sharing is used, then an exit strategy is required
- Products adapted to purchasing power and needs of microenterprise and SME
- Broad definition of services
- Use and build capacity of local capacity

G3. Status of BDS in Uganda

The Ugandan BDS market is in the early stages of development and as such provides opportunities for some BDS providers, most microenterprises and SMEs, and most donors. BDS in Uganda is currently narrowly defined as consulting and training, with a few isolated exceptions. Most of the initiatives we examined were donor inspired, and sustainability was not always a priority. Despite this limited level of activity, a number of factors bode well for future BDS initiatives:

- The user-pay concept is or has been adopted by most of the major donors (DfID, USAID, UNDP, European Union).

- Some SMEs and microenterprises are paying the full cost of training, both management and technical (FIT Uganda, Uganda Institute of Trainers).

- National coverage of the country by potential intermediaries is very good (UNDP/PSDP offices, banks, USSIA, UMA, social and professional associations, MFIs). See map below.

- BDS providers (consulting and training) are excited by the focus on SMEs and microenterprises and as such are requesting capacity building to help them respond to the needs of this potentially large client base.

- Banks and MFIs recognize the value of the BDS to their business and are ready and willing to proactively stimulate the demand for BDS.

- Moving into unexplored sectors such as agriculture provide numerous opportunities for BDS interventions that to date have not been exploited — commodity pricing and supply information, new product adaptation and techniques, and marketing improvements.

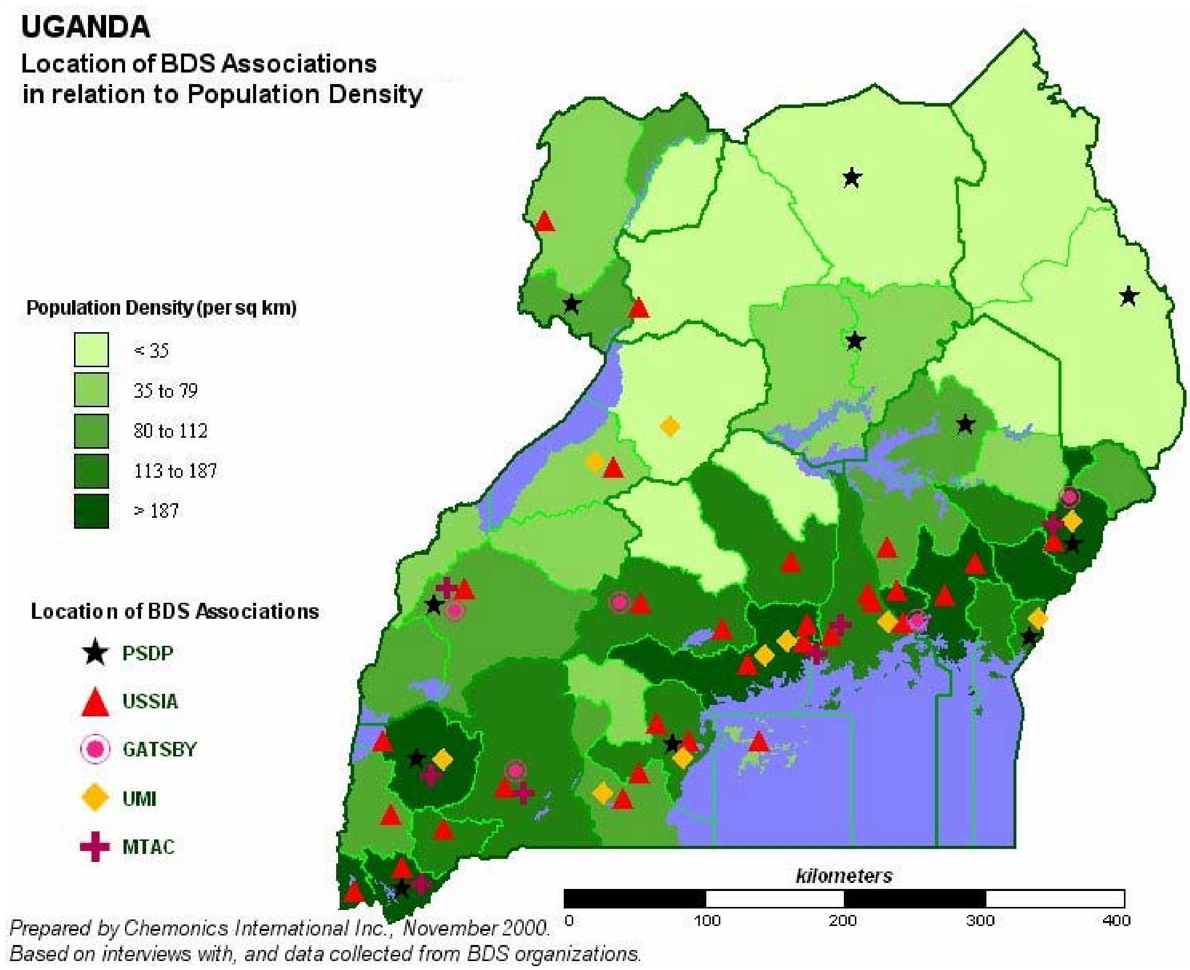
- Women make up the majority of MFI borrowers and are more willing to participate in BDS and pay for such services.

G3a. Business Development Service Providers

BDS providers can take the form of many types of organizations, including for-profit firms, associations, NGOs, and public enterprises. In this section, we will focus on the for-profit businesses in keeping with best practices. Other not-for-profit organizations delivering BDS are covered in subsequent sections.

Private sector providers (consulting and training firms) were canvassed to determine the extent of their activity in the microenterprise and SME sector and the variety of products that they deliver to the sector. The first step was to identify a central body or professional association that represents these groups. For the consulting side, the Federation of Ugandan Consultants (FOCU) was identified, but no such central body exists for the training institutions and trainers. However, FIT Uganda has developed a list of some 190 training firms and trainers.

Created with the assistance of the UNDP/PSDP, FOCU represents some 40 consulting firms and consultants. It has unfortunately not been very active and has not held a general assembly for a couple of years. The Executive Director admitted that the association was defunct and comments from other consultant members of FOCU indicated a large degree of disappointment with the performance of this federation.



Given the lack of central bodies, the sampling of the private sector BDS firms was limited to a few firms with good reputations in the community that were deemed to be leaders by donors and other actors in the BDS market. On the consulting side, UMACIS, Aclaim Africa and Impact Associates along with the Executive Director of FOCU were interviewed. For training services, UMI, UMTAC, and the Makerere University Business Development Center were interviewed. A unique firm, FIT Uganda, which delivers both consulting and training services, along with innovative ways of creating business opportunities through BDS activities, was also included in this group.

General observations from the interviews include:

- Most consulting firms started off trying to do consulting for the private sector, but very quickly made smart business decisions and went to where the money is, namely the donors.

- Private sector firms as clients of BDS providers, are deemed to be disinterested in BDS and to have a poor payment culture for services.

- All BDS providers manifested a genuine interest in developing more BDS business in the microenterprise and SME sector.
- Consulting firms generated between 50 to 70 percent of their revenues from the donor market. One of the corporate capability statements received even included USAID-style Contractor Progress Reports, as references of their work!
- It is difficult to determine whether or not donor-influenced pricing has affected these firms’ ability to price and serve a less liquid market (private enterprises). However, it is suspected that a number of firms will not be able to adapt their pricing structure to the realities of the Ugandan microenterprise and SME market.
- The most frequently delivered consulting services were marketing and business plans.
- The training firms already offer short-term courses in business management, and UMTAC has begun offering courses throughout the country.
- At least for training, there seems to be a willingness to pay so along as there are perceived benefits from that training.
- Training firms and individuals are receiving training of trainers through interactive training methodology and this seems to be well dispersed throughout the country.
- All firms interviewed requested that SPEED assist with the capacity building activities so that they improve access to the microenterprise and SME market.

It is of interest to note that one of the firms identified, **Aclaim Africa**, has made a concerted effort to diversify their client base away from the donor community. The firm provides advice to larger agribusiness operations and has included the public sector as another client base. For the microenterprise and SME sector, the firm has been delivering services in human resource management, management information systems, and basic bookkeepping, which they feel is a huge market. They also have a fairly large NGO consulting business, focusing on capacity building.

Another consulting firm of interest that could be used as an example to stimulate more actors in the BDS market is **FIT Uganda**. FIT has straddled the line between an intermediary and a BDS provider. In a class of its own, FIT Uganda is a good example of an effective intermediary that has taken the step away from donor funding and become established as a private company to promote BDS in the broad sense — not just restricted to consulting and training. FIT is looking for areas that promote better business practices and where such promotion can be accomplished by microenterprises and SMEs themselves. Examples of their success include: a radio program to promote business ownership and best practices (expansion being funded by European Union); the establishment of a village cellular telephone service, in cooperation with MTN, a la the Grameen Bank model; a newspaper that promotes business-to-business activities; Info Point, boxes with business cards placed in strategic areas throughout the country; and dissemination of market information (DfID funded).

It is important to note that about 300 consultants (80 percent local market) participated in the delivery of about 1,000 assignments under the Business Uganda Development Scheme (BUDS). About 50 of these consultants delivered more than one assignment and the range of subjects was quite promising (see adjacent box). This implies that the notion of consulting has at least been introduced and that the range of products has started to expand to at least a group of SMEs. For more information on the BUDS scheme, please refer to the next section on Donor BDS Initiatives.

Breakdown of Services Delivered by BUDS

Description of Service	**%**
Diagnostic	4.4
Management systems	16.3
Production	14.5
Market research	10.6
International marketing	17.3
Domestic marketing	7.2
Training	30.3
Total	**100.0**

Opportunities for SPEED. The BDS market for microenterprises and SMEs has been slow to develop due to weak demand by the firms, by no proactive market development efforts by the BDS providers and by the availability of a fairly liquid donor market. In addition, the development of the BDS market has not received attention from either the public sector or donors in the past. Within this relatively weak market, positive signs are appearing that will enhance future donor activity targeting this sector:

- BDS providers are positive about entering this market, especially after the BUDS experience
- BDS providers are unanimously requesting guidance and assistance to develop products that will respond to the needs of microenterprises and SMEs
- A fair amount of training of trainers occuring throughout the country will provide a good base from which to reach out
- Evidence of a positive attitude toward cost-sharing and even total cost recovery exists, especially among women-owned enterprises
- Some leaders have started to develop their own products and explore new market opportunities

These positive signs will greatly enhance any design efforts delivered under SPEED to develop the BDS market for the SME sector. In addition, the relatively large number of firms within the country should translate into healthy competition, which should result in better quality services being delivered to the microenterprise and SME market.

G3b. Donor BDS Activities

In this section, we review the donor community’s current involvement in the promotion of BDS activities within Uganda. The table on page 60 presents the list of current donor-supported BDS activities.

Outside of BUDS, donor activity has been limited to smaller-sized interventions and often linked to other types of support, such as microfinance with training. There have been no national efforts to stimulate the use of better business practices by microenterprises and SMEs; of the activities supported, most have been training.

The largest donor-supported initiative to promote BDS within Uganda, BUDS is part of the private sector competitiveness project funded by the World Bank and implemented through the PSF. It delivered consulting and training services to more formal and upper tier SMEs. The Irish firm, Trade and Development Ireland, provided the technical assistance. The scheme used a match funding mechanism with a total budget of $3 million to cover 50 percent of the cost of the assignments. Payment however, was requested up-front and the enterprise was reimbursed once the assignment had been completed.

Size of Firms Receiving BUDS Assistance

Size of Firm	% of Total Funding	Avr. Contract Size
< 10	16.3	$1,543
11-20	17.5	$1,910
21-50	18.8	$2.203
> 50	44.0	$4,201

Services included a broad array of consulting and training (see adjacent box) and although not specifically mentioned in the box, BUDS supported up to 75 percent of the cost of ISO 9002 certification. Surprisingly, a healthy number of smaller firms received attention from BUDs; however, the bulk of the services received were training and tax-related advice. No information on gender was available to ascertain any differences in the use of BUDS' services by women- and men-owned businesses.

Sectors Receiving BUDS Assistance

Sector	% of Funding
Manufacturing	36
Farmer associations	9
Agriculture	13
Service	28
Business associations	3
Consultants	1
Commerce	10

BUDS has delivered about 1,000 assignments using about 300 consultants, of which 80 percent were local and about 48 carried out more than one assignment. The full spectrum of sectors was served (see adjacent box), with manufacturing taking the top spot. It was interesting to note that BUDS allowed consulting firms and associations to use the funds to strengthen their ability to carry out activities. However, the low level of use appeared due to time and resource constraints on the parts of these organizations.

Lessons learned from the BUDS experience that can be applied to subsequent BDS initiatives include:

- Clients received several BUDS consulting assignments without a reduction in the level of subsidy. BDS best design practices always include exit strategies for any cost sharing or subsidies.

- Impact assessments were not carried out on a regular basis. The only indicator of success was the number of deals consumated and how much money was used. Financial impact upon the firm was not measured, although PSF is in the process of preparing for an assessment of the entire program.

Current Donor-Supported BDS Activities

Donor	BDS Provider	Description of BDS Activity	Type of BDS						
			Consulting Capacity	Training Capacity	Technical Training	Business Skills	Consulting Services	Partnering	Education
Austria	Uganda Institute of Accountants	Accounting training			X				
	Care	Business development services				X			
DfID	British Council	Uganda Enterprise Award Project Capacity to training firms and consulting firms	X	X					
	FIT Uganda	Support for agroprocessing, market information and jv's			X			X	
EU	PSF	Capacity building of consultants 70,000 E, matching grant for SMEs (5,000 E), Eb@se regional program (matching grant of 70,000 E per SME)	X				X		
Suffice	FIT Uganda	Radio program "I do my own business"							X
ILO	FIT Uganda	Network of trainers, B to B services		X				X	
Japan	UNIDO	Entrepreneurship program in secondary schools							X
	UNIDO-USSIA-UNDP/PSDP	Master Craftsman Program. Sustainable technical and technical assistance program.			X				
NORAD	UNIDO	Support for food processing – SMEs and women owned SSEs			X				
	HORTEXA	Training to fruit and vegetable exporters			X				
SIDA		Fund to partner Swedish and Ugandan SMEs (7-8 firms using IT)							X
USAID	ACDI/VOCA	Farming as a Business and Other Practical Courses			X	X	X		
	IESC	Global Technology Network						X	
	PRESTO/UMA	Entrepreneurship Training Courses							X
	UUIA	Global Technology Network						X	
World Bank	PSF	BUDS	X				X		

- 100 percent up-front payment proved to be a limiting factor to market penetration by BUDS. Several firms indicated they were hard pressed to raise the necessary up-front funding, as did consulting and training firms and associations. It is interesting to note that farmer associations received more funding from BUDS than business associations.

- There was no post quality control on the services delivered by the consulting firms.

- There were no mechanisms to ensure that pricing was at market levels and not excessive.

- BUDS only worked with companies and not individual consultants and trainers. This artificially limited the supply-side of the equation and was not open to all suppliers.

- BUDS administrative approval of the assignments took a lot of time (up to 3 months) as they had to respond to World Bank funding regulations.

- Little work was done in building the capacity of the firms to deliver the products they had to deliver.

At the conference where the final balance sheet of BUDS was presented (November 7, 2000, Imperial Hotel), the organizers and participants suggested the following areas be included in future efforts following BUDS:

- Information center on consultants
- Promotion of technology
- Facilitation of human resource development and inter company training
- Communication and marketing of initiative

An ongoing USAID project being executed locally by International Executive Service Corps (IESC) and supported Globally by Chemonics International is the Global Technology Network (GTN). GTN is a service to link U.S. SMEs with SMEs in developing countries. Soon, GTN will also make linkages between the COMESA countries, allowing Ugandan SMEs access to information about importers and exporters of products and services from neighbouring countries. SPEED can integrate GTN's services through the following ways:

- Connecting GTN to the BDS providers that SPEED will work with
- Organize GTN information sessions for bankers, SMEs, and BDS providers
- Provide leads to GTN
- GTN can provide financial leads to SPEED for BDS interventions
- SPEED can harmonize its own enterprise database with that of GTN to make information sharing more transparent
- GTN can share transactional experience with SPEED partners
- GTN and SPEED can assist the clusters that will be identified through COMPETE
- GTN and SPEED can cooperate on the new regional trade initiative

Future efforts. Outside of what little BDS best practices were used by BUDS, the application of and adherence to best practices has not been evident in previous donor-supported activities. This, however, is changing, as all of the donors who are in the process of designing new BDS initiatives (UNDP/PSDP, DfID, USAID) will be integrating best practices into their projects. New efforts will include the following:

- DfID: $6.5 million BDS activity in design phase. This amount could include funds for financing activities. The Springfield Center consultant who is conducting the design work has informed the SPEED team that the actual funding level may be reduced to $1.5 million. This amount may include funding for direct assistance to the PSF and for FIT Uganda, the latter of which impressed the consulting team.

- SNV (Netherlands Development Organisation): They have just finished an assessment (gap analysis) and have put BDS on their agenda of activities.

- NORAD: Funding support for a fertilizer project (Sasakawa 2000) will include training.

- UNDP/PSDP: The design of this project is currently underway and will include support to the PSDP business promotion centers that were established during the previous PSDP project (this should be examined to establish the mix of market-driven and supply-side allocation of resources). These centers provide business information, advisory services and skills training. In addition, the project will provide for assistance to small firms to progress to medium-sized operations, which will be provided for by Enterprise Africa. The UNDP is looking for partners to co-fund and implement some of the activities. In addition, they will enforce cost-sharing for all activities.

Opportunities for SPEED. The lack of any comprehensive donor-led initiative to stimulate the development of the BDS market in Uganda will make the way easier for currently planned interventions. Although BUDS did not apply all of the BDS best practices, it certainly did whet the appetites of both the private sector clients and the BDS providers. In fact, the proof may be that several donors are all planning major initiatives into this sector at the same time.

This underscores the necessity for donor coordination on the application of the BDS best practices, especially with respect to any cost sharing or subsidization of activities. The one advantage for SPEED is that it is integrated, and this is where initiatives that stimulate BDS perform the best.

G3c. Intermediary or Facilitating Institutions

In this section, we review the various institutions that can play an intermediary or facilitating role in the promotion and delivery of BDS. With regards to associations, we also examined their financial sustainability, as a measure of their strength and future ability to play a role as a BDS intermediary.

Business and Professional Associations

Most business and professional associations are struggling to find their feet. They have been assisted by donors and continue to be assisted by donors. However, the rules of assistance are changing, and this will cause some flushing out of the association sector. Despite this, they still require some work in the basics of operating and managing an association. Their experience at delivering BDS has been limited, and their experience at facilitating BDS is even more limited. In fact, except for a few isolated cases, the delivery of BDS by these associations has been unsustainable and very limited in scope.

The SPEED team met with the key associations in Uganda — Uganda Manufacturers Association (UMA), Uganda National Chamber of Commerce and Industry (UNCCI), Uganda Small Scale Industry Association (USSIA), Uganda Women's Entrepreneurs Association Limited (UWEAL) — and the PSF (umbrella organization for some 43 business and professional associations). The team assessed their strengths, interests, abilities, and experience in facilitating and delivering BDS; the baseline for the comparison was the 1997 PRESTO study. This study was carried out with the participation of a dozen associations and was completed as part of the PRESTO Business Association Initiative (BAI). The BAI eventually made 44 grants to about a dozen associations and involved $480,000. Grants were made for a wide variety of activities, including operational support for the associations. In the study, the common constraints noted by the associations were:

- Lack of resources: transport, secretariats, information systems
- Inadequate resources to sustain up-country operations
- Lack of policy analysis and advocacy programs
- Low management calibre and limited leadership skills of full time executives
- Limited publicity of association plans and activities
- Lack of continuous training and improvement programs
- Competing associations

In 1997, only one association, UMA, was close to financial sustainability (only 10 percent of funds from donors), the best measure of the health of an association that operates under a voluntary membership basis (versus mandatory, such as the Continental European model of chambers and associations). The remaining associations were dependent on donor support, which is where the situation remains today. USSIA, a large and potentially important association, received and continues to receive a majority of its funding from donors.

The profile established by the PRESTO study is not substantially different from the actual situation or from profiles for other developing countries. Business and professional associations are a "quick fix" and an immediate reaction to common problems but are difficult to keep on track, make sustainable, and continue to attract new members. One of the primary reasons why these institutions are not strong is that their members are not strong. The one exception in Uganda is the UMA, whose members are stalwarts in the Ugandan manufacturing sector and in the business community.

Our investigation started with a visit to the **Private Sector Foundation**, the "federation" of professional and business associations. The creation of the PSF as an umbrella organization for the private sector was an excellent idea to begin to address the problems that the member associations were facing in Uganda. However, this was and remains a daunting and challenging task, as the underlying associations (except for UMA) are struggling to survive. To drive this point home, as of this year, only about one-half of the member associations are up to date on their dues, and about eight will be asked to leave the association because of non-participation and non-payment.

Although the PSF has had some successes — tax tribunal, commercial law reform, trade policy and WTO — it is also looking for ways to strengthen itself, including digressing from its original reason for existence (an advocacy group) and beginning to deliver services directly to the members of their member associations. The first such venture was to be the facilitator for the BUDS program and now the BUDS follow-on, for which the PSF will receive 25 percent overhead. Other examples are the Ford Foundation funding for a coffee project that involves the Global Environmental Fund, the Austrian funding for some USSIA-led activities, and the German funding for the PSPEF. Three of these programs involve the direct delivery of BDS to microenterprises and SMEs by the PSF and not by the associations that these enterprises belong to. As a result, the member organizations have made it clear that they want to become more involved with the delivery of services to their members. This is a perfectly normal reaction, as the PSF is increasing their profile in the eyes of the microenteprises and SMEs rather than working at strengthening the association, of which the SME is a member.

To complicate and cloud matters, the PSF indicated that it is considering amending its charter to include the direct participation of enterprises in the membership of the PSF. This would mean that the PSF would be directly competing with its own member organizations.

Given the foregoing, it may be wise not to directly involve the PSF as a counterpart of SPEED. SPEED can and should work with the PSF on various issues on an as-needed basis and within the PSF's strategic focus. Other donors (European Union) have noted that direct support to associations and in particular the PSF will be done strictly on a cost-sharing basis, which will help the PSF focus its activities where it has a comparative advantage.

In addition to the PSF, the following member associations were interviewed to get a better feel for the BDS that the associations were delivering:

- UWEAL: UWEAL holds breakfast meetings, which discuss various current topics and are usually self supporting. They have begun to offer limited computer training to their members in Word and Excel before and after hours of operation. Finally, UWEAL has begun to offer savings and credit services to their members. UWEAL is presently struggling due to a poor real estate investment made several years ago and which is probably taking too much time and energy from members. The association's membership is strong and should be incorporated into SPEED activities, for as one key informant noted, "its [UWEAL] members are individually more impressive than the association."

- UMA: Provides its members with information services, the organization of trade fairs, publications, luncheons. With PRESTO, UMA developed an Entrepreneurship Training program, which is run twice a year for two weeks and is overbooked. Cost is totally covered by participant fees. However, due to the length of the course, the majority of participants are medium-sized enterprises. In addition, they are presently faced with a shortage of trainers, as they trained only four trainers, and this is not enough given the infrequency of the course. UMA members are strong, and the UMA has representative offices in three districts.

- UNCCI: The chamber of commerce has received substantial funding from PRESTO ($200,000) and delivers few BDS to their members. Most recently, they have attempted to provide market information services to rural members. Controversy surrounds this chamber, and there is direct competition between it and the PSF as the “official” representative of the private sector.

- USSIA : This association delivers a host of services through its extensive branch system. With the assistance of UNIDO, it delivers training in business and financial management and advisory through a Master Craftsman program in six sectors. With the assistance of Gatsby Trust and the Makarere University, it provides microfinance and training linking small-scale enterprises in sectors through pressure group lending. It is interesting to note that the daily training fees (ranging between Ush 2,000 and 5,000 per day) are paid by the participants. USSIA has 17 active groups outside of Kampala and has a partnership with the Northern Uganda Manufacturers Association (NUMA), adding another eight centers.

- Gatsby Trust: Through a series of clubs, the Trust promotes better business practices through technical assistance in preparing business plans and runs a group lending program. It has also undertaken subsector analyses and, in conjunction with the Business Development Center at the Makerere University, places graduates within enterprises to assist them in strategic management and basic business skills. These clubs can also be integrated into SPEED, especially where the membership of women is high. As one woman entrepreneur from Jinja commented, “Seventy percent of the Gatsby membership here is women. The women cooperate with each other and they’re also more dynamic and entrepreneurial.”

In addition to canvassing business and professional associations, the team visited several socially oriented associations to assess their involvement in the delivery of BDS. This list included the African Development Foundation (ADF), UWESO, Action for Development (ACFODE), the National Association of Women Organizations of Uganda (NAWOU), and the Uganda Council for Economic Empowerment for Women in Africa (CEEWA). The BDS that they are delivering to their members are:

- ACFODE: Provides training in conjunction with microfinance. Funded by the DfID, Canadian Christian Fund and German Agro-Action. Provide training in starting and improving a business, business management, and loan tracking.

- ADF: Delivers leadership training to their group borrowing members; favors ongoing rather than single or isolated trainings.

- CEEWA: Carrying out a two-year research program looking at information and communication technologies and what women entrepreneurs in urban and rural areas need in these areas. They found that women wanted business-related information on trade, marketing, raw materials, business skills training. This organization is unique and can provide gender-sensitive research, analysis, training, and workshops in microfinance, agriculture, information technology, and related policies.

- NAWOU: Provides training to group borrowers. NAWOU has realized that interest costs do not cover training costs and have more groups trained than have received credit. They have good trainers but may still require some training of trainers. Marketing training is focused on product diversification and includes international standards (financed by USAID and Oxford Committee for Famine Relief (OXFAM)). NAWOU has a strong orientation to poverty alleviation and social welfare, so its value as a partner for SPEED may be limited.

- UWESO: Delivers training (10 weeks) to group borrowers and focuses on loan management, records keeping, and financial management. Other BDS includes marketing and sales and training has extended into non-key areas.

Some associations are realizing the limits to the sustainability of their delivering of these services and as donors adopt best practices, their support of these activities may be reduced. It is interesting to note that several associations are realizing their limitations and reexamining their role in the delivery of BDS.

Opportunities for SPEED. There are two opportunities for SPEED with regard to associations. Firstly, despite the high and random nature of donor funding to associations in the past, there remains opportunity for SPEED to strengthen the association environment. Targeted training in strategic planning and operations could be undertaken, along with a matching grant program that would target ability to facilitate services to members; the grants would not cover operational support.

Secondly, to help associations focus on the needs of members rather than delivering services, SPEED can encourage the use of associations as intermediaries in a BDS initiative. This role could include carrying out needs assessments for members and organizing training programs. Delivery for the programs would be done by private sector trainers and be partially subsidized through a voucher scheme that the association could use to promote better business services among its members and to attract new members.

Given the large number of associations and their distribution throughout the country, this activity could greatly enhance coverage not only of women but also rural areas.

Banks

Ugandan banks are ready to play an important role in promoting the use of BDS by microenterprises and SMEs. In addition to using BDS to assist them in their lending decision, banks and MFIs can themselves be targets of opportunity for BDS through the provision of market and price information.

Bankers we interviewed included Allied Bank, Standard Chartered, DFCU Limited, DFCU Leasing, CMFL, Diamond Trust Bank, National Bank of Commerce, East Africa Development Bank. These made the following comments about the needs of the microenterprise and SME market:

- Many clients at the SME level do not have financials or cash-flow projections.

- These firms do not keep records.

- Microenterprise and SME loans are costly to monitor.
- Banks are willing to look at deals that are properly packaged and presented.
- Training should be purchased by SME clients for them to be valued.
- Banks can play a facilitating role in training, especially in rural areas.
- Several banks were interested in developing lending products for the agricultural sector.
- In the ever-evolving activity of leasing (great benefits to overcome structural problems such as collateral), DFCU Leasing remarked that 20 percent of deals are being approved and that the approval rate could be higher if the deals were properly prepared and bank records available. In addition, clients often need additional training in areas, such as maintenance, when a vehicle lease is granted.

These shortcomings can be addressed through BDS interventions, including the preparation of business plans, cash-flow projections, after-loan monitoring, and business management training. Evidencing that BDS can contribute to positive results are the interventions of the IDEA project, where a mix of loan guarantees and technical assistance are provided to targeted agribusiness operations. Another example is UCB’s deal to begin financing veterinarian operations in the rural areas, with technical assistance provided by the Veterinarian Association and loan guarantees. This is an excellent packaging of products to attack a niche area, as is the opportunity created by the Land O’ Lakes project in the dairy husbandry area, where leasing companies can now take advantage of educated and efficient dairy farmers.

Opportunities for SPEED. The lack of the bankers’ experience with microenterprises and SMEs and agriculture are constraints that SPEED can turn into opportunities. In addition to training, bankers will require information such as commodity prices, transport options, maybe bonded storage areas, names of brokers and traders, and quality factors. This requirement will provide a business opportunity for a BDS provider that may or may not need assistance from SPEED.

In addition to information and training, bankers will be looking toward third parties to assist in post-loan monitoring and follow-up. Again, this is a service that can be provided for a host of firms and for which agricultural borrowers will gladly pay, given that they have access to financing. This service is almost a condition *sine qua non* for any agricultural-related lending.

Microfinance Institutions

MFIs tell a slightly different and not totally coherent story with regard to BDS. There is less convergence on the issues of BDS with MFIs than with their banking counterparts. The range of opinions on BDS within the MFI sector is due primarily to differing philosophies, experiences with mixing BDS and lending, and the state of development of their borrowing clients.

MFIs with dual objectives — social and economic — try to provide training to their members with credit. This training can be broad and is not always credit or business management related. For example, FOCCAS' philosophy is "credit with education" and, as a result, field agents deliver both financial and non-financial services, with the latter accounting for four to seven percent of operating costs. They also provided the opinion that SPEED should not try to provide training but could provide training of trainers to their agents. On the other hand, UWFT stopped delivering training services in the early 1980s as they almost failed and are now contemplating delivering training through a sister NGO, created for that purpose.

Other MFIs (UMU, PRIDE, UGAFODE, FINCA) who want to deliver only financial services, support the idea of business skills training for their better clients when delivered by a third party. They report that they have referred their clients to BDS providers, some clients have paid for these services in the past, and local capacity to deliver these services is available. In short, they would like to have options to explore to make these services available to their clients but would not participate in the delivery of these trainings. What is interesting is that they are eager to help their better clients progress and are looking for ways to have a positive influence in this process.

Incofin Uganda Ltd., based in Hoima, offers training services to small entrepreneurs but is experiencing problems coming up with trainees, even at highly subsidized prices (cost of Ush 70,000 versus a fee of Ush 5,000). They started a consulting service that will be terminated when the funding ends in February 2001, as they have determined that the service is not sustainable, citing demand as weak. It is interesting to note that the clients that they do have are in Kampala, where the consultants are perceived as a better value than Kampala-based consultants. Finally, there is the opinion that training without the "carrot" of financing is not worthwhile.

A recent study of MFI clients (*Impact of Microfinance Programs in Uganda,* AIMS, July 10, 2000) found that microenterprises ranked inadequate and irregular capital flow and marketing as the two most important and common problems faced in day-to-day management of the enterprises. Both of these problems can be addressed in part by BDS interventions. The first is in cash-flow planning and management, the second in marketing training and market information. These interventions can be delivered by private sector BDS firms, either one-on-one or in a group environment, and MFIs can play a positive role in encouraging the use and benefit of these services.

Using best practices as a guide to measure the state of BDS within the micro sector, it has generally been accepted that lending and training should not be delivered by the same organization. This is common sense when looking at the broader range of lending institutions. It is a tenet of banking that giving advice and lending funds are highly correlated, and lenders will most always keep their best interests ahead of the interests of the enterprise. Moreover, it is hard enough to make money at lending money; diverting focus and energy to the delivery of non-financial services is not good practice.

Opportunities for SPEED. The MFI borrowing market presents a large opportunity for the development of the BDS market. First, there is good national coverage by the MFIs. Second, the better performing MFIs are ready to promote the use of better business practices. Third, women make up the largest part of the borrowing client base, and the evidence shows that they are more willing to participate in training and pay for this service.

Despite the lower purchasing power of the MFI client base, products and services can be adapted to their needs and purchasing power of the borrowers. A number of associations, NGOs, and some MFIs have developed such programs and along with the programs, trainers, and advisors that can allow for a quick start-up of this activity.

Finally, through a voucher scheme, participating MFIs (as intermediaries) can use the scheme to increase their value among their clients and attract new clients. In addition, for MFIs who presently deliver both financial and non-financial services, the voucher scheme may encourage them to drop the non-financial services and concentrate on their core businesses.

H. Synopsis of Options and Recommendations for SPEED

The opportunities available to SPEED are strongly influenced by the GOU's MTCS, in addition to the PMA, the MDI legislation, and the FIS 2000. The stage is set for taking advantage of the successes of past initiatives to move the entire microenterprise and SME market to the next stage of maturation.

The nature of the SPEED project design, incorporating all aspects that affect the development of the microenterprise and SME markets — policy, business development services, finance — allows for the development of significant leverage and synergy that will result in sustainable and meaningful results and impacts.

H1. SME Finance Options and Recommendations

The GOU, bankers, entrepreneurs, and donors agree: SMEs are the missing middle. Although the MTCS provides a roadmap to remove policy and legal constraints to SME growth and the GOU is well on its way to implementing efforts to mitigate these constraints, the reality is that few financing avenues are available to SMEs and agribusinesses. Banks are reluctant to provide financing based on past experiences, loan products are often not appropriate to SME and agribusiness' needs, and SMEs and agribusinesses themselves are not saavy in preparing business plans, loan applications, and financial management controls. Efforts to assist SMEs are few, though numerous donors are interested in developing new interventions, SPEED will be the first to take the plunge, building on the successes of IDEA, DFCU, and commercial banks who have begun to make impacts on the SME and agribusiness sectors.

Expanding the availability of medium- to long-term financing. The lack of medium- and long-term financing in the market is a serious constraint to capital investment for small, medium, and large enterprises involved in a number of sectors, including agriculture. SPEED can assist by working with development finance institutions to expand and create new leasing programs and by helping these same institutions provide medium-term loans. Additionally, assisting commercial banks to gain access to sources of medium-term financing will be key, as will be using the expertise and services of the African Project Development Facility.

Facilitating bankable deals. Bankers report a dearth of SME and agribusiness "bankable deals." SME and agribusiness clients rarely have financial statements, acceptable references, and adequate collateral and rarely present business plans capable of making the case for a loan. Despite this situation, a number of banks are open to expanding their SME and agribusiness loan portfolios if bankable deals are presented. When complemented by guarantee mechanisms and aftercare activities, financing begins to look even more attractive to banks. SPEED can bring banks and firms together by helping SMEs and agribusinesses package deals, developing appropriate guarantee mechanisms, and providing aftercare to SMEs. The challenge for these programs will be to leave behind borrowers that will be good customers for the bank without the support of a loan guarantee and to have bankers that actively seek out SME and agricultural borrowers for profit-center lending. As far as choosing which SMEs and agribusinesses to work with, lessons learned show that resources for agribusiness development have had their biggest impacts when focused on high-potential, medium-sized firms determined by subsector market assessments. These firms feature upward linkages to larger firms and downstream to smaller firms and producer groups, thus yielding a multiplier effect. We know from IDEA that this approach can work in Uganda. The COMPETE project findings will further help SPEED target its assistance to appropriate sectors and subsectors.

Helping banks prevent and expeditiously resolve problem loans. Commercial banks are currently carrying non-performing assets (NPAs) on their books of approximately 14 percent of total assets. The high level of NPAs increases the overall level of interest rates, adversely affects bank profitability and inhibits interest in working in sectors perceived as risky, such as the SMEs and agriculture. Among the causes of this high level of NPAs are constraints in the commercial justice system, the lack of information available on potential clients, and inadequately trained bankers. Credit information bureaus can help; they can help build strong portfolios and increase profitability by avoiding loans to clients who have demonstrated an unwillingness to repay debt in the past. They can also help borrowers build credit histories and contribute to an expansion of their borrowing capacity. SPEED can provide technical assistance and leadership to the CRB initiative. This could include the spinning off and privatizing of the CRB and, through this effort, introduce a strategic investor with previous credit reference bureau experience.

Assisting commercial banks to institute lending and loan administration practices appropriate to SME and agricultural lending. The UIB is the sole institution providing certified professional banking qualifications in Uganda. Ugandan bankers agree that UIB's current training program is weak and are therefore skeptical about UIB's current capability to be a leader and innovator in commercial bank training in Uganda. However, given UIB's business orientation, a commitment from the UBA, and loosened ties to BOU, we believe the organization is poised to play a critical role in strengthening the commercial banking system with SPEED helping UIB transform its bank training program.

Using SPEED resources to establish a model SME lending unit at selected commercial bank branches. SPEED could award one or more packages of technical assistance and training with a small subcontract for start-up and initial operations costs (shared) to banks on a competitive basis, at one or more commercial bank branches outside of the Jinja-Kampala-Entebbe corridor. Making banks compete will heighten best value, establish commitment, and hone responsiveness. We believe financial institutions can realize reasonable profit objectives on the basis of sound portfolio distribution, the introduction of cost controls, appropriate loan pricing, streamlined systems, and the development of tailored loan instruments and savings products. SPEED needs to make the case to the banking community that working with SMEs and agribusinesses is good business, and there is no better way of doing this than working with one or more banks and making it happen.

New product development. Seasonal or periodic loan needs and repayment cycles have generally been ignored in loan products available to SME borrower, resulting in higher interest costs than would properly structured loan facilities. Other financing mechanisms such as supplier credit, letters of credit, and purchase order financing should be explored so that SME operators and their suppliers can move beyond a cash-based economy. Leasing, hire purchase, and other avenues of acquiring equipment on terms beyond one year will offer repayment terms in keeping with repayment capacity. Protection provided by crop insurance, as well as other types of insurance, will give lenders confidence in dealing with the SME market.

H2. Policy Options and Recommendations

In addition to strengthening the SMEs themselves to be more "bankable" and the financial institutions to better provide more financing in an effective and sound manner, the institutional environment must be conducive to the efficient and competitive operation of both, and the extensive barriers to their success overcome. For SMEs to become engines of growth in the Ugandan economy, the policy, legal, and institutional must constraints be removed as quickly as possible.

Reforming policy and legal framework and strengthen related institutions to reduce constraints to SME financing. A major constraint to private sector development has been severe weaknesses in the commercial justice system, including difficulties in resolving disputes quickly and cost-effectively, enforcing contracts and judgments, and obtaining accurate and timely information about companies, real estate and liens, and mortgages on commercial and personal property and securities. These problems are estimated to cost the economy at least two percent of GDP, which is stifling economic growth. The lack of appropriate ADR and small claims procedures and inadequate information registries directly discourages lending and investment activities, and the effects are disproportionately damaging to SMEs. SPEED can assist in the policy and legal framework activities currently being undertaken by the GOU by strengthening four relevant institutions: CADER, Small Claims Court, Companies' Registry, and Land Registry.

SPEED also proposes taking a cross-cutting approach to facilitate coordination and integration across ministries, agencies, private sector participants, and disciplines in the promotion and advocacy of SME friendly policies, regulations, law, and procedures. To support policy and administrative reform, SPEED can help the GOU establish a monitoring system to measure policy impacts on the sector, collecting and compiling information such as business creations, job generation, and investment levels, by subsector, size of enterprise, and region.

H3. Microfinance Options and Recommendations

The microfinance sector in Uganda is being molded by a plethora of MFIs, strong donor and GOU support, a largely untapped microenterprise market, and a maturing of the enabling policy environment. The coming together of these factors sets the stage for a strong and mature sector. With this in mind, the opportunities for SPEED over the next three to five years will be to assist in the commercialization of microfinancing at the industry level. SPEED can have even greater impact by matching industry-level assistance through targeted interventions with Tier 3 and 4 MFIs.

MDI legislation. As such, the new MDI legislation being developed by the BOU provides a host of opportunities. First, SPEED should help the top four to five MFIs achieve full MDI status, including the ability to mobilize and on-lend savings. Once these top institutions gain access to commercial finance, the industry will have made a significant transformational step away from donor dependency toward financial self-sufficiency. In turn, this will increase competition among Tier 3 and 4 MFIs. This competition should focus on the need to provide demand-driven and improved services and eventually lower costs to microenterprise clients. Through targeted packages of technical assistance, training, and in some cases grants to cover some operational and commodities costs (but not loan capital), SPEED can assist promising individual MFIs with needed product development, MIS, training, or other assistance needed to adapt to the new reality. It is important to note that for some MFIs, commercialization may mean the end of their operations if they are unable to compete. However, the MFI market overall — and hence, the larger financial market in Uganda — will be strengthened and better able to respond to the changing needs of the microenterprise sector.

With commercialization of the industry as SPEED main microfinance objective, two areas of opportunity for SPEED within the MFI industry hold the most potential for growth and deepening of the market: geographic expansion and product diversification.

Geographic expansion. At present, there is a strong movement by existing MFIs to move out to the rural areas while simultaneously expanding clients' bases in urban areas. As such, we believe there is no need to offer donor-driven incentives for these institutions to move "down and out," especially since the RMSP project will be lending MFIs its $19 million in loan capital with likely rural geographic conditionalities placed on the subsidized loans. However, SPEED can support those MFIs that already have expansion in their strategic plans.

Furthermore, there is also reason to support those institutions that are expanding within the urban areas, assuming that this is within their strategic plan. In short, allowing the MFIs to make these expansion decisions and then responding to some strategic problem areas that they may have is an excellent way to ensure that a greater percentage of the microfinance market will be served by the end of the SPEED project.

Product diversification. To date there has been little product diversification among MFIs, with most of them offering some type of fairly rigid group product to a relatively small segment of the microenterprise market. The wider microenterprise market growth potential — and market demand — for alternative products is enormous. Yet there is a large gap between loan sizes at the upper end of the MFI market and the lower end of the commercial bank market. Few financial institutions offer loans between Ush3-10 and Ush10-20 million. MFIs are better positioned and have a competitive advantage to move up market into the Ush3-10 million range than do the banks because the MFIs are used to working with these types of enterprises and are used to non-traditional forms of collateral. Banks, on the other hand, may require much more hand-holding and instruments to reduce credit risk.

In addition to moving up-market through larger sized individual loans, SPEED can accelerate the adoption of other product opportunities in various stages of development, including agricultural financing, support for COMPETE clusters, and pilot efforts in crop insurance and healthcare for microenterpreneurs.

Technical assistance and training. Finally, working through local institutions, including local consulting firms and MCC, technical assistance and training can be provided to the MFIs. It is interesting to note that there seems to be a lot of employee movement in this sector; in fact, many MFIs tell us their best employees end up being stolen by commercial banks. As a result, and coupled with extremely high growth rates, MFIs require constant training of new staff. In addition, with changing and ever developing best practices, a mechanism is required to ensure that local training institutions remain up to date on their training programs. SPEED can facilitate the development of the training and technical assistance market through targeted interventions by invited specialists and through a voucher scheme that will address the purchasing power needs of some of the lower Tier MFIs.

H4. Business Development Services Options and Recommendations

Unlike the legislative influence on the microfinance environment, the environment for BDS has been affected most by a few donor-led interventions and one large consulting and training focused activity (BUDS). The combined impact of these efforts have paved the way for SPEED. Although demand may be weak, it is weak for traditional products delivered by firms that have not carried sufficient market analysis to refine their products. The BDS providers (seeing the need and opportunity) and the GOU are both enthused about a serious effort in this area. Bankers, MFIs, and associations also that recognize the need for the use of better business practice among their clients and members.

In addition, past efforts have left a good supply of trainers throughout the country, with whom SPEED can design and build efforts to stimulate the use of BDS services, thereby improving the efficiency and competitiveness of these businesses. Some of these past efforts have been leading edge, thereby providing examples for SPEED to build on and reducing the start-up time to put a BDS initiative in place. Donors and the GOU have also recognized the importance of BDS, the latter including specific actions in the MTCS and the former group presently preparing three important interventions in this area.

A BDS initiative that follows the best practices outlined in Section G2. can have a substantial effect on the growth of the microenterprise and SME sectors in Uganda, especially when executed in conjunction with financial and regulatory initiatives. The objective of the BDS initiative would be to improve the performance of individual enterprises through the delivery of appropriate, needs-driven services. Expected results of such an initiative could include the development of a viable Ugandan BDS market, where microenterprises and SMEs purchase services from BDS providers at market prices. This initiative could include several components, should include a focus on women, and should be linked to the COMPETE project.

The objective of sustainability has to be coordinated with the donors presently designing BDS initiatives, UNDP/Private Sector Development Programme (PSDP), and DfID. It should contain components that stimulate demand (vouchers, promotion of better business practices), and build local capacity (product development and adaptation, delivery techniques, needs assessments). This program should be as integrated as possible with SPEED's financing components and focus on establishing lasting linkages between BDS providers, intermediaries, and enterprises. Specific recommendations and options are noted below.

Matching grants. Business and professional associations, still struggling yet still active, present an opportunity for SPEED to continue to assist these associations, but on a limited scale and with a clear focus on improving their ability to facilitate services to their members. A matching grant program, based on a rigorous application process and not covering operational expenses, will provide an opportunity for forward-moving associations to continue to improve and refine their ability to retain and attract members. This same tool can be used to help BDS providers develop innovative services for the microenterprise and SME market.

BDS voucher scheme. The large number of associations can be used to promote the use of BDS by their members. SPEED can facilitate this process through a voucher scheme, where a portion of the BDS cost can be underwritten by SPEED. Using associations and, in some cases, MFIs to distribute these vouchers will have the effect of increasing the value of the association or MFI to its members. This scheme may also encourage other associations, who are struggling to deliver BDS services, to rethink this strategy and refocus their efforts on what they are best placed to deliver to their microenterprise and SME members.

Banks and MFIs are becoming increasingly aware of the need for BDS, with some having already seen the results, and are ready to promote the use of these services among their clients, including targeted efforts to support agricultural loan activity. Besides their clients, the institutions themselves are candidates for BDS providers for tools that will allow them to understand unfamiliar sectors, such as agriculture, better. Tools could include commodity prices, transport options, maybe bonded storage areas, names of brokers and traders, and quality factors that affect commodity values.

Women make up the majority of borrowers in the MFI market and are more willing to participate in BDS interventions and pay for them. This is a leverage not often obvious or available to this extent. As a result, the SPEED-supported BDS interventions should find ways to focus on women, including strategies to maximize the use of women-owned consultants and trainers and special emphasis on promoting success stories about women in business as a way to encourage other women to enter into business for themselves.

Integration with COMPETE. It is imperative that the SPEED initiatives for BDS mesh completely with those planned under COMPETE. In fact, it would make sense for SPEED to deliver and support COMPETE in this activity and not have two separate BDS initiatives. It is important that SPEED takes its lead from COMPETE, as the latter will be identifying the target cluster areas for intensified support and development.

H5. Contract Management Options and Recommendations

Long-term projects implemented through an indefinite quantity contract (IQC) contract mechanism are still a relatively new method of contracting. While use of an IQC can mean much quicker procurement of contractor services, in some cases the administrative aspects of IQC contract management are greater than the more traditional mechanisms. Therefore, to streamline SPEED implementation, we recommend the following:

Budget the two-year option period. It is important to note that the SPEED RFP already competed a three-year base period, plus a two-year option period. Because an option period has already been competed, it should be budgeted and "pre-priced" now. Then, should USAID/Uganda want to exercise the two-year option at the end of the base period, the existence of a pre-priced option will greatly simplify matters and obviate the need for further competition. Of course, if USAID/Uganda is unhappy with progress on the SPEED contract at the end of the base period, the mission can simply elect not to exercise the option period and put the contract out to competition again. However, budgeting now means USAID/ Uganda would have the option and not be forced to compete when it might not wish to do so.

Begin working with USAID/Washington now to extend the FS IQC contract end date. Section F.5. of the FS IQC contract states that "The basic contract period is not extended [beyond January 20, 2004] unless by formal contract modification and new task orders shall not be issued after the basic contract estimated completion date, as modified. Only the cognizant USAID/W Contracting Officer may modify the basic contract." It is clear that it is possible for the FS IQC — and by extension the SPEED delivery order — to be extended beyond its current end date. Chemonics has already initiated discussions with the FS contracting officer, Mark Walthers, on this issue, to see what is possible. Once we are fully briefed by Mr. Walthers, we will advise the SPEED CTO and contracts officer of the options and requirements and decide on a course of action.

Because USAID missions are using IQCs for long-term projects more frequently, we have already run into this issue on a Rural and Agricultural Income with a Sustainable Environment (RAISE) IQC contract in Bolivia. We would recommend that USAID/Uganda consider inserting similar language to that which the USAID contracting officer inserted the following language into the RAISE delivery order contract, which states:

> *The period of the contract is for three years, from October 2000 to September 2003, with two additional optional years expected. It is recognized that the RAISE IQC expires November 23, 2003. The optional years are planned for, acknowledging the intended activity length for the project as designed. It may be necessary to select a different contracting mechanism for the option years depending on possible extensions or amendments to the RAISE IQC. It is also recognized that the budget for the option years may need to be revised based on different rates or changed conditions relative to project implementation. The option period will be entered into at the sole discretion of USAID/Bolivia. Among the factors weighing in on the Mission entering into the option period are: a formal extension of the RAISE IQC; the availability of funding; the performance of the contractor; and an extension of USAID's Economic Opportunities (EO) Strategy to September 30, 2005.*

Include a "Special Activities Fund" under Other Direct Costs in the contract. As part of the SPEED assessment, we have recommended a number of interventions, including training, subcontracting, voucher systems, and grants. To maintain flexibility during implementation, we recommend that the resources assigned to these interventions be included in a Special Activities Fund under Other Direct Costs. Chemonics has used such funds under other projects with great success. They allow the contractor to respond quickly to targets of opportunity and enable resources to be shifted to where they are having the most impact without further contractual action.

Make use of a short-term consultants fund, rather than requiring a labor category and levels matrix in the budget. Because it is difficult to know exactly how many days of short-term consulting will be needed over a three- to five-year period in each of the labor categories and at each of the levels, it may be simpler to allow the delivery order budget to include a short-term consulting line item with a gross amount of funds available for short-term consultants. This gross amount would be to cover the burdened daily rate and number of days for consultants as they are identified and used. Each time the implementing contractor would like to access these resources, the contractor can submit an approval to the CTO and contracts officer stating the labor category and level of the consultant, attach a resume, and indicate the number of days and total amount to be used from the short-term line item. The alternative is submitting our best guess of specific consultants and labor categories, projected over a three- to five-year period. As consultants identified this way in a delivery order under an IQC are considered “key,” replacing them would require a contract modification each and every time. Chemonics has used this approach in a contract awarded under the GBTI Support for Economic Growth and Institutional Reform (Segir) IQC for the implementation of the Global Technology Network of USAID’s Global Bureau.

ANNEX A

Donor Matrix

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **Norway**

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'bakset funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Commercial Justice		4th quarter 2000	2000-2001	550,000	Budget support	Ministry of Justice		3
UNIDO INt. Prog.		4th quarter	2000-2001	1,600,000	Multi-bilat.	UNID/Uganda	Support to the MSE components	5
TA to MoFPED's MSE Policy Unit		3rd quarter 2000	2000-2002	550,000	Bi-lateral	MoFPED	Support to the MSE Policy Unit in policy formulation and coordinaiton of MSE initiatives	5
International Law Institute (ILI)		4th quarter 2000	2000-2001	100,000		ILI	Training Prog. of ILI's Trainers	3
Training of exporters of fruits & vegetables		1st quarter2001	2001-2003	750,000		Not yet decided	Training prog. for exporters of fruits and vegetables	
Support to women enterpreneurs in private sector		1st quarter 2001	2001	100,000		Not yet decided	Activities to be decided by 3rd quarter 2000	5

*MTCS Priority Action Areas & PMA Link Areas

1. Reforms in Infrastructure Provision (e.g reducing sector constraints, promoting sector participation, supporting utility sector regulation)
2. Strenghtening the Financial Sector & Improving Access (e.g support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for small and medium enterprises)
3. Commercial Justice Sector Reforms (e.g reform of key institutions, improving legal environment, promotion of business-friendly laws, commercial lawyer training)
4. Institutional Reforms & Removing Sector Impediments (e.g support to anti-corruption, reforms in public procurement, simplification of administrative procedures, deregulation, investment and export promotion, improving tax administration)
5. Improving Business Environment for MSEs (e.g policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **European Union**

Date of last revision: 06-10-00

Programme, Project, Activity, Study	**Current (check)**	**Planned/In planning (estimated start date)**	**Term of Activities (calendar years)**	**Amount (in USD equiv't)**	**Funding Modality (e.g 'bakset funding)**	**Name of Implementing Partner(s) (e.g. recipients, interlocutors)**	**Brief Description**	**MTCS Priority Action Area # (s) or PMA link area (see attached list*)**
SUFFICE Prog. ph.1			1.5 yrs	US$ 1.6 m	Direct via GOU	MFIs, UIB	Credit lines/bank guarantees matching grants for capacity building grants for informaiton dissemination, documentation, research, coordinaiton	2
SUFFICE Prog., ph.2		01.08.01	4 yrs	US$ 4.5 m	Direct via GOU	MFIs, UIB, BoU, SMEs	Expanding and extending the current microfinance programme managed by SUFFICE to include financial services to MSSEs, support to linkage banking/down scaling informal finance sector	2,5,7
CJRP		To start fiscal year 2000/2001		US$ 1.9 M (2 M Euro)	Sectoral budget support	MoJCA	Support to the sector	3

*MTCs Priority Action Areas & PMA Link Areas

1. Reforms in Infrastructure Provision(e.g reducing sector constraints, promoting sector participation, supporting utility sector regualtion)
2. Strenghtening the Financial Sector & Improving Access (e.g support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for small and medium enterprises)
3. Commercial Justice Sector Reforms (e.g reform of key institutions, improving legal environment, promotion of business-friendly laws, commercial lawyer training)
4. Institutional Reforms & Removing Sector Impediments (e.g support to anti-corruption, reforms in public procurement, simplification of administrative procedures, deregulation, investment and export promotion, improving tax administration)
5. Improving Business Environment for MSEs (e.g policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **Agence Francaise de Developpement and PROPARCO**

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'bakset funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Programme		Sep-00	3	315	Grant	CERUDEB	Provision of a three year support tot he vocational training programme for CERUDEB's staff. It will support the development plan of CERUDEB and complement the existing projects aimed at strenghtening it's capacity, namely a project funded by DFID.	2
Project			10	18,450,000,000	Equity + Loan	Kasese Cobalt Company	Reclamation of cobalt from existing pyrite stickpiles located at Kasese	6.7

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1. Reforms in Infrastructure Provision (e.g reducing sector constraints, promoting sector participation, supporting utility sector regulation)
2. Strenghtening the Financial Sector & Improving Access (e.g support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for
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4. Institutional Reforms & Removing Sector Impediments (e.g support to anti-corruption, reforms in public procurement, simplification of administrative procedures, deregulation, investment and export
5. Improving Business Environment for MSEs (e.g policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: FAO

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'basket funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Fish Processing and Fish Export Sector TCP/UGA/8922(A)		May 1999-May 2000	1 yr 1 month	US$ 233,000			Main objective is to strengthen the national capacity to improve safety and quality of fish for export	
Development and promotion of value added meat products GCP/UGA/033/CFC		October 1995 - Dec. 1999	4 yrs 3 months	US$ 1,094,744			Project activities closed Dec. 1999 follow- up phase under negotiation but like to start year 2000	
Small Scale poultry Keeping (Ojwina Pur Kede kwoch) women Cooperative Society TFD-97/UGA/003		Feb. 1999 - Mar. 2000	1yr 2 months	US$ 9,525			Provided 'seed chicken' from Zimbabwe for eggs for nutrition and sale . Other activities included integration of production of under exploited traditional vegetables and mosaic free cassava varieties. Planned objectives achieved , report to be prepared.	
Small Scale Poultry Keeping (Kigarama Youth Poultry Farmers Association)TFD-97/UGA/004		Feb. 1999 - Mar. 2000	1 yr 2 months	US$ 9,500			Similar project objectives to TFD-97/UGA/003 above, except target groups are the youth in Bushenyi district. terminal report to be prepared.	
Fruit and Vegetable Gardening by Mukungwe Women's Development association TFD-98/UGA/001		Oct. 1999 - Apr. 2001	1 yr 7 months	US$ 7,276			Under this project, women in the association in Masaka district were given vegetable seeds, fruit seedlings and related inputs. Progressive report to be prepared.	
Household Pig farming Project by Dikiri En Tego Group - Nebbi TFD-98/UGA/002		July 2000- July 2001	1 yr 1 month	US$ 5000			Both male and female piglets were procured and delivered to beneficiaries in Nebbi district, together with associated drugs and inputs.	
Fruit and Vegetable Project by Kyakaliba Women's Group TFD-98/UGA/005		Apr. 2000-Apr. 2001	1 yr 1 month	US$ 6,050			Vegetable seeds, fruit seedlings and related inputs have been delivered to women's group beneficiaries in Hoima district. Project expected to go a long way in promoting this year's(2000) World Food Day theme "a millenium Free From Hunger".	
Fruit and Vegetable Gardening TFD-99/UGA/003		As soon as possible and will wind up 18 months after inception		US$ 7,870			Project will start at the advent of the second rains in the year 2000 in Masindi district. At the moment, the necessary inputs are being procure.	
Fruit Nursery Establishment and vegetable production UGA/99/075		As soon as possible and will wind up 18 months after inception		US$ 8,080			This project has been approved and is awaiting funds from Rome ,1% fund for Development. Bweyogerere-Nambole Rotary Club will cost-share by giving an input of US$ 2,000 and the balance is to be given by the 1% Fund. Beneficiaries are peri urban women.	

*MTCS Priority Action Areas & PMA Link Areas

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2. Strenghtening the Financial Sector & Improving Access (e.g support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for sm and medium enterprises)
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4. Institutional Reforms & Removing Sector Impediments (e.g support to anti-corruption, reforms in public procurement, simplification of administrative procedures, deregulation, investment and export promotion, improving tax administration)
5. Improving Business Environment for MSEs (e.g policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g privatisation in agriculture, promotion of private sector role)

Donor Activities in Support of Private Sector Development

Donor: **GTZ**

Date of last revision; 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned / In Planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g. 'basket funding')	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area #(s) or PMA link area (see attached list *)
Private Sector Promotion E.A	Yes	n.a	3 years	No separate budget for Uganda (regional project)	Direct funding of activities	UMA	Support of private sector organisation (capacity building)	1;5;6
Financial System Development	Yes	n.a.	7 years	3.1 Mio. (1998-2002)	Direct funding of activities	BOU, UIB, CMA, USE, PBU	Payment system development; design and implementation of regulatory and supervisory framework for microfinance institutions; establishment of Microfinance Competence Center at UIB; support of CMA and USE in developing of and awareness creation for alternative financing instruments	1;2;3;7

* MTCS Priority Action Areas & PMA Link Areas

1. Reforms in Infrastructure Provision (e.g. reducing sector constraints, promoting private sector participation, supporting utility sector regulation)
2. Strengthening the Financial Sector & Improving Access
   (e.g. support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for small and medium enterprises)
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6. Private Sector Growth in the Context of Globalisation (e.g. regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g. privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **Austria**

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't) [ATS:13.7603*0.85]	Funding Modality (e.g 'basket funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Commercial Justice Reform Programme		late 2000	1 year	436,000			Reform of justice sector, particularly in areas such as commercial law	3
Civil Service Reform Program				2,162,000			To create an enabling environment, esp. thru improving service delivery. The Grant is expected to used to fund activities in co-ordination with the World Bank Institutional Capacity Building Project & the Economic Financial Management Project II	4
FINCA Village Banking	05-00		04.01	272,000	project	FINCA Uganda		2
FOCCAS Savings and Credit with Education	06-00		05.02	490,000	project	FOCCAS Uganda		2
Shoemaker and Leather Craft Training Centre (TCFC)	01-00		12.01	216,000	project	Ecotec, Austria / ULAIA/TCFC	Austrian TA and operational support to help set up the training centre as a sustainable, independent business unit for ULAIA members for training, production, marketing, and sourcing of frequently used materials	5
Mutual Health Protection through Business Associations and Producers' Groups	12.97		01.01	390,000	project	ILO	Community-based health care savings scheme Kisoro and Kampala	2
Market Promotion Centre	12.96		10.00	213,000	project	OED / USSIA	Construction and business plan for a market promotion centre for products of local micro- and small-scale businesses and industries	5
Beekeeping Kisoro	01.98		12.00	43,000	project	OED	Income generation through improved bee keeping, bee products and marketing strategies; (additionally 1 TA through separate funds)	5
Capacity Building for Carpentry Sector Kisoro	01.98		12.00	61,000	project	OED	Vocational training in carpentry through advisory services to micro-scale carpenters to improve products and target local markets; (additionally 1 TA through separate funds)	5
Carpentry Network Promotion Mukono, Jinja, Iganga, and Kamuli Districts	01.99		12.00	60,000	project	OED	Vocational training in carpentry through advisory services to micro-scale carpenters and building of carpentry network with an information centre to improve quality and business acumen; (additionally 2 TAs through separate funds)	5
Rural Enterprise Development Programme JENGA	04.98		12.00	605,000	project	CARE Austria & CARE Int'l Uganda	Increase household incomes through local partnerships to provide technical and business advisory training and services to micro- and small-scale business; training of trainers and promotion of trainers as consultants	5
Improving the Framework for the Financial Sector	03.98		11.01	327,000	project	BoU Supervision / Ecotec / CERUDEB / ICPAU / PRIDE Africa / FINCA Africa & Uganda	Develop awareness of MF sector and develop MFI rating system; demand-driven training for MFIs and capacity building for related training institutions	2

*MTCS Priority Action Areas & PMA Link Areas

1. Reforms in Infrastructure Provision (e.g reducing sector constraints, promoting sector participation, supporting utility sector regulation)
2. Strenghtening the Financial Sector & Improving Access (e.g support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for small and medium enterprises)
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5. Improving Business Environment for MSEs (e.g policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **DANIDA**

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'basket funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Danida Private Sector Programme			2000, 2001	3,700,000	programme	Royal Danish Embassy, Kampala	Supports commercial collaboration between Ugandan and Danish companies	
Rural Financial Services Component of Agriculture Sector Programme Support		Nov. 00	3	4.7 mio USD	Direct	Bank of Uganda, Uganda Institute of Bankers, Commercial Micro-finance Ltd. Micro and Small enterprise Policy Unit of MoFPED, Financial CBOs	Support will be given to training of partners in the Micro finance industry through UIB, Outreach to rural financial services on market terms in target districts will be improved through support to CMF Ltd. (grant and equity for expansion, but not for credit)	7

* MTCS Priority Action Areas & PMA Link Areas

1. Reforms in Infrastructure Provision (e.g. reducing sector constraints, promoting private sector participation, supporting utility sector regulation)
2. Strengthening the Financial Sector & Improving Access
   (e.g. support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for small and medium enterprises)
3. Commercial Justice Sector Reforms (e.g. reform of key institutions,improving legal environment, promotion of business-friendly laws, commercial lawyer training)
4. Institutional Reforms & Removing Sector Impediments
   (e.g. support to anti-corruption, reforms in public procurement, simplification of administrative procedures, deregulation, investment and export promotion, improving tax administration)
5. Improving Business Environment for MSEs (e.g. policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g. regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g. privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **DANIDA**

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'basket funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
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7. PMA Link Areas (e.g. privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **UNDP** Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'basket funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Enterprise and Entrepreneurship Development	x		1997-2000	3,370,500	grant	UMA. UNCCI District Private Sector Promotion Centres	Business and entrepreneurial skills training, including TOT; provision of technical skills; development of entrepreneurship curricula in primary, secondary and tertiary institutions; business advisory services; market information, commercialisation & dissemination of appropriate technologies; promotion of public-private sector partnerships at the district levels; fostering networking between the private sector, NGOs, and development projects mainly at the local (district) levels; capacity building of private sector associations such as UTA, UWEAL, AMFIU, and FUCO.	6
UNBS	x		1997-2000	3,000,000	grant	Uganda National Bureau of Standards	Strengthen capacity of UNBS to provide services in standardisation, quality assurance, and metrology, through human resource development and provision of equipment.	5
MSE Policy Unit	x		1997-2000	210,000	grant	MSE Policy Unit	Strengthen the capacity for policy & strategy formulation implementation and monitoring in the MSE Policy Unit.	6
Investment policy review	x		1998-2000	190,000	grant	Uganda Investment Authority	Review of Uganda's existing and comparative advantages in attracting FDI; prepared investment profile of the country; prepared the "Big-Push" strategy; and support for preparatory activities for implementation of the strategy.	4
Microfinance	x		1997-2000	115,000	grant	Women's Associations, AMFIU, UWFT,BOU, MSE Policy Unit, District Private Sector Promotion Centres	Improving access to financial services through supporting the establishment of village savings & credit institutions; Supporting the establishment of the policy and legislative framework for MFIs	2
Microenterprise Development		x	2001-2005		grant	Private sector promotion centres, Private sector associations	Enterprise promotion and development focusing on supporting start-ups, improving productivity, promoting employment; strengthening existing private sector promotion centres and capacity building for existing village savings and credit institutions	6
Medium-enterprise Development		x	2001-2005		grant	Individual enterprises, Private sector associations Enterprise Africa, UNCTAD	Providing comprehensive and integrated package of business services to selected growth-oriented enterprises with export potential. These include technical assistance in preparation of business plans, sourcing credit, business counselling, promoting linkages with foreign companies and sub-contract arrangements with larger enterprises.	6

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7. PMA Link Areas (e.g. privatisation in agriculture, promotion of private sector role)

DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: Italy

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'basket funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Investment Promotion Unit	in pipeline	Oct. 2000		US$ 1m	Multi-lateral	UIA/UNIDO	Increased investment and technology transfer through joint ventures with foreign enterprenuers.	

*MTCS Priority Action Areas & PMA Link Areas

1. Reforms in Infrastructure Provision (e.g reducing sector constraints, promoting sector participation, supporting utility sector regulation)
2. Strengthening the financial Sector reforms (e.g support to commercial banks, development finance institutions, and microfinance institutions and support to promote financial services for small a
3. Commercial Justice Sector reforms (e.g reform of key institutions, improving legal environment, promotion of business-friendly laws, commercial lawyer training)
4. Institutional reforms & removing sector impediments (support anti-corruption, reforms in public procurement, simplification of administrative procedures, deregulation, investr
5. Improving Business Environment for MSEs (e.g policy formulation and dialogue, skills development and training)
6. Private Sector Growth in the Context of Globalisation (e.g regional policy and trade integration, regional capital markets, policy dialogues)
7. PMA Link Areas (e.g privatisation in agriculture, promotion of private sector role)

Donor Activities in Support of Private Sector Development

Donor: **IDA/World Bank**

Date of last revision: 6-Oct-00

Programme, Project, Activity, Study	Current (check)	Planned / In Planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g. 'basket funding')	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area #(s) or PMA link area (see attached list *)
Private Sector Competitiveness Project	Yes		closes 06/30/01	$5.72 mill (undis)	project	PSF, UIA	Project provides insitutional support for PSF and UIA and finance for BUDS	4,5
Financial Markets Assistance Project	No	9/30/2000	4 years	$13million	project	BOU, MFPED	Project supports improved banking supervision and reform of social security	2
Microfinance Policy Advice	Yes	continuous		n.a.	TA	BOU, MFPED, Microfinance Forum	Policy advice by William Steele	2
Power IV	No	2000/01	4	n.a.	project	MEMD	Funding for Units 13, 14, 15 Owens Falls Extension	1
Privatization and Utility Sector Reform	Yes	2000/01	4	$48.5 million	project	MFPED	Utility sector reform (privatization)	1
Road Development Program	Yes		2	$86.42 mil (undis)	project	MTC	Roads rehabilitation	1
Poverty Reduction Strategy Credit	No	2000/01	2	$250 million	budget support	MFPED	Support policy reform in public procurement	4
Integrated Framework for Trade-Related TA	Yes	continuous		n.a.	TA	MTTC	Policy advice for enhancement of trade policy institutions	6

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Donor Activities in Support of Private Sector Development

Donor: **USAID**

Programme, Project, Activity, Study	Current (check)	Planned / In Planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g. 'basket funding')	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area #(s) or PMA link area (see attached list *)
Support for Private Enterprise Expansion and Development (SPEED)	x		3	15,000,000	contract	TBD	Improve access to finance and business skills development services for micro, small and medium sized businesses.	5, 2, 7
Commercial Justice Reform		1-Dec-00	2	1,400,000	contract	MOJ	Contribute to the GOU's Commercial Justice Reform Program by: improving the Commercial Court Procedures manual, training judges and staff of the Registrar, and establishing alternative dispute resolution mechanism procedures and	3
Competitive Private Enterprise and Trade Expansion (COMPETE)		1-Dec-00	1.5	2,000,000	contract	MOF, MTTI	Enhance the global competitiveness of Ugandan businesses in up to five sectors where large industry-wide impacts on employment and growth can be achieved in the next 5 to 10 years.	2.4.5.6
Dairy Development		1-Sep-01	7.5	7,828,440	grant	dairy farms and agribusinesses	Provide advice to private dairy farmers in order to improve their businesses	7
SACCO Development			3	2,400,000	grant	SACCO's	Improve the financial soundness and profitability of local SACCO's.	2
PRESTO	x		6	8,400,000	contract	MOF, BOU	Improve the private sector environment through strengthening business associations, policies and regulations, and MFIs. Ends	2
Trade Capacity Building Project	x		2	1,400,000	contract	PSF, ULRC	Create a base of better informed public and private sector stakeholders in Uganda as to the basic tenets of the WTO and regional trade policy affairs.	6
BOU Bank Training	x		1	300,000	contract	BOU/Supervision	Train new BOU/BSD staff on the fundamentals of bank supervision.	2
IDEA	x		9	30,000,000	contract	private farmers and agribusinesses	Increase the productivity of farmers producing select high- and low-value food crops and diversify the agricultural economy into non-traditional agricultural exports.	7
Agricultural Technology Support	x		7	768,000	grant	private farmers and agribusinesses	Provide advice to private farmers in order to improve their businesses	7
Post Harvest Handling	x		5	7,000,000	grant	private farmers and agribusinesses	Develop technologies for use in post-harvest operations in order to increase producitivity and profitability of farms.	7
Export Finance Guarantee	x		1	400,000	contract	BOU/DFD	Assist the BOU to establish an Export Finance Guarantee that will increase Uganda's exports.	2

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DONOR ACTIVITIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Donor: **Netherlands**

Date of last revision: 6-10-00

Programme, Project, Activity, Study	Current (check)	Planned/In planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g 'bakset funding)	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area # (s) or PMA link area (see attached list*)
Private sector devt				30,000	T/a	UFEA, UEPB		

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7. PMA Link Areas (e.g. privatisation in agriculture, promotion of private sector role)

Donor Activities in Support of Private Sector Development

Donor: **DFID**

Date of last revision: 17-Oct.-00

Programme, Project, Activity, Study	Current (check)	Planned / In Planning (estimated start date)	Term of Activities (calendar years)	Amount (in USD equiv't)	Funding Modality (e.g. 'basket funding')	Name of Implementing Partner(s) (e.g. recipients, interlocutors)	Brief Description	MTCS Priority Action Area #(s) or PMA link area (see attached list *)
Commercial Justice TA	yes	Sep-00	2	$800,000	indiv project	MoJCA	Two long term TA posts to provide capacity to MoJ	3
Comm Justice - Budget support	no	Dec-00	3	1 million	budget supp	MoJCA	Contribution to GOU's CJRP	3
Business Deregulation	yes	Jun-00	3	2.6 milion	indiv project	Min of Finance	Improving regulatory environment for private sector	4
Support to DFCU	yes	1997?	3	1 million	indiv project	DFCU	capacity building in DFCU and Uganda Leasing	2
Support to FIT Uganda	yes	Nov-00	2	340,000	indiv project	FIT Uganda	devt of JVs between Ugandan businesses	5
Uganda Enterprise Awards	yes	1998?	3	780,000	indiv project	small service provider orgs	Training awards for service providers for capacity blg	5
Centenary bank	yes	1998	3	1.3 million	indiv project	Centenary	Provision of TA Credit and Operations advisers	2
Ugafode	yes	1998	3	800,000	indiv project	MFI Ugafode	Loan portfolio building and capacity building	2
FSA support	yes	1998	3	800,000	indiv project	FSA International	Supporting PMU for 6 rural FSAs	2
Microsave	yes	1998	3	400,000	indiv project	Microsave Africa	Cofunding with UNDP research into savings products	2
Financial Services Deepening project	no	est. dec. 2000	5	9.75 million	indiv project	Various MFIs	Umbrella project for all DFIDs FS projects	
BDS umbrella project	no	est. March 2001	5	6 million	indiv project	various BDS orgs	Umbrella project for all DFIDs FS projects	5
Enabling environment for the private sector	no	est. April 2001	3	375,000	indiv project	PSF and member bodies	Possible support to PSF and member organisations at strategic levels (business plans, advocacy etc)	

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ANNEX B

Survey of the Microfinance Industry

ANNEX B

Survey of Microfinance Institution Industry

A survey of the microfinance industry in Uganda was undertaken by Chemonics International in October/November 2000 as part of the assessment phase of the USAID-funded Support for Private Enterprise Expansion and Development (SPEED) project. Using a rapid appraisal methodology, the team met with and surveyed two commercial financial institutions offering microfinance services (Centenary and CMFL), 12 of the largest MFIs in country, 4 small credit-only MFIs operating outside of Kampala, 8 small CBOs offering PAP-supported credit programs, and 2 PAP offices in Masinde and Hoima, both of which offer retail and wholesale micro-credit. To supplement and interpret the survey findings, the team also visited the Ministry of Finance, Planning, and Economic Development, as well as two departments at the Bank of Uganda, Non-Banking Financial Institutions and Development Finance. Finally, the team met with all of the major donors supporting the microfinance sector in Uganda. These include USAID, GTZ, KfW, World Bank, African Development Bank (PAP), UNDP, DFID, EU, DANIDA, Irish Aid, Austrian Development Corporation, SNV, and NORAD.

This document is divided into 5 major sections: an overview of the microfinance industry, a summary of the microfinance products and services available in Uganda, microfinance operations issues, a brief overview of relevant microfinance umbrella and/or support organizations, and finally an overview of donor support to the sector. We begin with an overview of the industry.

A. Overview of the Microfinance Industry

Over the last six years, Uganda’s microfinance industry has advanced in leaps and bounds. By 1995, rural financial markets, savings mobilization, and microenterprises were increasingly recognized as playing an essential role in expanding the economy and alleviating poverty. With support from donors, the GOU began paying greater attention to microenterprises, particularly through the support of commercial and NGO microfinance institutions (MFIs). In 1995, the National Forum on Private Investment and Export Growth’s Financial Sector Development Working Group endorsed (1) the strengthening of the Bank of Uganda’s (BOU) Development Finance Department to better coordinate microfinance programs; (2) the development of loan policies and programs that target the disadvantaged; (3) the establishment of lower capital requirements for rural banks; and (4) the introduction of incentives for financial institutions that open branches upcountry. Donors, especially USAID, DFID, the Austrians, African Development Bank, and UNDP, have supported MFIs through grants for capitalization, capacity building, and operational support over the last six years. Significant programs included USAID’s large grant program for MFIs via PRESTO, the African Development Bank’s PAP program, and individual donor grant funds to PRIDE, FINCA, FOCCAS, FAULU, UGAFODE, and UWFT. Below, we begin our survey of the microfinance industry with a brief overview of the policy environment.

A1. Policy Environment for Microfinance

The overall policy environment in Uganda is one of the most progressive and supportive of private-led development in Africa. Of importance to SPEED, the Year 2000 marks the initiation of significant financial policy changes for Uganda. These adjustments to the Ugandan financial policy framework, brought on in large part by the recent series of highly-publicized bank closures in 1999, are to be captured and legislated in the Financial Institutions Statute 2000 (FIS2000) now being reviewed by Parliament. While financial sector policy in Uganda is currently in flux, it is important to note that the Government of Uganda's general approach to establishing the policy framework has been — and continues to be — based on a holistic approach to accelerating economic growth while simultaneously reducing poverty. Thus, the dual objectives of poverty alleviation and economic growth continue to guide national financial policy.

With this strategy as context, GOU policymakers explicitly acknowledge the crucial role that microfinance can play in contributing to such "growth with equity," especially for the estimated 7.5 million or more Ugandans still living below the poverty line. Further, it is important to note that all of the key economic strategies currently being implemented by the GOU identify microfinance as an important element in alleviating poverty, increasing the productivity of self-employment, and expanding the provision of financial services to the vast majority of Ugandans who still lack such access. These GOU strategies include the Poverty Eradication Action Plan (PEAP), the Plan for Modernization of Agriculture (PMA), and the very recently released Medium-Term Competitive Strategy (MTCS) for the Private Sector (2000-2005).

In fact, the MTCS outlines the following guidelines and actions for the development of a legal and regulatory framework to govern microfinance. In summary, these actions presage the creation of a policy environment directly supportive of the microfinance industry. They include:

- The framework shall include a system by which MFIs can progressively evolve into financial intermediaries.
- Serious consideration shall be given to allow some MFIs to mobilise savings provided that they meet minimum prudential requirements.
- The supervision of the [deposit-taking] MFIs to be regulated shall be the responsibility of the BOU.
- The BOU shall put in place a legal and regulatory framework for financial institutions that provides services to micro and small enterprises. An MFI law will soon be drafted and presented to Parliament.
- The government will continue with the policy of market determination of interest rates for financial services. The policy of no cap on interest rates shall continue.
- The government will abolish the provision of credit services at subsidised interest rates, which serve to distort the market and undermine long-term sustainability.
- Grants for equity will strategically be encouraged to build the capital base of MFIs. The benefits of such concessionary funding should not be used to subsidize lending operations to small and microenterprises.
- The role of government will be limited to the provision of the appropriate legal and policy environment, and capacity building.

- Funds for the Entadikwa, a subsidized rural credit scheme managed by the government, shall be converted to a line of credit for MFIs with sufficient funds earmarked for capacity development.
- Credit delvery schemes supported by Government and donors shall aim at channelling funds more directly to the MFIs that demonstrate capacity and sustainability, and are under the regulation and supervision of the BOU.

While these strategic guidelines and planned actions provide a supportive framework for the development of microfinance policy and regulation, no real policy governing microfinance yet exists. Significantly, the Financial Institutions Statute of 1993 in its current form does not cover microfinance. To address this omission and as a first step in establishing the legal framework for regulation of MFIs, in July 1999 the Bank of Uganda issued a policy statement on microfinance regulation. The intent of this policy statement was to set the stage for new legislation (later mentioned in the MTCS) that would allow for the creation of Tier III financial institutions, referred to as Micro Deposit-Taking Institutions (MDIs).

In our discussions with the BOU and GTZ (which is assisting the BOU in the development of the MDI legislation), we were assured that the new MDI legislation is being drafted and, in fact, is now being reviewed by the Ministry of Finance, having just been approved internally at the BOU. While the BOU is not yet willing to release this draft version, we have been told that the new law will provide for individual loans of up to 1% of paid in capital, and will have a requirement for MDIs to maintain a 15% capital adequacy ratio. A lot of effort is being put into strict licensing requirements up front in order to avoid expensive and time consuming efforts later needed for corrective action and/or liquidation.

Five key indicators of risk have been developed for ease in monitoring the new MDIs, including ownership/governance, management, credit, liquidity, and interest rate. There will be 3 MDI license types:

- A Credit only (with a plan to go up to B or C)
- B Time deposits and credit
- C Savings, time deposits, and credit

MDIs licensed under “A” must have operational self-sufficiency, and those licensed under "B" and "C" must have full financial self-sufficiency. Because the broader FIS2000 legislation will take priority and will move through Parliament first, it is unlikely that the draft MDI legislation will be submitted to Parliament before FIS2000 is passed.

Still, we believe USAID can expect the MDI legislation to be passed and put into effect within the first 12-18 months of SPEED implementation. It will be critical to stay abreast of the new law, and to integrate its eventual passage into the SPEED design. While we are optimistic that the legislation will have an overwhelmingly positive effect on the commercialization of the microfinance industry in Uganda, it will be impossible to tell until it has made its way through Parliament. As such, the legislation and the uncertainty around it represent either a significant opportunity or a potential constraint for SPEED's microfinance component.

A2.The Market Today

Beginning in the 1990s, and best characterized by USAID's timely PRESTO project, most of the microfinance-related efforts in Uganda over the past 5-8 years have been focused on the supply side of the market. For example, PRESTO was widely successful in institutionalizing the concept and application of microfinance "best practices" within 10-12 of the largest MFIs, in 16 of the 60 PAP-supported intermediaries, and indirectly in the microfinance industry at large. All of the other donors have had similar supply-side programs.

As demand was so apparent and widespread, the issue of demand for MFI services was not addressed or systematically studied until recently. In May 2000, DANIDA funded a comprehensive market needs assessment for rural financial services in 5 selected districts of Uganda as part of its larger agricultural sector support program. In sum, the DANIDA assessment found that 86% of household respondents in the 5 districts (Kabarole, Masaka, Pallisa, Tororo, and Rakai) reported an interest in participating in credit schemes for income generating activities. It also showed that credit was most strongly desired for agricultural enterprises, followed by trading, livestock, and poultry. The median amount of credit required varied among the districts and ranged between Ush300,000 and Ush800,000, with households prepared to contribute between Ush40,000 to Ush200,000 to the investment themselves. Most respondents would prefer individual loans, and those who have such assets would be prepared to use land or movable assets as collateral.

The DANIDA study notwithstanding, gaining a clear understanding of the microfinance market — meaning clients and demand, not suppliers and donor-supported programs — has proven elusive. In the subsections below, we highlight our key findings of both market supply and demand within 5 key aspects of the market: market size and demand, a break-down of the types of players in the market, MFI geographic outreach, competition among providers, and the sector's impact on women.

A3. Market Size and Demand

There is little disagreement among microfinance intermediaries, donors, government, and even microfinance clients that the demand for microfinance services remains largely un-met in rural areas. The July 1999 BOU Policy Statement on Micro-Finance Regulation begins by stating, "…a considerable part of the potential demand for financial services among low-income sectors is neither met by institutions of the regulated market nor by NGOs or other institutions specialized in supplying small loans to these sectors." Further, the 1999 DREPS study estimated that 79% of borrowers in rural areas of Uganda obtain their loans through non-traditional sources, mainly individual money lenders (which charge anywhere from 20-30% per month), friends and relatives, as well as local revolving credit schemes. Likewise, a September 1999 AfDB appraisal report for the RMSP project estimates that MFIs are currently extending financial services to only 1.5% of the Ugandan population categorized as poor. Current estimates also show that only 8% of rural households have bank accounts.

It is in entering the more populous towns and trading centers, as well as urban areas, that some discrepancies concerning market demand for microfinancial services enter the picture. For example, virtually all of the MFIs we interviewed that have urban, peri-urban, or operations targeting town trading centers said they are feeling strong competitive pressures (outlined in more detail below). Yet most also still claim there is no shortage of clients in these trading centers and as such they continue to project strong growth, further stating that their only real constraint to continue high growth is access to the capital needed to fuel continued outreach.

However, complaints of high client drop out rates and a concurrent rise in “double dippers” (clients obtaining loans from two MFIs simultaneously) support a slightly different conclusion — that some segment of the urban, trading center-focused microenterprise market has adequate access to financial services, which has resulted in competing MFIs chasing after the same subset of clients. In response, many MFIs have plans to “go rural” to meet the widely publicized demand and lack of service in these more remote areas. Reasons for this rural expansion vary but include possible market saturation in urban areas, donor conditionalities on new funding, the organization’s social vision, and competitive pressures.

A closer look at the MFI loan portfolios reveals that the overwhelming majority of their loans are in the trade and commerce sector. In other words, there is some evidence that MFIs may be meeting demand in the specific trade and commerce subsector for which a majority of their loan products have been designed. Conversely, other sectors — in both rural and urban areas — appear to remain unserved. Also supported by the DANIDA study, these underserved market sectors include agriculture, manufacturing, and services. Therefore, it will be equally important for MFIs to diversify and expand their product base as it will for them to diversify and expand their geographic coverage.

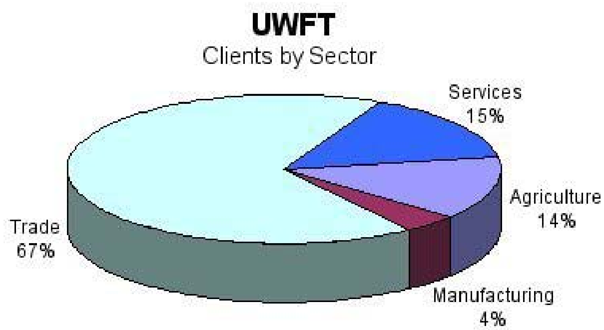
As an illustration of this point, we have included a pie chart on the following page showing 1998/99 GDP by sector next to a portfolio breakdown by sector of two MFIs, UWFT, and PRIDE. It is important to note that the GDP figures in the chart do not delineate in which sectors the estimated 20% of GDP contributed to the economy by microenterprises is focused. However, the chart does illustrate that MFIs are concentrating their lending in trade and commerce, which is only 15% of Uganda’s GDP, far smaller than the contribution of either agriculture or manufacturing to GDP.

In fact, the MTCS states that the estimated 800,000 non-farm micro and small-enterprises employ 90% of the economically active population. Therefore, it is likely that the MFIs’ focus on trade is well-justified. However, it is equally true that the MTCS figures do not include — and the MFIs portfolios do not adequately reach — the agricultural sector, which is by far the largest contributer to GDP.

Significantly, we found that MFIs, especially the larger ones, are already beginning to find ways to respond to market demand for new products, including some attempts at entering the agricultural sector. We have outlined some of these initiatives in Section B below.

A4. Players in the Market

It is commonly estimated that there are about 100 organizations actively offering financial services to microenterprises in Uganda. These service providers are extremely diverse in size and capacity. For the purposes of the SPEED assessment and ease of discussion, they can be broken into five main groups, highlighted in the table on the following page.



Existing Ugandan Service Providers to Microenterprises

Category	Number	Characteristics/Examples
Tier I and II Institutions	2	Centenary Rural Development Bank and a specialized, privately owned microfinance bank (CMF). Centrally-regulated, can legally mobilize and on-lend deposits.
Potential Tier III MFIs	4-6	MFIs which have reached or about to reach full financial self-sufficiency. Many are already converting to companies limited by shares in anticipation of the forthcoming MDI legislation. They have well documented operational procedures, fairly good MIS, and well-qualified management. As told to us in interviews, organizations interested in immediately pursuing MDI status include FAULU, FINCA, PRIDE, UMU, UGAFODE, UWFT, and perhaps others.
High Tier IV, and will remain so for the time being	10-12	Mainly NGO registered as companies limited by guarantee. Charging market interest rates and have adapted a business approach to microfinance. Moving towards operational self-sufficiency, but still have a ways to go. Fair to good documentation of procedures and MIS. Good management. These include organizations such as UWESO, FOCCAS, Feed The Children, BCDF, and other larger organizations operating with multiple offices in more than one area.
Lower Tier IV	40-45	Mainly small single-office NGOs with limited resources and clientele. Most have attended MF training and some have tried to implement best practices. Most are fairly well-connected to the microfinance information network. However, most have only fair management, are still far from operational self-sufficiency, and may not be moving closer.
CBOs offering credit	40	Very small community-based organizations, generally not well known in the sector. Largely outside the national MF information loop, except as connected through the Entandikwa or PAP programs. Most are untrained with little or no exposure to best practices. Most have added credit delivery to an otherwise non-financial program.

We briefly discuss each of the groupings composed of non-regulated institutions below:

Potential Tier 3 Organizations. Both size and capacity appear to be directly related to the amount — and especially timing and quality — of donor assistance. The largest MFIs — UWFT, FAULU, PRIDE, and FINCA — all had programs up and running by 1995, and all have gotten large grant assistance and technical assistance from multiple donors, including USAID, DFID, NORAD, or an international partner such as Women's World Banking in the case of UWFT. They are all characterized by the fact that they are "credit-only" organizations, meaning that while they may have non-financial ideals as part of their vision — women's empowerment or rural development, for example — they first and foremost run strict microfinance programs based largely on banking principles and microfinance best practices.

Upper Tier 4 Organizations. At the next level, the higher Tier 4 MFIs, including agencies such as UWESO, Feed the Children, and MED-Net, also received early donor or partner assistance. However, they initially either did not follow a key microfinance best practice — separating their microcredit program from other socially-motivated non-financial programs — or simply did not have any staff experienced in financial management.

As the associate director of Feed The Children (FTC) , David Baguma, told us, while FTC appreciated the CIDA grant in 1994 used to start their microcredit program, none of the staff had any experience or knowledge of credit. Even though the credit program was not directly linked to their other child welfare work, they used inexperienced existing staff to start it, had a mixed methodology and unclear products, were not pricing the loans based on any real financial rationale, and got heavily involved in agricultural credit without understanding the mechanics or the actual client needs. Non-performing assets on these loans quickly ballooned to over 50 percent. He fully admitted that neither the CIDA personnel assisting them at the time, nor any of the FTC staff running the new program, knew what they were doing or had any training in credit delivery or financial management. Since then, the PRESTO program followed with another grant, coupled with technical assistance and best practices training. The FTC program has turned around and is now reaching over 10,000 clients. Still, because of their rough start and their relatively late introduction of strict credit discipline and best practices, it will be difficult for them to grow or reach financial self-sufficiency without further assistance.

Lower Tier 4 Organizations. At the next level are smaller, mostly rurally-based MFIs. They are characterized by having programs with less than 1000 active borrowers and usually only one office. For the most part, they are based outside of Kampala. Many have attended various PRESTO trainings, and a few, such as SOMED in Masinde, have received additional on-site PRESTO technical assistance. Virtually all of them are also members of AMFIU, and have been acting as PAP and/or Entandikwa intermediary entities. In the PAP program, they are paid a commission for lending out PAP funds, but must use PAP methodology. This has led to some internal disconnects in these organizations, as the PAP funds included a 22% cap on interest rates. As such, organizations on-lending PAP funds often have a PAP portfolio at 22% rates, and their own program at a different (and higher) rate. This has served to distort both the local credit market and their own programs. The biggest factor affecting these lower Tier 4 organizations is their management, which is often weak, or controlled by a Board of Directors that does not have a good grasp of microfinance. Many also continue to struggle with trying to maintain credit discipline among clients to whom they also offer non-financial training and assistance.

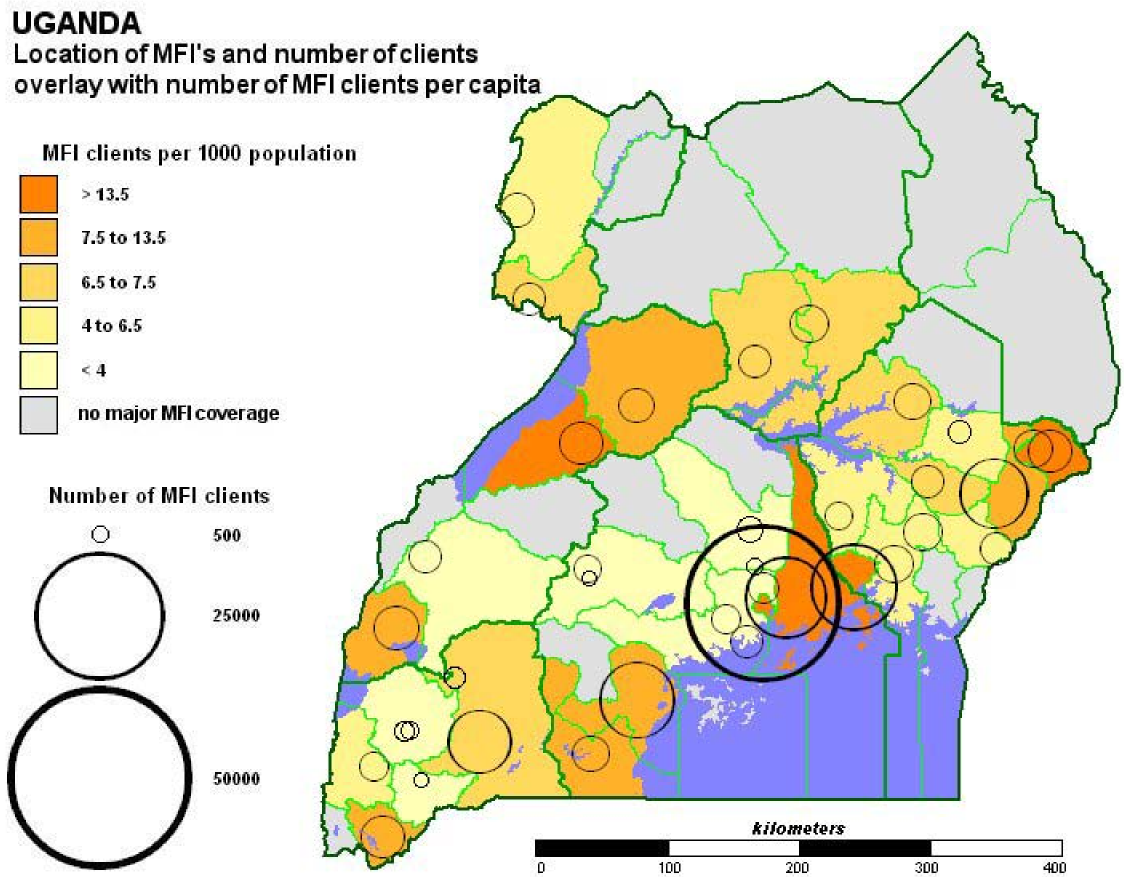
CBOs and other small agencies offering credit. In rural areas, there are also a large number of non-financial CBOs offering credit, as well as small credit and savings associations. Most have received funding from PAP and Entandikwa and some training through PAP. Few have portfolios greater than 200 clients; many have less than 100. Staff remain largely untrained, and repayment rates range from 70-100% for PAP, and usually under 70% for Entandikwa. Because PAP will not replenish loan funds until repayment is 95%, a few of the CBOs we visited in Masinde and Hoima complained that their program has stagnated with no new loan capital — good clients have repaid and are waiting for a new loan, while the bad clients are holding everything up. Of course, PAP rightly is not willing to adjust this policy, as it would negate the basis of the group cross-guarantee form of collateral. PAP blames the problem on poor CBO capacity and poor orientation of the clients to the loan terms and conditions. In any case, it is our view that these CBO credit programs are largely unsustainable, lacking the discipline and the mandate to attain the efficiencies needed to run a self-sustaining program. In the words of one such CBO in Hoima, many admit to getting into credit because, “it is the latest way to get access to government funds. Before it was women in development so everyone had a women’s program. Now it is credit, so we have a credit program.”

A5. Geographic Outreach

Based on surveys of MFI loan portfolios, it is estimated that the roughly 100 MFIs in the marketplace are serving about 150,000 microenterprise clients. Most of these clients are served by the largest 10-15 MFIs. As highlighted in the map on the following page, which shows the geographic and client coverage of 15 of the largest MFIs in the country, MFI market penetration is highest in urban areas and in rural trading centers and towns. A few MFIs are already working exclusively rurally (more than 5 kilometers from a rural town trading center), but most have loan products that target more urban clientele.

MFIs will likely accelerate their penetration of increasingly rural areas as they access capital from the Rural Microfinance Support Project (RMSP), the follow-on to the PAP program. Having just advertised for MFI implementation partners on November 7, 2000, RMSP will be lending qualifying MFIs loan capital under certain conditionalities. As part of their larger strategy, RMSP intends to work through MFIs to reach every district in Uganda with financial services for the rural poor.

The following map depicts the locations and client sizes of major MFI’s interviewed by the assessment team. Client sizes are shown as proportional circles. The largest concentrations of clients are found around urban areas — Jinja, Kampala, Masaka, Mbale, and Mukono. The underlying map theme shows the number of clients per 1000 population at the district level. This geographic analysis reveals that northern and northeastern districts (Adjumani, Gulu, Katakwi, Kitgum, Kotido, Moroto, and Moyo) are not covered by the larger MFI’s. A more detailed GIS investigation of MFI coverage, as well as geographic information on underlying agricultural and economic indicators, may be used to assist in identifying areas of opportunities for the MFI sector.



Prepared by Chemonics International Inc, November 2000.
Sources: SPEED Team interviews with MFI, November 2000.

In the table on the following page, we list 15 MFIs and commercial entities serving microenterprises, how they define "rural," and their geographic expansion plans, if any. In our estimation, the information presented illustrates that the whole "rural versus urban" question is a bit moot at the practitioner level. While it may be interesting to government and donors, the fact is that virtually all of the MFIs have expansion plans and most are already "going rural" without any artificial donor incentive. In fact, the rate of this expansion will likely increase as MFIs begin to access RMSP funding, which is largely earmarked for rural dwellers more than 5k outside of the major towns and trading centers. Representing government's interest to spread the wealth evenly and everywhere, RMSP is also keen to induce and expand the delivery of rural credit through intermediaries to every district and *sub-district* in Uganda.

A6. Competition

One of the benefits of simultaneous donor investment in the microfinance industry — and concurrently in a wide range of MFIs — has been the promulgation and ongoing growth of market competition. While it is unlikely that the microfinance market will be able to sustain 100 MFIs in the long-term, through the existence of multiple competing players, the market — i.e. microenterpreneurs themselves — can exert some influence over market direction and market leaders.

MFIs and Commercial Entities: "Rural versus Urban" Expansion Plans

Institution	Definition of Rural/% Rural Now	Expansion Plans, if Any
1. BCDF	At least 5k outside of towns/100%	Consolidate 3 existing rural programs first — Hoima, Masindi, and Kasese
2. CMFL	Outside Kampala/80%	DANIDA partnership to go rural, from 6 to 52 rural outlets
3. FAULU	Outside Kampala-Jinja-Kampala corridors/10%	From 3 to 4 branches, with DFID grant
4. Feed The Children	Out of the rural towns/80%	Plans to open Bushenyi branch in January, needs funding assistance
5. FINCA	Settlements of less than 10,000 people/85%	Won't say where, but plans are to use current product in new areas & new products in existing areas
6. FOCCAS	Outside of rural towns/100%	Move into four more districts within 5 years
7. Incofin	Outside rural towns/5%	Expand existing operation, has high demand for its individual loan product, needs capital
8. PACT	Outside of rural towns/100%	Plans to expand to Kibande and Bulisa, after that to Hoima
9. SOMED	Outside of rural towns/60%	Large expansion starting in Masindi District and to Hoima with Ush700m HIVOS grant
10. MED-Net	Outside of rural towns/20-35%	Plans to go rural, targeting World Vision ADP districts
11. PRIDE Africa	Outside rural towns/5%	Outlet system set up to go rural, 4 in operation now, 4 more planned
12. UGAFODE	Outside rural towns/20%	With DFID grant, expand to Rukungiri, Iganga, and Soroti
13. UMU	Towns of 1000 people or less/33%	Open 2 more semi-urban and 2 more rural branches, want balance
14. UWESO	Out of rural towns/100%	If they get funding, may add 2 branches, in Nebbi and Mbale
15. UWFT	Outside of Kampala/80%	Focused on existing markets and new product development

Of course, the industry is still overwhelmingly supply driven, as donors and international "mother" organizations continue to pour resources into Uganda's MFIs. It is important to stress that donors need to pay careful attention to this trend in the years to come. Currently, most donors are rightly focused on the health and outreach of MFIs at the institutional level. However, as a critical mass of MFIs reach self-sufficiency, donors can and should begin withdrawing direct institutional-level support and begin instead to focus on the health of the sector at the industry level. In the long-term, this may require donors to stand by as market forces and other conditions reduce the number of MFIs in the marketplace — including some "pet" MFIs of this or that donor. One wonders if donors will be able to step aside and let the market dictate the winners and losers, or will each donor step in to rescue the MFIs they consider their own? MicroRate, a Washington-based organization, recently stated that they felt there was only room for around 7 MFIs in Uganda, and that this is all that would be left 5 years from now. While this is highly unlikely in the time frame indicated, especially given the large amount of resources known to be directed by donors to the sector in this 5-year timeframe, it may be a reasonable expectation in the longer-term.

Rural versus urban competition. Virtually all of the MFIs interviewed delineated competition along rural and urban lines. Those working in rural areas — in the smaller villages and areas more than 5k outside the major trading centers — told us that they feel very little competitive pressure. Where they do have some competition, it is from local traditional moneylenders, not other MFIs.

In urban areas, MFIs report much higher levels of competition. A few key elements of this urban competition among MFIs are detailed below:

- *Competition is commonly viewed as healthy*. There is general agreement that competition is healthy, and good for the clients. This may be because some MFIs retain a social and altruistic element to their institutional vision. Significantly, none expressed concern that competion was yet threatening their core business — which could also be confidence that donors remain firmly committed to the sector and the MFIs in it. Instead, the MFIs remarked that competition was forcing them to be more demand-driven as clients are now presented with a range of credit choices in some markets. As such, competition was largely characterized as product-based.

- *Demand remains un-met*. While some MFIs admit they compete heavily for the same group of women traders in a few marketplaces, none felt they had any shortage of either clients or demand. As much of this demand is in sectors and for products and services outside of their current portfolio, most MFIs are currently ill-equipped to respond to this demand, which has the short-term effect of increasing competition for the subset of clients they do know how to target.

- *Few changes in loan pricing*. Few MFIs plan to respond to competitive pressures by changes in loan pricing. Of those surveyed, only UWFT mentioned cutting loan costs as a competitive strategy; they are dropping their processing fee from four to two percent. This may be in part because UWFT is one of few MFIs that is fully financially sustainable and can afford such a price decrease.

- *Relatively new market entries are exerting the most competitive pressure*. The MFI market in Uganda is being re-characterized by three relatively new competitors, Centenary, UMU, and CMFL. UMU differs from its more traditional competitors by offering a wide range of demand-driven individual and group loan products. CMFL, on the other hand, has BOU permission to mobilize deposits and is actively taking advantage of this market edge before the MDI legislation opens up the MFI savings market. Finally, Centenary, a commercial bank, now offers individual loans much smaller than any other bank would consider, targeted at the high end and just above typical MFI group loan sizes and using non-traditional forms of collateral. The result is that many MFIs claimed they are losing their best clients to Centenary, because these clients prefer to escape the bureaucracy, extra responsibility, and weekly time commitment of being in a traditional MFI borrower group.

A7. Impact on Women

Despite macrolevel success — including an annual rate of growth that has averaged 6.5% over the last 10 years — all sources agree that at least 50% of the population of Uganda remain below the poverty line, with women and children disproportionately represented among the poor.

Women are burdened by a total fertility rate of 6.7 children per woman, one of the highest in the world. They also raise around 80% of the food. So it would seem that Ugandan women would be hard-pressed to do well in business. Yet the data show that female Ugandan entrepreneurs match their international counterparts around the world: they are better MFI clients than men with higher repayment records. This has led to preferential targeting of women clients in almost all MFIs attempting to follow best practices in Uganda. It appears that about 80% of microenterprise credit clients in the country are women. Only PRIDE Africa claimed that it has attempted to maintain a client base of 60% women and 40% men, and some MFIs, like FINCA and UWFT, have nearly 100% female clients.

Two recent empirical studies of microenterprises provide a portrait of the socioeconomic and sociodemographic characteristics of entrepreneurs: (1) a study of women clients of the Uganda Women's Finance Trust (UWFT), and (2) the 1999 study by CEEWA of four leading MFIs representing different models: FINCA-Kamuli, PRIDE-Mbarara, UMU-Busiika, and UWFT-Kampala. Among the two studies' most salient points are the high levels of education of the average participant and the fact that despite a target of the "economically active poor," the MFIs were not reaching the "poorest of the poor."

The typical UWFT client is one of the "economically active" poor, female, married, aged between 30-39, educated to between Secondary level 1 and 6, living in a household of 7, with several children in school. The CEEWA data show that 47% of women clients vs. 40% of men achieved Secondary (O or A level) education. Given the fact that literacy is much lower among women than men in Uganda (51% vs. 74%, per the 1998 Human Development Report), it is clear that the women are a more selected subgroup of females although both men and women have above-average educational levels.

Another bias noted (and explored further below) is that the MFIs target microenterprises that generate income in short-term cycles, since most require weekly payments. Hence the strong emphasis on trade and other businesses (e.g., sale of cooked foods) that generate daily income streams. This further assures that women will dominate the client group since the data show that most women's businesses produce income every day. In fact, the biggest gender gap in type of business concerned manufacturing — only 7% of women vs. 20% of men in the CEEWA study were manufacturers.

In summary, the continued high percentage of women clients among MFIs is encouraging, but should not be taken for granted. It will be important to ensure that as MFIs diversify their products and move a portion of their portfolio into larger, individual loans (see section B below), that they do not inadvertently inhibit women's ability to access these products as well as their male counterparts.

A8. Quantitative Indicators of 12 of the Largest MFIs

In the table on the following page, we present a few key quantitative indicators for 12 of the largest MFIs in country:

MFI	PAR — 1 day	PAR — 30 days	Active Borrowers	Loans Outstanding	OSS
1. BCDF	10+%	6.5%	7,500	Ush369 million	40-50%
2. CMFL	N/A	N/A	5,300	Ush1.3 billion	N/A
3. FAULU	7-9%	.08%	3,682	Ush898 million	70%
4. Feed The Children	5-7%	0%	10,060	Ush419 million	120%
5. FINCA	7.8%	1%	24,000	Ush2.3 billion	Profitable
6. FOCCAS	5%	1.4%	11,000	Ush536 million	37%
7. MED-Net	N/A	7.8%	6,970	Ush876 million	67.4%
8. PRIDE Africa	2%	0%	15,688	Ush5.1 billion	85%
9. UGAFODE	6-8%	2-3.5%	7,000	Ush818 million	81%
10. UMU	N/A	1%	7,000	Ush1.15 billion	100%
11. UWESO	93% repayment		6,221	Ush367 million	40%
12. UWFT	12%	4.9%	20,640	Ush3.2 billion	125%

Portfolio at Risk (PAR). In general, MFIs report relatively high PAR levels after one day, as compared to “best practice” MFIs around the world. However, for all but one or two of the MFIs listed, PAR drops to very low levels by the 30-day mark. Another tribute to the best practices trainings done by PRESTO, in general we found that the largest MFIs have MIS systems that track portfolio at risk, managers that understand its implications, and staff trained to follow up immediately on any payments just one day past due.

Number of Active Borrowers. The largest five MFIs — FINCA, UWFT, PRIDE Africa, FOCCAS, and Feed the Children — have more than 80,000 clients among them. This represents well over 50% of the estimated 150,000 microenterprise clients served by MFIs in Uganda, but less than 20% of the estimated 800,000 non-farm microenterprises. Without analyzing numbers month by month for all of the institutions over the past few years, all of the MFIs reported fast growth rates, most in conjunction with infusions of donor capital. A few reported being in a “consolidation” phase as they await promised grants from various donor sources. However, they collectively report no shortage of demand; in fact, a few MFIs with capital constraints have waitlists of new clients whom they will extend loans to when expected donor capital comes through.

Loan Portfolio Outstanding and Operational Self-Sufficiency (OSS). Loan portfolios of the biggest MFIs range in size from UWESO’s Ush367 million portfolio to PRIDE Africa’s Ush5.1 billion. In comparing each MFI’s portfolio size with its operational self-sufficiency percentage, conventional wisdom on economies of scale holds for that most part — that is, bigger is better. Three of the five largest MFIs — FINCA, UWFT, and Feed The Children — already report operational self-sufficiency, and one of the other two, PRIDE Africa, is at 85%.

It is also worth noting that the three MFIs with the lowest operational self-sufficiency ratio — BCDF, UWESO, and FOCCAS — all operate almost exclusively in very rural areas, meaning outside of towns and major trading centers. This evidence suggests that MFIs planning to “go rural” will have to pay careful attention to maintaining low transaction and operational costs, if they are to do so sustainably. A key factor in the cost of rural credit delivery, FOCCAS continues to break a commonly held microfinance best practice by mixing financial and non-financial service delivery through its “credit with education” program. However, all of the MFIs operating in remote areas reported the need for extensive pre-loan training of clients, claiming that all of their attempts without such training have resulted in poor repayment rates. In one case, clients have to go through a 10-week training course before they actually receive their first loan! This issue is worth further study and observation, as it lies at the heart of whether such rural credit delivery can be done on a sustainable basis.

B. Micro Financial Services in Uganda

In this section, we present an overview and analysis of the loan and savings products offered by MFIs in Uganda. We also include a discussion of the current trends and issues surrounding the delivery of both types of financial services.

B1. MF Loan Products

Rather than an exhaustive listing and comparison of each MFI’s loan products, we present below a synopsis of the common features among the MFIs’ group and individual products. This is followed by a more detailed discussion of issues, product diversification trends, and other relevant information.

Group loan products in Uganda. Virtually all of the MFIs offer some version of either a village banking or solidarity group loan product. In some cases, MFIs offer both, with clients first entering a village banking program (with village banks consisting of 25-55 members, depending on the MFI) and then graduating to a solidarity loan product (characterized by smaller groups of 5-10 members). The group products also share the following characteristics, most of which are built upon microfinance best practices:

- Initial loan sizes are small, increasing in steps upon successful repayment of each subsequent loan.
- Relatively short loan terms to start, ranging from 12 weeks to 4 months.
- Subsequent loans amounts are usually linked to the amount of mandatory savings the client has banked.
- Weekly repayments.
- Interest rates are fairly even across MFIs, working out to a flat rate of roughly 3% per month. Most also charge some kind of application or processing fee; those that do not charge any fees up front compensate by having a higher monthly interest rate.
- Some MFIs disburse loans to the individual group members simultaneously, others stagger disbursal.

As mentioned earlier, competitive pressures are causing MFIs to expand their loan product base. While at very different stages of development and testing, most MFIs are trying to link new products, as well as adjustments to existing products, to client demand. The most significant trend is the widespread intent to introduce some type of individual loan product, usually targeted at the best of the MFI's existing group-based clients. The few MFIs which have already started offering an individual loan product are offering a loan which is usually larger than their group loan, has longer loan terms, and requires some type of collateral beyond the cross-guarantee used with the group product. MFIs expressed varying degrees of apprehension and caution when discussing their plans regarding new individual loan products. Most expressed a desire to receive technical assistance and training in developing, designing, operationalizing, and managing individual loans, as they either have had no experience — or bad experience — with individual lending in the past.

UMN - Pushing the Envelope

From one perspective, UMU has perhaps the most innovative and cutting edge loan portfolio; another perspective is that they stray the furthest from microfinance best practices. In either case, they are the only MFI offering a wide — and growing — range of new, as well as relatively mature, group and individual loan products. The core of their business is a traditional working capital solidarity loan product. However, individuals within each group can have different loan terms, loan amounts, and even different payment schedules.

Additionally, UMU also offers employer loans using employee check deductions and post-dated checks, as well as capital asset loans in larger loan amounts with longer loan terms that don't require either formal collateral nor blocked savings. A further innovation is that they allow qualifying clients to have *both* a working capital loan and a capital asset loan, with the rationale that once a new capital asset is purchased, the client still needs his or her usual working capital loan. For example, a new refrigerator won't do an entrepreneur any good without being able to purchase the drinks to go in it.

A number of other product innovations were mentioned by the interviewed MFIs:

- *Adjustable loan terms*. Clients are being offered the option of selecting a longer or shorter loan term, based on their microenterprise, history with the MFI, and what the loan will be used for.

- *Unlimited access to savings*. Some MFIs are allowing clients unlimited access to their savings under certain conditions and with certain loan products.

- *Larger and longer group loan products*. While sticking with their core product, many MFIs are raising the maximum amounts individual members within groups can borrow and also raising the gross amount that they will lend to a group.

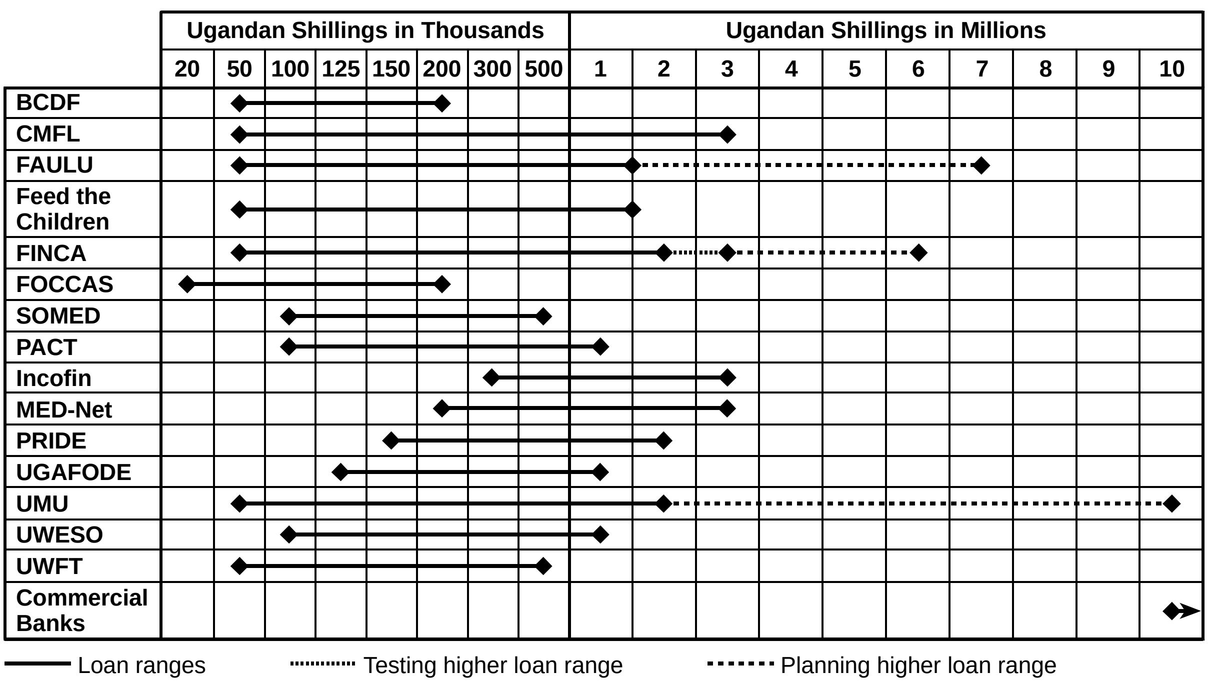
- *Increased loan to savings ratios*. MFIs are allowing clients greater leverage of their mandatory savings by increasing the allowed ratio of loan to savings. For example, whereas previously Ush50,000 in savings might allow you to borrow Ush200,000, some MFIs are now allowing loans of Ush300,000 or higher against the same Ush50,000 in savings.

- *Individualized group client loans*. UMU individualizes each client's loan within its solidarity groups. This allows each individual client to have a loan with whatever term, payment schedule, and amount agreed upon between each client and UMU.

Loan size. As illustrated in the box below, most MFIs offer loans ranging in size from Ush50,000 to Ush1 million. As mentioned above, many MFIs are experimenting with larger loan sizes. Of the MFIs listed, only CMFL, Incofin, and UMU have significant individual loan portfolios in the Ush1 to Ush3 million range. For the other MFIs, while the chart shows that they do offer loans in the Ush2 to 3 million range, they also told us that these loans are currently being extended to only a very few clients. Additionally, these loans are generally offered only to the MFI's best clients, with the exceptions going only to clients with strong businesses with steady cash flows.

The most significant aspect of the loan sizes is that it clearly illustrates the existence of a "missing middle." It is true that UMU has one Ush10 million loan in its portfolio, and some commercial banks do offer Ush3-5 million consumer credit loans to upper class white collar workers in Kampala. However, for the most part, there is a clear gap in loan size coverage between Ush3 million maximum of most MFI loans and the Ush10 million floor for commercial bank loans. In fact, few commercial banks will consider capital asset or working capital loans for less than Ush20 million. Filling this gap represents a clear opportunity for SPEED.

Loan Ranges



Agricultural Loan Products. Agriculture is the main economic activity in Uganda, engaging over 80% of the working population. The majority of farmers are small-holders using traditional techniques. Mechanization is almost non-existent, there is no irrigation of any sort, and pesticide use is minimal. Agriculture is for subsistence purposes, although the surplus is normally sold in the market. Most farmers rely on family labor.

Few of the MFIs we surveyed reported extending agricultural loans. In fact, many said they have purposefully avoided loans for agriculture production. However, those MFIs such as FOCCAS, BCDF, and PACT, which are working in the most remote areas, reported that what rural borrowers use the loans for is fungible. In all these programs, these rural loans are very small

(Ush50,000 to Ush150,000) and can often be used by the borrower for whatever they wish. Many do use the loan for agricultural purposes, but they must still have some other form of cash flow, as the loan requires weekly repayment. The recent USAID-funded AIMS study researching the impact of microfinance program in Uganda found that 32% of MFI clients had increased the amount of land they have under cultivation in the last two years, as opposed to only 23% of the non-clients interviewed.

Non-production agricultural loans. Many MFIs reported that they do extend agricultural loans; they simply do not extend them for agricultural production. For example, UMU reported 25% of their portfolio in non-production agricultural loans, including livestock and poultry. UWFT reported 14% of their portfolio in similar loans. Of the MFIs, only UMU has enough flexibility in its products to adjust payment terms for agricultural loans; other MFIs may extend the loans, but the borrower must fit into the existing product, meaning they must have some other form of cash flow to meet the weekly repayments.

A few MFIs did report some experimentation with agricultural production loans. FINCA explored the possibility of extending cotton production loans, but the idea was not approved by its Board of Directors. BCDF mentioned the potential of crop insurance for coffee, which could be tied to coffee loans. However, they don't foresee developing such a product anytime soon, as there is plenty of demand for their existing product. MED-Net has 7% of its portfolio in agricultural loans, including those for production, but again, borrowers must make weekly payments, so all of these agriculture borrowers have other sources of income.

Harvest loans. UMU is already offering "harvest" loans. Given to farmers at harvest time when it is known that the crop will be successful, these short-term loans are used to enable the farmer to harvest, and then store, the crop for pre-agreed amount of time. By bringing the harvest to market later when prices have gone back up, the farmer is able to realize substantially greater revenue. SOMED and other MFIs expressed keen interest in this type of loan product, though they admitted it would require access to some type of post-harvest facility. In some areas, these facilities may not be readily available, or may be low-quality traditional storage huts that give poor protection to the harvest from pests and moisture, even for short periods of time.

In total, all but three of the MFIs we visited expressed interest in finding effective loan products to reach rural agriculturalists. However, most also expressed reservations concerning the high risks involved. In fact, many told us they have tried some type of agricultural lending in the past with very poor results. Therefore, they are quite reluctant to move too quickly into agricultural lending, though they are very aware that it represents a very large segment of the market.

B2. Microfinance Savings

All of the MFIs surveyed have a mandatory savings program linked to the their group loan product. However, among the MFIs surveyed, there is significant variation in how each manages the savings that it mobilizes. While none of the MFIs hold savings on their own premises, this will change for those MFIs that attain MDI status. For now, MFIs are not technically allowed to mobilize savings and hold them on behalf of clients. However, in many cases this is in fact normal practice. While all deposited in a commercial bank, we found MFIs managing their clients' savings in the following ways:

- *Held in client's or group's name*. This includes BCDF, Feed The Children, FOCCAS, SOMED, MED-Net, UGAFODE, and UWESO. In the strictest sense, only these organizations are following existing law governing deposit mobilization.

- *Held in MFI's name, not leveraged or on-lent*. Includes FAULU, FINCA, and PACT. While these organizations are skirting the law by collecting deposits and keeping them in a bank in the institution's name, they are not putting these client deposits at risk by either on-lending them or leveraging them.

- *Held in MFI's name, has been leveraged and/or on-lent*. This includes CMFL, PRIDE Africa, UMU, and UWFT. As a licensed finance institution, CMFL can legally mobilize and on-lend deposits. However, PRIDE Africa has no such mandate, yet reported dipping into their clients' savings and on-lending them for cash flow reasons, usually in order to keep the program going between infusions of donor capital. UMU and UWFT did not report on-lending deposits, but did report leveraging the deposits to obtain commercial financing. For UWFT, this arrangement was done with Centenary Bank; UMU has borrowing arrangements with Standard Chartered, Nile Bank, and the DFCU.

Another factor to consider in the latter two groups above, for many of the MFIs the deposits there is an additional financial benefit, as the interest earned on the deposits is not usually passed on to the client, but rather retained by the MFI as interest income. Some MFI retain all of the interest; others pass on a current account savings rate, earning the spread between that rate and the higher fixed- or time-deposit rate they have negotiated with the bank.

B3. Health Care Product

An interesting MFI product innovation targeting microenterprise clients and their families is currently being tested in Uganda. FINCA and a new organization called MicroCare recently completed a pilot study with the Nsambya Hospital, called the Nsambya Hospital Health Care Program. They characterize the program as an HMO. The hospital is in Kampala and the encachement area comprises FINCA clients who live near the hospital. Sixty percent of savings group participants must sign up for the group to participate and get health benefits. Right now the program covers 500 individuals and their families. Each individual pays a premium that covers herself and up to four members of her family. There is an additional charge if a member wants to cover more family members.

Members are issued picture ID cards and go to a special check-in point at the hospital that is managed by a nurse (who will eventually become a FINCA employee). She pulls up the client's file on the computer, makes sure the face and information match, and takes a co-payment from the patient. The co-payment is small and guards against abuse. Then they see a doctor at the hospital. People are not getting treated for chronic infection—malaria, pneumonia, infections, and diarrhea are the most common diagnoses. It is not advertised as an AIDS program, but as a health care program. However, many of the illnesses treated are the opportunistic infections common to AIDS cases.

The staff involved at the hospital are “outsourced” but FINCA plans to hire them, internalize the program within FINCA, and then replicate it. Staff will include a doctor, nurse, technical, and administrative staff. It is important that a doctor reviews care, medicine usage, and prescriptions to guard against overpricing and bad doctoring. Other internal controls are key, such as monitoring income and tracking usage of the services by different groups. For example, groups in a certain area were going to the hospital much more often and had higher costs. So the program sent people out to see where they lived. They found them living in unsanitary conditions and so FINCA sent health care specialists to teach them better sanitation practices and how to build latrines.

The program is considered very successful. Included within the premiums are enough funds to cover administrative costs. There is an 85% to 100% cost recovery of hospital bills. Because anti-retrovirals (expensive AIDS treatment drugs) are not available or covered, costs are relatively low. The goal is program self-sufficiency in two to three years for 12,000 FINCA clients and their families (roughly 70,000 people).

Replication issues. The program mostly works with private Catholic hospitals that are already subsidized and therefore charge lower prices. However, many FINCA clients are Muslim and the clients (and/or their husbands) are not comfortable going to a Catholic hospital. FINCA is identifying other non-mission hospitals.

As with any pilot effort, more time and study is needed to fully understand the costs and benefits. However, the program is currently viewed very positively because it:

- Helps support and grow the FINCA’s village banking program—the health care program is a hook to keep clients in the program. Many members depend on the medical care and thus stay in the savings program.

- Leads to preventative health care and lower costs. Because the health care is easily available, clients seek treatment earlier before illnesses are advanced.

- Helps clients save and serves to negate the shock of sudden illness. Clients pay regular, reasonable premiums instead of periodic large hospital bills that can wipe them out.

B4. Other Insurance Products

Loan Insurance. A few MFIs have put in place some form of loan insurance. For example, UWESO clients contribute 3% on each loan to a group emergency fund. If any group member becomes seriously ill or dies, the client committee managing the fund determines whether the fund will be used to pay the loan obligations of that client. In most cases, the MFI only requires the outstanding principal balance to be covered. If the amount of money saved in the emergency fund is insufficient to cover the outstanding balance of the client in question, group members are still required to contribute and pay the outstanding loan (for which they are co-guarantors).

Life Insurance. A number of MFIs are introducing some form of life insurance, as well. For example, FINCA contracts with a local life insurance company. All funds are passed to the company but FINCA acts as a middleman and retains control of collection and payment. FINCA pays the company a group premium for all their participating clients monthly. The fee is based on their outstanding portfolio. In this case, FINCA's interest rate for loans covers both the administrative and premium costs of the life insurance. Therefore, they have portfolio insurance on all of their clients.

C. MFI Operations

C1. MIS

Putting in place a strong management information systems (MIS) is a critical step for an MFI to reach operational and financial sufficiency. Because MFI loan products usually require frequent repayments, the MIS used must be able to immediately flag any missed repayment. Management must be able to monitor portfolio-at-risk (PAR) on a daily basis. Our survey of 15 of the biggest MFIs revealed a wide range of MIS capacity, software, and management issues. Virtually all of the MFIs identified some form of ongoing investment of time and resources into improving their MIS system. As mentioned above, almost all of these same MFIs are keen to expand their product base, yet few have full internalized the stresses this expansion will place on their MIS system. In the chart below, we present a list of the current MIS in place in each MFI, new software being considered, if any, and the donor which is helping them improve their system, if any.

MFI	Current System	New MIS plans, if any	Donor support, if any
1. BCDF	Manual	Kaylex	CRS International is supporting development, will need installation and training
2. CMFL	Coop Bank software	Need new, not flexible enough	DANIDA, planning to hire a full-time IT/MIS expert
3. FAULU	Modified version of MicroBanker	Looking at Kaylex	-, possible to use upcoming DFID grant
4. FTC	Manual	Identified Loan Performer	SUFFICE is funding hardware and software, will need installation and training
5. FINCA	In-house	No changes planned	FINCA International support
6. FOCCAS	Hogia (Swedish)	Experimenting with Krystal	Austrians grant for operations
7. SOMED	Manual	Installing Royal Masters, from Kampala	HIVOS grant includes MIS upgrade
8. PACT	Manual	Selecting	SUFFICE funded hardware and software
9. Incofin	In-house	No plans, program still small	None, Belgians pulling out
10. MED-Net	Total MF Solutions, linked to manual	No changes planned	World Vision system
11. PRIDE	PRIDESTAR	Testing PRIDESTAR2	PRIDE Africa support
12. UGAFODE	Modified version of MicroBanker, near collapse	Looking at Image Advanced and DBS (from South Africa)	Possible funding in DFID grant
13. UMU	Manual	Looked at Kaylex, undecided	Have asked NOVIB and SUFFICE for funding
14. UWESO	Loan Performer and Quikbooks	Loan Performer was just installed	USAID funded installation, need more training
15. UWFT	Loan Performer	Just installed	Getting TA from SNV

Five of the MFIs listed above — Feed the Children, UGAFODE, UMU, UWFT, and Incofin — reported improved MIS as an immediately critical issue to the continued growth and efficacy of their organization. Another 8 of the MFIs — BCDF, CMFL, Faulu, FOCCAS, SOMED, PACT, PRIDE, and UWESO — have either just installed a new system and software or are about to do so. There are numerous specific MIS issues that were reported as well, including:

- CMFL can not currently do exceptions posting and can only consolidate weekly.

- Many MFIs reported that branch consolidation is not integrated; hard copy branch reports are manually entered into a consolidated sheet at the head office. Accounting or spreadsheet software such as Quikbooks or Excel is used to do this, not loan tracking software.

- PRIDE, MED-Net, UWFT and a few of the other MFI's current systems only track groups, not individual client's within a group. This requires a back up manual system.

- PRIDE's main office is computerized, but its branches are not. This requires branch numbers to be inputted manually at the head office. The new software, PRIDESTAR2, will be installed in all the branches, but this will require a lot of time and training.

- UGAFODE has added so many modifications to its MicroBanker system that they said it is near collapse. They said they can not expand until this is fixed.

- Many MFIs reported that the integration of new loan products into their MIS is delaying development. For example, many managers do not want to fully develop an individual loan product and portfolio until they have the MIS ability to closely monitor and track the new product.

In summary, MIS is a major concern for MFIs in Uganda. This issue will undoubtedly be brought to the forefront of the industry as some MFIs apply and achieve MDI status. For example, many MFIs do not currently have a MIS system for savings, and even fewer have integrated savings and loan monitoring MIS capacity. As competition is brought to bear on the savings side of the equation through new MDIs, there will likely be a proliferation of new savings products. CMFL is already beginning to develop such products. This will place further weight on already stressed MIS systems among the MFIs. Additionally, MFIs will need to meet new BOU reporting requirements needed for the BOU to monitor the performance of the new MDIs. These reports will need to be generated by the MFIs' MIS systems, which will first require formatting, programming, and in some cases major changes to the current systems in place.

C2. Training Needs and Sources

Internal sources. In conducting a rapid assessment of the sources MFIs are currently accessing training, the overwhelming first answer was that they are in fact doing most of their training in-house. While many had accessed the free training courses offered by PRESTO, high growth rates and normal staff attrition mean that most of the larger MFIs are doing some kind of regular training of credit officers. CMFL has a training session for its loan officers every Saturday, and UWFT holds a similar training activity every quarter. Others, such as UMU and UWESO, have peer counseling programs, where new credit officers shadow more experienced staff for a set period of time. However, most of the MFI said that, while they do in-house training, it is not standardized. FINCA, for example, offers its employees loans to pay for any educational course they would like to pursue.

Another major source of in-house training for MFIs is their international partner organizations. BCDF gets training from CRS, MED-Net from World Vision, FOCCAS from Food for the Hungry International, UGAFODE from Opportunity International, and UWFT from Women's World Banking. All contended that this training and technical assistance input is essentially free, so they have little incentive to pay for other outside assistance. PRIDE , on the other hand, sends its trainees to a regularly scheduled regional training in Nairobi at the quite expensive cost of $3000 per trainee.

External sources. The MFIs interviewed also listed a number of external sources of training. Virtually all of them had had staff attend one or more free PRESTO sessions. Others used USAID or other donor funding to send trainees to international courses. These include Boulder in Colorado, K-REP in Nairobi, and Akiba Bank in Tanzania. Within Uganda, MFIs mentioned using the following organizations for training:

- *Uganda Management Institute*, for general, financial, and business management courses.

- *UIB*, for general banking courses, as well as for a Board management and governance course. Others mentioned they intend to send trainees to the new MCC microfinance courses, though others complained they found them over-priced.

- *Uganda Martyr's University*, for the diploma banking course.

MFI Training Needs. MFIs expressed a very wide range of training needs. These included the following topics:

Advanced loan appraisal	Loan Tracking
Strategic and business planning tools	Banking
Management tools	Professionalism
Financial management	Marketing
Portfolio management	Loan Pricing
Branch management	Best Practices
Governance	Training of Trainers
Cash Flow Analysis	Costing Business Inputs

A few of the above topics are already offered as part of the new Microfinance Competence Centre's curriculum. However, MCC has so far only developed one course, with the rest to be developed over the next 2 years. Some are willing to pay for MCC's courses, but most indicated that they would be using other donor funds for training to do so.

D. Microfinance Umbrella Institutions

D1. AMFIU

The New AMFIU Board

Clare Wavamunno, FINCA/Africa	President
David Baguma, Feed The Children	Vice President
Dorothy Katantazi, MED-Net	Secretary
Momo Matsiko, Demobilized Women	Treasurer
Rodney Schuster, UMU	Member
Joseph Buyondo, VEDCO	Member
A.K. Sekyanzi, Victoria Building Soc.	Member

The Association of Microfinance Institutions in Uganda (AMFIU) was started in 1996, and officially registered in 1997. It currently has about 70 members, ranging from the largest MFIs in country to some very small CBOs offering microcredit in remote areas. Members pay a one-time Ush. 60,000 initiation fee, and then an annual fee of Ush. 60,000.

Due in part to its diverse membership, which in turn has engendered a lack of focus, AMFIU has had no real impact to date. However, a new Board of Directors was recently elected (see box above). In conjunction with AMFIU's move to the co-located center, this Board is currently in the process of developing a new business plan. Interviews with Board members revealed that they have a fairly shared vision of what AMFIU's main objectives should be. These include:

- Ensuring that the MFI industry has a network for lateral learning
- Acting as a policy voice in both directions — from MFI to government and vice versa
- Instilling professionalism in the industry, including a code of ethics
- Sharing information, housing a database and library

However, there are a number of other possible roles for AMFIU that some Board members and other MFI leaders were not in complete agreement on. The biggest of these is the possibility of setting up AMFIU as the institution that the BOU would partner with to regulate Tier IV MFIs. Some feel this is unrealistic given AMFIU's lack of capacity at the moment. Others felt the new RMSP NGO would be a better choice. Still others suggested that the development of AMFIU could so far as to be set up as an "apex" institution, including wholesaling loans to MFIs.

Once AMFIU finishes a draft version of the business plan currently under development, it plans to hold a workshop with the donors housed in the co-located center to review the plan and provide feedback. The intention is also that AMFIU and the co-located donors would discuss and map out the extent and nature of support each donor would be able to offer AMFIU within the agreed upon business plan.

While not given a separate section here, the Microfinance Forum (MFF) is another active player in the microfinance industry. Originally established by the Ministry of Finance as a mechanism for information sharing, it is now a popular meeting among donors to discuss issues of interest. However, the agenda is seen as primarily a government and donor affair, sometimes out of tune with the practitioners in the field. Most of the Ugandans we interviewed told us that while the MFF plays a critical role in the short-term, eventually it should be subsumed into AMFIU and become one component of this practitioner-driven umbrella association.

D2. Microfinance Competence Centre (MCC)

The MCC is a very recent addition to the microfinance industry in Uganda. It was established to provide professional skills and knowledge to the microfinance industry by linking microfinance best practices and experiences from the field with professional banking knowledge. MCC focuses on the design and implementation of targeted training programs, provision of appropriate information, and provision of technical assistance to microfinance institutions to take care of the diverse needs of the microfinance sector. Courses offered range from short-term on specific subjects to longer qualification-based courses. At the current time, the courses include the following:

Short Courses (2-4 days)
- Microloan appraisal
- Legal and Regulatory Environment/Issues of MFIs
- Branch Management
- Human Resource Management

Long-term Course (2 months)
- Post Graduate course in Microfinance Best Practices

Because the MCC is just getting off the ground and none of the courses have actually been offered, it is too early to do any real assessment of its capacity. However, early indications are that there is strong demand among MFIs — even with some complaints of high prices, the first course on microloan appraisal has been over prescribed.

E. Donor Support to the MF Industry

Complementary interventions funded by bilateral and multilateral donors have substantially contributed to the development of Uganda's microfinance industry over the last six years. Donor-funded interventions can generally be divided into three categories: integrated projects with grant, training, and technical assistance components that assist MFIs (e.g. PRESTO, RMSP, RMSC); individual grants from donors to MFIs for capacity building, capitalization, and operational support; and policy and institutional support assistance to GOU entities and other industry support institutions (UIB, AMFIU).

E1. Significant Current Projects

Integrated projects. USAID's four-year, $10 million PRESTO project, through the CMF, has had the highest profile and perhaps the largest impact on the industry. Focused on imparting best practices, PRESTO provided a combination of technical assistance, training, and grant funds to around 60 MFIs. PRESTO also awarded integrated grants (loan capital, technical assistance, commodity assistance, and training) to top-performing MFIs, while assisting less advanced MFIs, especially those in rural areas, through training.

The African Development Bank-funded Poverty Alleviation Project (PAP) worked in 22 districts with 58 MFIs, funding and assisting MFIs in rural areas to on-lend. It is notable that PRESTO played a major role in training 16 of PAP's 60 intermediary entities. The PAP project follow-on, Rural Microfinance Support Project (RMSP), a $24.5 m. effort over five years will build on PAP's activities with a focus on creating indigenous financial intermediaries in rural areas and building capacity of smaller MFIs in 45 districts. Unlike PAP, RMSP will not offer direct credit but work only through intermediary credit agencies. Additionally, RMSP will not put any cap on intermediary interest rates, nor require selected intermediaries to use any particular loan product or methodology.

The EU-funded SUFFICE Project provides interim direct credit lines to MFIs for capacity building, information dissemination, and new product development with 10 MFIs. They also have a matching grants program and work with MFIs at all levels.

UNDP's $15 m. Private Sector Development Project is a joint effort with the GOU to enhance private sector competitiveness. Limited project funds were used to provide training to CBOs, SACCOs, and other small MFIs in the districts outside of Kampala.

DANIDA's pilot Rural Financial Sector Component (RFSC) of the Agriculture Sector Programme Support, just getting off the ground after a year of consultative design and organizational efforts, is based in the BOU's Development Finance Department. The project will target rural financial services outreach in six districts through support and a partnership with CMF Ltd. as a wholesaling entity to the CBOs in the six districts. Plans are to assist CMFL to expand from 6 to 52 outlets.

MicroSave Africa, funded by DFID, UNDP, and CGAP, is a regional project and focuses on microfinance market research and training to MFIs in marketing, and product development. MicroSave began with a focus on village banks and FSAs but has expanded its assistance to larger MFIs.

Recent grant funding. In addition to the grants given by PRESTO and SUFFICE, and the loan funds available through PAP, other donors have also given individual grants to MFIs outside of larger umbrella projects. These include DFID support to UGAFODE as well as the FSAs in Masaka; a large grant from NORAD to PRIDE; and the Austrian Development Corporation's grant funding to PRIDE, FINCA and FOCCAS; and NOVIB grants to UMU.

Policy and institutional support assistance to GOU entities and other industry support institutions. GTZ Financial Systems Development Project, a seven-year effort, includes components to design and implement a regulatory and supervisory framework for MFIs at BOU and establishment of the Microfinance Competence Center at the UIB. UNDP has supported the MOFPED's MSE policy unit, strengthening capacity for policy and strategy formulation, implementation, and monitoring in the MSE policy unit. DANIDA supports the MOFPED's MSE policy unit, capacity building; logistics and capacity building for BOU's Development Finance Department; and for BOU's Non-Bank Finance Department capacity building and coordination with GTZ. NORAD provides technical assistance in policy formulation and coordination of MSE initiatives in MOFPED's MSE policy unit. Additionally UNDP, the EU, and SNV have or are providing capacity building support to AMFIU.

E2. Future Plans

In our interviews with some of the largest MFIs, we also asked them to list any current, or expected future donor support. We were especially interested in determining to what extent MFIs could plan on access to either commercial or quasi-commercial financing, or donor funding. The results, shown below, show that most MFIs have some source of capital lined up. All of the larger MFIs interested in becoming Tier 3 MDIs have, or are arranging, commercial lines of credit. They are doing so either by using their deposits as collateral, through a line of credit from a mother agency, or through one of the existing MFI loan guarantee sources (such as the Norwegian Strommen Foundation) or from a quasi-commercial source, such as Cordaid or the SUFFICE program. Most also said they will consider accessing RMSP loan capital, but worried there would be too many difficult conditionalities and too much bureaucracy involved.

MFI	Potential Donor Grants and Other Sources of Capital
1. BCDF/CRS	• Exploring concessional funding from sister Catholic agencies such as Cordaid and SIDI
2. CMFL	• Partnership with DANIDA to expand from 6 to 52 outlets and put in place a wholesale credit function linked to smaller MFIs and CBOs offering credit
3. FAULU	• Expecting a large DFID grant soon, to be used to open at least one new branch
4. Feed The Children	• Have approached SUFFICE for 2 computers and software
5. FINCA	• $945,000 in commercial borrowing at present through fixed deposits, a FINCA International letter of credit, and a guarantee from EDF. • Continuation of a PRESTO grant.
6. FOCCAS	• Letter of Credit from Freedom From Hunger. • SUFFICE Loan. • $600,000 operations grant from Austrians through June 2002
7. SOMED	• Ush700m grant from HIVOS with first tranche in December 2000
8. PACT	• Getting a computer, motorcycle, photocopier, and flipchart from SUFFICE
9. Incofin	• Small $30,000 Cafod grant
10. MED-Net	• Considering SUFFICE and RMSP soft loans • Talking to HIVOS • Possible DFID grant
11. PRIDE Africa	• Get considerable support from Austrians and NORAD • Small grant from SUFFICE
12. UGAFODE	• Expecting a very large DFID capital grant soon
13. UMU	• Just got the last tranche of a $400,000 NOVIB grant • Planning to get a soft loan from NOVIB • Already borrow money from commercial banks, using deposits as collateral
14. UWESO	• Have UDP funding for non-PRESTO half of program through 2004 • Continued funding from Belgian government and UNICEF for non-financial program
15. UWFT	• Expecting $350,000 capitalization grant from Women's World Banking • Get a Centenary loan against their deposit base • Have been approached by interested equity investors, including IFC, ShoreBank, and Triodos • Received Ush36m from SUFFICE for training

ANNEX C

List of Persons Contacted

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
Dann	Griffiths	Regional Representative
Scott	McNiven	Monitoring and Evaluation Officer
B.F. (Bernie)	Runnebaum	Program Manager
Irene	Ntanda	Director Training Unit
Bernie	Runnebaum	Program Manager-PL Title 2 Program
Graham	Carr	Managing Consultant
Bart	Palmoun	
Judy	Kamanyi	Executive Director
Henry	Bagazonzya	Chief Technical Advisor
Lucy	Businge	Project Analyst
Joan	Rutaroh	Country Liaison Officer
Clive	Drew	Chief of Party
Asaph	Besigye	Business Advisory Specialist
Frank	O'Brien	Low-Value Commodity & Production Specialist
Mark	Wood	Field Crops Production & Marketing Advisor
Julian	Laing	Managing Director
Julian	Laing	Managing Director
Clare	Wavamunno	President
Cerstin	Sander	Private Sector Officer
P.P.	Bhutani	Chief Manager
P.L.	Kagalwala	Chairman & Managing Director
Joseph	Bossa	Legal Council
Polycarp	Musinguzi	Executive Director Research
Charles	Nalyaali	Commercial Bank Supervisor
Joseph	Kutegeira	
C.	Ngura-Akuki	
Innocent	Garakumbe	Project Officer
Paul	Macek	Country Director
James	Baijanibeera	
Emmanuel	Buringuriza	Assistant Manager
John	Paton	Manager
Joan	Kasigwa	
Dirk	Van Hook	Chief Executive
Samson	Sempasa	Executive Director
Lascelles	Chen	Chief Operations Officer
Agnes	Yawe	Project Manager ICT Project
Agnes	Yawe	Acting Coordinator
Anthony	Way	Enterprise Development Advisor
Jennifer	Karegyesa	Manager Corporate
Juma	Kisaame	Head Leasing
Anthony	Way	Enterprise Development Advisor
Peter	Boyd	Country Manager
L.	Majara	
Ramadhan	Kamilagwa	Principal Project Officer/Financial Analyst
H.M.	Kihwelo	Project Appraisal Manager

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
Robert	Murithi	Project Officer
Bruce	Lawson	Chief Executive Officer
Christopher	Musoke	Finance Manager
Pius	Kavuma	Marketing Executive
Alain	Joaris	Economic Counselor
Elizabeth	Ongom	Project Administrator
Elizabeth	Ongom	Project Administrator
Bruno	Matovi	Farmer
George	Waiswa	Farmer
Matilda	Balinda	Farmer
Steve	Kiingi	Farmer
Shariz	Waljie	Businessman
Godwin	Kihuguru	Operations Manager
Luka	Abe	Executive Director
David	Baguma	Associate Director
Alex	Mparana	Account
Jaime	Arguello	
Guy	Winthrop	Director
Guy	Winship	Country Director
Peter	Okaulu	General Manager
Robert	Richards	Program Manager
Alfred	Hannig	Financial System Development Project
Clemnes	Fehr	Forestry Scientist Technical Advisor and Integrated Expert Scheme
Lance	Kashugyera	Principal Economist
Boniface	Keeya	
Emily	Kugonza	
Sarah	Asiimwe	
E.	Byakagaba	
Jimmy	Kyomuhendo	
Dick	Mubisa	
Oliver	Nyangoma	
Chris	Kyerere	Executive Director

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
Lalani	Karim	Managing Director
Frederick	Kyeyune	
Fredrick	Musisi, Kyeyne	Credit Officer/Head of Credit Department
Tibulihwa	Sulaiti	
Marion	Kyomuhendo	
Shiraz	Walji	Import and Export
Expedita	Isingoma	
Gershom	Matsuko	Liaison
E.B.	Kyamulesire	
Job	Sabiiti	
Bradley	Buck	Country Coordinator
Paul	Kimbugwe	Field Manager - Mbarara Milkshed
Galiwango	Samuel	Co-operative Development Manager
Michaela	Ehrhardt	Economic and Adviser to the MCC.
Rhoda	Tumusime	Commissioner of Planning
Grace	Bantebya-Kyomuhendo	Head, Department of Women and Gender Studies
Edward	Kirumira	Senior Lecturer/Head of Department of Sociology
Wasswa	Balunywe	Principal
Andy	Kahara	Business Development Manager
John	O'Connor	Business Development Consultant
Pamela	Ossiya	Administrative Officer
George	Tumwesigye	Executive Director
Dorothy	Katantazi	Executive Director
Jim	Kauwa	Finance Manager
Gerry	Noble	Managing Director
Keith	Muhakamnezi	Commissioner, Economic Planning
Ida	Kigonya	Principal Women in Development Officer
Elizabeth	Kyasimire	Commissioner of Gender, Culture and Community Development
Valentine	Namakula	
Amanda	Sserumaga	Senior Technical Advisor
Steven	Kagoda	Permanent Secretary
Peace	Kyamureku	Deputy Secretary General
Ellia	Orizaarwa	Microfinance Credit Assistant

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
Peace	Kyamureku	Deputy Secretary General
Ganesh	Bangera	Chief Executive Officer
Charles	Omagor	Marketing Manager
Jan	Vossen	SNV/ Dutch Development Agency
Anton	Bentley	Managing Director
Samwiri	Njuki	Senior General Manager
Grace	Odula	manger/representative
Jolly	Batarirana Rwanguha	Manager
Nelson	Ofwono	Managing Director
Ulysses	Acasio	Project Team Leader
Amos	Kabuijama	Executive Director
Mike	Rubanga	Director
Barbara	Kanyanja	Director
Olive	Konyiginya	
Paul	Musoke	General Manager
Justus	Karibara	
Virginia	Bara	Training and Information Coordinator
Olive	Kabatalya	Savings and Credit Coordinator
Christopher	Malwadde	Accounting and Financial management
Cassim	Nalumoso	Acting Chief of Party/Grants Manager
Andrew	Obara	Senior Advisor- Centre for Microfinance
Billy	Butamanya	Entrepreneuship Training Co-ordinator
Ephraim	Kamuntu	National Co-ordinator
Estella	Aryada	Research Officer
Angela	Katama	Executive Director
Robert	Kintu	Consultant Business Advisor
Enoth	Mbeine	Business Venture Advisor
Hanne	Carus	Counsellor, Development
Wilhelm	Wiig	Adviser/Private Sector Development
Emmanuel	Kalema	Development Finance Department
Agnes	Kamya	Rural Financial Services Component

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
Jens	Kristensen	DANIDA Component Advisor
Anthony	Opio	Director ,Non Banking Financial Institute
Y.B.K.	Wadembere	Deputy Director
Patrick	Kusemerewa	
Rolf	Eriksson	SIDA, Representative
Douglas	Stoneham	Senior Account Relationship Manager
Fred	Alinaitwe	Field Coordinator
Lene	Hansen	Programme Manager
Steve	Harris	Market Linkages Specials
Shelly	Sutherland	Deputy Director
Rob	Hitchins	Designing DFID, BOS Project
Alan	Gibson	
Eva	Mukasa	General Manager
Nathan	Okrut	Assistant General Manager Operations
Tony	Thompson	Task Manager
Alex	Kakuru	Executive Director
Vincent	Musubire	Director, Public Relations
Eldard	Kansiime	General Manager, Credit and Collections
Jessica	Anguria	Receptionist/Sales
Joseph	Byaruhanga	General Manager
James	Higeny	Credit Officer
John	Kateeba Nyakahuma	Senior Manager
Stephen	Mukweli	Executive Director
Margaret	Kigozi	Executive Director
James	Kalebo	Director
Deo	Lukongi-Bbosa	Registrar
Deo Likonji	Bbosa	Registrar
James	Kallebbo	Director
William	Kalema	Director
Charles	Ntale	Research Officer
Charles	Nalyaali	Director
Mwendya	Augustine	Chief Executive Secretary
Victoria	Kakoko Sebagereka	Region Representative Central
Chebet	Maikut (MP)	President

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
David	Bukaalamye	National Chairman
James	Kawooya	Assistant Executive Secretary
Agnes	Kiganda	Co-ordinator Women's Desk
Vincent	Ssennyondo	Executive Secretary
Lilian	Kahenano	Chairperson
Sarah	Kitukule	Consultant
Pelucy	Ntambirweki	Executive Director
Pelucy	Ntambirweki	Executive Director
Godfrey	Ssewankambo	Operations Manager
Godfrey	Ssewankambo	Deputy Director
Ida	Wanendeya	Chairperson
Rodney	Schuster	Director
Wessel	Schulte	Associate Expert
Wilson	Kwamya	Assistant Resident Representative
Jane	Mambule	National Programme Coordinator
Wessel	Schulte	Associate Expert, Industrial Dev
Jovita "PeeWee"	Viray	Small Business Development Consult
Craig	McIntosh	Researcher
Julie	Gifford	Research
Anne	Fleuret	Performance Monitoring Specialist
Randolph	Harris	Program Manager, Team Leader
Joel	Kolker	Housing and Urban Development Division
Dawn	Liberi	Mission Director
Jerre	Manarolla	Mission Economist
Mohammed	Mugerwa	Financial Management Office
Patrick	Rader	Private Enterprise Officer
Liz	Regan Kiingi	Project Development Officer
Ron	Stryker	Chief Economic Growth Officer
Silas	Gwomorza Kigye	Chairman
Jude Ted	Mungoma	Executive Member
Veronica	Mungoma	member
Beatrice	Okanya	Executive Member
Mohammed	Serunkuma	Executive Member
Abdul	Sirikye	Vice-chairman
Mohammed	Tongi	Businessman and Executive member

Annex C: Persons Contacted by SPEED Design Team

First Name	Last Name	Position
Fred	Kimbareba	Chairman
Winnie	Nasasira	member
Betty	Tigefera	Chairman
Dorothy	Nampomero	
Consolata	Kabonesa	Lecturer
Jolly	Mugisha	Officer
Robert	Blake	Country Program Manager.
Tosis	Tubbala	

Organization
ACDI/VOCA
ACDI/VOCA
ACDI/VOCA
ACDI/VOCA - Uganda
ACDI/VOCA PL 480 Program
Aclaim Africa Limited
ACT
Action for Development (ACFODE)
African Development Bank-Funded Poverty Alleviation Project (PAP) Rural Microfinance.
African Development Bank-Funded Poverty Alleviation Project (PAP) Rural Microfinance.
African Development Foundation (AFD)
Agribusiness Development Center (ADC) IDEA Project
Agribusiness Development Centre
Agribusiness Development Centre
Agribusiness Development Centre
Allied Bank
Allied Bank International
AMFIU
Austrian Development Corporation
Bank of Baroda (U) Ltd.
Bank of Baroda (U) Ltd.
Bank of Uganda
Bank of Uganda
Bank of Uganda
Bigajuka Credit and Savings Society
Bigajuka Credit and Savings Society
Bunyoro Catholic Development Fund (BCDF)
Bunyoro Catholic Development Fund (BCDF)
Bunyoro Catholic Development Fund (BCDT)
Business Uganda Development Scheme (BUDS)
Business Uganda Development Scheme (BUDS)
Centenary Bank, Hoima, Masindi, and Kibaale Districts
Centenary Rural Development Bank
Center for Arbitration and Dispute Resolution
Commercial Microfinance Ltd.
Council for Economic Empowerment for Women of Africa (CEEWA)
Council for Economic Empowerment for Women of Africa (CEEWA) Uganda Chapter
Department for International Development (DfID)
DFCU Group
DFCU Group
DFID
Diamond Trust Bank
District CAO Office
East African Development Bank
East African Development Bank

Organization
East African Development Bank
Enabling People to Succeed Through Small Business Loans (Faulu)
Enabling People to Succeed Through Small Business Loans (Faulu)
Envoys Promotion Consultants
European Union
European Union
European Union
Farm in Loweero District
Farm in Magumbo District
Farm in Mukono District
Farm in outside Kampala
Farm, light manufacturing, transport, import/export.
Faulu Uganda Ltd.
Federation of Ugandan Consultants (FUCO)
Feed the Children
Feed the Children
FINCA Uganda
FINCA Uganda
FINCA/Uganda
Freedom From Hunger - Mbale (FOCCAS)
Freedom From Hunger - Mbale (FOCCAS)
German Development Cooperation / German Technical Cooperation (GTZ)
GTZ
Head Private Sector Development Section, Ministry of Finance, Policy, and Economic Development
Hoima Catholic Diocese
Hoima Diocese
Hoima Environmental Project
Hoima Environmental Project
Hoima Rural Development Organization (HORUDEO)
Hoima Rural Development Organization (HORUDEO)
Hoima Rural Development Organization (HORUDEO)
IMPACT Associates

Organization
Imperial Gourmet Products Ltd.
Incofin Uganda, Ltd.
Incofin Uganda, Ltd.
Incofin Uganda, Ltd.
Irish Aid
Jamal Walji Ltd
Kahoora Development Association, Hoima District
Kakyika Women's Group Agroforestry Project
Kidea Credit and Savings Society, Ltd.
Kidea CSACS
Land O'Lakes Inc. Uganda Dairy Development Program
Land O'Lakes Inc. Uganda Dairy Development Program
Land O'Lakes Inc. Uganda Dairy Development Program
LFS Financial Systems
MAAIF
Makerere University
Makerere University
Makerere University Business School
Makerere University Business School
Makerere University Business School
Management Training and Advisory Center (MTAC)
Management Training and Advisory Center (MTAC)
Med-NET (World Vision)
Med-NET (World Vision)
Microcare Uganda Limited
Ministry of Finance Building
Ministry of Gender, Labour and Social Development
Ministry of Gender, Labour and Social Development
Ministry of Justice
Ministry of Justice
Ministry of Tourism, Trade and Industry
National Association of Women Organizatinos in Uganda
National Association of Women Organizatinos in Uganda

Organization
National Association of Women Organizations in Uganda (NAWOU)
National Bank of Commerce Ltd
National Insurance Corporation
Netherlands Development Organisation (SNV)
Nile Bank
Nile Bank Limited
Ovendoor Fresh Tasty Foods
People's Footwear & General Enterprises
Post Bank
Post Harvest Handling & Storage Project (USAID)
Poverty Alleviation Credit Trust (PACT)
Poverty Alleviation Program (PAP)
Poverty Alleviation Program (PAP) - Hoima
Poverty Alleviation Program, Hoima
PRIDE Africa
PRIDE Africa/Hoima Branch
Private Enterprise Support, Training and Organizational Development Project (PRESTO)
Private Enterprise Support, Training and Organizational Development Project (PRESTO)
Private Enterprise Support, Training and Organizational Development Project (PRESTO)
Private Enterprise Support, Training and Organizational Development Project (PRESTO)
Private Enterprise Support, Training and Organizational Development Project (PRESTO)
Private Sector Development Program (UNDP/PSDP)
Private Sector Development Program (UNDP/PSDP)
Private Sector Foundation
Private Sector Foundation
Promoting Innovation in Business Services (FIT)
Promoting Innovation in Business Services (FIT)
Royal Danish Embassy (DANIDA)
Royal Norwegian Embassy
Rural Financial Services Component (RFSC) Development Finance Department, BOU
Rural Financial Services Component (RFSC) Development Finance Department, BOU

Organization
Rural Financial Services Component (RFSC) Development Finance Department, BOU
Rural Financial Services Component (RFSC) Development Finance Department, BOU
Rural Financial Services Component (RFSC) Development Finance Department, BOU
Save Mothers and Children Association (SMACA)
SIDA
Standard Chartered Bank Uganda Limited
Support Organization for Microenterprise Development (SOMED)
Support to Feasible Financial Institutions and Capacity Building Efforts (SUFFICE)
Techno Serve
Techno Serve
The Springfield Center for Business in Development
The Springfield Centre
The Uganda Women's Finance Trust Ltd. (UWFT)
The Uganda Women's Finance Trust Ltd. (UWFT)
The World Bank
UGAFODE (Opportunity International)
Uganda Chamber of Commerce and Industry (UNCCI)
Uganda Commercial Bank Ltd.
Uganda Community Tourism Association
Uganda Gatsby Trust
Uganda Gatsby Trust
Uganda Institute of Bankers
Uganda Institute of Bankers
Uganda Investment Authority
Uganda Management Institute
Uganda Management Institute
Uganda Management Institute (UMI)
Uganda Management Institute (UMI)
Uganda Manufacturers Association Consultancy and Information Services Ltd (UMACIS)
Uganda Manufacturers Association Consultancy and Information Services Ltd (UMACIS)
Uganda Microfinance Union
Uganda National Farmers Association
Uganda National Farmers Association
Uganda National Farmers Association

Organization
Uganda Small Scale Industries Association (USSIA)
Uganda Small Scale Industries Association (USSIA)
Uganda Small Scale Industries Association (USSIA)
Uganda Small Scale Industries Association (USSIA)
Uganda Women Entrepreneurs Association Limited (UWEAL)
Uganda Women Entrepreneurs Association Limited (UWEAL)
Uganda Women's Effort to Save Orphans (UWESO)
Uganda Women's Effort to Save Orphans (UWESO)
Uganda Women's Effort to Save Orphans (UWESO)
Uganda Women's Effort to Save Orphans (UWESO)
Uganda Women's Finance Trust Limited (UWFT)
UMU
UNIDO/UIP
United Nations Development Programme (UNDP)
United Nations Industrial Development Organisation (UNIDO)
United Nations Industrial Development Organisation (UNIDO)
United Nations Industrial Development Organisation (UNIDO)
University of Berkley
University of Birmingham
USAID
USAID
USAID
USAID
USAID
USAID
USAID
USAID
USAID
USSIA/Mbale
USSIA/Mbale
USSIA/Mbale
USSIA/Mbale
USSIA/Mbale
USSIA/Mbale
USSIA/Mbale

Organization
USSIA/Mbarara
USSIA/Mbarara
USSIA/Mbarara
UWFT, Hoima District
Women and Gender Studies
Women in Development/Mbarara
World Bank Office
World Vision Bhimba Area Development Program (ADP)

Annex D: List of Reference Documents

Name of Document	Source	Date Reviewed	# of Doc.
A Capacity Building Apex in Uganda: Institutional Capacity Building of MFIs and Market Development of Capacity Building Service Providers Through the Center for Microfinance.(Draft)	USAID	7/1/1999	1
A Proposed Microfinance Competence Centre at the Uganda Institute for Bankers (UIB)	UIB	n/a	1
Accounting Guidelines for Microfinance Institutions in Uganda Version 1.0	The Center for Microenterprise Finance	Nov-97	1
ACDI -480 Monetization Program Grant Proposal Guidelines for the Food Security Fund.	IDEA	5/29/1997	1
Annual Report 1998 East African Development Bank	East African Development Bank	1999	1
Annual Report 1999 East African Development Bank	East African Development Bank	2000	1
Application form for Rural Microfinance Support Project (RMSP)	Rural Microfinance Support Project (RMSP)		
Arbitration and Conciliation Act 2000	G.o.U	n/a	1
AT (Uganda) Strategic Plan 2001-2005	Appropriate Technology (AT)	n/a	1
Bank of Uganda Policy Statement on Micro-Finance Regulation	Bank of Uganda	12-Jul-99	1
Banking for the Rural Farmer	Agricultural Review	Jan-Feb. 2000	1
Baseline Study on Lending Methodologies of Micro-Finance Institutions (MFIs) in Uganda	Council for the Economic Empowerment for Women of Africa (CEEWA),	1999	1
Basic Accounting Training Course Curriculum	The Center for Microenterprise Finance	Mar-98	1
Belgolaise Bank Brochure	Belgolaise	Feb-00	1
BOU- Market Needs Assessment for Rural Financial Services in Selected Districts of Uganda. Vol 1: Main Report and Appendices.	BOU	May-00	1
BOU- Market Needs Assessment for Rural Financial Services in Selected Districts of Uganda. Vol 2: Annexes	BOU	May-00	1
Bridging the Gaps of Market Failure and Asymmetries in Microfinance and Enterprise Financing	Austrian Development Cooperation Kampala and SUFFICE	24-Oct-00	1
BSF/ IFAD UWESO Development Project	UWESO	12/31/1998	2
Business Development Services (BDS)	Presto	10/20/2000	1
Business Plan for MCC at UIB (Confidential)	BOU/GTZ	n/a	1
Business Plan for the Credit Reference Bureau	Uganda Institute for Bankers	2000	1
Business Planning for Microfinance Institutions Training Course Curriculum	The Center for Microenterprise Finance	May-98	1
Business Planning for Microfinance Institutions Training Course Curriculum Version 1.0	The Center for Microenterprise Finance	Feb-98	1
Capacity Statement (IMPACT Associates) Development Consultants	Impact Associates	?	1
Challenges of Reaching Remote Areas and Prosposed Solutions	Presto	n/a	1
Chattels Transfer Degree 1976/1978	G.o.U	n/a	1
CMF gives boon to microfinance sector	The New Vision	1-Jun-00	1
Commercial Justice Reform Program	G.o.U	Jul-00	1
Competitive Private Enterprise and Trade Expansion(COMPETE) Task Order	USAID	8/16/2000	1
Country Strategic Plan for Uganda	USAID	Dec-96	1
Credit Guarantee Schemes for Developing Countries: Theory, Design and Evaluation	USAID	22-May-96	1
Critical Issues in Nepal's Micro-Finance Circumstances	Institutional Reform and the Informal Sector	Mar-97	1
dcfu Bank Brochure	dcfuGroup	2000	1
dcfu Bank, Masaka Branch Notes on Leasing Clients	DFCU Bank	2-Nov-00	1
Development of Uniform Performance Indicators and Reporting Standards for the Microfinance Sector	SUFFICE	Oct. 18, 2000	1
Director's Report and Accounts Centenary Rural Development Bank, LTD.	CERUDEB	Dec. 1999	1
Directory of Microfinance Institutions in Uganda	The Center for Microenterprise Finance	Dec-97	1
District Resource Endowment Profile Survey (DREPS) Volume I. Microfinance Household Survey	Ministry of Finance, Planning, and Economic Development	Jan-00	1
District Resource Endowment Profile Survey (DREPS) Volume III Institutional Survey	Ministry of Finance, Planning, and Economic Development	Jan-00	1

Annex D: List of Reference Documents

Name of Document	Source	Date Reviewed	# of Doc.
District Resource Endowment Profile Survey (DREPS) Volume V Existing Data Report	Ministry of Finance, Planning, and Economic Development	Apr-00	
Doing Business in Uganda	Presto	n/a	1
Draft Final Report on the District Resource Endowment Profile Survey (Dreps) Vol 5	UNDP	Apr-00	1
Draft Report on the District Resource Endowment Profile Survey (Dreps) Vol 1 Microfinance Household Survey.	UNDP	Jan-00	1
Draft Report on the District Resource Endowment Profile Survey (Dreps) Vol 3 Institutional Survey.	UNDP	Jan-00	1
Entrepreneurship Development Program the Experience of Uganda.	USAID PRESTO Project	5/1/1999	1
Export Credit Guarantee Scheme Operations Manual *Limited Distribution	Bank of Uganda	Aug-00	1
Feasibility Study and Business Plan for the Expansion of Commercial Microfinance Limited Final Report	Bank of Uganda	Oct-00	1
Feed The Children	Presto	9/30/1996	2

Annex D: List of Reference Documents

Name of Document	Source	Date Reviewed	# of Doc.
Financial Institutions Bill, 2000	G.o.U	8/23/2000	2
Financial Statement Centenary Rural Development Bank	CERUDEB	1999	1
Financial Statements Centenary Rural Development Bank LTD	Presto	11/3/2000	1
Financial Statements The Uganda Women's Finance and Credit Trust LTD#	Presto	11/3/2000	1
Freedom From Hunger (FOCCAS)	Presto	11/3/2000	1
GATT Value Law Implementation and UNGADA Customs	UNCTAD	2/17/2000	1
Guidelines on Formulating and Implementing Schemes for Financing Medium, Small, and Very Small and Micro Enterprises in IDB Least Developed and Low Income Member Countries (Revised Version)	IDB	31-Oct-99	1
Home Village Banking Programme Receipts And Payments Statement For The Year 1998	Presto	9/3/2000	1
Impact of Government Investment and Export Promotion Policy	USAID	Jan-94	1
Implementation of management Information System and Installation of Modern Communication Facilities Concept Paper	Uganda Institute for Bankers	2000	1
Income And Expenditure For 00 To 10/98/99	Presto	9/3/2000	1
Income Tax Act 1997	G.o.U	n/a	1
Innovative Approaches to Agribusiness Development in Sub-Sahara Africa. Volume 1,2,3 and the Final Report.	USAID	12/1/1997	4
Introduction to Microfinance Best Practices Training Course Curriculum	The Center for Microenterprise Finance	Jan-98	1
Investment Policy Review Uganda	UNCTAD	2000	1
Investment Policy Review Uganda	USAID	6/22/1905	1
Investment Policy Review Uganda (Draft)	USAID	Aug-99	1
Loan Tracking for Microfinance Institutions Training Course Curriculum	The Center for Microenterprise Finance	Sep-98	1
Loan Tracking for Microfinance Institutions Training Course Curriculum Version 1.0	The Center for Microenterprise Finance	Jul-98	1
M.G 6044 Financial Report	Med-Net	7/21/1999	1
Management Information Systems Guidelines for MFIs in Uganda Version 1.1	The Center for Microenterprise Finance	Jan-00	4
Market Needs Assessment for Rural Financial Services in Selected Districts of Uganda (Volumes 1 and 2)	Development Finance Department Bank of Uganda	May-00	2
Medium-Term Competitive Strategy for the Private Sector (2000-2005)	G.o.U	Aug-00	1
Medium-Term Competitive Strategy for the Private Sector (2000-2005)	Ministry of Finance, Planning, and Economic Development	11/7/2000	2
Micro and Small Enterprise Finance: Guiding Principals for Selecting and Supporting Intermediaries	World Bank	Oct-95	1
Micro- and Small-Scale Enterprises in Uganda A Report of the National Baseline Survey	USAID	Jul-95	1
Microfinance Best Practices	Presto	n/a	1
MicroSave-Africa and Uganda Women’s Finance Trust/UNDP and DFID contribution to World Development Report 2001	DFID	1999	1
National Workshop on Sector Export Strategy Formulation	UNCTAD	8/1/2000	1
Plan For Modernisation of Agriculture	G.o.U	2000	1
Post-Harvest Handling and Storage Project Fighting hunger and poverty	UoG and USAID	n/a	1
Post-Harvest Handling and Storage Project Uganda	UoG and USAID	n/a	1
PRESTO Quarterly Report and General Information.	PRESTO	6/1/1999	1
Private Sector Development Study	NCG	Aug-99	1
Private Sector Development Workshop - Uganda Private Sector Competitiveness Project Final Executive Project Summary.	SNV	Oct-00	1
Private Sector Foundation	IDEA	10/23/2000	1
Promoting an Interlinked, Sound and Safe Financial System Investing in the Domestic Private Sector of Uganda (Draft Project Proposal, Annex Aa)	SUFFICE	20-Oct-00	1
Proposal Quality Veterinary Institute	Quality Chemicals	n/a	1
Report of the Task Force on Maximising Ugandan Agriculture Potential and Making Uganda the Textile Centre of East Africa.	Uganda Investment Authority	Apr-00	1

Annex D: List of Reference Documents

Name of Document	Source	Date Reviewed	# of Doc.
Report on the Feasibility of Establishing a Pre-Shipment Export Credit Guarantee Scheme (ECGS) in Uganda	Bank of Uganda	May-00	1
Responsiveness And Technical Quality Of Proposal	RTAA Project Team	?	1
Rural folk tap micro credit	The New Vision	25-May-00	1
Rural Microfinance Support Programme (RMSP) Capacity Building Component (Draft 1)	Rural Microfinance Support Project (RMSP)	May-00	1
Rural Microfinance Support Project (RMSP) Appraisal Report (CONFIDENTIAL)	African Development Fund	Sep-99	1
Summary of ACDI/VOCA Title II Program Grants	ACDI/VOCA	Oct. 1, 2000	1
Support to Feasible Financial Institutions and Capacity Building Efforts in Uganda; SUFFICE Programme	SUFFICE	n/a	1

Annex D: List of Reference Documents

Name of Document	Source	Date Reviewed	# of Doc.
Survey of Foreign Investors. Vol 1	World Bank	Nov-99	1
The Africa Project Development Facility (APDF); Report on Operations for the Twelve Months ending December 31, 1998	APDF	1999	1
The Challenge of Reducing Rural Poverty in Uganda: The Ugandan Banker The Role of the State	The Ugandan Banker	Mar-98	1
The Consultative Group to Assist the poorest in Micro-finance Capacity-building initiative in Africa: What have we learned? No. 14	The Consultative Group to Assist the Poorest	Feb-99	1
The Farmer's Voice Vol. 9 No. 2	Uganda National Farmers Association	Jun-00	1
The Financial Institutions Statute, 1993	G.o.U	5/14/1993	1
The Microfinance Industry of Uganda	Uganda Institute for Bankers	15-Jun-00	1
The Uganda Institute of Bankers (UIB) Business Plan 2000-2004 (Draft)	UIB	Sep-00	1
The Uganda Microfinance Forum	Presto	n/a	1
The World Bank in Uganda; Country Brief 2000-2001	World Bank	22-Sep-99	1
Towards a National Strategy for the Informal, Micro and Small Scale Sector; An Assessment Report	Uganda Private Sector Development	Aug-99	1
Uganda Country Competitiveness Analysis	PriceWaterhouseCoopers	May-98	1
Uganda Human Development Report 1998	UNDP	1998	1
Uganda Management Institute 2000/2001	UMI	2000/2001	1
Uganda Microfinance Union Reports And Accounts	UMU	7/31/1998	1
USAID's Program in Uganda FY 2002 Results Review	USAID	2000	1
Volunteer Efforts For Development Concerns	Presto	9/30/1997	1
World Bank Technical Paper No. 311 "World Bank Lending for Small Enterprises 1989-1993	World Bank	1996	1

ANNEX E

Questionnaires Used for the Assessment

To survey the microenterprise industry, the SPEED design team prepared questionnaires for commercial banks, business development services, donor and donor projects, and microfinance institutions.

SPEED PROJECT
Commercial Bank Questionaire

BANK: ____

Contact: ____

Date: ___________________________

What is the mix of your loan portfolio? (loan type, size, geographic, gender, pricing)

What are your current lending activities in the SME/Ag sector?

Do you have plans to expand your SME/Ag activities? Why? Why not?

What is the biggest constraint you find in financing SME? Agriculture?

What can your bank do to overcome these constraints?

Are you using a loan guarantee program? (details)

Would a portfolio guarantee encourage you to lend to SME/Ag? (%, amount, size of loan)

Would links to technical assistance providers encourage you to lend to agriculture?

How do you train your loan officers?

Commercial Bank Questionaire (cont.)

Are you receptive to the concept of outside training?

What do you think should be the roll of UIB? What improvements would you like to see in UIB?

What changes would you recommend for the legal and regulatory conditions in Uganda?

What do you see as the opportunities and constraints in the SME/Ag sector?

What are your bank’s competitive advantages?

What do you think SPEED should focus on?

Business Development Services (BDS) Questionnaire

Questions to be asked:

1. Objective: What is the objective of the BDS delivered to MSMEs? Specific or general.
2. Characteristics: The details of the programme:
   - Description of services delivered.
   - Target market: Definition? How identified? Gender initiatives? Geographic dispersion?
   - Trainers and consultants: local or expatriate? Trained? Quality control? Remuneration? Sourcing/selection? Geographical coverage?
   - Intermediaries: Association? Donor? Financial company? MFI?
   - Methodology: Delivery system?
   - Cost recovery: % of cost recovery? % that user pays? Actual amounts?
3. Results: Number of MSME receiving services? Number of trainers/consultants? Gender breakdown?
4. Impacts: Results upon MSMEs of services received? Gender influenced?
5. Lessons learned: Constraints to expansion or growth of activity? Opportunities for expansion?

Questions from the RFP:

- What are the most important business skills problems?
- Are there any differences by gender?
- Can they be addressed in the medium term?
- What kind of training and technical assistance can local entities provide?
- How can USAID assist business access to local training and technical assistance?
- What should be the objectives of a training program be other than helping enterprises access finance?
- How can we best link this training and technical assistance with the new competitiveness activity?
- Is the Private Sector Foundation a logical focal point for providing these services?
- What other local entities are appropriate?

Additional issues:

1. In the case of associations:
   - Strategic plan
   - Sources of financing
   - Membership mix/geographic coverage
   - Services delivered

Business Development Services (BDS) Questionnaire (cont.)

2. In the case of BDS (non-association):
   - Mix of business
   - Other sources of BDS activities
3. BUDS programme review, November 7, MCC course November 13.

Institution: ____________________________________ Date: ____________________

Persons interviewed: ____

____

Questions to be asked:

What is the objective of the BDS?
Details of the program: target market (definition of MSMEs), services delivered, source of trainers/consultants, how were clients identified, gender concentration, geographic dispersion
Trainers and consultants: local or expatriate? Trained? Quality control? Remuneration? Sourcing/selection? Geographical coverage?
Intermediaries/partners: Association? Donor? Financial company? MFI?
Delivery system?
Cost recovery: % of cost recovery? % that user pays? Actual amounts?
Results: Number of MSME receiving services? Number of trainers/consultants? Gender breakdown?
Impacts: Results upon MSMEs of services received? Gender influenced?
Lessons learned: Constraints to expansion or growth of activity? Opportunities for expansion?

SPEED PROJECT
Donor and Donor Project Questionnaire

Donor/Project: ____

Contact: ____

Date: _____________________________

What are your current activities in the MSME sector?

What are your funding levels and the duration of efforts?

Do you have local partners? Who are they? What kind of support do you provide them?

What are you doing to try to ensure sustainability?

Do you use performance indicators to measure progress? What are they?

What are the results achieved to date?

What are the lessons learned from your work in the sector?

Do you have any new initatives planned?

How do you define microenterprises, small-, and medium-sized firms? How do you define rural and urban?

What do you see as the opportunities and constraints in the sector?

What is your organization’s comparative advantage?

Are there other donors providing similar types of support?

What are your views on donor coordination? The absorptive capacity of local organizations for donor funds? Donor-created distortions?

What do you think SPEED should focus on?

Who do you think we should look at for potential local partner institutions?

Microfinance Survey Questions

1. Products (loan and savings) and details. (Current and planned. ie. group and individual, micro and. small, ag and commercial. Include pricing, loan terms, collateral issues, etc).

2. Portfolio breakdown by products listed above and gender.

3. Portfolio Quality: How do you measure portfolio quality? What is an acceptable level of portfolio at risk or delinquency (whatever measure they use)? How often are you able to produce portfolio/delinquency reports?

4. Current MIS System used – manual or computerized. Details.

5. Are you financially/operationally self-sufficient? When do you estimate you will reach that point? Can you do so without additional donor funds?

6. Is there a lot of competition in your market area? With any particular product?

7. Ask about the 3-5 year plan for the MFI (major initiatives, expansion plans, new products, etc.). Copy of business plan?

8. What do you think of the new MDI legislation? Do you intend to purse MDI status? What support will you need to comply with BOU requirements?

9. What are your constraints/opportunities (including policy constraints)?

10. Current links with commercial banks. On the savings side – where deposited, how is service? On the loan side – are you borrowing from a commercial bank? List amounts and terms. Do you expect this relationship to grow? Are banks willing to lend you money? What might induce them to do so?

11. List donor support you are currently receiving and in the works. What do they think of the various donor programs? Are they meeting the needs of your institution?

12. Sector information – rural vs. urban. How do you define each? Where are you working? Constraints to working in rural areas? Explain that USAID would like to move from the 80-20 to 60-40 in 3 years. Is it possible? How best to accomplish this?

13. Do you have any links with the smaller MFIs in the rural areas? Would you consider wholesaling to smaller/rural MFIs? What would induce you to do so?

14. How do you define micro vs. small/medium? Are you making loans to both sectors? Breakdown in terms of clients and portfolio. Performance of each?

15. The missing middle. Who is most likely to serve this sector – banks or MFIs? What do banks need to do to move down, MFIs need to move up?

Microfinance Survey Questions
(cont.)

16. Are you making agricultural/agribusiness loans? Does this sector have potential – either for you or commercial banks? How would you recommend working with this sector?

17. Training. Types of training staff currently get? From where? Quality of training? Training you would like but can't get? How much do they spend on training? UIB/MCC, others?

18. What do they think of AMFIU? Microfinance Forum? Worth strengthening?

19. Do your clients receive non-financial services training? From what organization/company? If not, do think it would be helpful? Do your clients want business skills training? Do you think they would pay for it?

20. Usefulness and need for a credit information bureau?

21. Role for SPEED?

22. Get financial statements: most current and annual for last 2 years, if possible.